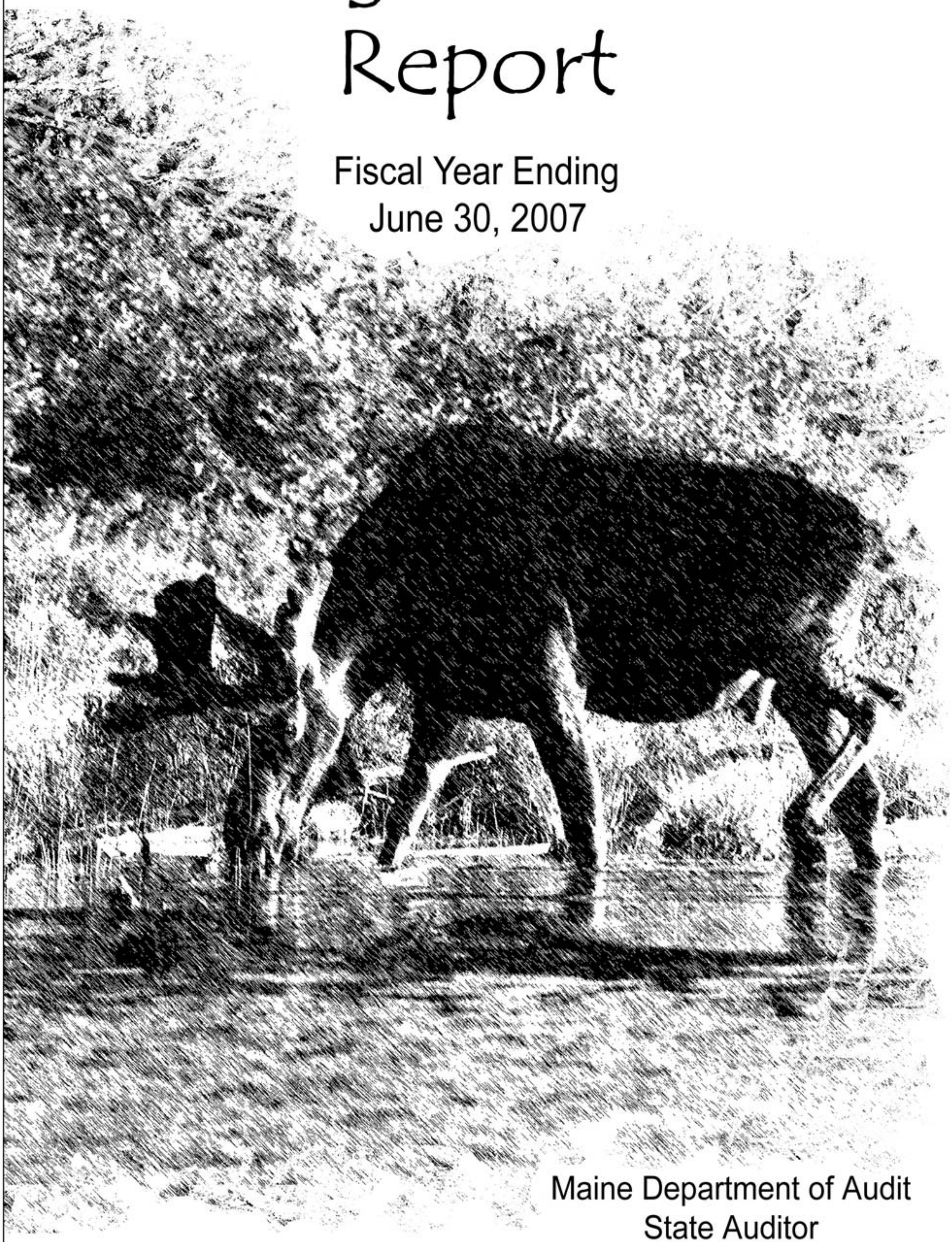
Single Audit Report

Fiscal Year Ending
June 30, 2007

State of Maine



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

Cover graphics by Tom Randall

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2007

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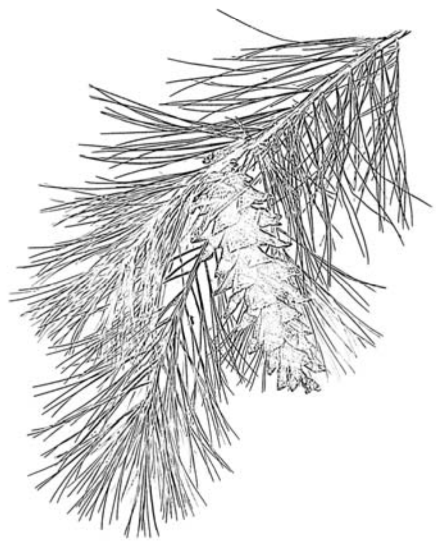

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Letter of Transmittal

Senator Beth Edmonds
President of the Senate

Representative Glenn Cummings
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, 2007. 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*. This report complies with the State's audit responsibilities, required for the receipt of over $2.4 billion in federal financial assistance during the fiscal year.

This document contains the following reports and schedules:

- Independent Auditor's Report
- Basic Financial Statements, Management's Discussion and Analysis, and Notes to Financial Statements
- Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133
- Schedule of Expenditures of Federal Awards
- Schedule of Findings and Questioned Costs
- 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.

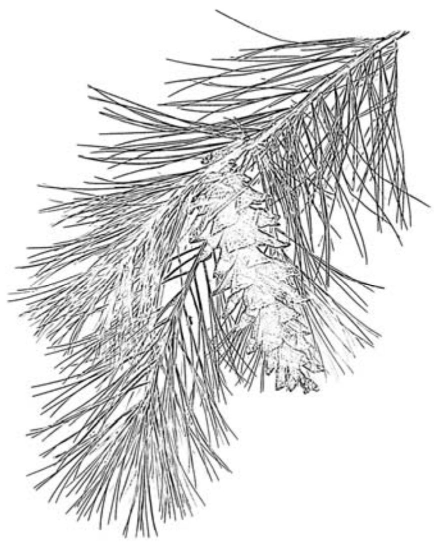
Please contact me if you have questions or comments about the 2007 Single Audit of the State of Maine.

Respectfully submitted,

Neria R. Douglass, JD, CIA
State Auditor

July 22, 2008

STATE OF MAINE
EXECUTIVE SUMMARY
FOR THE YEAR ENDED JUNE 30, 2007



STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2007

EXECUTIVE SUMMARY

Introduction

The Department of Audit performs an annual financial and compliance audit, the Single Audit of the State of Maine, in order to comply with federal and State requirements. This report provides information used by the federal government, credit rating agencies and State policymakers. It also provides citizens of our State a report on the accountability of our government for the funds it receives and uses.

Audit Reports

Independent Auditor's Report

We rendered an opinion on the financial statements as presented by the management of the State of Maine. The opinion is unqualified, which means that we are able to give assurance that the State of Maine's financial report fairly presents its financial position and the results of its operations for the year ended June 30, 2007. The report is on pages B-3 and B-4.

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

Compliance

We found no material instances of noncompliance; however, we did find certain immaterial instances of noncompliance, which were reported to the management of the State of Maine in a separate letter dated December 19, 2007.

Internal Control over Financial Reporting

We identified eight instances of control weaknesses that we consider to be significant deficiencies. Significant deficiencies in internal control could adversely affect the State's ability to record, process, summarize and report financial information. We consider none of the eight control weaknesses serious enough to be classified as material weaknesses. A material weakness is a condition in which controls do not reduce to a relatively low level the risk that misstatements in amounts that would be material to the financial statements may occur and not be detected within a timely period by employees in the normal course of business.

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

We issued an opinion on the compliance of each major federal program with that program's requirements, and reported on the internal control over that compliance. Our audit included 25 major federal programs representing 83% of the $2.4 billion in federal assistance that the State received. We found 90 instances of control deficiencies or noncompliance with the requirements of federal programs. The key points of the report, commencing at page C-5, are as follows:

<u>Compliance</u>

We expressed an unqualified opinion on 11 major federal programs, indicating that the State had complied, in all material respects, with program requirements.

We qualified our opinion for 14 programs because of material noncompliance with federal requirements as follows: the Medicaid Cluster - allowable costs (07-74), special tests and provisions (07-65); the State Children's Insurance Program - eligibility (07-69); the H-1B Job Training Grant program - subrecipient monitoring (07-21); Highway Planning and Construction - Davis Bacon (07-23); the Vocational Rehabilitation Grants - procurement (07-32) and allowable costs (07-30); the Temporary Aid for Needy Families - reporting (07-40); Child Support Enforcement - cash management (07-45); Child Care Cluster - reporting (07-51) and period of availability (07-50); Foster Care and Adoption Assistance - suspension and debarment (07-57); Social Services Block Grant - reporting (07-60); Prevention and Treatment of Substance Abuse - cash management (07-80) and reporting (07-81); Disability Insurance Cluster - suspension and debarment (07-83); Homeland Security Cluster - reporting (07-87) and subrecipient monitoring (07-88)

We identified 24 other instances of noncompliance, due to questioned costs that are required to be reported to the federal government, although they are not serious enough to be classified as material noncompliance.

<u>Internal Control over Compliance</u>

We identified 19 instances of material weakness in internal control over compliance as follows:

- Inadequate controls over subrecipient monitoring for the H-1B Job Training Grant program (07-21)
- Inadequate controls over the Davis Bacon Act requirements for the Highway Planning and Construction Cluster (07-23)
- Inadequate controls over client payments for the Rehabilitation Services: Vocational Rehabilitation Grants (07-30) and procurement (07-32)

- Inadequate controls over reporting for the Temporary Aid for Needy Families program (07-40)
- Inadequate controls over cash management for the Child Support Enforcement program (07-45)
- Inadequate controls over period of availability requirements for the Child Care Cluster (07-50) and inadequate controls over reporting (07-51)
- Inadequate controls over suspension and debarment for the Title IV-E programs of Foster Care and Adoption Assistance (07-57)
- Inadequate controls over reporting for the Social Services Block Grant (07-60)
- Inadequate controls over the Medicaid claims management system (07-65)
- Inadequate controls over eligibility – State Children's Insurance Program (07-69)
- Inadequate controls over provider rates for the Medicaid Cluster (07-72)
- Inadequate controls over certain waiver costs for the Medicaid Cluster (07-74)
- Inadequate controls over cash management for the Prevention and Treatment of Substance Abuse program (07-80) and over reporting (07-81)
- Inadequate controls over suspension and debarment for the Disability Insurance Cluster (07-83)
- Inadequate controls over reporting for the Homeland Security Cluster (07-87) and over subrecipient monitoring (07-88)

We identified 63 other instances of control weaknesses that we considered to be significant deficiencies conditions, but that do not rise to the level of a material weakness. Significant deficiencies in internal control over compliance could affect the State's ability to comply with program requirements.

Findings and Questioned Costs

To present a clear perspective, we included the departments' responses, including their plans for corrective action, immediately following each finding. In the event that the department's response appears invalid or not to adequately address the recommendations, we have also included the auditor's conclusion.

Financial Statement Findings

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

Federal Findings

The most significant deficiencies are described above in the sections titled Compliance and Internal Control over Compliance. The Department of Health and Human Services (DHHS) administers 15 of the 25 programs that we audited. However, the 15 DHHS programs expended 84% of the dollars audited and comprised 70% of total State expenditures of federal funds. Given its size and complexity one might expect a significant number of audit findings in this department. Of the 90 federal findings included in our report, 64 relate to programs delivered by

DHHS. Some of them involve accounting or information technology issues for which the Department of Administrative and Financial Services' Health and Human Services Service Center or Office of Information Technology is responsible.

Questioned Costs

We reported $20.6 million of known questioned costs that resulted from our specific testing; we also projected additional amounts as likely questioned costs. In seven instances, we were not able to determine an amount to report. Questioned costs are amounts of federal financial assistance that we believe were not spent in compliance with program requirements, or that were insufficiently documented for us to determine compliance. The federal government may or may not disallow these costs and require reimbursement from the State.

Conclusion

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

STATE OF MAINE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

INDEX TO FINANCIAL INFORMATION

General Purpose Financial Statements of the State of Maine
For the Year Ended June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2007, 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: 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 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, 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 revenues or additions of the indicated opinion units:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenues/Additions
Aggregate Discretely Presented Component Units	100%	100%
Aggregate Remaining Fund Information	96%	63%

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of June 30, 2007, 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 19, 2007 on our consideration of the State of Maine's internal control over financial reporting and on our tests of its compliance with certain provisions of 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 considered in assessing the results of our audit.

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

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

As discussed in Note 3 to the financial statements, the State corrected the reporting of certain capital assets and reduced General Fund beginning net assets for a correction to receivables.

Neria R Douglass

Neria R. Douglass, JD, CIA
State Auditor

December 19, 2007

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, 2007. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- The State's net assets increased by 8.9 percent from the previous fiscal year. Net assets of Governmental Activities increased by $325.6 million, while net assets of Business-type Activities increased by $24.2 million. The State's assets exceeded its liabilities by $4.3 billion at the close of fiscal year 2007. Component units reported net assets of $1.9 billion, an increase of $129.6 million (7.3 percent) from the previous year. The reclassification of MHHEFA to a component unit from fiduciary reporting accounts for $34.5 million of the increase.

Fund level:

- At the end of the fiscal year, the State's governmental funds reported combined ending fund balances of $272.9 million, an increase of $59.5 million from the previous year. The General Fund's total fund balance was a negative $156.3 million, an improvement of $23.4 million from the previous year, as restated. The Highway Fund total fund balance also increased by $17.8 million.

- The proprietary funds reported net assets at year end of $706.1 million, an increase of $83.9 million. This increase is due to several factors: an increase in the Retiree Health Insurance Fund of $41.9 million, an increase in the Employment Security Fund of $12.8 million, an increase in the Alcoholic Beverages Fund of $12.5 million, an increase in the Workers' Compensation Fund of $13.7 million, the creation of the Transportation Facilities Fund for $10.1 million, offset by a decrease in the Employee Health Insurance Fund of $11.8 million

Long-term Debt:

- The State's liability for general obligation bonds decreased by $18.8 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $61.0 million in bonds and made principal payments of $79.8 million.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Statements

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

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

Both government-wide statements report three activities:

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

Business-type activities - The State charges fees to customers to help cover all or most of the costs of certain services it provides. Operating costs not covered by customer fees are subsidized by the General Fund. Lottery tickets, transportation services, and the State's unemployment compensation services are examples of business-type activities.

Component units - Although legally separate, component units are important because the State is financially accountable for these entities. The State has "blended" one component unit, the Maine Governmental Facilities Authority (MGFA) with Governmental Activities as described above. Maine reports 14 other component units as discretely presented component units of the State, 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 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 increased by 8.9 percent to $4.3 billion at June 30, 2007, 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	
	2007	2006*	2007	2006	2007	2006*
Current and other noncurrent assets	$2,005,451	$2,220,676	$530,972	$526,219	$2,536,423	$2,746,895
Capital assets	3,934,171	3,742,425	90,361	79,030	4,024,532	3,821,455
Total Assets	**5,939,622**	**5,963,101**	**621,333**	**605,249**	**6,560,955**	**6,568,350**
Current liabilities	1,389,939	1,735,627	39,703	35,985	1,429,642	1,771,612
Long-term liabilities	781,373	784,758	75,646	87,500	857,019	872,258
Total Liabilities	**2,171,312**	**2,520,385**	**115,349**	**123,485**	**2,286,661**	**2,643,870**
Net assets (deficit):						
Investment in capital assets, net of related debt	3,519,371	3,347,672	90,361	79,030	3,609,732	3,426,702
Restricted	198,786	172,449	489,677	476,832	688,463	649,281
Unrestricted (deficit)	50,153	(77,405)	(74,054)	(74,098)	(23,901)	(151,503)
Total Net Assets	**$ 3,768,310**	**$ 3,442,716**	**$ 505,984**	**$ 481,764**	**$ 4,274,294**	**$ 3,924,480**

*As Restated

Changes in Net Assets

The State's fiscal year 2007 revenues totaled $6.9 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 49.8 percent and 34.5 percent, respectively, of every dollar raised. The remainder came from charges for services and other miscellaneous sources.

The total cost of all programs and services totaled $6.6 billion for the year 2007. (See Table A-2) These expenses are predominantly (70 percent) related to health & human services and education activities. The State's governmental support & operations activities accounted for 7 percent of total costs. Total net assets increased by $349.8 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006*	2007	2006	2007	2006*
Revenues						
Program Revenues:						
Charges for Services	$ 406,582	$ 412,033	$ 463,518	$ 450,117	$ 870,100	$ 862,150
Operating	2,361,828	2,536,857	21,386	20,663	2,383,214	2,557,520
Capital Grants/Contributions	6,434	24,268	4,143		10,577	24,268
General Revenues:					-	-
Taxes	3,448,127	3,360,545			3,448,127	3,360,545
Other	211,168	172,401	2	448	211,170	172,849
Total Revenues	6,434,139	6,506,104	489,049	471,228	6,923,188	6,977,332
Expenses						
Governmental Activities:						
Governmental Support	460,315	537,717			460,315	537,717
Education	1,622,653	1,494,438			1,622,653	1,494,438
Health & Human Services	2,989,001	3,167,521			2,989,001	3,167,521
Justice & Protection	358,718	340,281			358,718	340,281
Transportation Safety	267,994	322,438			267,994	322,438
Other	414,597	392,189			414,597	392,189
Interest	36,246	36,873			36,246	36,873
Business-Type Activities:					-	-
Employment Security			120,215	103,867	120,215	103,867
Lottery			180,722	179,628	180,722	179,628
Military Equip. Maint.			35,140	65,013	35,140	65,013
Dirigo Health			65,178	47,122	65,178	47,122
Other			22,595	11,967	22,595	11,967
Total Expenses	6,149,524	6,291,457	423,850	407,597	6,573,374	6,699,054
Excess (Deficiency) before Special Items and Transfers	284,615	214,647	65,199	63,631	349,814	278,278
Special Items		(31,212)		31,787		575
Transfers	40,979	51,708	(40,979)	(51,708)	-	-
Increase (Decrease) in Net Assets	325,594	235,143	24,220	43,710	349,814	278,853
Net Assets, beginning of year *	3,442,716	3,207,573	481,764	438,054	3,924,480	3,645,627
Ending Net Assets	$ 3,768,310	$ 3,442,716	$ 505,984	$ 481,764	$ 4,274,294	$ 3,924,480

*As Restated

Governmental Activities

Revenues for the State's Governmental Activities totaled $6.4 billion while total expenses equaled $6.1 billion. The increase in net assets for Governmental Activities was $325.6 million in 2007. This is due, primarily, to decreases in accrued expenditures for health and human services and transportation related activities, offset by increases in education spending.

The users of the State's programs financed $406.6 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $2.4 billion. $3.6 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 2007

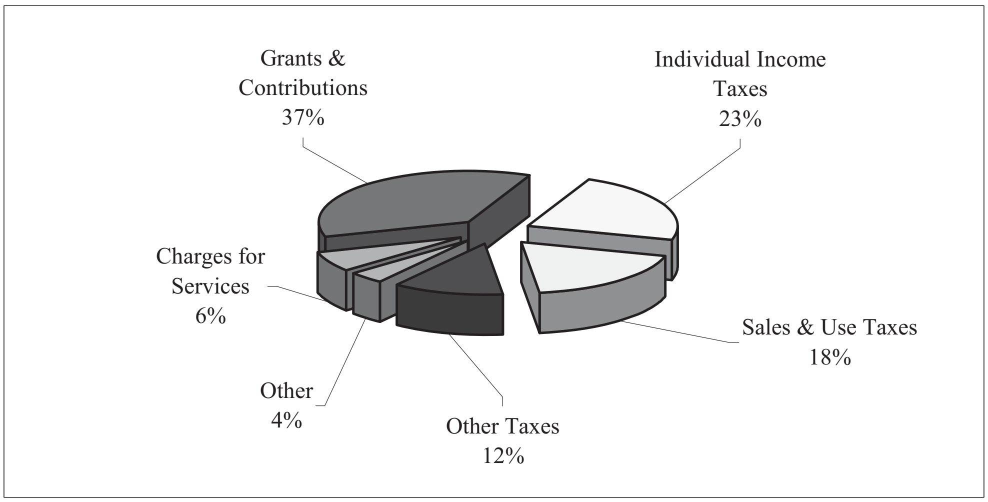
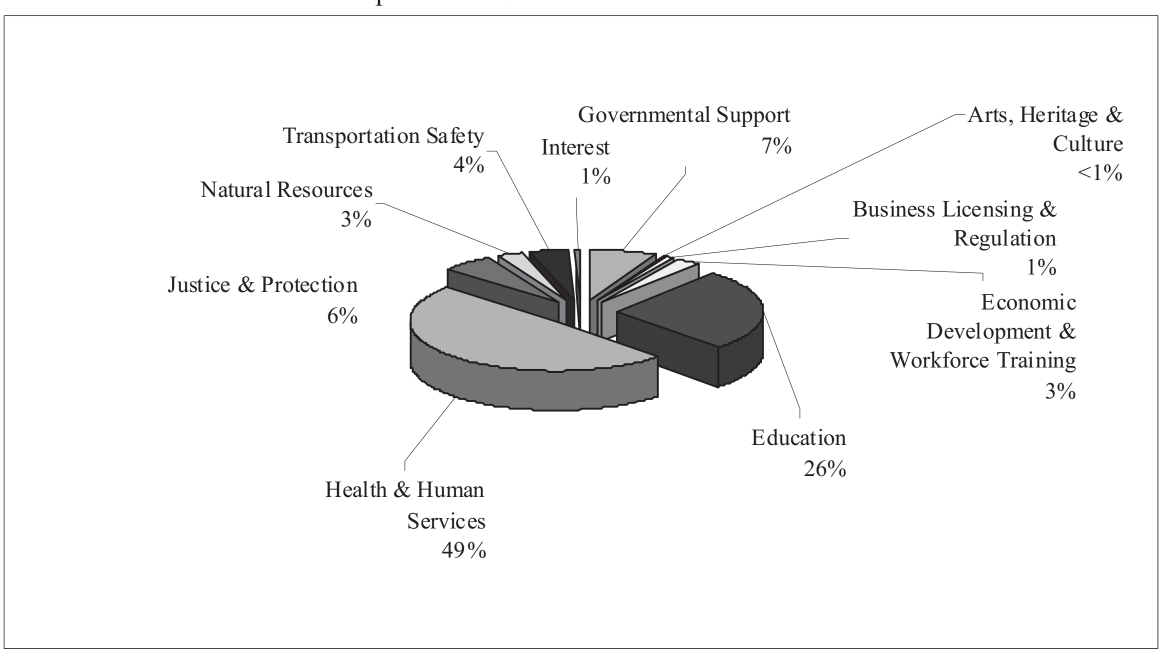


Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2007



Business-type Activities

Revenues for the State's Business-type Activities totaled $489.0 million while expenses totaled $423.9 million. The increase in net assets for Business-type Activities was $24.2 million in 2007, due mainly to the collection of $30.4 million in Savings Offset Payments by Dirigo Health.

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	2007	2006	2007	2006
Employment Security	$ 120,215	$ 103,867	$ 13,991	$ 19,407
Alcoholic Beverages	-	-	12,525	12,525
Lottery	180,722	179,628	50,906	51,334
Military Equip. Maint.	35,140	65,013	(4,822)	5,414
Dirigo Health	65,178	47,122	(1,839)	(21,236)
Other	23,595	11,967	(5,562)	(3,813)
Total	$ 423,850	$ 407,597	$65,199	$ 63,631

The cost of all Business-type Activities this year was $423.9 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-type Activities was $65.2 million, with the Lottery making up $50.9 million of the total. The State’s Business-type Activities transferred $41.0 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	2007	2006*	Change
General	$(156,349)	$ (179,739)	$ 23,390
Highway	27,559	9,712	17,847
Federal	37,595	22,190	15,405
Other Special Revenue	263,983	258,033	5,950
Other Governmental	100,098	103,174	(3,076)
Total	$ 272,886	$ 213,370	$ 59,516

* *As restated*

The State's governmental fund balances increased during fiscal year 2007 from fiscal year 2006 by $59.5 million. The General Fund's increase was due mainly to a decrease in the Medicaid incurred but not paid (IBNP) accrual of approximately $76 million. The Highway Fund fund balance increased by $17.8 million from fiscal year 2006. Operationally, transportation, safety and development expenditures were $74 million lower in fiscal year 2007. Fewer transportation projects undertaken during fiscal year 2007 accounted for most of the difference.

Budgetary Highlights

For the 2007 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to $3.1 billion, an increase of about $166 million from the original legally adopted budget of approximately $2.9 billion. Actual expenditures on a budgetary basis amounted to approximately $62.9 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 2008, $17.1 million of unobligated funds remained as a result of a continuing concerted effort to control spending, primarily in the broad categories of education and social services. Actual revenues exceeded final budget forecasts by $33.7 million.

As a part of the final budget adjustment for Fiscal Year 2007, the Legislature approved a direct appropriation to the State's Budget Stabilization Fund in the amount of $35.6 million. The additional appropriation increased the balance in the Fund to $115.5 million as of June 30, 2007. 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 2007, the State had roughly $4 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2007, the State acquired or constructed more than $346 million of capital assets. The most significant impact on capital assets during the year resulted from continued construction and rehabilitation of roads and bridges, and major construction and renovation of State-owned facilities. More detailed information about the State's capital assets and significant construction commitments is presented in Notes 8 and 15 to the financial statements.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006*	2007	2006	2007	2006*
Land	$ 424,331	$ 394,069	$ 38,417	$ 38,161	$ 462,748	$ 432,230
Buildings	560,306	506,881	9,769	9,322	570,075	516,203
Equipment	248,130	254,007	43,385	20,220	291,515	274,227
Improvements	18,246	17,233	61,218	61,218	79,464	78,451
Infrastructure	3,023,973	2,861,522	-	-	3,023,973	2,861,522
Construction in Progress	10,230	6,818	3,613	925	13,843	7,743
Total Capital Assets	4,285,216	4,040,530	156,402	129,846	4,441,618	4,170,376
Accumulated Depreciation	(351,045)	(298,105)	(66,041)	(50,816)	(417,086)	(348,921)
Capital Assets, net	$ 3,934,171	$ 3,742,425	$ 90,361	$ 79,030	$ 4,024,532	$ 3,821,455

* *As restated*

Modified Approach for Infrastructure

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

Highways and bridges are included in the State's infrastructure. There are 8,834 highway miles or 17,947 lane miles within the State. Bridges have a deck area of 11.5 million square feet among 2,965 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2007, the actual average condition was 76. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 78 at June 30, 2007. Preservation costs for fiscal year 2007 totaled $73.3 million compared to estimated preservation costs of $61.0 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 462, PL 2005, $27 million was spent during FY 2007.

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

Long-Term Debt

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

At year-end, the State had $920 million in general obligation and other long-term debt outstanding. More detailed information about the State's long-term liabilities is presented in Note 11 to the financial statements.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
General Obligation Bonds	$ 448,760	$ 467,550	$ -	$ -	$ 448,760	$ 467,550
Other Long-Term Obligations	470,815	441,512	718	135	471,533	441,647
Total	$ 919,575	$ 909,062	$ 718	$ 135	$ 920,293	$ 909,197

During the year, the State reduced outstanding long-term obligations by $79.8 million for outstanding general obligation bonds and $227.5 million for other long-term debt. Also during fiscal year 2007, the State incurred $318.3 million of additional long-term obligations.

Credit Ratings

Three of the major bond rating agencies regularly assess the State's credit rating. During fiscal year 2007, Moody's Investors Service rated the State at Aa3, Standard & Poor's rated it at AA, and Fitch Ratings rated it at AA. For fiscal year 2006, the Moody's rating was Aa3, Standard & Poor's was AA-, and Fitch Ratings was AA.

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

Inflation continued to rise though the past year. The Consumer Price Index rose nearly 2.6 percent from July 2006 to July 2007; however, fuel and utilities prices rose much faster. The rise in oil prices to over $90 a barrel in late summer due to unrest in the Middle East put pressure on both household and government budgets. Sustained prices in the $90 to $100 a barrel range, will impose significant challenges to Maine households and governmental operations at all levels in the State during the winter heating season.

Personal income continues to rise in Maine faster than inflation. According to the latest statistics available, personal income is estimated to have risen by 3.6 percent in calendar year 2006. The moderate growth in 2006 is in contrast to the much slower growth in 2005 when the state was affected by a number of events, the most significant of which was the Base Realignment and Closure Commission process. Unemployment has hovered around the national average throughout the year. The rate in Maine stood at 4. 8percent in September of 2007 which is slightly above the national rate of 4.7 percent.

The General Fund Revenue estimate accepted by the Independent Revenue Forecasting Commission for the 2006-2007 Biennium provides approximately $5.8 billion in resources to be available for general purpose spending. At the beginning of the budgeting process for the 2008-2009 Biennium, the State Budget Officer estimated structural gap at approximately $100 million between revenue and costs to maintain current services. The 2008-2009 biennial budget was brought into balance with the enactment of Public Law 2007, Chapter 240, **"An Act Making Unified Appropriations and Allocations for the Expenditures of State Government, General Fund and Other Funds, and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Years Ending June 30, 2007, June 30, 2008, and June 30, 2009."** The Budget will be amended several times through various 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 high energy costs, inflation, and the slowing of the real estate market's sub prime mortgage crises.

As a result of the November 2007 report by the Revenue Forecasting Commission adjusting General Fund Revenue downward by $95 million over current biennium, significant adjustments will be made to bring currently authorized spending into line with expected revenue for the remainder of the biennium. Along with the downturn in revenue, additional spending pressures are mounting in the State's Medicaid program which will require additional General Fund support to ensure that "cycle payments" are made on a timely basis. This will require additional cuts in other state funded programs beyond the adjustments necessary to meet the revenue downturn.

New Accounting Standard

The State maintains a retiree health care plan for State employees and teachers that are affected by the standard. The plan is operated on a pay-as-you-go basis, i.e. claims benefits for health care plan participants are paid as they occur. The portion of active and retired employee's health care premiums for which the State is responsible is estimated and budgeted.

New accounting standards will require the State to begin disclosing its liability for other post employment benefits (commonly referred to as "OPEB") in its FY 2008 financial reports. An initial valuation report by an independent actuarial firm for the State's liability for these health care and life insurance benefits for the fiscal year ended June 30, 2006 was released in January, 2007. The report presented two separate calculations of the State's OPEB liability, depending on whether the liability would be prefunded in a manner meeting the requirements of GASB Statement No. 45.

According to the report, assuming no prefunding, the actuarial accrued liability of the State for OPEB obligations incurred through June 30, 2006 is $4.8 billion. The Present Value of Projected Benefits amounts to approximately $5.9 billion at a discount rate of 4.5 percent. To fully amortize this liability over a 30-year period, utilizing an amortization growth rate of 4.5 percent per year would require annual required contributions (ARC) commencing at $116 million for fiscal 2007 and projected to increase to $296 million in fiscal year 2015-2016.

However, if prefunding at 7.5 percent is assumed, the actuarial accrued liability is reduced to $3.2 billion and the annual required contribution is calculated to commence at $275 million for fiscal year 2007. As the incremental cost of funding the full ARC is not within reach for the State, the State has decided to fund the ARC on a graduated basis over a ten year period to attain full funding of the annual ARC.

In making these calculations, the independent actuarial firm utilized employment and other data provided by the State and projected annual claims growth initially at 10.5 percent and declining to 5.1 percent after ten years and continuation of current benefit levels and current retiree contribution requirements. The report covered only the State's OPEB obligations for State employees, teachers, and participating ancillary groups. Municipalities and authorities of the State of Maine, even if their health care coverage is administered by the State of Maine's Retiree Healthcare Program, will perform their own valuations, as the State acts only as an agent for these entities with respect to OPEB and does not assume the risk or financial burden of their health care costs or liabilities.

In the absence of prefunding, the discount rate must approximate the State's rate of return on non-pension (liquid) investments over the long term, estimated at 4.5 percent for the purpose of this study. In the event of prefunding, the discount rate would increase to a standard return on long-term investments, estimated at 7.5 percent for the purpose of this study. In order to qualify its OPEB liabilities as prefunded, the State will have to enact legislation providing for the escrowing of annual contributions in the manner required by GASB Statement No. 45 (and similar to the program for funding the State's unfunded actuarial liability for pension).

GASB Statement No. 45 requires that OPEB obligations be recalculated at two-year intervals. Such calculations may be affected by many factors, including changing experience and assumptions regarding future health care claims, by whether or not the State enacts legislation that qualifies its OPEB obligations to be calculated on a prefunded basis, by changes in the State's employee profile, and possible changes in OPEB coverage levels and retiree contribution rates. Accordingly, it should be anticipated that the actuarial accrued liability of the State for OPEB liabilities will fluctuate.

A copy of the valuation report discussed above can be obtained by calling the Office of the State Controller.

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, 2007
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ 436,233	$ 12,387	$ 448,620	$ 86,891
Cash and Cash Equivalents	11,511	1,646	13,157	51,684
Cash with Fiscal Agent	46,450	-	46,450	1,081
Investments	79,424	-	79,424	943,418
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	14,493	-	14,493	-
Restricted Deposits and Investments	16,301	463,099	479,400	-
Inventories	7,038	779	7,817	1,924
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	389,651	-	389,651	-
Loans Receivable	4,560	-	4,560	75,966
Notes Receivable	-	-	-	63
Other Receivables	301,847	50,931	352,778	58,985
Internal Balances	(505)	505	-	-
Due from Other Governments	601,846	-	601,846	138,670
Due from Primary Government	-	-	-	13,214
Loans receivable from primary government	-	-	-	4,015
Due from Component Units	894	66	960	-
Other Current Assets	1,518	206	1,724	38,219
Total Current Assets	1,911,261	529,619	2,440,880	1,414,130
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	47,856	1,353	49,209	9,507
Assets Held in Trust	-	-	-	5,047
Restricted Assets:				
Restricted Deposits and Investments	-	-	-	692,191
Investments	-	-	-	365,078
Receivables, Net of Current Portion:				
Taxes Receivable	46,334	-	46,334	-
Loans Receivable	-	-	-	2,411,120
Notes Receivable	-	-	-	208,437
Other Receivables	-	-	-	6,337
Due from Other Governments	-	-	-	1,116,640
Loans receivable from primary government	-	-	-	38,338
Due From Primary Government	-	-	-	2,106
Other Noncurrent Assets	-	-	-	35,535
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	3,458,534	42,030	3,500,564	162,174
Buildings, Equipment and Other Depreciable Assets	826,682	114,372	941,054	995,060
Less: Accumulated Depreciation	(351,045)	(66,041)	(417,086)	(360,529)
Capital Assets, Net of Accumulated Depreciation	3,934,171	90,361	4,024,532	796,705
Total Noncurrent Assets	4,028,361	91,714	4,120,075	5,687,041
Total Assets	$ 5,939,622	$ 621,333	$ 6,560,955	$ 7,101,171

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

Liabilities				
Current Liabilities:				
Accounts Payable	$ 901,508	$ 5,069	$ 906,577	$ 74,768
Accrued Payroll	45,742	1,445	47,187	650
Compensated Absences	528	72	600	2,190
Tax Refunds Payable	131,267	-	131,267	-
Due to Component Units	15,237	-	15,237	-
Due to Other Governments	110,913	-	110,913	6,951
Due to Primary Government	-	-	-	1,043
Amounts Held under State & Federal Loan Programs	-	-	-	32,094
Undistributed Grants and Administrative Funds	-	-	-	10,867
Allowances for Losses on Insured Commercial Loans	-	-	-	5,502
Claims Payable	22,980	-	22,980	-
Bonds and Notes Payable	77,000	-	77,000	142,042
Revenue Bonds Payable	14,610	-	14,610	42,376
Obligations under Capital Leases	6,402	-	6,402	364
Certificates of Participation and Other Financing Arrangements	25,343	-	25,343	-
Pledged Future Revenues	4,015	-	4,015	-
Accrued Interest Payable	8,422	-	8,422	47,153
Deferred Revenue	1,006	14,096	15,102	42,629
Other Current Liabilities	24,966	19,021	43,987	36,510
Total Current Liabilities	1,389,939	39,703	1,429,642	445,139
Long-Term Liabilities:				
Compensated Absences	41,152	646	41,798	-
Due to Other Governments	225	-	225	9,026
Amounts Held under State & Federal Loan Programs	-	-	-	44,062
Claims Payable	41,116	-	41,116	-
Bonds and Notes Payable	371,760	-	371,760	3,231,846
Revenue Bonds Payable	167,995	-	167,995	1,342,473
Obligations under Capital Leases	35,349	-	35,349	4,321
Certificates of Participation and Other Financing Arrangements	54,543	-	54,543	-
Pledged Future Revenues	38,338	-	38,338	-
Deferred Revenue	12,451	75,000	87,451	23,466
Pension Obligation	18,444	-	18,444	-
Other Noncurrent Liabilities	-	-	-	86,983
Total Long-Term Liabilities	781,373	75,646	857,019	4,742,177
Total Liabilities	2,171,312	115,349	2,286,661	5,187,316
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,519,371	90,361	3,609,732	592,299
Restricted:				
Highway Fund Purposes	26,083	-	26,083	-
Federal Programs	37,595	-	37,595	-
Natural Resources	19,079	-	19,079	-
Capital Projects and Debt Service	20,593	-	20,593	-
Unemployment Compensation	-	489,677	489,677	-
Other Purposes	15,931	-	15,931	1,072,429
Funds Held as Permanent Investments:				
Expendable	66,987	-	66,987	-
Nonexpendable	12,518	-	12,518	-
Unrestricted	50,153	(74,054)	(23,901)	249,127
Total Net Assets	$ 3,768,310	$ 505,984	$ 4,274,294	$ 1,913,855

STATE OF MAINE
STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Governmental Support & Operations	$ 460,315	$ 76,507	$ 6,300	$ -
Arts, Heritage & Cultural Enrichment	12,994	818	2,724	-
Business Licensing & Regulation	60,506	52,033	1,158	-
Economic Development & Workforce Training	161,427	3,202	84,358	-
Education	1,622,653	4,865	187,866	-
Health & Human Services	2,989,001	9,656	1,824,919	-
Justice & Protection	358,718	80,435	57,302	-
Natural Resources Development & Protection	179,670	81,305	35,303	6,434
Transportation Safety & Development	267,994	97,761	161,898	-
Interest Expense	36,246	-	-	-
Total Governmental Activities	6,149,524	406,582	2,361,828	6,434
Business-Type Activities:				
Employment Security	120,215	112,482	21,724	-
Alcoholic Beverages	-	12,525	-	-
Lottery	180,722	231,628	-	-
Transportation	4,218	2,169	-	1,222
Marine Ports	2,097	127	-	-
Ferry Services	9,405	3,837	-	2,921
Military Equipment Maintenance	35,140	30,656	(338)	-
Dirigo Health	65,178	63,339	-	-
Other	6,875	6,755	-	-
Total Business-Type Activities	423,850	463,518	21,386	4,143
Total Primary Government	$ 6,573,374	$ 870,100	$ 2,383,214	$ 10,577
Component Units:				
Finance Authority of Maine	37,027	14,851	26,930	-
Maine Community College System	101,950	24,143	29,268	861
Maine Health & Higher Educational Facilities Authority	70,518	63,349	9,879	-
Maine Municipal Bond Bank	67,364	47,457	12,988	22,043
Maine State Housing Authority	233,884	70,460	180,904	-
University of Maine System	613,575	257,096	200,890	7,859
All Other Non-Major Component Units	92,602	29,388	40,819	2,662
Total Component Units	$ 1,216,920	$ 506,744	$ 501,678	$ 33,425

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
$ (377,508)	$ -	$ (377,508)	$ -
(9,452)	-	(9,452)	-
(7,315)	-	(7,315)	-
(73,867)	-	(73,867)	-
(1,429,922)	-	(1,429,922)	-
(1,154,426)	-	(1,154,426)	-
(220,981)	-	(220,981)	-
(56,628)	-	(56,628)	-
(8,335)	-	(8,335)	-
(36,246)	-	(36,246)	-
(3,374,680)	-	(3,374,680)	-
-	13,991	13,991	-
-	12,525	12,525	-
-	50,906	50,906	-
-	(827)	(827)	-
-	(1,970)	(1,970)	-
-	(2,647)	(2,647)	-
-	(4,822)	(4,822)	-
-	(1,839)	(1,839)	-
-	(120)	(120)	-
-	65,197	65,197	-
$ (3,374,680)	$ 65,197	$ (3,309,483)	$ -
-	-	-	4,754
-	-	-	(47,678)
-	-	-	2,710
-	-	-	15,124
-	-	-	17,480
-	-	-	(147,730)
-	-	-	(19,733)
$ -	$ -	$ -	$ (175,073)
292,255	-	292,255	-
1,478,542	-	1,478,542	-
181,459	-	181,459	-
48,339	-	48,339	-
1,191,982	-	1,191,982	-
255,550	-	255,550	-
39,599	-	39,599	17,083
-	-	-	286,805
123,036	2	123,038	973
(445)	-	(445)	(146)
48,978	-	48,978	-
40,979	(40,979)	-	-
3,700,274	(40,977)	3,659,297	304,715
325,594	24,220	349,814	129,642
3,442,716	481,764	3,924,480	1,784,213
$ 3,768,310	$ 505,984	$ 4,274,294	$ 1,913,855


DIRIGO
MAINE

STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2007
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Treasurer's Cash Pool	$ -	$ 29,186	$ -	$ 225,950	$ 83	$ 255,219
Cash and Short-Term Investments	714	1,414	9,137	243	-	11,508
Cash with Fiscal Agent	3,807	420	-	18,488	-	22,715
Investments	-	-	-	-	79,424	79,424
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	1,638	-	-	-	12,855	14,493
Restricted Deposits and Investments	-	-	-	-	13,898	13,898
Inventories	1,790	-	557	-	-	2,347
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	402,501	23,614	-	9,870	-	435,985
Loans Receivable	1	71	-	4,488	-	4,560
Other Receivable	131,409	248	91,757	71,149	-	294,563
Due from Other Funds	39,153	7,312	5,233	8,616	-	60,314
Due from Other Governments	-	-	597,178	-	-	597,178
Due from Component Units	179	-	-	-	715	894
Other Assets	464	-	51	-	-	515
Working Capital Advances Receivable	111	-	-	-	-	111
Total Assets	$ 581,767	$ 62,265	$ 703,913	$ 338,804	$ 106,975	$ 1,793,724
Liabilities and Fund Balances						
Accounts Payable	$ 317,414	$ 15,064	$ 520,225	$ 31,588	$ 4,639	$ 888,930
Accrued Payroll	20,961	9,108	5,148	7,460	-	42,677
Tax Refunds Payable	131,242	25	-	-	-	131,267
Due to Other Governments	-	-	110,913	-	-	110,913
Due to Other Funds	25,768	2,739	26,196	2,706	71	57,480
Due to Component Units	5,398	224	2,718	4,732	2,165	15,237
Deferred Revenue	213,411	7,545	597	27,297	-	248,850
Other Accrued Liabilities	23,922	1	521	1,038	2	25,484
Total Liabilities	738,116	34,706	666,318	74,821	6,877	1,520,838
Fund Balances:						
Reserved						
Continuing Appropriations	81,558	49,485	40,268	221,600	155	393,066
Capital Projects	-	-	-	-	20,593	20,593
Permanent Trusts	-	-	-	-	12,518	12,518
Other	45,578	71	-	13,443	66,832	125,924
Unreserved	(283,485)	(21,997)	(2,673)	28,940	-	(279,215)
Total Fund Balances	(156,349)	27,559	37,595	263,983	100,098	272,886
Total Liabilities and Fund Balances	$ 581,767	$ 62,265	$ 703,913	$ 338,804	$ 106,975	$ 1,793,724

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, 2007
(Expressed in Thousands)

Total fund balances for governmental funds		$ 272,886
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	3,994,388	
Less: Accumulated depreciation	(177,797)	3,816,591
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	(448,760)	
Interest Payable Related to Long-term Financing	(4,751)	
Certificates of Participation and Other Financing Arrangements	(27,716)	
Claims Payable	-	
Pledged Future Revenues	(42,353)	
Compensated Absences	(38,093)	
Pension Obligation	(18,444)	(580,117)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		241,454
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.		17,496
Net assets of governmental activities		$ 3,768,310

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, 2007
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$ 3,003,382	$ 225,915	$ -	$ 201,372	$ -	$ 3,430,669
Assessments and Other Revenue	109,336	90,596	160	89,209	-	289,301
Federal Grants and Reimbursements	16,762	3,518	2,362,098	3,939	-	2,386,317
Service Charges	36,717	7,269	1,178	78,085	-	123,249
Investment Income	9,653	1,106	672	4,599	10,710	26,740
Miscellaneous Revenue	25,099	580	1,775	133,686	536	161,676
Total Revenues	3,200,949	328,984	2,365,883	510,890	11,246	6,417,952
Expenditures:						
Current:						
Governmental Support & Operations	262,721	35,406	9,576	131,122	5,541	444,366
Economic Development & Workforce Training	40,280	-	89,187	28,977	3,559	162,003
Education	1,438,605	-	186,754	4,459	8,030	1,637,848
Health and Human Services	972,875	-	1,828,903	262,694	1,800	3,066,272
Business Licensing & Regulation	-	-	547	60,993	-	61,540
Natural Resources Development & Protection	70,373	38	39,544	90,329	3,920	204,204
Justice and Protection	245,592	37,930	60,772	27,923	457	372,674
Arts, Heritage & Cultural Enrichment	8,958	-	2,681	996	580	13,215
Transportation Safety & Development	-	242,315	143,290	33,501	42,917	462,023
Debt Service:						
Principal Payments	69,350	10,415	3,915	-	-	83,680
Interest Payments	17,369	1,387	1,578	-	-	20,334
Total Expenditures	3,126,123	327,491	2,366,747	640,994	66,804	6,528,159
Revenue over (under) Expenditures	74,826	1,493	(864)	(130,104)	(55,558)	(110,207)
Other Financing Sources (Uses):						
Transfer from Other Funds	115,292	20,736	30,271	183,532	3,065	352,896
Transfer to Other Funds	(190,074)	(5,162)	(14,002)	(58,895)	(11,558)	(279,691)
COP's and Other	23,346	780	-	11,417	-	35,543
Bonds Issued	-	-	-	-	60,975	60,975
Net Other Finance Sources (Uses)	(51,436)	16,354	16,269	136,054	52,482	169,723
Revenues and Other Sources over (under) Expenditures and Other Uses	23,390	17,847	15,405	5,950	(3,076)	59,516
Fund Balances at Beginning of Year (As Restated)	(179,739)	9,712	22,190	258,033	103,174	213,370
Fund Balances at End of Year	$ (156,349)	$ 27,559	$ 37,595	$ 263,983	$ 100,098	$ 272,886

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, 2007
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ 59,516
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	211,114	
Transfer of capital assets to Transit, Aviation and Rail Transpo	(8,920)	
Depreciation expense	(25,975)	176,219
The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets.		(1,099)
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	(60,975)	
Proceeds from other financing arrangements	(24,126)	
Repayment of bond principal	79,765	
Repayment of other financing debt	10,473	
Accrued interest	493	5,630
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	(394)	
Pledged future revenues	3,915	
Claims payable	-	
Compensated absences	(155)	3,366
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		18,663
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.		63,299
Changes in net assets of governmental activities		$ 325,594

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

STATE OF MAINE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2007
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities
	Major	Major	Non-Major		
	Employment Security	Alcoholic Beverages	Other Enterprise	Totals	Internal Service Funds
Assets					
Current Assets:					
Equity in Treasurer's Cash Pool	$ -	$ -	$ 12,387	$ 12,387	$ 206,298
Cash and Short-Term Investments	889	-	757	1,646	3
Cash with Fiscal Agent	-	-	-	-	23,735
Restricted Assets:					
Restricted Deposits and Investments	463,099	-	-	463,099	2,403
Inventories	-	-	779	779	4,691
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	14,610
Other Receivable	28,839	-	22,092	50,931	5,818
Due from Other Funds	16	-	8,976	8,992	23,092
Due from Component Units	-	-	66	66	-
Other Current Assets	-	-	206	206	1,003
Total Current Assets	492,843	-	45,263	538,106	281,653
Noncurrent Assets:					
Equity in Treasurer's Cash Pool	-	-	1,353	1,353	22,572
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	167,995
Capital Assets - Net of Depreciation	-	-	90,361	90,361	117,580
Total Noncurrent Assets	-	-	91,714	91,714	308,147
Total Assets	492,843	-	136,977	629,820	589,800
Liabilities					
Current Liabilities:					
Accounts Payable	2,296	-	2,773	5,069	5,812
Accrued Payroll	-	-	1,445	1,445	3,065
Due to Other Governments	-	-	-	-	225
Due to Other Funds	-	-	9,740	9,740	30,478
Current Portion of Long-Term Obligations:					
Certificates of Participation and Other Financing Arrangements	-	-	-	-	15,914
Revenue Bonds Payable	-	-	-	-	14,610
Obligations Under Capital Leases	-	-	-	-	6,402
Claims Payable	-	-	-	-	22,980
Compensated Absences	-	-	72	72	528
Deferred Revenue	-	12,500	1,596	14,096	409
Other Accrued Liabilities	870	-	18,151	19,021	3,153
Total Current Liabilities	3,166	12,500	33,777	49,443	103,576
Long-Term Liabilities:					
Working Capital Advances Payable	-	-	-	-	111
Deferred Revenue	-	75,000	-	75,000	984
Certificates of Participation and Other Financing Arrangements	-	-	-	-	36,256
Revenue Bonds Payable	-	-	-	-	167,995
Obligations Under Capital Leases	-	-	-	-	35,349
Claims Payable	-	-	-	-	41,116
Compensated Absences	-	-	646	646	3,059
Total Long-Term Liabilities	-	75,000	646	75,646	284,870
Total Liabilities	3,166	87,500	34,423	125,089	388,446
Net Assets					
Invested in Capital Assets, Net of Related Debt	-	-	90,361	90,361	61,590
Restricted for:					
Unemployment Compensation	489,677	-	-	489,677	-
Other Purposes	-	-	-	-	2,173
Unrestricted	-	(87,500)	12,193	(75,307)	137,591
Total Net Assets	$ 489,677	$ (87,500)	$ 102,554	504,731	$ 201,354
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.				1,253	
Net Assets of Business-Type Activities				$ 505,984	

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

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

June 30, 2007
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities
	Major Employment Security	Major Alcoholic Beverages	Non-Major Other Enterprise	Totals	Internal Service Funds
Operating Revenues					
Charges for Services	$ -	$ 25	$ 336,089	$ 336,114	$ 473,289
Assessments	112,482	-	1,749	114,231	-
Miscellaneous Revenues	-	-	65	65	714
Total Operating Revenues	112,482	25	337,903	450,410	474,003
Operating Expenses					
General Operations	-	-	298,157	298,157	376,428
Depreciation	-	-	5,048	5,048	16,048
Claims/Fees Expense	120,215	-	-	120,215	9,142
Other Operating Expenses	-	-	-	-	362
Total Operating Expenses	120,215	-	303,205	423,420	401,980
Operating Income (Loss)	(7,733)	25	34,698	26,990	72,023
Nonoperating Revenues (Expenses)					
Investment Revenue (Expense) - net	21,724	-	-	21,724	12,878
Interest Expense	-	-	-	-	(16,523)
Other Nonoperating Revenues (Expenses)- net	-	12,500	270	12,770	(373)
Total Nonoperating Revenues (Expenses)	21,724	12,500	270	34,494	(4,018)
Income (Loss) Before Capital Contributions and Transfers	13,991	12,525	34,968	61,484	68,005
Capital Contributions and Transfers					
Capital Contributions from (to) Other Funds	-	-	16,524	16,524	2,057
Transfers from (to) Other Funds	(1,146)	(24)	(52,181)	(53,351)	(10,810)
Total Capital Contributions and Transfers In (Out)	(1,146)	(24)	(35,657)	(36,827)	(8,753)
Change in Net Assets	12,845	12,501	(689)	24,657	59,252
Total Net Assets - Beginning of Year (As Restated)	476,832	(100,001)	103,243		142,102
Total Net Assets - End of Year	$ 489,677	$ (87,500)	$ 102,554		$ 201,354
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.				(437)	
Changes in Business-Type Net Assets				$ 24,220	

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

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2007
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities
	Major Employment Security	Major Alcoholic Beverages	Non-Major Other Enterprise	Totals	Internal Service Funds
Cash Flows from Operating Activities					
Receipts from Customers and Users	$ 111,892	$ 25	$ 338,982	$ 450,899	$ 473,005
Payments of Benefits	(118,230)	-	-	(118,230)	-
Payments to Prize Winners	-	-	(145,479)	(145,479)	-
Payments to Suppliers	-	(1)	(119,399)	(119,400)	(306,931)
Payments to Employees	-	-	(32,284)	(32,284)	(69,704)
Net Cash Provided (Used) by Operating Activities	(6,338)	24	41,820	35,506	96,370
Cash Flows from Noncapital Financing Activities					
Operating Transfers in	-	-	5,275	5,275	3,170
Operating Transfers out	(1,146)	(24)	(57,456)	(58,626)	(21,984)
Net Cash Provided (Used) by Noncapital Financing Activities	(1,146)	(24)	(52,181)	(53,351)	(18,814)
Cash Flows from Capital and Related Financing Activities					
Payments for Acquisition of Capital Assets	-	-	144	144	(24,702)
Proceeds from Financing Arrangements	-	-	-	-	42,285
Principal and Interest Paid on Financing Arrangements	-	-	-	-	(37,394)
Proceeds from Sale of Capital Assets	-	-	1	1	-
Net Cash Provided (Used) by Capital Financing Activities	-	-	145	145	(19,811)
Cash Flows from Investing Activities					
Interest Revenue	21,724	-	270	21,994	12,879
Net Cash Provided (Used) by Investing Activities	21,724	-	270	21,994	12,879
Net Increase (Decrease) in Cash/Cash Equivalents	14,240	-	(9,946)	4,294	70,624
Cash/Cash Equivalents - Beginning of Year	449,748	-	24,446	474,194	184,387
Cash/Cash Equivalents - End of Year	$ 463,988	$ -	$ 14,500	$ 478,488	$ 255,011
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities					
Operating Income (Loss)	$ (7,733)	$ 25	$ 34,698	$ 26,990	$ 72,023
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
Depreciation Expense	-	-	5,048	5,048	16,048
Decrease (Increase) in Assets					
Accounts Receivable	(600)	-	3,138	2,538	(880)
Interfund Balances	10	(1)	(3,712)	(3,703)	24,574
Inventories	-	-	31	31	(327)
Increase (Decrease) in Liabilities					
Accounts Payable	1,368	-	(1,419)	(51)	(15,427)
Accrued Payroll Expenses	-	-	294	294	214
Change in Compensated Absences	-	-	583	583	127
Other Accruals	617	-	3,159	3,776	18
Total Adjustments	1,395	(1)	7,122	8,516	24,347
Net Cash Provided (Used) by Operating Activities	$ (6,338)	$ 24	$ 41,820	$ 35,506	$ 96,370
Non Cash Investing, Capital and Financing Activities					
Property Leased, Accrued, or Acquired	-	-	-	-	4,093
Contributed Capital Assets	-	-	2,926	2,926	2,057
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, 2007
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
Assets			
Equity in Treasurer's Cash Pool	$ -	$ 1,272	$ 6,590
Cash and Short-Term Investments	216,272	-	41
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	11,342	-	-
Loans to Institutions	-	-	-
Interest and Dividends	35,970	222	-
Due from Brokers for Securities Sold	123,912	-	-
Investments at Fair Value:			
Debt Securities	3,729,557	-	-
Equity Securities	2,935,142	-	-
Common/Collective Trusts	4,068,827	-	-
Other	5,789	11,647	-
Securities Lending Collateral	3,031,737	-	-
Due from other funds	-	6,766	-
Investments Held on Behalf of Others	-	5,231,583	62,260
Capital Assets - Net of Depreciation	4,176	-	-
Other Assets	-	18,001	389
Total Assets	14,162,724	5,269,491	69,280
Liabilities			
Accounts Payable	2,016	3,277	14
Due to Other Funds	-	-	1,466
Due to Brokers for Securities Purchased	71,488	-	-
Agency Liabilities	-	-	69,280
Obligations Under Securities Lending	3,031,737	-	-
Other Accrued Liabilities	34,462	1	(1,480)
Total Liabilities	3,139,703	3,278	69,280
Net Assets			
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	11,023,021	5,266,213	-
Total Net Assets	$ 11,023,021	$ 5,266,213	$ -

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, 2007
(Expressed in Thousands)

	Pension (and Other Employee Benefit Trusts)	Private Purpose Trusts
Additions:		
Contributions:		
Members	$ 163,899	$ 1,699,856
State and Local Agencies	323,620	-
Investment Income:		
Net Increase (Decrease) in the Fair Value of Investments	1,369,944	432,715
Capital Gains Distributions from Investments	-	112,678
Interest and Dividends	199,741	144,331
Less Investment Expense:		
Investment Activity Expense	23,169	-
Cost of Securities Lending	671	-
Net Investment Income	1,545,845	689,724
Miscellaneous Revenues	-	12,121
Transfers In	-	16
Total Additions	2,033,364	2,401,717
Deductions:		
Benefits Paid to Participants or Beneficiaries	550,022	1,109,853
Refunds and Withdrawals	21,969	-
Administrative Expenses	11,135	36,841
Transfers Out	-	9,060
Total Deductions	583,126	1,155,754
Net Increase (Decrease)	1,450,238	1,245,963
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year	9,572,783	4,020,250
End of Year	$ 11,023,021	$ 5,266,213

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

STATE OF MAINE
STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2007
(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	$ 27,855	$ 6,276	$ -
Cash and Cash Equivalents	5,154	255	14,898
Cash with Fiscal Agent	-	-	-
Investments	203,489	23,899	16,292
Restricted Assets:			
Inventories	-	1,255	-
Receivables, Net of Allowance for Uncollectibles:			
Loans Receivable	-	-	41,970
Notes Receivable	-	-	-
Other Receivables	4,366	3,246	3,606
Due from Other Governments	1,465	-	-
Due from Primary Government	-	312	-
Loans receivable from primary government	-	-	-
Other Current Assets	2,872	558	770
Total Current Assets	245,201	35,801	77,536
Noncurrent Assets:			
Equity in Treasurer's Cash Pool	3,048	687	-
Assets Held in Trust	-	-	-
Restricted Assets:			
Restricted Deposits and Investments	-	6,564	155,884
Investments	-	6,307	-
Receivables, Net of Current Portion:			
Loans Receivable	-	-	1,212,383
Notes Receivable	165,510	-	-
Other Receivables	-	-	60
Due from Other Governments	-	-	-
Due from Primary Government	-	-	-
Loans receivable from primary government	-	-	-
Capital Assets - Net of Depreciation	1,801	105,279	3,262
Other Noncurrent Assets	-	302	899
Total Noncurrent Assets	170,359	119,139	1,372,488
Total Assets	415,560	154,940	1,450,024
Liabilities			
Current Liabilities:			
Accounts Payable	1,447	5,487	2,066
Accrued Payroll	-	-	-
Compensated Absences	-	1,761	-
Due to Other Governments	-	-	559
Due to Primary Government	-	-	-
Amounts Held under State & Federal Loan Programs	-	-	-
Undistributed Grants and Administrative Funds	10,321	-	-
Allowances for Losses on Insured Commercial Loans	5,502	-	-
Bonds Payable	53	-	41,970
Obligations under Capital Leases	-	-	-
Accrued Interest Payable	996	-	27,387
Deferred Revenue	1,710	1,940	126
Other Current Liabilities	51	6,363	1,554
Total Current Liabilities	20,080	15,551	73,662
Long-Term Liabilities:			
Due to Other Governments	2,443	-	1,771
Amounts Held under State & Federal Loan Programs	44,062	-	-
Bonds Payable	309,355	23,426	1,340,105
Obligations under Capital Leases	-	3,490	-
Deferred Revenue	-	-	-
Other Noncurrent Liabilities	-	-	-
Total Long-Term Liabilities	355,860	26,916	1,341,876
Total Liabilities	375,940	42,467	1,415,538
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,801	85,230	3,262
Restricted	9,009	17,501	2,309
Unrestricted	28,810	9,742	28,915
Total Net Assets	$ 39,620	$ 112,473	$ 34,486

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
$ -	$ -	$ 52,663	$ 97	$ 86,891
86	2,258	1,751	27,282	51,684
-	-	-	1,081	1,081
19,799	594,093	80,894	4,952	943,418
-	-	-	669	1,924
-	24,111	-	9,885	75,966
-	2	61	-	63
1,746	21,575	20,904	3,542	58,985
118,924	3,551	12,522	2,208	138,670
-	1,014	9,722	2,166	13,214
4,015	-	-	-	4,015
24,859	-	7,193	1,967	38,219
169,429	646,604	185,710	53,849	1,414,130
-	-	5,762	10	9,507
-	-	-	5,047	5,047
259,512	149,890	115,984	4,357	692,191
-	80,765	253,760	24,246	365,078
-	1,126,434	-	72,303	2,411,120
-	944	40,800	1,183	208,437
-	-	5,325	952	6,337
1,116,640	-	-	-	1,116,640
-	-	2,106	-	2,106
38,338	-	-	-	38,338
816	1,768	577,021	106,758	796,705
4,689	4,062	19,994	5,589	35,535
1,419,995	1,363,863	1,020,752	220,445	5,687,041
1,589,424	2,010,467	1,206,462	274,294	7,101,171
452	38,808	19,219	7,289	74,768
-	-	-	650	650
-	-	-	429	2,190
3,085	3,112	-	195	6,951
-	-	-	1,043	1,043
32,094	-	-	-	32,094
546	-	-	-	10,867
-	-	-	-	5,502
99,827	35,655	6,507	406	184,418
-	-	346	18	364
8,760	9,683	-	327	47,153
507	8,061	17,207	13,078	42,629
-	-	23,038	5,504	36,510
145,271	95,319	66,317	28,939	445,139
1,608	-	-	3,204	9,026
-	-	-	-	44,062
980,774	1,603,935	216,900	99,824	4,574,319
-	-	766	65	4,321
-	22,449	-	1,017	23,466
-	-	86,983	-	86,983
982,382	1,626,384	304,649	104,110	4,742,177
1,127,653	1,721,703	370,966	133,049	5,187,316
-	1,768	396,319	103,919	592,299
408,184	269,697	343,104	22,625	1,072,429
53,587	17,299	96,073	14,701	249,127
$ 461,771	$ 288,764	$ 835,496	$ 141,245	$1,913,855

STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

June 30, 2007
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority
Expenses	$ 37,027	$ 101,950	$ 70,518
Program Revenues			
Charges for Services	14,851	24,143	63,349
Program Investment Income	7,330	1,693	7,053
Operating Grants and Contributions	19,600	27,575	2,826
Capital Grants and Contributions	-	861	-
Net Revenue (Expense)	4,754	(47,678)	2,710
General Revenues			
Unrestricted Investment Earnings	-	1,919	1,437
Non-program Specific Grants, Contributions and Appropriations	-	47,773	-
Miscellaneous Income	-	1,607	110
Gain (Loss) on Assets Held for Sale	-	(35)	-
Total General Revenues	-	51,264	1,547
Change in Net Assets	4,754	3,586	4,257
Net Assets, Beginning of the Year	34,866	108,887	30,229
Net Assets, End of Year	$ 39,620	$ 112,473	$ 34,486

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
$ 67,364	$ 233,884	$ 613,575	$ 92,602	$ 1,216,920
47,457	70,460	257,096	29,388	506,744
6,904	35,157	-	3,132	61,269
6,084	145,747	200,890	37,687	440,409
22,043	-	7,859	2,662	33,425
15,124	17,480	(147,730)	(19,733)	(175,073)
917	737	10,457	1,616	17,083
-	-	223,280	15,752	286,805
939	-	(2,269)	586	973
-	-	-	(111)	(146)
1,856	737	231,468	17,843	304,715
16,980	18,217	83,738	(1,890)	129,642
444,791	270,547	751,758	143,135	1,784,213
$ 461,771	$ 288,764	$ 835,496	$ 141,245	$ 1,913,855

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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. Because of its' nature, the Maine Public Employees Retirement System (formerly the Maine State Retirement System) is reported in the fiduciary funds.

The State's major discrete and fiduciary component units are:

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, the Occupational Safety Program Fund Board, and the Small Business Enterprise Growth Fund Board. Additionally, the Authority administers the Maine College Savings Program. Net assets of the program, NextGen College Investing Plan, are included in the State's fiduciary fund financial statements. The Governor appoints the fifteen voting members of the Authority.

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.

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*.

The 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.

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 University of Maine System is the State University governed by a single Board of Trustees. The combined financial statements of the System include the activity of seven universities, eleven centers, the central administrative office, and its component units, which include several foundations and alumni associations that raise funds on the System's behalf.

Complete financial statements of the 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 $688.5 million of restricted net assets, of which $42.0 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.

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 Fund.

The State reports the following major enterprise funds:

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

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

Additionally, the State reports the following fund types:

Governmental Fund Types:

Special Revenue Funds include operating fund activities financed by specific revenue sources that are legally restricted for specified purposes. 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 the unemployment compensation program, 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.

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, and the NextGen College Investing Plan.

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 $155 million of Workers' Compensation, $52 million of Bureau of Insurance, and $23 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. Undistributed vaccines and 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 vaccines and food commodities are issued. Inventories of materials and supplies in the Proprietary Funds are determined by physical counts and by perpetual inventory systems. Proprietary Fund inventories are stated at cost or average cost.

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

Receivables
Receivables consist primarily of amounts due to the State from taxpayers and service providers. Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. Loans receivable for the primary government represent low interest financing arrangements to construct and modernize agricultural storage facilities and local commercial enterprises, as well as Department of Transportation loans to local governments. Receivables in the component units' column arise in the normal course of business. Receivables are stated net of estimated allowances for uncollectible amounts that are determined based upon past collection experience and aging of the accounts. Receivables due from related providers for interim payments are $160 million, net of an allowance for uncollectible amounts of $29.7 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 from 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 will 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 $3 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; however, are actuarially estimated. The IBNP estimate at June 30, 2007 is $317 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, receivables, or other assets are received prior to their being earned. In the governmental fund statements, amounts recorded as receivable that do not meet the "availability" criterion for recognition as revenue in the current period are classified as deferred revenue. Resources received by the government before it has a legal claim to them are also included as deferred revenue. Deferred revenue reported in the General Fund relates to sales and income taxes. Deferred revenue in the Federal Fund consists primarily of food commodities and vaccines not yet issued. Deferred revenue in the Alcoholic Beverages Fund comprises the proceeds from the sale of the State's liquor operations.

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

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

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

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

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

The State reported the following fund balance reservations:

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

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 $263.9 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. In addition to interest earnings, the fund is capitalized at the close of each fiscal year. As the third priority before any other transfer, the State Controller is required to transfer 35 percent of the unappropriated surplus of the General Fund, when the fund is not at its statutory cap. In accordance with statute, since there was no unappropriated surplus in 2007, no transfer was required.

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 2007 actual General Fund revenue, the statutory cap at the close of fiscal year 2007 and during fiscal year 2007 was $362.4 million. At the close of fiscal year 2007, the balance of the Maine Budget Stabilization Fund was $115.5 million. No reductions to the Maine Budget Stabilization Fund balance are required when it exceeds the balance of the statutory cap as a result of a decline of General Fund revenue.

Budget Stabilization Fund Activity
(Expressed in Thousands)

Balance, beginning of year	$	79,903
Increase in fund balance		35,577
Balance, end of year	$	115,480

Budget and Budgetary Expenditures

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, 2007, the Legislature decreased supplemental appropriations to the General Fund by $15.2 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

Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, became effective in fiscal year 2007; however, it was not applicable to the State as no trust fund has yet been established for postemployment benefits.

Changes in Classification

Beginning in fiscal year 2007, Maine Health and Higher Educational Facilities Authority (MHHEFA) is reported as a discrete component unit. Prior to fiscal year 2007, MHHEFA was reported with the State's fiduciary funds. This change was made after re-evaluating the nature of the entity. The State determined that it is more correctly classified as an enterprise activity. As a result, beginning net assets for discretely presented component units increased $30.2 million.

The presentation of component units was changed to depict major and nonmajor classifications.

Change in Accounting Estimate

The liability estimate for incurred but not paid (IBNP) Medicaid claims as of June 30, 2006 was reduced by approximately $117 million as determined by actuarial calculations. The cause of the decrease was a higher-than-usual claims payment pattern at the end of fiscal year 2006, causing the IBNP amount to be inflated. The payment pattern has now stabilized, resulting in more consistent actuarial results.

Restatement – Primary Government

The beginning net assets on the Governmental Activities in the Statement of Net Assets were decreased $7.5 million for assets that should not have been capitalized in the prior period. Beginning net assets in the governmental funds balance sheet, general fund, decreased by $2.1 million for a correction to receivables from the lottery fund.

NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS

Five internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2007. The Workers' Compensation Fund reported a deficit of $15.2 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 $65 thousand because expenses are recognized when incurred; however, related revenue is not earned until jobs are satisfactorily completed. The Information Services Fund has a deficit balance of $818 thousand because rates charged were insufficient to cover expenses incurred. The Financial & Personnel Services Fund had a fund balance deficit of $1.2 million 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 $87.5 million. During fiscal year 2004, the State of Maine entered into a 10 year contract with a vendor to manage and operate wholesale liquor distribution as the State's agent. The deficit reflects the deferral of license fees that will be amortized over that 10 year period.

The Maine Military Authority Enterprise Fund shows a deficit of $168 thousand. Expenses are recognized when incurred; however, related revenue is not earned until repair projects are satisfactorily completed. The deficit will be funded by future billings as projects are completed.

The General Fund shows a deficit fund balance of $156.3 million at June 30, 2007, and a deficit of $179.7 million at June 30, 2006, as restated. The change in recognizing income, sales and fuel tax revenues to 60 days from one year decreased the beginning fund balance by $137.3 million in fiscal year 2006. This deficit is in part 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 GASB 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, 2007:

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	$ 484,089	$ 13,740	$ 1,272	$ 6,590	$ 505,691
Cash and Cash Equivalents	11,511	1,646	-	14	13,171
Cash with Fiscal Agent	46,450	-	-	27	46,477
Investments	79,424	-	11,647	-	91,071
Restricted Equity in Treasurer's Cash Pool	14,493	-	-	-	14,493
Restricted Deposits and Investments	16,301	463,099	-	-	479,400
Investments Held on Behalf of Others	-	-	5,231,583	62,260	5,293,843
Other Assets	-	-	18,001	389	18,390
Total Primary Government	$ 652,268	$ 478,485	$ 5,262,503	$ 69,280	$ 6,462,536

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, 2007:

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	$16,901	$48,386	$ -	$ -	$ -	$ -	$65,287
US Treasury Notes	7,888	-	-	-	-	-	7,888
Repurchase Agreements	15,760	-	-	-	-	-	15,760
Corporate Notes and Bonds	13,675	3,978	-	-	-	-	17,653
Commercial Paper	167,755	-	-	-	-	-	167,755
Certificates of Deposit	9,862	1,471	-	-	-	-	11,333
Money Market	242,150	-	-	-	-	-	242,150
Cash and Cash Equivalents	-	-	-	-	-	13,954	13,954
Unemployment Fund							
Deposits with US Treasury	-	-	-	-	-	463,099	463,099
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	1,023	4,668	2,248	1,383	5,646	-	14,968
US Treasury Notes	3,409	17,013	3,184	6,267	3,614	-	33,487
Repurchase Agreements	29	-	-	-	-	-	29
Corporate Notes and Bonds	1,728	4,598	2,177	183	2,191	-	10,877
Other Fixed Income Securities	-	-	132	-	-	-	132
Commercial Paper	2,574	-	-	-	-	-	2,574
Certificates of Deposit	127	23	-	-	-	-	150
Money Market	3,716	-	-	-	-	1,254	4,970
Cash and Cash Equivalents	-	-	-	-	-	27,627	27,627
Equities	-	-	-	-	-	66,082	66,082
Other	-	-	-	-	-	311	311
	$486,597	$80,137	$7,741	$7,833	$11,451	$572,327	$1,166,086
NextGen College Investing Plan							5,231,583
Other Assets							18,390
Cash with Fiscal Agent							46,477
Total Primary Government							$6,462,536

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, 2007 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	$ -	$ -	$ -	$ -	$ 65,287	$ -	$ -	$ -	$ 65,287
US Treasury Notes	-	-	-	-	7,888	-	-	-	7,888
Corporate Notes and Bonds	-	-	-	-	17,653	-	-	-	17,653
Commercial Paper	100,732	-	-	-	-	-	-	67,023*	167,755
Money Market	-	-	-	-	-	-	-	242,150	242,150
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	-	98	344	-	3,962	-	-	10,564	14,968
US Treasury Notes	-	300	123	-	33,064	-	-	-	33,487
Corporate Notes and Bonds	-	2,075	947	-	3,170	23	729	3,933	10,877
Commercial Paper	1,545	-	-	-	-	-	-	1,029*	2,574
Money Market	-	-	-	-	-	-	-	4,970	4,970
Other Fixed Income Securities	-	-	-	-	-	-	132	-	132
Total Primary Government	$ 102,277	$ 2,473	$ 1,414	$ -	$ 131,024	$ 23	$ 861	$329,669	$ 567,741

*Rated "P1" by Moody's credit rating.

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, 2007, more than 5 percent of the cash pool's investments were in Citizens Bank, and TD Banknorth. These investments are $283 million (42.1 percent), and $34 million (5.1 percent), respectively, of the cash pool's total investments.

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 $12.2 million invested in non-negotiable certificates of deposit, $5.8 million 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, 2007 was $66.8 million and was comprised of the following:

U.S. Instrumentalities	$ 8,123
US Treasury Notes	3,387
Corporate Notes and Bonds	5,744
Other Fixed Income Securities	132
Equities	47,879
Cash and Equivalents	1,307
Other	261
Total	$ 66,833

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to its vendors. During fiscal year 2007, these disbursements, on average, exceeded $153 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. The System prohibits its investment managers from using leverage in its derivative financial instruments or from investing in speculative positions.

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, 2007, 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, 2007 was $3.6 billion and $3.5 billion, 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 $5.2 billion at June 30, 2007.

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, 2007 was $62.1 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, 2007 was $289.2 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	$ 62,090
Cash Allocation Account	289,212
Fixed Income Securities	1,032,289
Total Fair Value	$1,383,591

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 16 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 $96.4 million of the component units' participation to "Equity in Treasurer's Cash Pool" on the State's financial statements. In addition to the amounts reported, the State Treasurer's Cash Pool includes $18.8 million, consisting of Finance Authority of Maine component unit fiduciary funds that, because of GASB Statement No. 34 reporting criteria, are not shown in the accompanying financial statements.

NOTE 6 - RECEIVABLES

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

Primary Government – Receivables
(Expressed in Thousands)

	Taxes	Accounts	Loans	Allowance for Uncollectibles	Net Receivables
Governmental Funds:					
General	$539,806	$195,650	$1	($201,546)	$533,911
Highway	28,064	263	71	(4,465)	23,933
Federal	-	124,865	-	(33,108)	91,757
Other Special Revenue	10,297	75,138	5,469	(5,397)	85,507
Other Governmental Funds	-	-	-	-	-
Total Governmental Funds	578,167	395,916	5,541	(244,516)	735,108
Allowance for Uncollectibles	(142,182)	(101,353)	(981)		
Net Receivables	$435,985	$294,563	$4,560		$735,108
Proprietary Funds:					
Employment Security	$0	$36,847	$0	($8,008)	$28,839
Nonmajor Enterprise	-	22,517	-	(425)	22,092
Internal Service	-	5,818	182,605	-	188,423
Total Proprietary Funds	-	65,182	182,605	(8,433)	239,354
Allowance for Uncollectibles	-	(8,433)	-		
Net Receivables	$0	$ 56,749	$182,605		$ 239,354

Component Units – Receivables
(Expressed in Thousands)

	Accounts	Loans	Notes	Allowance For Uncollectibles	Net Receivables
Finance Authority of Maine	$4,366	$ -	$170,286	($4,776)	$169,876
Maine Community College System	4,050	-	-	(804)	3,246
Maine Health and Educational Facilities Authority	3,666	2,318,841	-	(1,064,488)	1,258,019
Maine Municipal Bond Bank	1,746	-	-	-	1,746
Maine State Housing Authority	21,575	1,160,219	1,039	(9,767)	1,173,066
University of Maine System	28,727	-	41,653	(3,290)	67,090

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, 2007 were:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds				
Due from Other Funds	General	Highway	Federal	Other Special Revenue	Other Governmental
General			$ 10,741		$ 71
Highway			4,692		
Federal	1,171	20	136	102	
Other Special Revenue	1,956	266	2,298	582	
Employment Security			16		
Non-Major Enterprise	2,690	2	5,182	5	
Internal Service	13,185	2,451	3,131	2,017	
Fiduciary	6,766				
Total	$ 25,768	$ 2,739	$ 26,196	$ 2,706	$ 71

Due to Other Funds	Non-Major Enterprise	Internal Service	Fiduciary	Total
General	$ 8,689	$ 18,186	$ 1,466	$ 39,153
Highway		2,620		7,312
Federal		3,804		5,233
Other Special Revenue	653	2,861		8,616
Employment Security				16
Non-Major Enterprise	86	1,011		8,976
Internal Service	312	1,996		23,092
Fiduciary				6,766
Total	$ 9,740	$ 30,478	$ 1,466	$ 99,164

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. 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 2007, the State of Maine, in accordance with the legislatively authorized budget, recorded several non-routine, nonrecurring transfers.

The General Fund transferred $27.8 million to other funds for the following purposes: $2.1 million to the Other Special Revenue Fund for the Fund for a Healthy Maine, $15.0 million to the unappropriated surplus of the Highway Fund, $8.7 million to the Federal Fund for indirect cost allocation settlements and federal audit settlements within the Department of Health and Human Services, and $2.0 million to the Information Services Fund to partially fund the development and implementation of the State accounting system.

The Other Special Revenue Fund transferred $6.6 million to the unappropriated surplus of the General Fund.

The Dirigo Health Fund transferred $1.1 million to the unappropriated surplus of the General Fund.

The Employee Health Insurance Fund transferred $3.5 million to the unappropriated surplus of the General Fund.

Interfund transfers for the year ended June 30, 2007, consisted of the following:

Interfund Transfers
(Expressed in Thousands)

	Transferred From				
Transferred To	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ -	$ -	$ 5	$ 42,098	$ 3,023
Highway	16,911	-	-	-	-
Federal	10,055	-	-	15,472	-
Other Special Revenue	153,834	-	12,794	-	8,535
Other Governmental Funds	3,023	-	-	42	-
Employment Security	-	-	-	-	-
Non-Major Enterprise	858	3,755	7	109	-
Internal Service	5,393	1,407	1,196	1,158	-
Fiduciary	-	-	-	16	-
Total	$ 190,074	$ 5,162	$ 14,002	$ 58,895	$ 11,558

	Transferred From					
Transferred To	**Alcoholic Beverages**	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ 24	$ -	$ 51,753	$ 9,473	$ 8,916	$ 115,292
Highway	-	-	-	3,825	-	20,736
Federal	-	1,146	-	3,598	-	30,271
Other Special Revenue	-	-	5,770	2,455	144	183,532
Other Governmental Funds	-	-	-	-	-	3,065
Employment Security	-	-	-	-	-	-
Non-Major Enterprise	-	-	-	931	-	5,660
Internal Service	-	-	318	1,702	-	11,174
Fiduciary	-	-	-	-	-	16
Total	$ 24	$ 1,146	$ 57,841	$ 21,984	$ 9,060	$ 369,746

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, 2007:

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	$ 394,069	$ 31,050	$ 788	$ 424,331
Construction in progress	6,818	21,191	17,779	10,230
Infrastructure	2,861,522	162,451	-	3,023,973
Total capital assets not being depreciated	3,262,409	214,692	18,567	3,458,534
Capital assets being depreciated:				
Buildings	506,881	56,123	2,697	560,307
Equipment	254,007	46,621	52,499	248,129
Improvements other than buildings	17,233	1,016	3	18,246
Total capital assets being depreciated	778,121	103,760	55,199	826,682
Less accumulated depreciation for:				
Buildings	129,264	57,264	2,620	183,908
Equipment	166,813	21,876	30,549	158,140
Improvements other than buildings	2,028	6,972	3	8,997
Total accumulated depreciation	298,105	86,112	33,172	351,045
Total capital assets being depreciated, net	480,016	17,648	22,027	475,637
Governmental Activities Capital Assets, net	$ 3,742,425	$ 232,340	$ 40,594	$ 3,934,171

	Beginning Balance*	Net Additions	Net Deletions	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 38,161	$ 256	$ -	$ 38,417
Construction in progress	925	2,688	-	3,613
Total capital assets not being depreciated	39,086	2,944	-	42,030
Capital assets being depreciated:				
Buildings	9,322	451	4	9,769
Equipment	20,220	23,932	767	43,385
Improvements other than buildings	61,218	-	-	61,218
Total capital assets being depreciated	90,760	24,383	771	114,372
Less accumulated depreciation	50,816	15,875	650	66,041
Total capital assets being depreciated, net	39,944	8,508	121	48,331
Business-Type Activities Capital Assets, net	$ 79,030	$ 11,452	$ 121	$ 90,361

*As restated.

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

Governmental Activities – Depreciation Expense
(Expressed in Thousands)

	Amount
Governmental Activities:	
Arts, Heritage and Cultural Enrichment	$ 40
Business Licensing and Regulation	390
Economic Development and Workforce Training	824
Education	2,059
Governmental Support and Operations	6,798
Health and Human Services	6,608
Justice and Protection	10,843
Natural Resources Development and Protection	4,378
Transportation Safety and Development	11,873
Total Depreciation Expense – Governmental Activities	$ 43,813

NOTE 9 - MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

PLAN DESCRIPTION

The Maine Public Employees Retirement System, formerly the Maine State 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 established and administered under Title 5 MRSA C. 421, 423, and 425. Financial information for the System is included in the Statement of Fiduciary Net Assets and in the Statement of Changes in Fiduciary Net Assets. Additional schedules and notes are presented in the accompanying Required Supplementary Information (RSI). The System issues a publicly available comprehensive annual financial report that includes schedules of funding progress and employer contributions. The June 30, 2007 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The System provides pension, disability, and survivor benefits to its members and their beneficiaries. Members include employees of the State, public school employees who are defined by Maine law as teachers for whom the State is the employer for retirement contribution and benefit purposes, and employees of approximately 270 local municipalities and other public entities (PLD's) in Maine. These 270 entities each contract for participation in the System under provisions of relevant statutes.

At June 30, 2007, membership consisted of:

Active vested and nonvested members	52,060
Terminated vested participants	7,852
Retirees and benefit recipients	33,586
Total	93,498

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.

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.

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.

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.

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 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. 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 System also provides group life insurance under a plan administered by a third party insurance company. Premiums paid, by or on behalf of those covered, are set and collected by the System. The insurance company makes benefit payments. The System remits payments to the insurance company for premiums collected plus additional payments representing administrative fees.

BASIS OF ACCOUNTING

The System's financial statements are prepared on the accrual basis of accounting. Pension contributions and group life insurance premiums 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. Pension and group life insurance benefits and contributions 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. Benefits payable and 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.

SIGNIFICANT INVESTMENTS

As of June 30, 2007, the System did not have any investments in any one organization, other than the U.S. government, which represented greater than 5% of plan net assets.

FUNDING POLICY

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.

Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The contribution rate in effect for 2007 was determined by the 2004 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 10 years remained at June 30, 2007.

For PLD's, the level percentage of payroll method is used to fund any unfunded liability.

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 2007, 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 2007 for participating entities are:

State		
Employees	[1]	7.65-8.65%
Employer	[1]	15.01-47.07%
Teachers		
Employees		7.65%
Employer		17.23%
Participating Local Entities		
Employees	[1]	3.0-8.0%
Employer	[1]	1.5-6.5%

[1] Contribution rates vary depending on specific terms of plan benefits for certain classes of employees and/or, in the case of 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	$ 303,076
Interest on net pension obligation	1,444
Adjustment to annual required contribution	(1,050)
Annual pension cost	303,470
Contributions made	303,076
Increase (decrease) in net pension obligation	394
Net pension obligation beginning of year	18,050
Net pension obligation end of year	$ 18,444

Analysis of Funding Progress
(Expressed in Thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
2007	303,470	99.87%	18,444
2006	287,253	105.63%	18,050
2005	262,874	104.50%	34,236

The annual required contribution for the current year was determined as part of the June 30, 2004 actuarial valuation using the entry age normal cost method based on a level percentage of covered payrolls. The actuarial assumptions included (a) 8 percent return on investments, and (b) projected salary increases of 5.5 percent to 9.5 percent per year, including cost of living. The assumptions include post retirement benefit increases of 4 percent per annum. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a 24 year period from June 30, 2004.

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. 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 considered to be State employees for retirement benefit purposes and are included in the pension disclosures of the State.

Employer contributions met actuarially determined contribution requirements.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

POST RETIREMENT HEALTH CARE BENEFITS

The State of Maine funds postretirement health care benefits for most retired State employees and legislators, as authorized by 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 officer and municipal firefighters, as defined in subsection 286-M, who participates in an employer-sponsored retirement plan and, prior to July 1, 2007 was 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 retirees who were first employed on or before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than five years participation to 100 percent for retirees with ten or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. 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. County and municipal law enforcement officers and municipal firefighters will begin coverage in Fiscal Year 2008 with the State contributing 45% of the cost of their respective plans.

The State had been in the process of changing funding of retiree health care benefits from a pay-as-you-go basis to an actuarial funding method. For retired State employees, the State estimated the total amount necessary to pay health insurance premiums. This amount is generated using a contribution rate, authorized by Title 5 MRSA § 286-A, multiplied by the value of the current employee payroll. The amounts contributed were reported as expenditures/expense in each of the various funds. For retired teachers, the State estimates the total annual amount necessary to pay its 45 percent share of health insurance premiums. This amount, less any accumulated funds remaining from prior years' estimates, is appropriated and reported as expenditures in the General Fund. Contributions resulting from both sources are accumulated in and reported as revenue of the Retiree Health Insurance Internal Service Fund. The State's share of the premium expense is paid from that fund when retiree payrolls are processed. With the enactment of Chapter 240, Public Laws 2007, the State of Maine has transitioned from a pay-as-you-go plan to an actuarial based funding plan beginning with Fiscal Year 2008. Chapter 240 established an OPEB Trust Fund to be invested by the Maine Public Employees Retirement System in a similar manner to the investment of employee retirement funds.

As of June 30, 2007, there were 9,069 retired eligible State employees and 7,768 retired teachers. In fiscal year 2007, the State paid into the Retiree Health Insurance Fund $75.0 million for retired employees and $16.9 million for retired teachers. Premium charges paid were $40.8 million and $16.1 million, respectively. Overall, Net Assets increased by $41.9 million to $103.7 million at June 30, 2007 as a result of an increase in cash of $42 million. The increase in cash relates to a premium increase in anticipation of the implementation of GASB Statement No. 45.

Under current accounting standards, GASB Statement No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*, the State has an actuarial accrued liability at June 30, 2006 and 2007 for postretirement benefits of $2.6 billion.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, became effective in 2007. The standards in this Statement apply to OPEB trust funds, of which the State does not currently have any. Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* will be implemented by the State for the fiscal year beginning July 1, 2007, as required. This Statement will require that the long-term cost of retirement health care and other obligations for postemployment benefits be determined on an actuarial basis and reported in a manner similar to pension plans. An actuarial study was completed to determine the actuarial accrued liability as of June 30, 2006 and forecast to June 30, 2007. The study determined the liability if funded at transition of $3.2 billion, or $4.8 billion if not funded at transition. GASB Statement No. 45 does not mandate the prefunding of postemployment benefit liabilities; however, any prefunding of these benefits will help minimize the obligation required to be reported on the financial statements. The Legislature authorized the creation of an irrevocable trust fund to be established in fiscal year 2008 to meet the State's unfunded liability obligations for retiree health benefits for eligible participants. The Legislature will appropriate funds annually, beginning in fiscal year 2010, which will retire in 30 years or less, the unfunded liability for retiree health benefits. The actuarial opinion will be updated for fiscal year 2007.

POST RETIREMENT LIFE INSURANCE BENEFITS

The Maine Public Employees Retirement System provides certain life insurance benefits for retirees who, as active employees, participated in the Group Life Insurance Program for a minimum of ten years. Payments of claims are made from a fund containing the life insurance premiums of active State employees and teachers, plus earnings on the investments of the fund. In addition to the cost of claims, the State pays a monthly retention fee to a life insurance company. For the fiscal year ended June 30, 2007, claims totaled $2.3 million for retired State employees and $1.6 million for retired teachers. The number of participants eligible to receive benefits at fiscal year-end was 8,201 retired State employees and 5,228 retired teachers.

NOTE 11 - LONG-TERM OBLIGATIONS

PRIMARY GOVERNMENT

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

GENERAL OBLIGATION BONDS

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

Changes in general obligation bonds of the primary government during fiscal year 2007 were:

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

	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007	Due Within One Year
General Obligation Debt:					
General Fund	$433,585	$33,975	$69,280	$398,280	$66,230
Special Revenue Fund	33,875	27,000	10,415	50,460	10,750
Self Liquidating	90	-	70	20	20
Total	$467,550	$60,975	$79,765	$448,760	$77,000

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2007 until maturity, are summarized in the following table:

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

Fiscal Year	Principal	Interest	Total
2008	$ 77,000	$ 18,109	$ 95,109
2009	68,780	14,945	83,725
2010	62,980	11,960	74,940
2011	57,620	9,202	66,822
2012	53,595	6,915	60,510
2013-2017	128,785	10,332	139,117
Total	$ 448,760	$ 71,463	$ 520,223

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2007 are as follows:

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

	Amounts Issued	Outstanding June 30, 2007	Fiscal Year Maturities First Year	Last Year	Interest Rates
General Fund:					
Series 1998	$ 54,500	$ 5,205	1999	2008	4.20% - 6.50%
Series 1999	54,385	7,745	2000	2009	4.20% - 6.75%
Series 2000	66,290	16,815	2000	2010	4.875% - 7.75%
Series 2001	22,050	8,420	2002	2011	4.00% - 6.08%
Series 2002	27,610	13,800	2003	2012	3.00% - 5.75%
Series 2003	97,080	58,235	2003	2013	1.50% - 5.00%
Series 2004	117,275	84,725	2005	2014	2.00% - 5.27%
Series 2005	137,525	122,215	2006	2015	2.00% - 5.27%
Series 2006	52,390	47,145	2007	2016	4.00% - 5.51%
Series 2007	33,975	33,975	2008	2017	4.00% - 5.50%
Total General Fund		$ 398,280			
Special Revenue Fund:					
Series 1998	$ 30,000	$ 3,000	1999	2008	4.00% - 5.25%
Series 1999	16,900	3,380	2000	2009	4.00% - 5.50%
Series 2001	19,225	7,680	2002	2011	4.00% - 5.00%
Series 2004	13,000	9,400	2005	2014	2.00% - 4.00%
Series 2007	27,000	27,000	2008	2017	4.00% - 5.50%
Total Special Revenue		$ 50,460			
Self Liquidating:					
Maine Veteran's Home	$ 1,700	$ 20	1982	2008	8.34%

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, 2007, general obligations bonds authorized and unissued totaled $35 million.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY
The State included $182.6 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 $263.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2007, MGFA issued the Series 2007 Bonds, which totaled $11.0 million at an interest rate between 4 percent and 5 percent. At June 30, 2007, 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 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 $54.5 million in Bond Anticipation Notes during fiscal year 2007. Short term obligations are used to meet temporary operating cash flow needs. At June 30, 2007 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, 2007, are summarized as follows:

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

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Governmental Activities:					
MGFA Revenue Bonds	$186,215	$10,985	$14,595	$182,605	$14,610
COP's and Other Financing	36,581	60,294	16,989	79,886	25,343
Compensated Absences	41,326	638	284	41,680	528
Claims Payable	72,981	176,658	185,543	64,096	22,980
Capital Leases	40,091	7,814	6,154	41,751	6,402
Pledged Future Revenues	46,268	-	3,915	42,353	4,015
Net Pension Obligation	18,050	394	-	18,444	-
Total Governmental Activities	$441,512	$256,783	$227,480	$470,815	$73,878
Business-Type Activities:					
Compensated Absences	$135	$583	$ -	$718	$72
Total Business-Type Activities	$135	$583	$ -	$718	$72

Debt service requirements (principal and interest) for COP's and other financing arrangements of the primary government, from June 30, 2007 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**
2008	$ 9,429	$ 1,173	$ 10,602	$ 30,524	$ 10,163	$ 40,687
2009	7,921	767	8,688	25,953	8,710	34,663
2010	7,174	379	7,553	25,033	7,667	32,700
2011	1,237	130	1,367	20,207	6,649	26,856
2012	1,293	74	1,367	17,707	5,856	23,563
2013 - 2017	661	93	754	71,182	18,709	89,891
2018 - 2022	-	-	-	39,655	4,593	44,248
2023 - 2027	-	-	-	3,940	417	4,357
2028 - 2032	-	-	-	575	14	589
Total	$ 27,715	$ 2,616	$ 30,331	$ 234,776	$ 62,778	$ 297,554

CONDUIT DEBT OBLIGATIONS

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

At June 30, 2007, lease agreements outstanding totaled $893.5 thousand.

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.

PLEDGED FUTURE REVENUES

On December 16, 2004, the Maine Municipal Bond Bank (MMBB) issued $48.4 million of GARVEE grant anticipation revenue bonds on behalf of the Maine Department of Transportation, to provide financing for construction of a new Waldo-Hancock bridge. Net proceeds from the bonds totaled $49.4 million including bond premium of approximately $900 thousand. The bonds payable bear interest rates from 2.5 percent to 5 percent, and have maturities from 2005 to 2015. Payment of principal and interest on the 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.

Total principal and interest requirements over the life of the bonds are $60.2 million, with annual requirements of up to $5.6 million. Federal transportation funds received by the State for the federal fiscal year preceding the issuance of the bonds totaled $175 million. Total federal transportation funds received in federal fiscal year 2007 were $168 million. Current year payments to MMBB were $5.6 million (0.3 percent of federal transportation funds received).

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, 2007 capital assets include $67.8 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of $30.2 million.

OBLIGATIONS UNDER OPERATING LEASES

The State is obligated under certain leases, accounted for as operating leases, in the proprietary funds. Operating leases do not give rise to property rights or lease obligations, and therefore assets and liabilities related to the lease agreements are not recorded in the State's financial statements. Rental expense incurred under operating leases totaled $2.1 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
2008	$ 6,402	$ 3,251
2009	5,987	2,826
2010	5,538	2,753
2011	5,287	2,421
2012	5,049	2,353
2012-2016	16,070	6,329
2017-2021	6,498	683
2022-2026	1,406	-
2027-2030	2	-
Total Minimum Payments	52,239	$ 20,616
Less: Amount Representing Interest	10,488	
Present Value of Future Minimum Payments	$ 41,751	

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 pledged future revenues will be liquidated from the Federal Fund. The vast majority of COP's and other financing arrangements will be liquidated by the internal service fund in which the leases are recorded; 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 - 3.98%	309,408	2025 – 2037
Maine Community College System	4.0 - 5.0%	23,426	2012 - 2036
Maine Health and Higher Educational Facilities Authority			
debt	2.0 - 6.2%	1,382,075	1993 - 2036
conduit debt	4.5- 7.3%	50,994	1990 - 2043
Maine Municipal Bond Bank	1.0 - 10.25%	1,080,601	1991 – 2036
Maine State Housing Authority	2.20 - 6.40%	1,639,590	2007 – 2039
University of Maine System	2.0 - 5.75%	223,407	2000 – 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. At June 30, 2007, there were approximately $6.7 million of in-substance defeased bonds remaining outstanding with respect to all advance-refunded issues within the reserve fund and taxable fund resolutions. At June 30, 2007, there were approximately $24.1 million of defeased bonds remaining outstanding with respect to advance refunded bond issues of the general resolution. The general resolution bonds are considered conduit debt.

On June 28, 2007, UMS issued 2007 Series A Revenue Bonds, $14.1 million of which was used to advance refund $13.8 million of outstanding bonds. The refunding resulted in a deferred amount on refunding of $841 thousand, of which the unamortized balance was $841 thousand as of June 30, 2007. Total interest payments over the next 27 years were reduced by $310 thousand, and an economic gain of $375 thousand was obtained. At June 30, 2007, $13.8 million of advance refunded bonds remained outstanding.

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
2008	$ 53	$ 100,239	$ -	$ 35,655	$ 7,114	$ 41,970
2009	54	99,018	-	49,820	7,523	44,880
2010	54	94,351	-	53,705	7,926	47,980
2011	55	92,060	-	129,725	8,365	50,350
2012	55	83,238	545	52,550	39,267	55,090
2013-2017	286	326,366	3,065	263,845	37,779	293,380
2018-2022	300	203,199	3,775	295,495	35,066	286,900
2023-2027	176	74,920	4,790	277,150	32,125	257,940
2028-2032	-	6,980	6,095	270,580	32,920	199,450
2033-2037	309,500	2,025	5,960	185,935	13,190	104,135
2038-2042	-	-	-	41,285	-	-
2043-2047	-	-	-	-	-	-
Net unamortized premium or (deferred amount)	(1,125)	(1,795)	(804)	(16,155)	2,132	-
Total Principal Payments	$ 309,408	$ 1,080,601	$ 23,426	$ 1,639,590	$ 223,407	$ 1,382,075

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. Not all departments elect to insure through the Risk Management Division. Specifically, the Department of Transportation elected not to purchase general liability insurance.

In some cases the State purchases excess insurance to limit the State's liability for insured events. For example, coverage for property damage is $250 million per occurrence. The State retains $2 million of this risk per occurrence. 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 *	$250 million	$ 2 million	$250 million
Ocean Marine Boat Liability *	10 million	10 thousand	10 million
Loss of Software and Data *	8 million	25 thousand	8 million
Boiler and Machinery*	3 million	2 million	3 million
General Liability Including			
Employment Practices	400 thousand	400 thousand	none
Police Professionals	400 thousand	400 thousand	none
Vehicular Liability	400 thousand	400 thousand	none
Bonding	500 thousand	500 thousand	none
Foster Parents	300 thousand	300 thousand	none
Inland Marine (various policies)	2 million	2 million	none

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

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

All risk-financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims liabilities represent the estimated cost of claims as of June 30, 2007. This cost of claims includes case reserves, the development of known claims and incurred but not reported claims, and the direct administrative expenses for settling specific claims.

Claims liabilities are determined on an actuarial basis. Periodic 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 June 30, 2007 and 2006, the present value of the claims payable for the State's self-insurance plan was estimated at $3.2 million and $3.2 million, respectively. The actuary calculated this based on a 1.75 percent yield on investments.

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

	2007	2006
Liability at Beginning of Year	$ 3,190	$ 3,547
Current Year Claims and		
Changes in Estimates	683	1,424
Claims Payments	683	1,781
Liability at End of Year	$ 3,190	$ 3,190

As of June 30, 2007, fund assets of $20.3 million exceeded fund liabilities of $3.7 million by $16.6 million. The portion of this amount that may be reserved for catastrophic losses has not been determined.

In the past, general liability insurance coverage excluded lawsuits brought by employees. Therefore, the loss history used by the actuary to project claims did not include the effects of any such lawsuits. Effective July 1, 1999, the State added $50 thousand coverage per occurrence for the cost of defending the State in any such lawsuits. Effective July 1, 2000, the State increased coverage to include both defense and indemnification costs up to $400 thousand. The effect of this change has not been incorporated into the estimate used to determine claims payable as of June 30, 2007.

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 $1.2 million for the fiscal year ended June 30, 2007.

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, 2007:

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

	2007	2006
Liability at Beginning of Year	$ 53,343	$ 53,343
Current Year Claims and Changes in Estimates	474	8,955
Claims Payments	8,459	8,955
Liability at End of Year	$ 45,358	$ 53,343

Based on the actuarial calculation as of June 30, 2007, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $58.8 million. The discounted amount is $45.4 million and was calculated based on a 4 percent yield on investments.

D. EMPLOYEE HEALTH INSURANCE

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

The State 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 41,000 covered individuals. This total includes 30,300 active employees and dependents, 4,200 pre-Medicare retirees and dependents, and 6,500 Medicare retirees and dependents.

Claims expenses are recorded when premiums are paid to the claims servicing contractor. At the end of the period, the total of these premium payments are compared with the actual claims paid and claims expense is adjusted for any overage or shortage with an offsetting receivable or liability recorded. For the period ending June 30, 2007, the State recorded a receivable of $2.7 million for an overpayment of health care premiums.

Expenses and liabilities for incurred but not reported claims, based on an actuarial analysis of claim lag pattern, have been recorded as liabilities in the amount of $15.5 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2007 follows (in thousands):

	Employee Health Fund	Retiree Health Fund
Liability at Beginning of Year	$ 10,554	$ 5,894
Current Year Claims and Changes in Estimates	125,641	49,860
Claims Payments	126,249	50,152
Liability at End of Year	$ 9,946	$ 5,602

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 operating revenue be aggregated in a common prize pool.

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

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

The Tri-State Lotto Commission financial report for fiscal year 2007, 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	$	40,895
Noncurrent Assets		94,558
Total Assets	$	135,453
Current Liabilities	$	27,760
Long-term Liabilities		95,296
Total Liabilities		123,056
Designated Prize Reserves		4,096
Unrealized Gain on Investments Held for Installment Prize Obligations		8,301
Total Net Assets		12,397
Total Liabilities and Net Assets	$	135,453
Total Revenue	$	70,041
Total Expenses		46,726
Allocation to Member States		23,315
Change in Unrealized Gain on Investments Held for Resale		(530)
Change in Net Assets	$	(530)

Multi-State Lottery Association

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

Participating lotteries sell Powerball tickets, collect all revenues, and remit prize funds to the MUSL, net of lower tier prize awards. The operating costs of the board are divided equally among all of the participating lotteries. Jackpot prizes 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 2007, 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	$ 156,119
Investments in US Government Securities	77,714
US Government Securities Held for Prize Annuities	703,846
Due from Party Lotteries	32,039
Other Assets	2,674
Total Assets	$ 972,392
Amount Held for Future Prizes	227,850
Grand Prize Annuities Payable	730,805
Other Liabilities	13,540
	972,195
Net Assets, Unrestricted	197
Total Liabilities and Net Assets	$ 972,392
Total Revenue	$ 3,035
Total Expenses	3,050
Excess (deficit) of revenue over expenses	(15)
Net assets, beginning	212
Net assets, ending	$ 197

NOTE 14 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

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

By statute, the program assets and liabilities are held by the Treasurer of the State of Maine. FAME and the Treasurer of the State of Maine have entered into a management agreement for the Treasurer to act as a fiduciary of the Fund. The Treasurer is responsible for investment of the Fund and determining, with the advice of the Advisory Committee on College Savings, the proper allocation of the investments of the Fund. The NextGen had approximately $5.2 billion in net assets at June 30, 2007, which have been recorded in an Agency Fund on the financial statements of the State.

General Obligation Bonds of the State include $20 thousand of self-liquidating bonds of the Maine Veterans' Home. The State issues the bonds, and the Maine Veterans' Home remits to the State the debt service as it comes due.

The State of Maine 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 year 2007, the State paid $12.2 million for these services; $5.1 million from the General Fund and $7.1 million from the Federal Fund. At June 30, 2007, the State owed $319 thousand to 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, $230.1 million; Maine Community College System, $52.1 million; Maine Municipal Bond Bank, $3.3 million; Finance Authority of Maine, $16.8 million; and Maine State Housing Authority, $12.0 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $34.8 million at June 30, 2007, 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 2007, the State expended $2.0 million to FAME for State revolving loan funds.

Title 20-A MRSA Chapter 419-A establishes the Maine State Grant Program as a fund under the jurisdiction of the Finance Authority of Maine. All grant revenues under this fund must be distributed by FAME to students who meet the eligibility requirements for a grant under this chapter. During fiscal year 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 $8.0 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 2007.

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.

Paul and Robert Dyer v. State of Maine, Department of Transportation. The Dyers were awarded approximately $447 thousand by the State Claims Board in connection with the taking of property in Waldo County for the new Penobscot Narrows Bridge. They are seeking approximately $2 million in damages.

Goodall Hospital v. Harvey. This suit was filed on November 20, 2006. Plaintiff hospital alleges that the Department of Health and Human Services has refused or failed to pay the hospital's 2005 fiscal year bills for services to Medicaid recipients. The case is worth slightly over $2 million, approximately $666 thousand of State dollars. The potential for expenditure is moderate.

Franklin Memorial Hospital v DHHS. The issue in this case is whether DHHS has failed to issue interim settlements for the fiscal years 2005 and 2006, and if so, whether DHHS is required legally to issue those interim settlements. Maine regulations require that payment follows within 30 days of settlements. The complaint alleges that DHHS owes Franklin approximately $3.0 million for 2005 and $1.7 million for 2006. Status: this case has not yet been briefed. The potential for expenditure is moderate.

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

Gannet Co. v. State Tax Assessor. This case involves whether certain income is taxable by the State of Maine for the tax year 2000. Plaintiff is seeking a refund of over $700,000 plus interest, which may make the total refund over $1 million. The State is appealing, but the potential for expenditure is more than moderate.

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.

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 $49 thousand for fiscal year 2007.

During the 2007 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 2007 fiscal year, the State expended $49 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. Bonds have not been issued to cover these outstanding obligations. Approximately $48 thousand remains in the existing municipal landfill bond account.

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 $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.

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 $20 million. This consists of approximately $14 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 2007 fiscal year, $2.4 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2007, amounts encumbered for pollution abatement projects totaled $820 thousand; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $1.3 million. At June 30, 2007, DEP estimated the total cost (federal, State, and local) of future projects to be $422 million.

DESIGNATION AS A POTENTIALLY RESPONSIBLE PARTY BY THE ENVIRONMENTAL PROTECTION AGENCY

The State has been identified as a potentially responsible party at two hazardous wastes clean-up sites in Maine. These are located in Plymouth and Brooksville. The remedy for the Plymouth site has been identified in concept but the final cost has yet to be determined. The Brooksville site is presently under investigation but no remedy has been identified.

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 53.51 percent of the annual payments. As of June 30, 2007, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $824.6 million.

At June 30, 2007, the Department of Transportation had contractual commitments of approximately $59.8 million for construction of various highway projects. The State's share of that amount is expected to be approximately $16.2 million. Of these amounts, $2.7 million has already been accrued. Federal and State funds plus bond proceeds are expected to fund these future expenditures.

TOBACCO SETTLEMENTS

On November 23, 1998, Maine along with 45 other states and five civil jurisdictions, entered into a Master Settlement Agreement (MSA) with certain Participating Tobacco Manufacturers (PM's) to recover smoking-related Medicaid costs. In this out-of-court settlement, the PM's agreed to make annual payments to the states and jurisdictions based on their allocated share of the market. In return, the states agreed to relinquish claims to further damages resulting from Medicaid costs. Annual payments will fluctuate subject to various adjustments and are contingent on the passage and enforcement of a State statute imposing economic conditions on the Nonparticipating manufactures (NPM's) and market forces. The NPM adjustment is set forth in the Master Settlement Agreement (MSA). If the PM's prove that they lost market share to the NPM's, and if they prove Maine did not diligently enforce its statutes concerning NPM escrow, then the Participating Manufacturers may lower their annual payment pursuant to the MSA. This NPM adjustment may be sought each year. For the year 2003, the adjustment sought was approximately 18%.

The PM's have also 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 is approximately $114 million. Maine will receive ten annual SCP payments starting in 2008.

DIRIGO HEALTH AGENCY

Experience Modification Program

Title 24-A, MRSA Chapter 87 established the Dirigo Health Agency to arrange for the provision of comprehensive, affordable health care coverage to eligible small employers, including the self-employed, their employees and dependents, and individuals on a voluntary basis (DirigoChoice).

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

The Dirigo Health Agency prepays the EMP quarterly, based on enrollment assumptions. Because the Dirigo Health Agency assumes the most adverse outcome, the EMP liability cannot exceed the total prepayments.

If the experience outcome is favorable in the DirigoChoice plan, Anthem returns all of the EMP to the Dirigo Health Agency. Terms of the outcome sharing are detailed in the contractual agreement between the Dirigo Health Agency and Anthem.

Due to limited claims and experience data for DirigoChoice members for 2007, the medical loss ratio and related amount that may be returned to the Dirigo Health Agency, if any, cannot be reasonably estimated. EMP payments for State fiscal year 2007 totaled $2.3 million, net of refunds.

Savings Offset Payment

Title 24-A MRSA § 6913 established the Savings Offset Payment (SOP) within the Dirigo Health Fund where it uses the SOP as a source of revenue to pay for the activities of the Maine Quality Forum and to subsidize the purchase of health coverage. Each year the Board of Directors of Dirigo Health Agency determines the aggregate measurable cost savings to health care providers in this State as a result of the operation of Dirigo Health. Upon approval of the cost savings amount by the Superintendent of Insurance, the Board determines a savings offset amount to be paid by health insurance carriers, employee benefit excess insurance carriers and third party administrators. The Board calculates the savings offset payment as a percentage of paid claims.

For the first Savings Offset Payment, the State Superintendent of Insurance determined that $43.7 million was saved in the health care system because of Dirigo Health. The Board established a percentage of .02408 to be applied to claims paid by health insurance carriers, employee benefit excess insurance carriers and third party administrators. In SFY 2007, Dirigo Health collected $30.4 million of this assessment and expects to collect an additional $5.1 million in SFY 2008. For the second Savings Offset Payment, the State Superintendent determined the amount of savings to be $34.3 million. Of this amount, the Agency expects to collect $15.5 million in fiscal year 2008.

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, 2007, the Fund included $18 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2007 of approximately $130.8 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, 2007, the amount reported in the Fund for claimant liability is $20.1 million. The General Fund shows a $1.6 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 $761 thousand from the operating fund as of June 30, 2007 to other financially troubled institutions, with combined loan amounts due the Authority of approximately $11.4 million at June 30, 2007, including loans of $9.7 million reserved at June 30, 2007. These advances were primarily made to assist these institutions in meeting debt service requirements in years prior to fiscal 2007. MHHEFA also has approximately $.5 million of other receivables outstanding with the operating fund at June 30, 2007, primarily related to amounts due from institutions to reimburse the Authority for arbitrage rebate payments made on their behalf. MHHEFA established a $1.2 million reserve in its operating fund related to the above loans, advances and other receivables outstanding.

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, 2007, loans outstanding pursuant to these authorizations are $31.2 million, less than $1 million, and less than $1 million, respectively. The State has not paid, nor does it expect to pay, any amounts as a result of these authorizations as of June 30, 2007.

Article 8, § 2, of the Maine State Constitution provides that the State may secure funds, through the issuance of bonds authorized by the Governor, for loans to Maine students attending institutions of higher education. The amount of bonds issued and outstanding shall not at any one time exceed $4 million in the aggregate. The State has not paid, nor does it expect to pay, any amount as a result of this authorization as of June 30, 2007.

TARGETED CASE MANAGEMENT
The Federal Department of Health and Human Services, Office of the Inspector General (OIG), conducted an audit of the State's Targeted Case Management (TCM) services for Federal fiscal years 2002 and 2003. During that time, the OIG alleges that approximately $44 million, $29 million being the Federal share, of TCM costs were not in accordance with Federal and State requirements, and therefore should be disallowed. Another $12 million, $8 million Federal share, requires further investigation as to whether these same services were provided under other Federal programs. The State has notified the OIG that it disagrees with these findings. The resolution is still pending, and the State cannot predict the outcome of this matter.

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	$ 1,382,075	$ 113,397	no limit	22 MRSA § 2075
conduit debt	50,994		no limit	22 MRSA § 2075
Finance Authority of Maine	40,041	2,378	$ 572,100	10 MRSA §1032,
	-	-	50,000	20-A MRSA §11449
	-	-	50,000	38 MRSA §2221
Loring Development Authority *	-	-	100,000	5 MRSA §13080-N
Maine Municipal Bond Bank	1,082,397	127,959	no limit	30-A MRSA §6006
Maine Educational Loan Authority *	32,115	1,285	50,000	20-A MRSA §11424
Maine State Housing Authority	1,580,800	137,091	2,150,000	30-A MRSA §4906
Total	$ 4,168,422	$ 382,110		

* Reported in combining non-major component unit financial statements.

NOTE 16 - SUBSEQUENT EVENTS

PRIMARY GOVERNMENT
On August 2, 2007 and October 16, 2007, the State issued $44.6 million, and $26.7 million, respectively, of Bond Anticipation Notes that mature on June 10, 2008.

Public Law 2005 Chapter 636 established the Retired County and Municipal Law Enforcement Officers and Municipal Firefighters Health Insurance Program to provide health insurance coverage to retired county and municipal law enforcement officers and retired municipal firefighters. Beginning July 1, 2007, the State shall provide a premium subsidy of 45 percent to enrollees. The impact of this program on the State's postemployment benefits other than pensions (OPEB) liability, required by GASB Statement No. 45, has not been determined.

COMPONENT UNITS
On February 1, 2007 the Maine State Housing Authority (MSHA) redeemed $30 million of its 2005 Series B General Housing Draw Down bonds, with variable interest rates maturing in 2010. On February 1, 2007, MSHA issued a total of $6.4 million 2005 Series A and B General Housing Draw Down bonds at par, with variable interest rates maturing in 2010. In February and March 2007, MSHA redeemed a total of $107.4 million of various series of its Mortgage Purchase Program bonds at par. The bonds carried interest rates from 3.5 percent to 5.95 percent, and maturities from 2007 to 2034.

On February 13, 2007, Maine Educational Loan Authority, a non-major component unit (MELA), issued $50 million of Student Loan Revenue Bonds. The 2007 Series bonds are nontaxable auction rate securities and mature June 1, 2041. The proceeds from this bond will be used to acquire and originate nonguaranteed supplemental educational loans.

In accordance with the Higher Education Loan Purchase Program, the Finance Authority of Maine (FAME) purchased FFELP student loan portfolios totaling approximately $7.3 million in July 2007. During July 2007, 2005 Subordinate Series B bonds totaling $5.5 million were retired with the proceeds from the 2007 Series bond issue.

On September 7, 2007, the U.S. Congress passed, and the President has indicated his intention to sign, the College Cost Reduction and Access Act. The Act reduces certain fees paid by the Federal government to lenders and guarantors participating in the Federal Family Education Loan Program (FFELP) starting on October 1, 2007. FAME expects to receive less revenue in its Federal student loan guaranty program and its Federal student loan secondary market program (HELPP) as a result of the fee reductions.

COMMERCIAL PAPER
On August 8, 2007, approximately $20 million was invested in Mainsail II Commercial Paper, "Mainsail". At that date, Mainsail was rated A1+ and P1 by Standard & Poor's and Moody's, respectively. On August 20, 2007, Mainsail announced it might be forced to sell assets because it had been unable to raise short-term funding due to market volatility. This resulted in the State's Mainsail position being frozen. On August 31, 2007, the date of the maturity of the Mainsail II Commercial Paper, the payment of principal and accrued interest was not made.

As of December 14, 2007, no Mainsail payment had been received by the State. The State does not expect this default to adversely affect its ability to meet all of its obligations when due. The State, however, cannot predict the outcome of this matter.

DIRIGO

MAINE

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2007
(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	$ 2,814,411	$ 2,894,048	$ 2,912,019	$ 17,971	$ 229,661	226,777	$ 226,824	$ 47
Assessments and Other	102,537	109,319	111,673	2,354	94,838	92,874	93,293	419
Federal Grants	22,025	16,810	16,762	(48)	-	-	-	-
Service Charges	37,157	38,242	36,691	(1,551)	5,703	5,422	7,322	1,900
Income from Investments	6,164	1,424	7,646	6,222	1,350	795	1,106	311
Miscellaneous Revenue	12,826	21,051	29,763	8,712	283	330	2,791	2,461
Total Revenues	2,995,120	3,080,894	3,114,554	33,660	331,835	326,198	331,336	5,138
Expenditures								
Governmental Support and Operations	243,014	261,585	253,803	7,782	36,090	37,591	35,404	2,187
Economic Development & Workforce Training	42,861	43,261	40,668	2,593	-	-	-	-
Education	1,421,686	1,425,921	1,419,038	6,883	-	-	-	-
Health and Human Services	912,515	1,045,165	1,008,391	36,774	-	-	-	-
Business Licensing & Regulation	-	-	-	-	-	-	-	-
Natural Resources Development & Protection	71,894	73,863	70,867	2,996	41	40	40	-
Justice and Protection	240,247	248,460	242,654	5,806	38,104	37,785	36,806	979
Arts, Heritage & Cultural Enrichment	8,881	9,075	8,999	76	-	-	-	-
Transportation Safety & Development	-	-	-	-	284,762	322,830	272,746	50,084
Total Expenditures	2,941,098	3,107,330	3,044,420	62,910	358,997	398,246	344,996	53,250
Revenues Over (Under) Expenditures	54,022	(26,436)	70,134	96,570	(27,162)	(72,048)	(13,660)	58,388
Other Financing Sources (Uses)								
Operating Transfers Net	(60,448)	(73,724)	(77,871)	(4,147)	3,448	3,852	14,568	10,716
Other Budgeted Resources	-	-	-	-	-	-	-	-
Proceeds from Pledged Future Revenues								
Net Other Financing Sources (Uses)	(60,448)	(73,724)	(77,871)	(4,147)	3,448	3,852	14,568	10,716
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (6,426)	$ (100,160)	$ (7,737)	$ 92,423	$ (23,714)	$ (68,196)	$ 908	$ 69,104
Fund Balances at Beginning of Year			286,486				129,159	
Fund Balances at End of Year			$ 278,749				$ 130,067	

Federal Funds				Other Special Revenue Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
$ -	$ -	$ -	$ -	$ 217,591	$ 238,669	$ 198,865	$ (39,804)
-	-	-	-	108,398	118,613	93,192	(25,421)
2,549,184	2,724,279	2,153,681	(570,598)	10,336	11,911	3,769	(8,142)
1,179	1,179	1,149	(30)	131,179	134,262	74,189	(60,073)
17	17	672	655	2,303	2,381	4,599	2,218
20,521	21,698	5,157	(16,541)	186,798	178,676	216,679	38,003
2,570,901	2,747,173	2,160,659	(586,514)	656,605	684,512	591,293	(93,219)
13,301	20,568	9,282	11,286	137,180	166,244	144,933	21,311
151,213	151,382	88,587	62,795	24,662	31,490	25,045	6,445
194,489	215,158	184,991	30,167	6,314	10,292	7,729	2,563
1,833,060	1,960,948	1,613,390	347,558	456,400	482,740	364,908	117,832
946	1,681	541	1,140	66,262	76,802	59,816	16,986
41,596	55,664	37,129	18,535	99,138	132,385	90,441	41,944
107,001	122,665	89,306	33,359	32,244	35,942	26,953	8,989
3,247	3,414	2,794	620	1,342	1,661	996	665
205,471	199,954	163,921	36,033	30,088	16,955	13,118	3,837
2,550,324	2,731,434	2,189,941	541,493	853,630	954,511	733,939	220,572
20,577	15,739	(29,282)	(45,021)	(197,025)	(269,999)	(142,646)	127,353
(5,703)	(6,028)	10,063	16,091	188,970	174,051	125,747	(48,304)
-	-	-	-	-	-	-	-
						-	-
(5,703)	(6,028)	10,063	16,091	188,970	174,051	125,747	(48,304)
$ 14,874	$ 9,711	$ (19,219)	$ (28,930)	$ (8,055)	$ (95,948)	$ (16,899)	$ 79,049
		22,741				248,473	
		$ 3,522				$ 231,574	

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2007
(Expressed in Thousands)

	General Fund	Highway Fund	Federal Funds	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 278,749	$ 130,067	$ 3,522	$ 231,574
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	203,368	1,232	-	8,403
Intergovernmental Receivables	-	-	595,710	-
Other Receivables	54,484	215	93,532	71,928
Inventories	1,788	-	557	-
Due from Component Units	179			
Due from Other Funds	18,010	(69,079)	4,931	21,272
Other Assets	-	-	-	74
Deferred Revenues	(213,411)	(7,545)	(557)	(23,375)
Total Revenue Accruals/Adjustments	64,418	(75,177)	694,173	78,302
Expenditure Accruals/Adjustments:				
Accounts Payable	(317,402)	(15,235)	(520,319)	(30,995)
Due to Component Units	(5,398)	(224)	(2,718)	(4,732)
Bonds Issued	-	-	-	-
Accrued Liabilities	(20,961)	(9,108)	(5,666)	(7,460)
Taxes Payable	(131,242)	(25)	-	-
Intergovernmental Payables	-	-	(110,913)	-
Due to Other Funds	(24,513)	(2,739)	(20,484)	(2,706)
Total Expenditure Accruals/Adjustments	(499,516)	(27,331)	(660,100)	(45,893)
Fund Balances - GAAP Basis	$ (156,349)	$ 27,559	$ 37,595	$ 263,983

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, 2007, the legislature deappropriated $15.2 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 2006-2007, 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 March 31, 2005, 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 19, 2007, rather than the amounts shown in the original budget, are reported.

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

Compliance at the Legal Level of Budgetary Control

The following schedules depict budgeted to actual expenditures at the Department level, which is the legal level of budgetary control for all governmental funds. The schedules provide further detail at the agency level within departments for transparency.


DIRIGO
MAINE

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, 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%
June 30, 2002	5,920,475,637	8,511,834,626	2,591,358,989	69.6%	1,413,262,420	183.4%
June 30, 2001	5,844,838,370	7,997,931,582	2,153,093,212	73.1%	1,326,375,573	162.3%
June 30, 2000	5,528,795,711	7,491,075,545	1,962,279,834	73.8%	1,271,009,158	154.4%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
2007	303,075,774	303,075,774	100.0%
2006	286,438,610	303,438,610	105.9%
2005	261,697,901	274,697,901	105.0%
2004	251,482,848	273,482,848	108.7%
2003	252,709,148	263,209,148	104.2%
2002	242,486,089	242,486,089	100.0%
2001	247,526,221	247,526,221	100.0%
2000	232,878,658	236,878,658	101.7%

Required Supplementary Information – Participating Local District Plan

Schedule of Funding Progress

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL) – Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
June 30, 2007	2,134,633,222	1,879,685,508	(254,947,714)	113.6%	345,008,132	-73.9%
June 30, 2006	1,974,083,999	1,759,072,188	(215,011,811)	112.2%	326,272,608	-65.9%
June 30, 2005	1,874,310,141	1,641,144,382	(233,165,759)	114.2%	304,975,678	-76.5%
June 30, 2004	1,774,950,786	1,582,991,084	(191,959,702)	112.1%	292,321,815	-65.7%
June 30, 2003	1,701,572,665	1,463,437,856	(238,134,809)	116.3%	277,032,661	-86.0%
June 30, 2002	1,692,033,523	1,377,659,381	(314,374,142)	122.8%	268,161,476	-117.2%
June 30, 2001	1,544,720,492	1,427,090,054	(117,630,438)	108.2%	254,155,180	-46.3%
June 30, 2000	1,498,729,722	1,351,640,782	(147,088,940)	110.9%	244,163,272	-60.2%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
2007	8,957,077	9,226,517	103.0%
2006	8,449,017	8,577,898	101.5%
2005	7,587,753	7,594,557	100.1%
2004	7,664,957	17,089,419	223.0%
2003	8,503,871	22,436,866	263.8%
2002	10,017,340	173,065,194	1727.7%
2001	17,122,717	17,122,717	100.0%
2000	13,433,467	13,433,467	100.0%

Basis of Presentation

For financial statement reporting purposes, the information provided on the required supplementary information schedules includes amounts for employees of participating local districts as well as combined amounts for State employees, teachers, judicial and legislative employees. Employees of participating local districts are not considered state employees.

Actuarial Assumptions and Methods:

The information in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, June 30, 2007 is as follows:

Funding Method

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

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

Asset Valuation Method

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

Amortization

The unfunded actuarial liability is amortized on a level percentage of payroll over the amortization period then in effect under statutory and constitutional requirements, which is over a 19 year closed period from June 30, 2000. In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 10 years remained at June 30, 2007.

The IUUAL of PLDs are amortized over periods established for each PLD separately. During fiscal years 2007 and 2006, various PLD's contributed approximately $186,741 and $128,881 to reduce or pay in full their initial unpooled unfunded actuarial liability, respectively. The Consolidated Plan has no Pooled Unfunded Actuarial Liability.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2007 are as follows:

Investment Return – 7.75% per annum, compounded annually

Salary Increases – 4.75% to 10.0% per year

Mortality Rates – Active State employee members and active participating local district members, non-disabled State employee retirees and non-disabled participating local district members – UP 1994 Tables; Active teacher members and non-disabled teacher retirees – 85% of UP 1994 Tables; All recipients of disability benefits – RPA 1994 Table for pre-1995 Disabilities.

Post Retirement Benefit Increases – 3.75% per annum

Group Life Plan:

The Group Life Insurance Program administered by the System provides for a life insurance benefit for active members equal to a member's annual base compensation as defined by statute. Upon retirement, life insurance coverage in the amount of the member's average final compensation is provided with a reduction of 15% per year until the greater of 40% of the average final compensation or $2,500 is reached. To be covered in retirement, retirees must have participated in the Group Life Program for a minimum of ten years. Premiums are remitted to the System by the employer. The State pays a premium rate of $0.30 per $1,000 of coverage per month for active state employees. Teachers and employees of participating local districts pay a premium rate of $0.22 and $0.46 per $1,000 of coverage per month, respectively, some or all of which may be deducted from employees' compensation as per individual agreements with employers and employees. Many assumptions used to determine the actuarial liability are the same as for the pension plan. At June 30, 2007 and 2006, the net assets held in trust for group life insurance benefits were $50.6 million and $43.5 million, respectively. At June 30, 2007 and 2006, the plan had actuarially determined liabilities of $135.5 and $129.8 million, respectively.

The System is in the process of implementing new premium rates in Group Life Insurance that were adopted by the Board after an extensive premium study and valuation of the Group Life Insurance Program in 2006. This study resulted in changes in both the funding structure and premium rates that become effective in fiscal 2008.

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 8,834 highway miles or 17,947 lane miles of roads and 2,965 bridges having a total deck area of 11.5 million square feet that the State is responsible to maintain.

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

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

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

Highways

Measurement Scale for Highways

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

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

Bridges

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

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

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

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

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

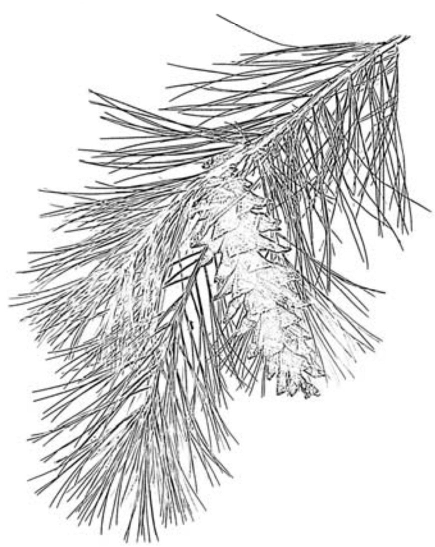
Fiscal Year	Highways	Bridges
2007	76.0	78.0
2006	75.0	77.0
2005	79.3	77.0

Budgeted and Estimated Costs to Maintain
The following table presents the State's preservation costs for the past five fiscal years. It also shows the estimate of spending necessary to preserve and maintain the roads and bridges at, or above, a sufficiency rating of 60 for both highways and bridges (in millions).

Fiscal Year	Estimated Spending	Actual Spending
2008	$ 100	$ -
2007	61	73.3
2006	52	51.1
2005	48	46.1
2004	30	35.3
2003	36	34.3

Transportation Bonds
Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 462, PL 2005, $27 million was spent during FY2007.

STATE OF MAINE
REPORTS ON INTERNAL CONTROL AND COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2007



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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, 2007, which collectively comprise the State of Maine's basic financial statements, and have issued our report thereon dated December 19, 2007. 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 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 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, 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, the Maine Technology Institute, and the Northern New England Passenger Rail Authority 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 07- 01 through 07-08 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 certain matters that we reported to management of the State of Maine in a separate letter dated December 19, 2007.

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, JD, CIA
State Auditor
December 19, 2007

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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, 2007. 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 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 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, 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, 2007. 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 described in item 07-74 in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient documentation supporting the compliance of the State of Maine with Medicaid Cluster requirements regarding allowable costs, nor were we able to satisfy ourselves as to the State of Maine's compliance with those requirements by other auditing procedures.

As described in item 07-65 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding special tests and provisions that are applicable to its Medicaid Cluster. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with requirements applicable to this program.

As described in item 07-69 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding eligibility that are applicable to its State Children's Insurance Program. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to that program

As described in item 07-21 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding subrecipient monitoring that are applicable to its H-1B Job Training Grants. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to that program.

As described in item 07-23 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding the Davis Bacon Act that are applicable to its Highway Planning and Construction program. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to that program.

As described in item 07-32 and 07-30 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding procurement and suspension and debarment and allowable costs/cost principles that are applicable to its Rehabilitation Services – Vocational Rehabilitation Grants to States. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to that program.

As described in item 07-40 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding reporting that are applicable to its Temporary Assistance for Needy Families program. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to that program.

As described in item 07-45 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding cash management that are applicable to its Child Support Enforcement program. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to that program.

As described in item 07-51 and 07-50 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding reporting and period of availability that are applicable to its Child Care Cluster program. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to that program.

As described in item 07-57 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding procurement and suspension and debarment that are applicable to its Foster Care Title IV-E and Adoption Assistance programs. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to those programs.

As described in item 07-60 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding reporting that are applicable to its Social Services Block Grant program. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to that program.

As described in item 07-80 and 07-81 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding cash management and reporting that are applicable to its Block Grant for Prevention and Treatment of Substance Abuse program. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to that program.

As described in item 07-83 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding procurement and suspension and debarment that are applicable to its Social Security Disability Insurance, Supplementary Social Security Income program. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to that program.

As described in item 07-87 and 07-88 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding reporting and subrecipient monitoring that are applicable to its Homeland Security Cluster program. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to that program.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State of Maine's compliance with the requirements of the Medicaid Cluster regarding allowable costs as described in the fourteenth preceding paragraph, and except for the noncompliance described in the thirteen preceding paragraphs, the State of Maine complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. 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 07-10, 07-22, 07-29, 07-30, 07-35, 07-39, 07-41, 07-45, 07-52, 07-53, 07-56, 07-61 through 07-63, 07-66 through 07-69,07-71, 07-75, 07-76, 07-84,07-86,07-91, and 07-96 through 07-98.

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 as items 07-09 through 07-21, 07-23 through 07-28, 07-30 through 07-61, 07-63through 07-65, 07-67, and 07-69 through 07-95 to be significant deficiencies.

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 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 07-21, 07-23, 07-30, 07-32, 07-40, 07-45, 07-50, 07-51, 07-57, 07-60, 07-65, 07-69, 07-72, 07-74, 07-80, 07-81, 07-83, 07-87 and 07-88 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.

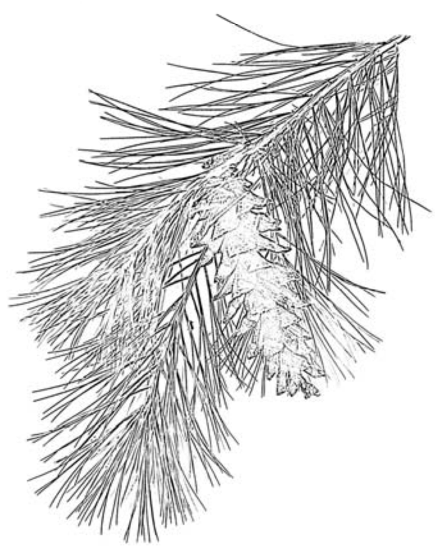
This report is intended solely for the information and use of the Governor, management, others within the entity, the Legislature, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Neria R. Douglass

Neria R. Douglass, JD, CIA
State Auditor

June 24, 2008

STATE OF MAINE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007



STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	**
U.S. Department of Agriculture				
Animal & Plant Health Inspection Service				
10.025	Plant & Animal Disease, Pest Control & Animal Care	Agriculture	356,846	
10.025	Plant & Animal Disease, Pest Control & Animal Care	Conservation	39,280	
Agricultural Marketing Service				
10.156	Federal-State Marketing Improvement Program	Agriculture	969,279	
10.162	Inspection Grading & Standardization	Agriculture	709,263	
10.163	Market Protection and Promotion	Agriculture	86,864	
Farm Service Agency				
10.435	State Mediation Grants	Agriculture	46,517	
Food Safety & Inspection Service				
10.475	Coop. Agreements with States for Intrastate Meat and Poultry Inspection	Agriculture	97,495	
Food & Nutrition Service				
10.550	Food Donation	Education	3,662,460	
10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Human Services	15,035,924	**
10.558	Child and Adult Care Food Program	Human Services	9,770,049	**
10.560	State Administrative Expenses for Child Nutrition	Education	494,046	
10.560	State Administrative Expenses for Child Nutrition	Human Services	317,374	
10.572	WIC Farmers' Market Nutrition Program (FMNP)	Human Services	78,735	
10.574	Team Nutrition Grants	Education	140,733	
10.576	Senior Farmers Market Nutrition Program	Agriculture	738,935	
Forest Service				
10.652	Forestry Research	Conservation	560,880	
10.664	Cooperative Forestry Assistance	Conservation	1,034,027	
10.672	Rural Development, Forestry and Communities	Conservation	10,009	
10.675	Urban and Community Forestry Program	Conservation	218,154	
10.676	Forest Legacy Program	Conservation	6,474,000	**
10.677	Forest Land Enhancement Program	Conservation	215,465	
10.678	Forest Stewardship Program	Conservation	359,176	
10.680	Forest Health Protection	Conservation	21,065	
10.69748263	A Large Scale Assessment of Brook Trout Populations	Inland Fisheries	21,889	
National Resources Conservation Service				
10.902	Soil and Water Conservation	Conservation	4,648	
Food Stamp Cluster				
Food & Nutrition Service				
10.551	Food Stamps	Human Services	170,637,313	**
10.561	State Administrative Matching Grants for Food Stamp Program	Human Services	9,257,211	**
Child Nutrition Cluster				
Food & Nutrition Service				
10.553	School Breakfast Program	Education	6,975,769	**
10.555	National School Lunch Program	Corrections	390,982	**
10.555	National School Lunch Program	Education	22,554,330	**
10.559	Summer Food Service Program for Children	Education	790,275	**
Emergency Food Assistance Cluster				
Food & Nutrition Service				
10.568	Emergency Food Assistance Program (Administrative Costs)	Agriculture	245,984	
10.569	Emergency Food Assistance Program (Food Commodities)	Agriculture	1,081,463	
Total U.S. Department of Agriculture Federal Programs			253,396,440	
U.S. Department of Commerce				
Economic Development Administration				
11.302	Economic Development: Support for Planning Organizations	Economic Devel	2,595,787	
National Oceanic & Atmospheric Administration				
11.405	Anadromous Fish Conservation Act Program	Marine Resource	72,065	
11.407	Interjurisdictional Fisheries Act of 1986	Marine Resource	144,445	
11.417	Sea Grant Support	Marine Resource	3,500	
11.419	Coastal Zone Management Administration Awards	Environment	537,080	
11.419	Coastal Zone Management Administration Awards	Marine Resource	258,589	
11.419	Coastal Zone Management Administration Awards	Planning	1,670,893	
11.439	Marine Mammal Data Program	Marine Resource	185	
11.452	Unallied Industry Projects	Human Services	84,077	
11.452	Unallied Industry Projects	Marine Resource	1,612,130	

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	**
11.463	Habitat Conservation	Marine Resource	15,843	
11.472	Unallied Science Program	Inland Fisheries	3,011	
11.472	Unallied Science Program	Marine Resource	193,964	
11.472	Unallied Science Program	Salmon Comm.	1,217,329	
11.474	Atlantic Coastal Fisheries Cooperative Management Act	Marine Resource	493,847	
11.481	Educational Partnership Program	Marine Resource	272,403	
11.05-1108	Program to Collect Lobster Catch, Effort and Landings Data	Marine Resource	68,687	
11.05-1109	Lobster Ventless Trap Survey	Marine Resource	146,359	
11.05-1118	Maine New Hampshire Trawl Efficiency Study	Marine Resource	41,744	
11.EA133FO4CN0017	Identifying Habitat Associations of Early-Juvenile Cod in Gulf of Maine	Marine Resource	34,480	
11.999	Macro (Letter of Agreement/NMFS)	Marine Resource	199,126	
11.999	New Generation Trawl	Marine Resource	625	
11.999	Maine New Hampshire Inshore Trawl Survey	Marine Resource	117,535	
11.999	Marine Patrol JEA	Marine Resource	349,138	
11.PZ06089	Maine New Hampshire Inshore Trawl Survey	Marine Resource	123,842	
11.NFFM5100500926	Marine Patrol Regulate for the Protection of Large Whales in Maine	Marine Resource	(628)	
11.EA133F03CN0015	Seasonal Movement of Atlantic Cod in The Gulf of Maine	Marine Resource	9,653	
11.05-949	Manipulative Trapping Experiments - Monhegan Lobster	Marine Resource	5,305	
11.NFFM5100500807/8	Pinniped and Cetacean Carcass Documentation in Western ME	Marine Resource	10,480	
11.EA133FO3CN0010	Develop GEO Info Atlantic Cod	Marine Resource	375	
11.05-951	Stock Intermix. and Migrat. of Atlantic Herring in Gulf of Maine	Marine Resource	58,566	
11.EA133F-06-CN-0225	Biological Sampling, Behavior and Migration Study of Atlantic Halibut	Marine Resource	58,688	
11.05-1109	Testing Various Escape Urchin	Marine Resource	409	
11.DG133F-04-SE-898	NMFS Large Pelagic Intercept Study	Marine Resource	3,654	
11.03-666	Northern Shrimp	Marine Resource	67	
11.03-665	Shrimp Nordmore Grate	Marine Resource	2	
11.EN-013-06	2006 Joint Enforcement Agreement	Marine Resource	361,886	
11.P5UZE316	Shrimp Trap Survey	Marine Resource	5,640	
11.2003-0118-028	NFWF Watershed Habitat Features Assessment (ME)	Salmon Comm.	8,241	
11.2005-0009-002	NFWF Atlantic Salmon (ME) Planning and Outreach II	Salmon Comm.	9,283	
Total U.S. Department of Commerce Federal Programs			10,788,305	
U.S. Department of Defense				
Office of the Chief Engineers				
12.113	State Memo of Agree Prog for the Reimb of Tech Services	Environment	475,863	
National Guard Bureau				
12.400	Military Construction, National Guard	Defense	34,378	
12.401	National Guard Military Operations & Maintenance (O&M) Projects	Defense	60,072,794	
12.404	National Guard Civilian Youth Opportunities	Defense	302,988	
12.999	Cooperative Agreement Dept. of Army Presumpscot River Restoration	Marine Resource	519	
Total U.S. Department of Defense Federal Programs			60,886,542	
U.S. Department of Housing & Urban Development				
Office of Federal Housing Commissioner				
14.171	Manufactured Home Construction and Safety Standards	Professional Reg	11,947	
Office of Community Planning & Development				
14.228	Community Development Block Grants / State's Program	Economic Devel	18,169,073	
14.235	Supportive Housing Program	Human Services	255,912	
14.238	Shelter Plus Care	Human Services	4,773,570	
Office of Fair Housing and Equal Opportunity				
14.401	Fair Housing Assistance Program: State and Local	Human Rights	128,073	
Total U.S. Department of Housing & Urban Development Federal Programs			23,338,575	
U.S. Department of the Interior				
U.S. Fish & Wildlife Service				
15.608	Fish and Wildlife Management Assistance	Conservation	21,698	
15.608	Fish and Wildlife Management Assistance	Marine Resource	7,761	
15.615	Cooperative Endangered Species Conservation Fund	Conservation	20,739	
15.615	Cooperative Endangered Species Conservation Fund	Inland Fisheries	131,732	
15.616	Clean Vessel Act	Environment	91,050	

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	**
15.622	Sportfishing and Boating Safety Act	Transportation	82,467	
15.633	Landowner Incentive	Inland Fisheries	142,682	
15.634	State Wildlife Grants	Inland Fisheries	292,194	
Geological Survey				
15.810	Nat'l Cooperative Geologic Mapping Program	Conservation	87,207	
National Park Service				
15.904	Historic Preservation Fund Grants-in-Aid	Historic Preserve	571,991	
15.916	Outdoor Recreation: Acquisition, Development, & Planning	Conservation	744,932	
15.916	Outdoor Recreation: Acquisition, Development, & Planning	Transportation	45,777	
15.921	Rivers, Trails and Conservation Assistance	Transportation	1,021,427	
15.929	Save America's Treasures	Financial Serv	73,888	
Fish & Wildlife Service				
15.14-48-005-96-9023	Flag Island Cooperative Agreement	Inland Fisheries	19,298	
15.2002-0180-000	Kennebec River Restoration Project	Marine Resource	81,876	
15.2001-0007-000	Atlantic Salmon Management Project	Salmon Comm.	197,553	
Fish and Wildlife Cluster				
U.S. Fish & Wildlife Service				
15.605	Sport Fish Restoration Program	Inland Fisheries	1,981,022	
15.605	Sport Fish Restoration Program	Marine Resource	717,044	
15.611	Wildlife Restoration	Inland Fisheries	2,438,879	
Total U.S. Department of the Interior Federal Programs			8,771,217	
U.S. Department of Justice				
Drug Enforcement Administration				
16.005	Public Education on Drug Abuse: Information	Public Safety	52,441	
Office of Justice Programs				
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	Corrections	810,207	
16.523	Juvenile Accountability Block Grants (JABG)	Corrections	290,337	
16.523	Juvenile Accountability Block Grants (JABG)	Human Services	28,233	
16.540	Juvenile Justice & Delinquency Prevention_Allocation to States	Corrections	939,920	
16.541	Developing, Testing and Demonstrating Promising New Programs	Corrections	98,723	
16.548	Title V_Delinquency Prevention Program	Corrections	1,560	
16.549	Part E_State Challenge Activities (Challenge Grants)	Corrections	8,125	
16.554	National Criminal History Improvement Program	Public Safety	634,892	
16.560	Nat'l Inst of Justice Research Evaluation and Development Project Grants	Attorney General	28,190	
16.560	Nat'l Inst of Justice Research Evaluation and Development Project Grants	Public Safety	242,442	
16.564	Crime Lab Improvement: Comb. Offender DNA Index System	Public Safety	51,630	
16.575	Crime Victim Assistance	Human Services	2,026,479	
16.576	Crime Victim Compensation	Attorney General	169,186	
16.579	Edward Byrne Memorial Formula Grant Program	Attorney General	647,791	
16.579	Edward Byrne Memorial Formula Grant Program	Corrections	409,840	
16.579	Edward Byrne Memorial Formula Grant Program	Public Safety	827,335	
16.580	Edward Byrne Memorial Discretionary Grants	Human Services	165,163	
16.582	Crime Victim Assistance/Discretionary Grants	Public Safety	69,444	
16.585	Drug Court Discretionary Grant Program	Human Services	163,551	
16.585	Drug Court Discretionary Grant Program	Judicial	268,330	
Office on Violence Against Women				
16.588	Violence Against Women Formula Grants	Attorney General	61,219	
16.588	Violence Against Women Formula Grants	Judicial	5,256	
16.588	Violence Against Women Formula Grants	Public Safety	880,912	
Office of Justice Programs				
16.592	Local Law Enforcement Block Grant Program	Public Safety	54,134	
16.593	Residential Substance Abuse Treatment for State Prisoners	Judicial	280,378	
16.593	Residential Substance Abuse Treatment for State Prisoners	Public Safety	670	
16.606	State Criminal Alien Assistance Program	Corrections	124,809	
16.609	Community Prosecution and Project Safe Neighborhoods	Public Safety	125,576	
Office of Community Oriented Policing Services				
16.710	Public Safety Partnership and Community Policing Grants	Financial Serv	438,408	
16.710	Public Safety Partnership and Community Policing Grants	Inland Fisheries	317,837	
16.710	Public Safety Partnership and Community Policing Grants	Public Safety	370,515	
Office of Juvenile Justice & Delinquency Prevention				
16.727	Enforcing Underage Drinking Laws Program	Human Services	341,420	
National Institute of Justice				
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	Public Safety	6,131	

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	**
Office of Justice Programs				
16.744	Anti-Gang Initiative	Public Safety	8,644	
Pass Through Federal Programs				
Office on Violence Against Women				
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	Corrections	132,663	
(through Cumberland County, Maine. No contract number available.)				
Office of Justice Programs				
16.593	Residential Substance Abuse Treatment for State Prisoners	Corrections	102,623	
(through York County, Maine. No contract number available.)				
Total U.S. Department of Justice Federal Programs			11,185,014	
U.S. Department of Labor				
Bureau of Labor Statistics				
17.002	Labor Force Statistics	Labor	1,206,062	
17.005	Compensation and Working Conditions	Labor	107,143	
Employment & Training Administration				
17.202	Certification of Foreign Workers for Temporary Agricultural Employment	Labor	217,374	
17.225	Unemployment Insurance	Labor	133,388,968	
17.235	Senior Community Service Employment Program	Human Services	530,111	
17.245	Trade Adjustment Assistance	Labor	6,104,515	
17.266	Work Incentive Grants	Labor	62,038	
17.268	H-1B Job Training Grants	Economic Devel	2,484,213	**
17.268	H-1B Job Training Grants	Governor	199,199	**
17.268	H-1B Job Training Grants	Labor	1,102,042	**
Occupational Safety & Health Administration				
17.504	Consultation Agreements	Labor	512,191	
Mine Safety & Health Administration				
17.600	Mine Health and Safety Grants	Labor	64,435	
Office of the Asst Sec for Veterans' Emplmnt & Trng				
17.805	Homeless Veterans Reintegration Project	Labor	198,777	
Employment Service Cluster				
Employment & Training Administration				
17.207	Employment Service/Wagner-Peyser Funded Activities	Labor	4,708,566	
Office of the Asst Sec for Veterans' Emplmnt & Trng				
17.801	Disabled Veterans' Outreach Program (DVOP)	Labor	526,348	
17.804	Local Veterans' Employment Representative Program	Labor	342,503	
WIA Cluster				
Employment & Training Administration				
17.258	WIA Adult Program	Labor	2,608,753	**
17.259	WIA Youth Activities	Labor	2,903,723	**
17.260	WIA Dislocated Workers	Governor	164,313	**
17.260	WIA Dislocated Workers	Labor	5,851,108	**
Total U.S. Department of Labor Federal Programs			163,282,382	
U.S. Department of Transportation				
Federal Aviation Administration				
20.106	Airport Improvement Program	Transportation	1,319,596	
Federal Motor Carrier Safety Administration				
20.217	Motor Carrier Safety	Public Safety	27,437	
20.218	National Motor Carrier Safety	State	4,099	
Federal Highway Administration				
20.219	Recreational Trails Program	Conservation	618,686	
Federal Motor Carrier Safety Administration				
20.233	Border Enforcement Grants	Public Safety	861,617	
Federal Transit Administration				
20.505	Federal Transit: Metropolitan Planning Grants	Transportation	360,972	
20.509	Formula Grants for Other Than Urbanized Areas	Transportation	3,667,961	
20.513	Capital Assistance Program for Elderly Persons & Persons w/Disabilities	Transportation	788,587	
20.514	Public Transportation Research	Transportation	12,239	
20.516	Job Access_Reverse Commute	Transportation	1,091,375	

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	**
20.520	Alternative Transportation in Parks and Public Lands	Transportation	1,146,288	
Research and Special Programs Administration				
20.703	Interagency Hazardous Materials Pub Sector Train & Plan Gr	Defense	31,862	
20.999	Local Freight Assistance	Transportation	22,891	
Highway Planning and Construction Cluster				
Federal Highway Administration				
20.205	Highway Planning and Construction	Transportation	135,790,584	**
Federal Transit Cluster				
Federal Transit Administration				
20.500	Federal Transit: Capital Investment Grants	Transportation	2,047,600	
20.507	Federal Transit: Formula Grants	Transportation	2,163,616	
Highway Safety Cluster				
National Highway Traffic Safety Administration				
20.600	State and Community Highway Safety	Public Safety	1,120,704	
20.600	State and Community Highway Safety	Human Services	132,480	
20.604	Safety Incentive Grants for Use of Seatbelts	Public Safety	261,325	
20.605	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	Public Safety	82,364	
Total U.S. Department of Transportation Federal Programs			151,552,283	
Equal Employment Opportunity Commission				
30.002	Empl Discr - St & Loc - Fair Empl Pract Agcy Contracts	Human Rights	214,758	
Total Equal Employment Opportunity Commission Federal Programs			214,758	
General Services Administration				
39.003	Donation of Federal Surplus Personal Property	Financial Serv	794,963	
Total General Service Administration Federal Programs			794,963	
National Foundation on the Arts & the Humanities				
National Endowment for the Arts				
45.024	Promotion of the Arts: Grants to Organizations and Individuals	Arts	20,000	
45.025	Promotion of the Arts: Partnership Agreements	Arts	710,054	
National Endowment for the Humanities				
45.164	Promotion of the Humanities: Public Programs	Museum	87,953	
Office of Museum & Library Services				
45.301	Museum for America	Museum	6,611	
45.302	Museum Assessment Program	Museum	1,018	
45.310	Grants to States	Library	1,396,269	
Total National Foundation on the Arts & the Humanities Federal Programs			2,221,905	
U.S. Department of Veterans Affairs				
Veterans Benefits Administration				
64.101	Burial Expenses Allowance for Veterans	Defense	237,934	
Total U.S. Department of Veterans Affairs Federal Programs			237,934	
U.S. Environmental Protection Agency				
Office of Air & Radiation				
66.032	State Indoor Radon Grants	Human Services	209,168	
66.034	Surveys, Studies, Invest., Demo. Relating to Clean Air Act	Environment	80,145	
Office of Administration				
66.202	Congressionally Mandated Projects	Environment	284,252	

STATE OF MAINE
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Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	**
Office of Water				
66.432	State Public Water System Supervision	Human Services	1,217,983	
66.436	Surveys, Studies, Investig., Demo. and Training Gr. and Coop. Agreements	Environment	104,422	
66.454	Water Quality Management Planning	Environment	96,896	
66.461	Regional Wetland Program Grants	Conservation	33,399	
66.463	Water Quality Cooperative Agreements	Environment	21,001	
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	Environment	25,716	
66.468	Capitalization Grants For Drinking Water State Revolving Funds	Human Services	1,269,461	
66.472	Beach Monitoring & Notification Program Implementation Grants	Planning	234,568	
Office of Administration				
66.605	Performance Partnership Grants	Agriculture	497,449	**
66.605	Performance Partnership Grants	Environment	7,404,614	**
66.608	Environmental Info Exchange Network Grant Program & Rel Assist	Environment	183,773	
66.611	Environmental Policy and Innovation Grants	Environment	39,307	
Office of Enforcement and Compliance Assurance				
66.709	Multi-Media Capacity Bldg. Grants for States & Tribes	Environment	2,640	
Office of Solid Waste & Emergency Response				
66.802	Superfund State, Site: Specific Coop. Agree.	Environment	67,567	
66.805	Leaking Underground Storage Tank Trust Fund Program	Environment	839,502	
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	Environment	185,586	
66.817	State and Tribal Response Program Grants	Environment	1,048,122	
Office of Administration				
66.999	National Park	Environment	944	
Total U.S. Environmental Protection Agency Federal Programs			13,846,515	
Nuclear Regulatory Commission				
77.001	Radiation Control: Training Assistance and Advisory Counseling	Human Services	13,901	
Total Nuclear Regulatory Commission Federal Programs			13,901	
U.S. Department of Energy				
Office of Energy Efficiency & Renewable Energy				
81.041	State Energy Program	Public Utilities	394,752	
81.119	State Energy Program Special Projects	Planning	283,350	
81.119	State Energy Program Special Projects	Public Utilities	133,875	
81.DEFCOLE13740	State Housing Oil and Propane Program	Planning	26,621	
81.RDPS0105G50017	2005 Natural Gas Pipeline Safety	Public Utilities	134,233	
Total U.S. Department of Energy Federal Programs			972,831	
U.S. Department of Education				
Office of Vocational & Adult Education				
84.002	Adult Education_State Grant Program	Corrections	21,529	
84.002	Adult Education_State Grant Program	Education	1,736,225	
Office of Elementary & Secondary Education				
84.010	Title I Grants to Local Educational Agencies	Education	46,410,033	**
84.011	Migrant Education: State Grant Program	Education	364,242	
84.013	Title I Program for Neglected and Delinquent Children	Corrections	163,492	
Office of Assistant Secretary for Vocational & Adult Education				
84.048	Vocational Education_Basic Grants to States	Corrections	46,575	
84.048	Vocational Education_Basic Grants to States	Education	5,707,011	
Office of Special Education & Rehabilitative Services				
84.126	Rehabilitation Services: Vocational Rehabilitation Grants to States	Labor	16,872,624	**
84.161	Rehabilitation Services: Client Assistance Program	Labor	91,844	
84.169	Independent Living: State Grants	Labor	416,577	
84.177	Rehab Services: Independent Living Serv for Blind Older Individuals	Labor	332,153	
84.181	Special Educuation: Grants for Infants and Families with Disabilities	Education	2,158,961	
Office of the Assistant Secretary for Postsecondary Education				
84.185	Byrd Honors Scholarships	Education	170,250	
Office of Elementary & Secondary Education				
84.186	Safe and Drug-Free Schools and Community: State Grants	Corrections	8,320	
84.186	Safe and Drug-Free Schools and Community: State Grants	Education	25,227	
84.186	Safe and Drug-Free Schools and Community: State Grants	Human Services	1,663,508	

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	**
Office of Special Education & Rehabilitative Services				
84.187	Supported Employment Services for Individuals with Severe Disabilities	Labor	493,711	
Office of Elementary & Secondary Education				
84.196	Education for Homeless Children and Youth	Education	160,748	
84.213	Even Start: State Educational Agencies	Education	690,759	
Office of Special Education & Rehabilitative Services				
84.224	Assistive Technology	Education	1,290,109	
Office of Vocational & Adult Education				
84.243	Tech-Prep Education	Education	551,396	
Office of Safe and Drug-Free Schools				
84.255	Literacy Program for Prisoners	Corrections	115,894	
Office of Special Education & Rehabilitative Services				
84.265	Rehabilitation Training: State Vocational Rehabilitation Unit Training	Labor	74,370	
Office of Elementary & Secondary Education				
84.287	Twenty First Century Community Learning Centers	Education	4,923,153	
84.298	State Grants for Innovative Programs	Corrections	498	
84.298	State Grants for Innovative Programs	Education	527,672	
84.318	Education Technology State Grants	Corrections	6,569	
84.318	Education Technology State Grants	Education	2,105,062	
Office of Special Education & Rehabilitative Services				
84.323	Special Ed: State Personnel Development	Education	329,991	
84.326	Special Ed: To Improve Services & Results for Children with Disabilities	Education	174,818	
Office of Elementary & Secondary Education				
84.330	Advanced Placement Program	Education	636,647	
Office of Vocational & Adult Education				
84.331	Grants to States for Incarcerated Youth Offenders	Corrections	35,567	
Office of Elementary & Secondary Education				
84.332	Comprehensive School Reform Demonstration	Education	645,267	
Office of the Asst Sec for Postsecondary Education, Higher Education Programs				
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	Education	3,535,725	
84.336	Teacher Quality Enhancement Grants	Education	6,959	
Office of Vocational & Adult Education				
84.346	Vocational Education: Occupational and Employment Information	Labor	(1,829)	
Office of Elementary & Secondary Education				
84.357	Reading First State Grants	Education	3,943,646	
84.358	Rural Education (REAP)	Corrections	6,189	
84.358	Rural Education (REAP)	Education	2,069,040	
84.365	English Language Acquisition Grants	Education	648,943	
84.366	Mathematics & Science Partnerships	Education	1,010,171	
84.367	Improving Teacher Quality State Grants	Corrections	30,926	
84.367	Improving Teacher Quality State Grants	Education	14,539,291	
84.369	Grants for State Assessments and Related Activities	Education	4,983,282	
U.S. Department of Education				
84.938	Hurricane Education Recovery	Education	110,125	
84.ED-03-CO-0072	NAEP State Coordinator	Education	60,309	
Special Education Cluster (IDEA)				
Office of Special Education & Rehabilitative Services				
84.027	Special Education - Grants to States	Corrections	52,825	**
84.027	Special Education: Grants to States	Education	50,331,713	**
84.173	Special Education: Preschool Grants	Education	2,658,248	**
Total U.S. Department of Education Federal Programs			172,936,365	
National Archives & Records Administration				
89.005	Cooperative Agreements to Support the Programs of the NARA	State	50,719	
Total National Archives & Records Administration			50,719	
Election Assistance Commission				
90.401	Help America Vote Act Requirements Payments	State	3,479,884	
Total Election Assistance Commission			3,479,884	

STATE OF MAINE
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Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	**
U.S. Department of Health & Human Services				
Office of the Secretary				
93.006	State & Terr. & Tech. Assist. Cap. Dev. Minority HIV/AIDS Demo. Prog.	Human Services	99,677	
Administration on Aging				
93.041	Spc Prg/Agng-Ttl VII, Ch 3-Pro /Prev of Eld Abu, Neg & Expl	Human Services	12,500	
93.042	Spc Prg/Agng-Ttl VII, Ch 2-Long Term Ombudsman	Human Services	68,376	
93.043	Spc Prg/Agng-Ttl III, Part D-Disease Prev & Hlth Prom Ser	Human Services	106,471	
93.048	Spc Prg /Agng-Ttl IV & II, Discretionary Projects	Human Services	511,504	
93.051	Alzheimer's Disease Demonstration Grants to States	Human Services	311,363	
93.052	National Family Caregiver Support	Human Services	713,682	
Substance Abuse & Mental Health Service Adm				
93.104	Comprehensive Community Mental Health Svcs for Children with SED	Human Services	1,172,960	
Health Resources & Services Adm				
93.110	Maternal and Child Health Federal Consolidated Programs	Human Services	1,155,096	
Centers for Disease Control & Prevention				
93.116	Project Grants and Coop. Ag. for Tuberculosis Control Programs	Human Services	221,864	
Health Resources & Services Adm				
93.127	Emergency Medical Services for Children	Public Safety	63,290	
93.130	Primary Care Services: Resource Coord & Development	Human Services	176,737	
Centers for Disease Control & Prevention				
93.136	Injury Prevention and Control Research and State and Comm Based Progs	Human Services	362,661	
Substance Abuse & Mental Health Service Adm				
93.150	Projects for Assistance in Transition from Homelessness	Human Services	354,749	
Health Resources & Services Adm				
93.165	Grants for State for Loan Repayment Program	Human Services	142,536	
Centers for Disease Control & Prevention				
93.197	Childhood Lead Poisoning Prevention Project (CLPPP)	Human Services	346,736	
Substance Abuse & Mental Health Service Adm				
93.230	Consolidated Knowledge Development and Application Program	Human Services	104,481	
Health Resources & Services Administration				
93.234	Traumatic Brain Injury State Demonstration Grant Program	Human Services	226,106	
93.236	Grants for Dental Public Health Residency Training	Human Services	26,744	
93.241	State Rural Hospital Flexibility Program	Human Services	278,802	
Substance Abuse & Mental Health Service Adm				
93.243	Substance Abuse & Mental Hlth Svs: Projects of Significance	Human Services	2,719,201	
93.243	Substance Abuse & Mental Hlth Svs: Projects of Significance	Judicial	214,428	
Health Resources & Services Administration				
93.251	Universal Newborn Hearing Screening	Human Services	90,593	
93.256	State Planning Grants_Health Care Access for the Uninsured	Human Services	258,739	
93.259	Rural Access to Emergency Devices Grant	Public Safety	11,661	
Centers for Disease Control & Prevention				
93.268	Immunization Grants	Human Services	14,293,295	**
93.283	CDC and Prevention: Investigations and Tech Assistance	Defense	10,000	**
93.283	CDC and Prevention: Investigations and Tech Assistance	Human Services	15,961,163	**
93.283	CDC and Prevention: Investigations and Tech Assistance	Public Safety	142,048	**
Health Resources & Services Administration				
93.301	Small Rural Hospital Improvement Grant Program	Human Services	110,917	
Administration for Children & Families				
93.556	Promoting Safe and Stable Families	Human Services	1,310,273	
93.558	Temporary Assistance for Needy Families	Human Services	62,284,018	**
93.563	Child Support Enforcement	Human Services	16,563,251	**
93.566	Refugee and Entrant Assistance: State Administered Programs	Human Services	596,982	
93.566	Refugee and Entrant Assistance: State Administered Programs	Judicial	180,017	
93.569	Community Services Block Grant	Human Services	3,301,076	
93.571	Community Svc Block Gr Formula & Disc. Awards Com. Food & Nutrition	Human Services	4,022	
93.576	Refugee and Entrant Assistance: Discretionary Grants	Education	136,135	
93.576	Refugee and Entrant Assistance: Discretionary Grants	Human Services	312,047	
93.597	Grants to States for Access and Visitation Programs	Human Services	100,000	
93.599	Chafee Education & Training Vouchers Program (ETV)	Human Services	253,146	
93.600	Head Start	Human Services	162,454	
93.617	Voting Access for Individuals with Disabilities_Grants to States	State	102,337	
93.630	Development Disabilities Basic Support and Advocacy Grants	Financial Serv	362,415	
93.643	Children's Justice Grants to States	Human Services	108,311	
93.645	Child Welfare Services: State Grants	Human Services	983,706	
93.652	Adoption Opportunities	Human Services	254,436	
93.658	Foster Care: Title IV-E	Human Services	15,005,613	**
93.659	Adoption Assistance	Human Services	12,821,633	**
93.667	Social Services Block Grant	Human Services	9,554,780	**

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Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	**
93.669	Child Abuse and Neglect State Grants	Human Services	58,023	
93.671	Family Violence: Grants for Battered Women's Shelters to States	Human Services	757,845	
93.674	Chafee Foster Care Independence Program	Human Services	886,339	
Centers for Medicare and Medicaid Services				
93.767	State Children's Insurance Program	Human Services	27,722,223	**
93.768	Medicaid Infrast.Grants: Competitive Employ. of People with Disabilities	Human Services	577,000	
93.779	CMS Research, Demonstrations and Evaluations	Governor	546,272	
93.779	CMS Research, Demonstrations and Evaluations	Human Services	1,211,824	
93.786	State Pharmaceutical Assistance Programs	Human Services	448,590	
Health Resources & Services Adm				
93.889	National Bioterrorism Hospital Preparedness Program	Defense	51,503	
93.889	National Bioterrorism Hospital Preparedness Program	Human Services	2,556,200	
93.913	Grants to States for Operation of Offices of Rural Health	Human Services	124,240	
93.917	HIV Care Formula Grants	Human Services	1,063,458	
Centers for Disease Control & Prevention				
93.938	Coop Ag-Sch Hlth Prg/Pvt the Spd of HIV & Oth Imp Hlth Prb	Education	560,549	
93.940	HIV Prevention Activities: Health Department Based	Human Services	1,833,758	
93.944	HIV/AIDS Surveillance	Human Services	100,012	
93.945	Assistance Programs for Chronic Disease Prevention and Control	Human Services	1,183,587	
Health Resources & Services Adm				
93.952	Trauma Care Systems Planning & Development	Public Safety	70,734	
Substance Abuse & Mental Health Service Adm				
93.958	Block Grants for Community Mental Health Services	Human Services	1,159,857	
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Human Services	6,491,682	**
Centers for Disease Control & Prevention				
93.977	Prevention Health Svcs: Sexually Transmitted Diseases Control Grants	Human Services	346,187	
93.988	Coop Agrmnt for St Based Diabetes Control Progs & Eval of Surveil. Systems	Human Services	366,094	
93.991	Preventive Health and Health Services Block Grant	Education	50,913	
93.991	Preventive Health and Health Services Block Grant	Human Services	1,069,940	
Health Resources & Services Adm				
93.994	Maternal and Child Health Services Block Grant to the States	Education	141,697	
93.994	Maternal and Child Health Services Block Grant to the States	Human Services	3,232,430	
93.283-02-9026	MIS: Implementation of Uniform Alcohol & Drug Abuse Data Collection	Human Services	71,304	
93.999	Fetal Alcohol Spectrum Disorders: Building FASD State Systems	Human Services	126,839	
93.1KD1 SM56584-01	COSIG	Human Services	1,063,203	
			-	
Aging Cluster				
Administration on Aging				
93.044	Spc Prg/Agng-Ttl III, Part B-Grnt for Supt Service & Sen Ctrs	Human Services	1,712,971	
93.045	Spc Prg/Agng-Ttl III, Part C-Nutrition Services	Human Services	3,010,956	
93.053	Nutrition Services Incentive Program	Human Services	604,906	
			-	
Child Care Cluster				
Administration for Children & Families				
93.575	Child Care & Development Block Grant	Human Services	16,509,142	**
93.596	Child Care Mandatory & Match. Funds of Child Care/Dev Fund	Human Services	9,293,311	**
			-	
Medicaid Cluster				
Office of the Secretary				
93.775	State Medicaid Fraud Control Units	Attorney General	500,053	**
Centers for Medicare and Medicaid Services				
93.777	State Survey and Certification of Health Care Providers and Suppliers	Human Services	2,545,000	**
93.778	Medical Assistance Program (Medicaid)	Financial Serv	57,150	**
93.778	Medical Assistance Program (Medicaid)	Governor	92,861	**
93.778	Medical Assistance Program (Medicaid)	Human Services	1,287,571,196	**
Total U.S. Department of Health & Human Services Federal Programs			1,540,434,881	
Corporation for National & Community Service				
94.003	State Commissions	Planning	220,520	
94.004	Learn and Serve America: School and Community Based Programs	Education	207,774	
94.006	AmeriCorps	Planning	661,028	
94.007	Planning and Program Development Grants	Planning	32,506	
94.009	Training and Technical Assistance	Planning	117,819	
94.013	Volunteers in Service to America (VISTA)	Planning	402,199	
Total Corporation for National & Community Service Federal Programs			1,641,846	

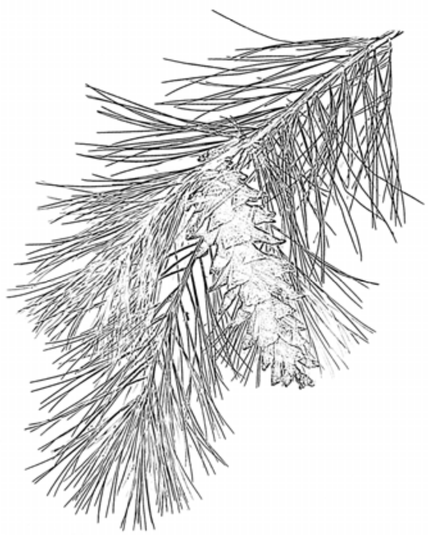
STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	**
Social Security Administration				
Disability Insurance/SSI Cluster				
96.001	Social Security: Disability Insurance	Human Services	6,878,270	**
Total Social Security Administration Federal Programs			6,878,270	
U.S. Department of Homeland Security				
97.012	Boating Safety Financial Assistance	Inland Fisheries	532,296	
97.012	Boating Safety Financial Assistance	Marine Resource	95,118	
97.023	Community Assistance Program - State Support Services Element	Planning	328,536	
97.029	Flood Mitigation Assistance	Defense	10,224	
97.036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Corrections	5,979	
97.036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Defense	4,431,529	
97.036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Transportation	68,202	
97.041	National Dam Safety Program	Defense	18,998	
97.042	Emergency Management Performance Grants	Defense	1,713,921	
97.047	Pre-Disaster Mitigation	Defense	294,150	
97.070	MAP Modernization Management Support (MMMS)	Planning	336,908	
97.078	Buffer Zone Protection Program	Defense	103,176	
Homeland Security Cluster				
97.004	Homeland Security Grant Program	Defense	4,308,460	**
97.004	Homeland Security Grant Program	Financial Serv	14,400	**
97.004	Homeland Security Grant Program	Governor	9,136	**
97.004	Homeland Security Grant Program	Marine Resource	40,000	**
97.004	Homeland Security Grant Program	Public Safety	1,488,490	**
97.067	Homeland Security Grant Program	Defense	8,305,680	**
97.067	Homeland Security Grant Program	Inland Fisheries	177,173	**
Total U.S. Department of Homeland Security			22,282,376	
Total State Expenditures of Federal Awards			**$ 2,449,207,906**	

State of Maine
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2007

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
Professional Reg	Department of Professional and Financial Regulation
Public Safety	Department of Public Safety
Public Utilities	Maine Public Utilities Commission
Salmon Comm	Atlantic Sea Run Salmon Commission
State	Department of Secretary of State
Transportation	Department of Transportation



STATE OF MAINE
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

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, 2007, with the exception of the discrete component units identified in Note 1 to the BFS. The discrete component units engaged other auditors.

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

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

2) Type A and Type B Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 established the levels of expenditures to be used in defining Type A and Type B federal financial assistance programs. Type A programs for the State of Maine are those programs that equal or exceed $7.35 million in expenditures, distributions, or issuances for the year ended June 30, 2007. 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. Program Information

A. Department of Education - Food Donation Program (CFDA 10.550): The reported total of federal financial assistance represents the $3,662,460 value of food commodities distributed to various schools, institutions, and other qualifying entities. There was no inventory on hand at June 30, 2007.

B. Department of Health and Human Services - Food Stamps (CFDA 10.551): The food stamp program is administered through Electronic Benefit cards that provide each eligible client with an authorized limit of service (specific food products). The reported total federal financial assistance of $170,637,313 consists of actual disbursements for client purchases of authorized food products via the EBT card program.

C. Department of Agriculture - Emergency Food Assistance Cluster - The reported total of federal financial assistance includes administrative costs of $245,985 (CFDA 10.568) and commodities of $1,081,463 (CFDA 10.569). The value of inventory at June 30, 2007 was $127,256.

D. Department of Defense, Veterans and Emergency Management - National Guard Military Operations & Maintenance Projects (CFDA 12.401) includes amounts for in-kind expenditures and amounts that had been reported under CFDA 12.999 as follows:

Program	Direct Expenditures	In Kind Expenditures
National Guard Military Operations & Maint. Proj.	$12,802,406	$1,860,085
Readiness Sustainment Maint. Center (formerly CFDA 12.999)	38,368,829	7,041,474

E. General Service Administration – Donation of Federal Surplus Property (CFDA 39.003): During fiscal year 2007, the state received $722,285 worth of federal property and disbursed $794,963. The value of inventory at June 30, 2007 was $357,029.

F. Department of Health and Human Services – Immunization Grants (CFDA 93.268): The reported total of federal financial assistance represents $3,283,451 for administrative costs and $11,009,844 for the value of vaccines disbursed. The value of inventory as of June 30, 2007 was $73,450.

4. Unemployment Insurance Program

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

State Funds	$120,215,000
Federal Funds	13,173,968
Total	$133,388,968

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

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
Food Stamp Cluster
Child Nutrition Cluster
WIA Cluster
Special Education Cluster
Special Supplemental Nutrition Program for Women, Infants, and Children
Child and Adult Care Food Program
Forest Legacy Program
Performance Partnership Grants
Title I Grants to Local Educational Agencies
Immunization Grants
CDC and Prevention: Investigations and Technical Assistance

Qualified
Highway Planning and Construction Cluster
Disability Insurance/SSI Cluster
Child Care Cluster
Medicaid Cluster
Homeland Security Cluster
H-1B Job Training Grants
Rehabilitation Services — Vocational Rehabilitation Grants to States
Temporary Assistance for Needy Families
Child Support Enforcement
Foster Care - Title IV-E
Adoption Assistance
Social Services Block Grant
State Children's Insurance Program
Block Grants for Prevention and Treatment of Substance Abuse

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**
Food Stamp Cluster	
10.551	Food Stamps
10.561	State Administrative Matching Grants for Food Stamp Program
Child Nutrition Cluster	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children
WIA Cluster (Workforce Investment Act)	
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
Special Education Cluster	
84.027	Special Education — Grants to States
84.173	Special Education — Preschool Grants
Disability Insurance/SSI Cluster	
96.001	Social Security Disability Insurance
CCDF Cluster (Child Care and Development Fund)	
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory & Matching Funds — Child Care & Develop. Fund
Medicaid Cluster	
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program (Medicaid)
Homeland Security Cluster	
97.067	Homeland Security Grant Program
97.004	State Domestic Preparedness Equipment Support Program

Section I – Summary of Auditor's Results

<u>Identification of Major Program (continued):</u>

<u>Other Programs</u>

10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
10.676	Forest Legacy Program
17.268	H-1B Job Training Grants
66.605	Performance Partnership Grants
84.010	Title I Grants to Local Educational Agencies
84.126	Rehabilitation Services — Vocational Rehabilitation Grants to States
93.268	Immunization Grants
93.283	CDC and Prevention: Investigations and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.658	Foster Care — Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	State Children's Insurance Program
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between type A and type B programs: $7,347,624

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

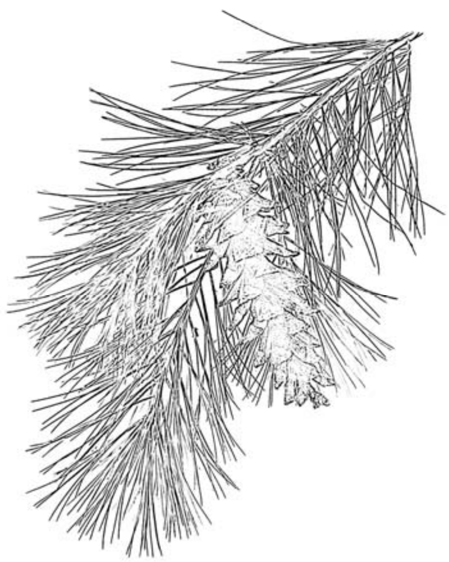
Section I – Summary of Auditor's Results

Summary of Questioned Costs:

Federal Agency	Federal Program	Questioned Costs	Finding Number
U.S. Department of Agriculture	Food Stamp Cluster	$307,834	07-91
U.S. Department of Transportation	Highway Planning and Construction Cluster	$48,395	07-22
U.S. Department of Education	Rehabilitation Services: Vocational Rehabilitation Grants	$1,248 $16,183	07-29 07-30
U.S. Department of Health and Human Services	Immunization Grants	$49,381	07-35
U.S. Department of Health and Human Services	Temporary Assistance for Needy Families	$303,000 $729	07-39 07-41
U.S. Department of Health and Human Services	Child Support Enforcement	$1,888,000	07-45
U.S. Department of Health and Human Services	Foster Care-Title IV-E	$12,030	07-52
U.S. Department of Health and Human Services	Adoption Assistance	$270,345	07-53
U.S. Department of Health and Human Services	State Children's Insurance Program	$18,523 $801 $98,427 $222,928	07-61 07-68 07-69 07-91
U.S. Department of Health and Human Services	Medicaid Cluster	$146,385 $633 $17 $35,238 $5,455 $225,882 $39,785	07-62 07-63 07-66 07-69 07-71 07-75 07-76
U.S. Department of Health and Human Services	Various	$1,396,601 $225,000 $15,142,659	07-96 07-97 07-98
U.S. Department of Homeland Security	Homeland Security Cluster	$57,000 $33,870	07-84 07-86
	Total Questioned Costs	**$20,596,349**	

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Section II – Financial Statement Findings



FINANCIAL STATEMENT FINDINGS

(07-01)

Finding Title: Inadequate controls to ensure compliance with governmental accounting standards

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

Finding Type: Internal control

Criteria: GASB 34

Condition: The Department does not have adequate controls in place to ensure that the entity-wide Statement of Net Assets is presented in accordance with the applicable governmental accounting standards. Certain asset and liability accounts were not presented with the distinction between short-term and long-term classification prior to an audit adjustment.

Context: Audit adjustments totaling $46.3 million to Taxes Receivables, $25.3 million to the equity in Treasurer's Cash Pool, and $11.5 million to Deferred Revenue were necessary to ensure the financial statements were not misstated.

Cause: The OSC had not completed its final review prior to delivering the financial statements to the Department of Audit.

Effect: The State's financial statements were misstated prior to audit adjustments.

Recommendation: We recommend that the Department implement procedures to ensure that the entity-wide Statement of Net Assets is presented in accordance with the applicable governmental accounting standards.

Management's Response/Corrective Action Plan: *This issue resulted from an adjustment to the fund level statements to present the balance sheet in order of liquidity, instead of designating between current and noncurrent assets and liabilities to be in compliance with GASB 34. This change did not initially roll up to the government wide statements correctly.*

In order to meet our draft statement reporting deadline, the draft statements were submitted to the Dept of Audit prior to conducting our final analytical review, which would have allowed us to identify and correct the error to ensure the final financial statements were accurately stated.

In the future, we will take measures to perform our final analytical review prior to submitting draft financials to the Department of Audit.

Contact: *Brenda Palmer, Principal Financial Management Coordinator, 626-8437*

FINANCIAL STATEMENT FINDINGS

(07-02)

Finding Title: Revenue incorrectly reported as transfers

Prior Year Finding: 06-04
State Department: Administrative and Financial Services (DAFS)
Bureau: Office of the State Controller (OSC)

Finding Type: Internal control

Criteria: Governmental Accounting Standards Board (GASB) Statement 34, paragraph 112

Condition: Electronic and manual statewide accounting procedures did not ensure the accuracy of amounts reported as transfers in the State's financial statements. Two misclassifications between revenue and transfers were not detected and required adjustments.

Context: Audit adjustments totaling $23 million were necessary to ensure the financial statements were not misstated

Cause: Account coding for similar transactions is inconsistent.

Effect: The State's financial statements were misstated prior to adjustments.

Recommendation: We recommend that the Department work with the State agencies to implement written accounting procedures that will standardize the account codes used for miscellaneous income, transfers-in, and transfers-out.

Management's Response/Corrective Action Plan: *The Office of the State Controller agrees that rules and policies regarding transfers appear complicated. Our office will continue to work with agencies to standardize account coding regarding transfers; however, when considering the different types of transfers depending on the type of fund, the nature of the transaction, the budget rules and laws, the volume of transactions and the size of the entity it is unlikely that any cost effective measures would totally prevent errors within the transfer versus revenue category.*

Contact: *Brenda Palmer, Principal Financial Management Coordinator, 626-8437*

FINANCIAL STATEMENT FINDINGS

(07-03)

Finding Title: Inadequate controls over accrual calculations

Prior Year Finding: No
State Department: Administrative and Financial Services
Bureau: Security and Employment Service Center (SESC)
Office of the State Controller

Finding Type: Internal control

Criteria: GASB Statement No. 34, footnote 34 "state unemployment compensation funds should be reported in enterprise funds".

Condition: The Department does not have adequate controls in place to ensure that the financial statements for the Employment Security Fund were reasonably stated. SESC incorrectly calculated the revenue accrual for the final quarter of the fiscal year. This accrual entry was calculated using an incorrect basis of accounting. Additionally, SESC incorrectly posted a revenue transaction to deferred revenue.

Context: Audit adjustments totaling more than $15 million were necessary to ensure the financial statements were not misstated.

Cause: Change in accounting standard
Staff turnover
Inadequate training
Lack of oversight

Effect: The State's financial statements related to Employment Security Fund revenue were understated prior to the audit adjustment.

Recommendation: We recommend that SESC develop procedures to ensure that the accounting transactions for this fund are in accordance with GAAP (Generally Accepted Accounting Principles). We further recommend that the Office of the State Controller provide oversight to agency personnel to ensure that changes in accounting standards are correctly implemented.

Management's Response/Corrective Action Plan:

SESC: *We concur with the finding. At the start of each State fiscal year, the Securities & Employment Service Center will contact the Department's liaison at the Controllers' Office to seek guidance on any new GASB's that may affect the Employment Security Fund. Following the GASB 34 model, we will be able to record revenue based on historical information prior to the end of the State's fiscal year; which in turn will eliminate the need for some of the off-balance sheet entries after the close of the State's fiscal year.*

Contact: *Dennis Corliss, Director, 626-6701*

OSC: *The OSC agrees with the finding. We worked with agencies at the implementation of GASB 34. Each year, a closing package is sent to agencies and the service centers with detailed instructions on the information that must be submitted to the OSC in order to prepare financial statements that are in accordance with GAAP. The OSC will continue to work with the Service Center to ensure amounts reported in the State's financial statements are properly stated.*

Contact: *Brenda Palmer, Principal Financial Management Coordinator, 626-8437*

(07-04)

Finding Title: Inadequate controls over accrual calculations

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

Finding Type: Internal control

Condition: The Department does not have adequate controls in place to ensure that the Taxes Receivable balance related to the Highway Fund was not misstated.

Context: Audit adjustments totaling $4.45 million were necessary to ensure the financial statements were not misstated.

Cause: Inadequate oversight.

Effect: The State's financial statements were misstated prior to audit adjustments.

Recommendation: We recommend that the Department implement procedures to ensure that the accrual calculations are performed correctly.

Management's Response/Corrective Action Plan: *In order to meet the draft statement reporting deadline, the Controller's Office posted an adjustment for taxes receivable in the highway fund based upon the best information available to the Controller's Office from the agency at the time.*

Title 5 MRSA §1547, subsection 4 requires agencies to provide financial information to the Office of the State Controller (OSC) by September 1, following the close of the fiscal year. A detailed closing package is provided to agencies identifying the information that must be submitted to the OSC in order to prepare financial statements that are in accordance with GAAP. Information on tax accruals is included in this request.

In the future, the OSC will take measures to ensure that all the accrual information is received from Maine Revenue Services and that supporting worksheets are sufficiently reviewed in order to properly report receivables and revenues.

Contact: *Brenda Palmer, Principal Financial Management Coordinator, 626-8437*

(07-05)

Finding Title: Inadequate controls to ensure complete and accurate recording of capital assets

Prior Year Finding: 06-02
State Department: Administrative and Financial Services
Bureau: Office of the State Controller

Finding Type: Internal control

Criteria: State's fixed assets internal control policies and GASB 34

Condition: Controls were not in place to ensure accurate financial reporting of all capital assets. Currently, the State is utilizing a spreadsheet to financially report capital asset balances, current year additions, current year deletions, accumulated depreciation, and depreciation expense. Due to the volume of assets being reported, this spreadsheet allows for a significant margin of error to exist. The spreadsheet is complex and allows for assets to be easily added, deleted, and modified without the ability to track those changes. Furthermore, the Department did not sufficiently monitor agencies to ensure that assets were properly valued, acquisitions were appropriately recorded, and physical inventories were performed.

Context: This is a systemic problem that has existed since fiscal year 2002.

Cause: Insufficient reporting system and monitoring procedures

Effect: The State's financial statements and related notes regarding capital assets could be misstated.

Recommendation:

- The Department needs to implement a more accurate and accountable way of financially reporting capital assets that would be interfaced with the State's accounting system to track additions and deletions using the information already entered into the accounting system. (It was noted during our audit that the new AdvantageME software that is expected to be implemented in FY 2008 should address this issue.)
- The Department should monitor and provide clear and specific guidance to agencies on implementing fixed asset internal control policies.
- Each agency should follow established internal control policies included in the fixed asset manual.

Management's Response/Corrective Action Plan: *The OSC agrees that large spreadsheets are not ideal and may occasionally contain an error, however, they are a valuable and acceptable tool, and we believe that other compensating controls in place are effective to prevent a misstatement from occurring.*

In June 2007, the OSC created a team of staff members to review statewide fixed asset policies and procedures in an effort to update, clarify, and simplify fixed asset polices, identify and address internal control deficiencies, and develop an ongoing fixed asset training program. We believe significant improvements have been made in this area, but we recognize the need to continue to look for ways to improve communication with agencies, provide additional training, and improve the financial reporting process. Now that Advantage is available, the goal is to use it to track assets, acquisitions, dispositions, and calculate depreciation expense.

The plan to establish Advantage as the main tool for all capital asset accounting and reporting statewide is:

- *Update all related policies and procedures to be inline with the new software for SFY 2008 reporting*
- *Address agencies that currently do not use the accounting system, or use it on a limited basis. We are currently working on this and expect to complete this step by SFY 2009*
- *Provide training to all agencies on the proper accounting of capital assets, how to use Advantage, and why it is important for financial reporting. We are currently working on this and expect to complete this step by SFY 2009.*

Contact: *Brenda Palmer, Principal Financial Management Coordinator, 626-8437*

(07-06)

Finding Title: Inadequate controls over the calculation of the Medicaid hospital settlement accrual

Prior Year Finding: No
State Department: Administrative and Financial Services (DAFS)
Health and Human Services (DHHS)
Bureau: DHHS Office of Audit – MaineCare and Social Services
Office of the State Controller (OSC)

Finding Type: Internal control

Criteria: Paragraphs AAG-SLV 12.110 and AAG-SLV 12.111 of the AICPA Audit and Accounting Guide *State and Local Governments* with Conforming Changes as of May 1, 2007

Condition: The Medicaid hospital settlement accrual methodology was logically sound but the worksheet used included formula errors. Additionally, the Office of the State Controller did not sufficiently review the support for the accrual to detect the formula errors.

Context: An audit adjustment of $43.4 million was necessary to ensure that the State's financial statements were not misstated.

Cause: Formula errors

Effect: The accounts payable and federal receivable balances were overstated prior to the audit adjustment.

Recommendation: We recommend that DHHS ensure the correct worksheet formulas are used when calculating accruals for proper financial statement presentation. We further recommend that OSC carefully review all support submitted to them from State agencies for accrual purposes.

Management's Response/Corrective Action Plan:

DHHS: *The finding identifies an internal control weakness in that the spreadsheet calculating the hospital settlement accrual contained formula errors that were not detected upon review by the DHHS Division of Audit or the Office of the State Controller. The Division of Audit agrees that the spreadsheet contained several formula errors which would have resulted in the accrual being misstated. In the future, the Division will prepare the calculations earlier and ensure that all spreadsheets are reviewed by the Audit Program Manager prior to release. Additionally, future calculations of the hospital accrual will incorporate the formula changes identified in the finding.*

Contact: *Herb Downs, Director, 287-2778*

OSC: *In the future, the OSC internal audit division will work with the financial reporting staff to audit the support provided by agencies for significant and complex accruals.*

Contact: *Brenda Palmer, Principal Financial Management Coordinator, 626-8437*

(07-07)

Finding Title: Inadequate controls over Fund Accounting

Prior Year Finding: No
State Department: Defense, Veterans and Emergency Management
Administrative and Financial Services
Bureau: Maine Military Authority (MMA)
Office of the State Controller

Finding Type: Internal control

Condition: The Department does not have adequate controls in place to ensure that the financial statements were reasonably stated regarding revenue and expenses of the Maine Military

Authority. Maine Military Authority made an accounting error when processing a non-routine transaction to the State's accounting system. Further compounding this error, the Office of the State Controller did not make an adjustment to the State's financial statements necessary to ensure proper reporting.

Context: An audit adjustment totaling $16 million was necessary to ensure the financial statements were not misstated.

Cause:
- Staff turnover
- Inadequate monitoring of unusual transactions by both departments

Effect: The State's financial statements regarding Maine Military's revenues and expenses were significantly overstated prior to the audit adjustment.

Recommendation: We recommend that the Office of the State Controller improve their procedures and provide clear and specific guidance to agencies when non-routine transactions need to be posted to the State's accounting system.

Management's Response/Corrective Action Plan:

DVEM: *We concur with the finding.*

The MMA erroneously posted a non-routine financial transaction to the State accounting system twice. The error was discovered during the FY07 close-out. MMA has changed its processing procedures relating to billings in order to discover and correct this type of error in a timely fashion.

Contact*: Karen Roderick, Director, 430-2197*

OSC: *The MMA is using the new accounting system to record its receivables, revenues and deferred revenues using the accrual basis of accounting. OSC is working with the agency to monitor accounting activity on an ongoing basis.*

In the future, the OSC will take measures to review all infrequent and unusual transactions to ensure proper financial reporting.

Contact: *Brenda Palmer, Principal Financial Management Coordinator, 626-8437*

FINANCIAL STATEMENT FINDINGS

(07-08)

Finding Title: Inadequate controls to properly account for the transfer of capital assets between funds

Prior Year Finding: No
State Department: Transportation
Administrative and Financial Services
Bureau: Office of Capital Resource Management
Office of the State Controller (OSC)

Finding Type: Internal control

Condition: The Department does not have controls in place to properly account for the transfer of capital assets between funds. As a result, the State's financial statements were misstated prior to an audit adjustment.

Context: Audit adjustments totaling $25 million were necessary to ensure the financial statements were not misstated.

Cause:
- Lack of agency understanding to properly account for the transfer of capital assets
- Insufficient review of agency documentation by the OSC

Effect: The State's financial statements were misstated prior to audit adjustments.

Recommendation: We recommend that the OSC improve their monitoring procedures and provide clear and specific guidance to agencies on how to properly account for capital assets that are transferred between funds.

Management's Response/Corrective Action Plan:

DOT: *The Department of Transportation agrees with the finding and will adjust all capital assets transferred to the Enterprise Fund, with the guidance of the Office of the State Controller.*

Contact: *Mike McKenna, Financial Analyst, 624-3134*

OSC: *The OSC worked closely with DOT to properly report the transfer of assets from a governmental fund to an enterprise fund. When DOT made changes to their calculations, they also changed the useful lives of the assets, which the OSC was not made aware of resulting in the understating of accumulated depreciation ($10.5 million) in our draft financials. As a result, Funds invested in capital, net of related debt was overstated by ($7.5 million). Additionally, several assets that were under the capitalization threshold in the governmental fund were subsequently transferred to the enterprise fund (6.9 million). These were discovered through the audit process.*

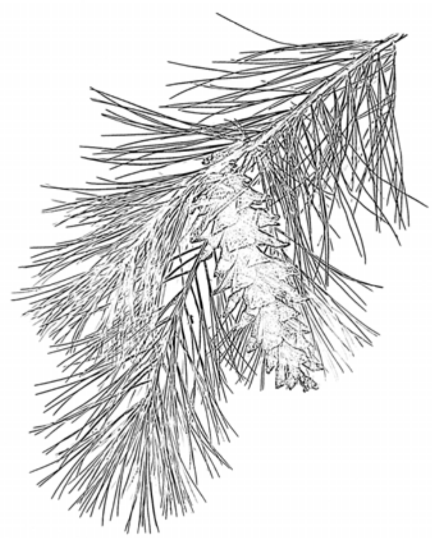
In June 2007, the OSC created a team of staff members to review statewide fixed asset policies and procedures in an effort to update, clarify, and simplify fixed asset polices, identify and address internal control deficiencies, and develop an ongoing fixed asset training program. We believe significant improvements have been made in this area, but we recognize the need to continue to look for ways to improve communication with agencies, provide additional training, and improve the financial reporting process.

We will continue to work with agencies on proper accounting for all capital asset transactions.

***Contact**: Brenda Palmer, Principal Financial Management Coordinator, 626-8437*

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Indexes to Federal Program Findings



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07-11	Subrecipient monitoring requirements not followed	DOE	E-38
07-12	Computerized inventory system not being used	DOE	E-39
07-89*	Subrecipient monitoring requirements not followed	DOE	E-178
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07-97*	Excess working capital	DAFS	E-191
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* Finding involves multiple programs

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* Finding involves multiple programs

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* Finding involves multiple programs

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07-92*	Cash management requirements not followed	DAFS	E-183
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07-62	Cost of care payments not repaid to federal government	DAFS	E-123
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* Finding involves multiple programs

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07-97*	Excess working capital	DAFS	E-191
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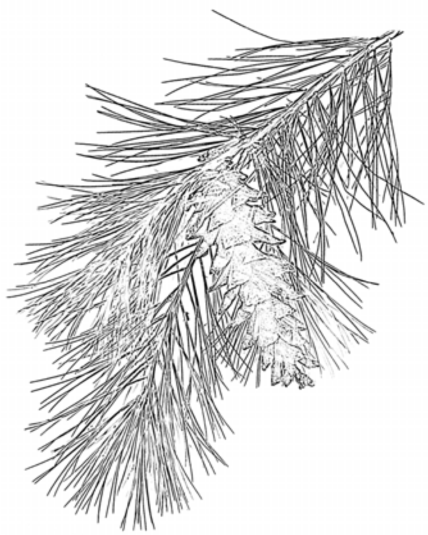
Legend of State Agency Abbreviations:

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



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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
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07-15	Child and Adult Food			✓												E-45
07-17*	H-1B Job Training Grants		✓													E-49
07-18*	H-1B Job Training Grants												✓			E-50
07-27*	Multiple programs			✓												E-64
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07-34	Immunization Grants												✓			E-76
07-39	Temp. Aid Needy Families		✓													E-84
07-40	Temp. Aid Needy Families												✓			E-85
07-44	Child Support Enforcement		✓													E-93
07-45	Child Support Enforcement			✓												E-94
07-46	Child Support Enforcement							✓								E-96
07-47	Child Support Enforcement												✓			E-97
07-50	Child Care Cluster								✓							E-102
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07-59	Social Services Block Grant			✓												E-118
07-60	Social Services Block Grant												✓			E-119
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07-63*	Medicaid Cluster		✓													E-124
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* Finding also attributable to another department

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07-92	Multiple programs			✓												E-183
07-93	Multiple programs												✓			E-185
07-94	Multiple programs												✓			E-186
07-95	Multiple programs		✓	✓									✓			E-188
07-96	Multiple programs		✓													E-189
07-97	Multiple programs		✓													E-191
07-98	Multiple programs		✓													E-192
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07-86	Homeland Security Cluster								✓							E-173
07-87	Homeland Security Cluster												✓			E-174
07-88	Homeland Security Cluster													✓		E-175
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07-17*	H-1B Job Training Grants		✓													E-49
07-18*	H-1B Job Training Grants												✓			E-50
07-19	H-1B Job Training Grants			✓												E-52
07-20	H-1B Job Training Grants									✓						E-53
07-21	H-1B Job Training Grants													✓		E-54
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07-25	Performance Partnership									✓						E-60
07-26	Performance Partnership														✓	E-62
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07-10	Child Nutrition Cluster							✓								E-37
07-11	Child Nutrition Cluster													✓		E-38
07-12	Child Nutrition Cluster														✓	E-39
07-27*	Multiple programs			✓												E-64
07-28	Special Education Cluster													✓		E-66

* Finding also attributable to another department

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07-89	Multiple programs													✓		E-178
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07-13	WIC			✓												E-42
07-14	WIC													✓		E-43
07-16	Child and Adult Care Food			✓												E-46
07-35	Immunization Grants								✓							E-77
07-36	Immunization Grants													✓		E-78
07-37	Immunization Grants													✓		E-80
07-38	CDC Investigations		✓													E-82
07-41	Temp. Aid Needy Families		✓													E-86
07-42	Temp. Aid Needy Families					✓										E-88
07-43	Temp. Aid Needy Families												✓			E-89
07-48	Child Support Enforcement														✓	E-99
07-49	Child Care Cluster													✓		E-101
07-52	Foster Care					✓										E-106
07-57	Foster Care/Adoption Assist.									✓						E-114
07-58	Adoption Assistance					✓										E-116
07-61	State Children's Insurance	✓														E-121
07-63*	Medicaid Cluster		✓													E-124
07-64*	Medicaid Cluster														✓	E-126
07-65*	Medicaid Cluster														✓	E-128
07-66*	Medicaid Cluster/SCHIP							✓								E-132
07-67	Medicaid Cluster/SCHIP	✓	✓													E-134
07-68	Medicaid Cluster/SCHIP					✓										E-137
07-69	Medicaid Cluster/SCHIP					✓										E-138
07-70	Medicaid Cluster		✓													E-142
07-71	Medicaid Cluster		✓													E-144
07-72	Medicaid Cluster		✓													E-145
07-73	Medicaid Cluster					✓										E-148
07-74	Medicaid Cluster		✓													E-150

* Finding also attributable to another department

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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
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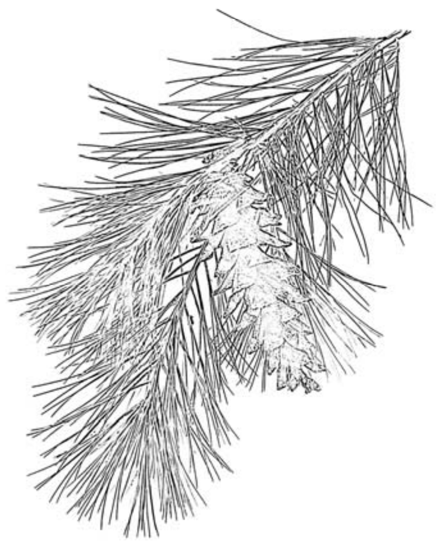
07-78	Medicaid Cluster														✓	E-159
07-79	Medicaid Cluster	✓														E-161
07-82	Disability Insurance		✓													E-167
07-83	Disability Insurance									✓						E-168
Department of Labor																
07-29	Rehabilitation Services		✓													E-69
07-30	Rehabilitation Services		✓													E-70
07-31	Rehabilitation Services					✓										E-72
07-32	Rehabilitation Services									✓						E-73
Department of Transportation																
07-22	Highway Planning Cluster		✓													E-56
07-23	Highway Planning Cluster				✓											E-57

* Finding also attributable to another department

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

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



FOOD STAMP CLUSTER

(07-09)

Title: Cash management requirements not followed

Prior Year Finding: 06-09
State Department: Administrative and Financial Services (DAFS)
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Agriculture
CFDA Title: Food Stamp Cluster
CFDA #: 10.551, 10.561
Federal Award #: 4ME400401

Compliance Area: Cash management

Type of Finding: Internal control and compliance

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 minimize the time between the draw of federal cash and the disbursement as required by federal regulations.

Context:

- Cash on hand exceeded immediate cash needs for ten out of twelve months

Cause:

- Drawdowns were based on estimates
- Costs were not allocated timely
- Reconciliations of draws to expenditures were not timely

Effect:

- The possibility that the federal government could impose more stringent cash management requirements on the program.

Recommendation: We recommend that the Department monitor their federal cash balances to ensure compliance with federal cash management requirements. We further recommend that the program reconcile federal cash draws to reported expenditures in a more timely manner.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with this finding. Continued staff turnover prevented our ability to efficiently address the conditions cited.*

FOOD STAMP CLUSTER

In July 2007, DHHS Service Center assigned a financial analyst to oversee all cash management for the Department. This person meets with the Treasurer's Office CMIA (Cash Management Improvement Act) administrator and will implement procedures to limit draws to comply with federal cash management rules. Beginning in July 2008, additional resources will be deployed to bring cash management into compliance.

Contact: *Charles Woodman, Deputy Director, HHS Service Center, 287-2572*

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

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(07-96) ***page E-189***

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(07-98) ***page E-192***

CHILD NUTRITION CLUSTER

(07-10)

Title: Federal matching requirement not met

Prior Year Finding: No
State Department: Education
State Bureau: 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 #: 2006IN109844, 2007IN109844

Compliance Area: Matching, level of effort, earmarking

Type of Finding: Internal control and compliance

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: Matching Federal Funds (7 CFR §210.17)

Condition:
- The Child Nutrition Cluster did not satisfy its federal matching requirement for fiscal year 2006.

Context:
- The required State match was $1,050,294. The State's actual matching expenditures were $1,008,023, resulting in a shortfall of $42,271. In December of fiscal year 2007, the State disbursed a special allocation to the school districts in an attempt to meet their 2006 matching requirement. However, federal regulations require that the matching requirement be satisfied within the fiscal year.

Cause:
- State funds were not available during the fiscal year.

Effect:
- General cash assistance funds may be subject to recall and repayment.

Recommendation: We recommend that procedures be implemented to ensure that the State satisfies its federal matching requirements for the Child Nutrition Cluster during the applicable fiscal year.

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

In fiscal year 2008, the budgeting problems with the State match account were corrected. Child Nutrition now has the opportunity to review the allotment projections during the budgeting process and payments are made earlier in the school year.

This year Child Nutrition staff for the first time will review the Fiscal Year 2009 work program when it is developed.

Contact: *Walter Beesley Child Nutrition Specialist, 624-6843*

(07-11)

Title: Subrecipient monitoring requirements not followed

Prior Year Finding: No
State Department: Education
State Bureau: 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 #: 2006IN109844, 2007IN109844

Compliance Area: Subrecipient monitoring

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local and Tribal Governments – Subgrants (45 CFR Sec. 92.37)

Condition:

- The Department did not comply with federal subrecipient monitoring requirements. This condition was documented by a U.S. Department of Agriculture management evaluation of Maine Department of Education for the National School Lunch Program. The federal report noted the following:
    - Inadequate process for issuing and following through with letters of findings and corrective actions
    - Incomplete review forms
    - Insufficient tracking system to ensure proper review within a five year cycle
    - Lack of reviews for School Lunch Program
    - Corrective action plan follow-up not sufficient

Context:
- Approximately 99% of federal funds are passed through to subrecipients.

Cause:
- Lack of resources

Effect:
- Possible federal sanctions

Recommendation: We recommend that the Department improve its subrecipient monitoring procedures. We noted that the Department has provided a response to the U.S. Department of Agriculture in regard to corrective actions and is in the process of implementing procedures to address the subrecipient monitoring issues.

Management's Response/Corrective Action Plan: *The Department of Education, Child Nutrition Services office has completed the response to the U.S. Department of Agriculture's (USDA's) June 2007 Management Evaluation during which this finding was included and addressed. The USDA has closed all findings. Changes indicated in the Corrective Action Plan submitted to the USDA have been implemented successfully.*

Contact: *Walter Beesley, Child Nutrition Specialist, 624-6843*

(07-12)

Title: Automated inventory record-keeping system is not being used

Prior Year Finding: No
State Department: Education
State Bureau: 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 #: 2006IN109844, 2007IN109844

Compliance Area: Special tests and provisions

Type of Finding: Internal control

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Warehousing, distribution and storage of donated foods (7 CFR §250.14(e));
Maintenance of Records (7 CFR §250.16)

Condition:

- The Department's manual inventory records were insufficient.
- The Department's automated inventory system was not utilized (during the fiscal year 2007 annual physical inventory) since these records were not properly updated for changes.

Context:

- This is a systemic problem. Approximately $3.7 million in donated commodities flow through the inventory system annually.

Cause:

- Manual records did not contain sufficient information to trace activity to supporting documentation.

Effect:

- The automated inventory system was not properly updated for changes.
- Inventory is not properly monitored.

Recommendation: We recommend that the current manual system be replaced by utilizing the available automated inventory system.

Management's Response: *The Department agrees that the automated inventory system was not utilized. However, the Department does conduct and reconcile the annual inventory for commodities manually as required by federal regulations.*

The automated system is used during the year to manage inventory as shipments arrive from vendors and shipping tickets are cut monthly. The automated system is not used for year end reconciliation as indicated in our written Child Nutrition policy for inventory reconciliation. When year end inventory is reconciled, any shortages must be made up by the distributor to meet our inventory balance. Inventory overages are a result of product that was delivered to the warehouse, delivery ticket cut but product not actually delivered. The school that ordered the product and shorted can not be determined. Therefore this product cannot be added back into the inventory because it would create an incorrect received product amount. If we received a truckload of product, 900 cases, and all is disbursed on delivery tickets during the year but two cases actually are not delivered, by adding the two cases back into the inventory the system would show that 902 cases were delivered which does not match any of our records from USDA. Therefore, it is done manually outside the system. To include this in the automated system would require a computer programming cost, which is expensive and no funds are available for this. Therefore we maintain paper records of year end reconciliation reports and the information is submitted to USDA yearly. Child Nutrition/Food Distribution has reviewed the finding and will be making some adjustments to the paperwork until automation can be funded.

Contact: *Walter Beesley, Child Nutrition Specialist, 624-6843*

CHILD NUTRITION CLUSTER

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

(07-89) ***page E-178***

(07-90) ***page E-179***

(07-96) ***page E-189***

(07-97) ***page E-191***

(07-98) ***page E-192***

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN

(07-13)

Title: Noncompliance with cash management requirements

Prior Year Finding: 06-13
State Department: Health and Human Services (DHHS)
State Bureau: Maine Center for Disease Control and Prevention (MCDC)
Federal Agency: U.S. Department of Agriculture
CFDA Title: Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
CFDA #: 10.557
Federal Award #: 4ME700701

Compliance Area: Cash management

Type of Finding: Internal control and compliance

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:
- Time was not minimized between the draw down of federal funds and the disbursement as required by federal regulations.

Context:
- Cash on hand exceeded immediate cash needs in four out of the twelve months tested.

Cause:
- Inadequate procedures and oversight

Effect:
- Possibility of the federal government imposing more stringent cash management requirements on the program

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

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

The condition cited occurred when WIC was without a Financial Manager. Corrections initiated from the last audit with a similar finding were implemented with the hire of a new Financial Manager in June 2007. These changes include:

1. *The Financial Manager monitors cash daily.*
2. *The Financial Manager informs the Program Director or Assistant Director of the need to draw down cash consistent with cash management requirements based on invoices presented for payment, payroll expense and warehouse expenses for that date.*
3. *With approval of the Program Director or Assistant Director, draw downs are made by the Financial Manager.*
4. *The Program Manager or Assistant Director signs and approves each draw down request.*

The Department will continue with these cash management improvements. In the event of the absence of the Financial Manager, coverage will be provided by the supervisor in the steps outlined above to ensure consistent compliance.

Contact: *Nora Bowne, Director, WIC Program, 287-5342*

(07-14)

Title: Subrecipient monitoring requirements not followed

Prior Year Finding: 06-14
State Department: Health and Human Services (DHHS)
State Bureau: Maine Center for Disease Control and Prevention (MCDC)
Federal Agency: U.S. Department of Agriculture
CFDA Title: Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
CFDA #: 10.557
Federal Award #: 4ME700701

Compliance Area: Subrecipient monitoring

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: State Agency Responsibilities (7 CFR §246.19 (b)(4))

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN

Condition:
- The Department did not ensure that all of their subrecipients submitted a corrective action plan within 60 days of receipt of the State agency's monitoring review report.

Context:
- The WIC program has nine subrecipients, of which eight had findings that required them to submit a corrective action plan to the State. Three of these eight subrecipients did not submit the required corrective action plan.

Cause:
- Insufficient supervisory review.

Effect:
- Noncompliance with subrecipient monitoring requirements

Recommendation: We recommend that the Department implement procedures to ensure that all subrecipients submit the required corrective action plans to the State within the 60 day time frame and that the Department retain the proper documentation.

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

As of March 2008, the Financial Manager is now responsible for gathering and maintaining all three components of the Management Evaluation Review (MER) process, tracking the timely submission of corrective action plans and monitoring compliance with the plans. This activity is reviewed with the WIC Director.

Contact: *Nora Bowne, Director, WIC Program, 287-5342*

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

(07-95) ***page E-188***

(07-96) ***page E-189***

(07-97) ***page E-191***

(07-98) ***page E-192***

CHILD AND ADULT CARE FOOD PROGRAM

(07-15)

Title: Inadequate internal controls over and non-compliance with cash management requirements.

Prior Year Finding: No
State Department: Administrative and Financial Services (DAFS)
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Agriculture
CFDA Title: Child and Adult Care Food Program (CACFP)
CFDA #: 10.558
Federal Award #: 4ME300302

Compliance Area: Cash management

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement (31 CFR §205.33 Subpart B)

Condition:
- The CACFP did not minimize the time between the draw of federal cash and the disbursement as required by federal regulations.
- The CACFP had excessive average days cash on hand for five of the twelve months reviewed for fiscal year 2007.

Context:
- Twenty-four federal draws were tested of which six were not fully disbursed to sponsoring organizations within a reasonable time frame.
- Five of the twelve months tested for average days cash on hand were excessive.

Cause:
- The program has difficulty estimating the amount of time necessary to process disbursements.

Effect:
- The possibility that the federal government could impose more stringent cash management requirements on the program.

Recommendation: We recommend that the Department further analyze the time requirements necessary to process disbursements and modify drawdown procedures to ensure compliance with federal cash management requirements.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with this finding. Continued staff turnover prevented our ability to efficiently address the conditions cited.*

In July 2007, DHHS Service Center assigned a financial analyst to oversee all cash management for the Department. This person meets with the Treasurer's Office CMIA (Cash Management Improvement Act) administrator and will implement procedures to limit draws to comply with federal cash management rules. Beginning in July 2008, additional resources will be deployed to bring cash management into compliance.

Contact: *Charles Woodman, Deputy Director, HHS Service Center, 287-2572*

(07-16)

Title: Subrecipient cash management requirements not followed

Prior Year Finding: 06-15
State Department: Health and Human Services (DHHS)
State Bureau: Office of Child and Family Services
Federal Agency: U.S. Department of Agriculture
CFDA Title: Child and Adult Care Food Program
CFDA #: 10.558
Federal Award #: 4ME300302

Compliance Area: Cash management

Type of Finding: Internal control

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Sponsoring Organization Provisions (7 CFR §226.16 (g) and (h))

Condition:

- The Department did not ensure sponsoring organizations receive and then disburse cash to providers within the five day federal requirement.

CHILD AND ADULT CARE FOOD PROGRAM

Context:

- Two contract specialists are responsible for monitoring 18 sponsoring organizations. Monitoring visits of sponsoring organizations are conducted once every three years; the largest sponsoring organization is visited once every two years. These sponsoring organizations provide funds to 1400 smaller providers.

Cause:

- Lack of personnel to complete necessary tasks
- Lack of procedures to monitor disbursements made by sponsoring organizations to providers.

Effect:

- Possible noncompliance with federal subrecipient cash management requirements

Recommendation: We recommend that the Department take steps to monitor sponsoring organizations to ensure that they disburse cash advances to providers within five working days of receipt.

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

The Office of Child and Family Services has developed a review process to ensure that sponsoring organizations electing to receive advance payments of program funds for day care homes are disbursing the full amount of such payments within five working days of receipt from the Office of Child and Family Services.

The following procedures will be put into place in July, 2008:

1. *Contract specialists will request from each of the 16 sponsoring organizations a copy of its most recent bank statement a minimum of once per year. We will work with the Office of the State Controller to establish a schedule that will meet federal cash management requirements.*
2. *From the bank statement, the contract specialist will determine the date upon which payment was received from the Office of Child and Family Services.*
3. *The contract specialist will review a sampling of paid checks from the bank statement to identify checks clearing from the subrecipients.*
4. *The contract specialist will determine from the above information if checks have been disbursed within the five day period and are clearing the bank of the sponsoring organization in a timely manner.*
5. *The contract specialist will follow up with those sponsoring organizations where any untimely payments were noted and require a corrective action plan from the agency.*

Contact: *Richard Jones, Manager, CACFP, 624-7927*

CHILD AND ADULT CARE FOOD PROGRAM

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

(07-95) ***page E-188***

(07-96) ***page E-189***

(07-97) ***page E-191***

(07-98) ***page E-192***

H-1B JOB TRAINING GRANTS

(07-17)

Title: Allowable costs requirements not followed

Prior Year Finding: No
State Department: Administrative and Financial Services
Economic and Community Development
State Bureau: Security and Employment Service Center
Office of Community Development
Federal Agency: U.S. Department of Labor
CFDA Title: H-1B Job Training Grants
CFDA #: 17.268
Federal Award #: WR-15403-06-60
HG-14985-05-60

Compliance Area: Allowable costs/cost principles

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (29 CFR §97.21)

Condition:
- The Department of Economic and Community Development did not ensure that payments to vendors were based on actual costs incurred. Invoices related to contractor expenses were paid in advance of actual hours worked (related to WR-15403-06-60 only).
- The Departments did not obtain federal approval for grant budget changes in excess of 20% as required.

Context:
- Contractor invoices of $12,052 were paid in advance of actual hours worked (related to WR-15403-06-60 only).
- Budgeted expenditures exceeded actual expenditures by more than allowed per the grant agreement, without requests for budget modifications.

Cause:
- Lack of oversight
- Lack of knowledge of allowable costs

Effect:
- Potential questioned costs

Recommendation: We recommend that personnel review federal guidance related to allowable costs. We also recommend that the Departments monitor budget to actual expenditures on a regular basis and submit budget modifications to the federal government as necessary.

Management's Response/Corrective Action Plan: DAFS <u>(SESC):</u> *Management agrees with this finding.*

The Securities and Employment Service Center (SESC) developed a monitoring plan for the WIRED grant but experienced delays in the implementation. On April 1st, 2008, SESC conducted its first monitoring/technical assistance with the Department of Economic and Community Development (grant sub-recipient) regarding the WIRED grant; there were several items that were noted during this monitoring . SESC is following an agreed upon schedule so as to complete the monitoring of the pass-thru partners for the WIRED grant during the 1st and 2nd quarter of fiscal year 2009. In the future SESC, will better coordinate the tracking of management reports in conjunction with its partners. If line items need to be addressed, we will work closely with our partners to ensure that this done in a timely manner. The monitoring of the sub-recipients will allow SESC to verify that the funds are being spent according to the original budget; if money is being spent on other line items, SESC will work with the sub-recipient to get a budget modification submitted to the federal government for approval.

Contact: *Robert J. Schenberger Jr, Financial Analyst, 623-6723*

Management's Response/Corrective Action Plan: <u>DECD:</u> *Management agrees with the finding.*

Subsequent to the Maine Department of Labor (DOL) monitoring on 4/01/08, DECD has implemented procedures to insure compliance; requests for funds will include documentation from contractors for actual expenditures. DECD will work with Maine DOL to monitor line items for budget vs. actual expenditures and as a sub-grantee, submit requests through Maine DOL to federal DOL for budget modifications as necessary.

Contact: *Mike Baran, Acting Director, Office of Community Development, 624-9816*

(07-18)

Title: Reporting requirements not followed

Prior Year Finding: No
State Department: Administrative and Financial Services (DAFS)
Economic and Community Development (DECD)
State Bureau: Security and Employment Service Center
Office of Community Development

Federal Agency: U.S. Department of Labor

H-1B JOB TRAINING GRANTS

CFDA Title: H-1B Job Training Grants
CFDA #: 17.268
Federal Award #: WR-15403-06-60
HG-14985-05-60

Compliance Area: Reporting

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (29 CFR §97.41)

Condition:
- Quarterly financial and performance reports were submitted past the required reporting deadline.

Context:
- Reports were filed up to five months after the due date.

Cause:
- Inadequate controls
- Lack of oversight

Effect:
- Sanctions for excessively late reporting

Recommendation: We recommend that the Department implement internal controls to ensure timely financial and performance reporting.

Management's Response/Corrective Action Plan- *DAFS (SESC): Management agrees with this finding*

SESC has developed a plan to ensure that all reports are submitted timely. Prior to the quarterly report due date, SESC conducts an inventory of all of its outstanding quarterly reports and assigns the appropriate resources to ensure that all reports are filed in a timely manner to meet the deadlines established by our Federal partners. SESC implemented this procedure in fiscal year 2008 with the quarterly reports due 3-31-08.

Contact: *Robert J. Schenberger Jr., Financial Analyst- DAFS/SESC, 623-6723*

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

Beginning July 1, 2007, the Office of Community Development implemented a new reporting requirement of the Maine Manufacturing Extension Partnership (grant subrecipient), which included a more cohesive document with a scheduled due date of 15 days from the end of the reporting period. The Maine Manufacturing Extension Partnership began using FedEx to assure performance reports are submitted in a timely fashion. Upon receipt, the Office of Community Development forwards a copy to DOL within 15 days.

Contact: *Mike Baran, Acting Director, Office of Community Development, 624-9816*

(07-19)

Title: Federal cash management requirements not followed

Prior Year Finding: No
State Department: Economic and Community Development (DECD)
State Bureau: Office of Community Development
Federal Agency: U.S. Department of Labor
CFDA Title: H-1B Job Training Grants
CFDA #: 17.268
Federal Award #: WR-15403-06-60

Compliance Area: Cash management

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (29 CFR §97.21)

Condition:
- DECD did not have adequate procedures in place to ensure payment to sub-recipients were for immediate cash needs.

Context:
- Monthly installments are paid to sub-recipients without monitoring of their financial status.

Cause:
- Inadequate monitoring of program funds
- Inadequate monitoring of sub-recipients
- Lack of understanding of compliance regulations related to sub-recipient monitoring

Effect:

- Possibility of the federal government imposing more stringent cash management requirements on the program.

Recommendation: We recommend that personnel receive training regarding sub-recipient cash management.

Management's Response/Corrective Active Plan: *Management agrees with this finding. The department has alerted its sub-grantees that a procedure is being developed to ensure that payments will only be for immediate cash needs and will take effect with the sub-grantees' next request for funds. This new procedure will require sub-recipients to provide adequate documentation of cash needs prior to the department issuing future payments.*

Contact: *James Nimon, Director, Business Development, 624-9805*

(07-20)

Title: Suspension and debarment requirements not followed

Prior Year Finding: No
State Department: Economic and Community Development (DECD)
State Bureau: Office of Community Development
Federal Agency: U.S. Department of Labor
CFDA Title: H-1B Job Training Grants
CFDA #: 17.268
Federal Award #: WR-15403-06-60

Compliance Area: Procurement, suspension and debarment

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Governmentwide Debarment and Suspension (29 CFR §98)

Condition:

- The Department did not include suspension and debarment certification language in all contracts or check the Excluded Parties List System (EPLS) website to determine that the contractor was not excluded or disqualified.

Context:

- We reviewed three of five contracts. None of these contracts included suspension and debarment language nor was the EPLS website checked to determine if the contractor was excluded or disqualified.

Cause:

- Lack of staff knowledge

Effect:

- The State may contract with vendors that are suspended or debarred.

Recommendation: We recommend that control procedures be put in place to ensure that suspension and debarment language is included or that the Excluded Parties List System (EPLS) website is checked in all contract agreements greater than $25,000.

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

Subsequent to the Maine DOL monitoring on 4/01/08, DECD is in the process of amending all current contracts and grant agreements to include suspension and debarment language, as well as all certifications required by Maine DOL and federal DOL. Future contracts will have this language included in the Rider(s) boilerplate language. Existing contracts are being amended/signed now and will be entered into the AdvantageME system prior to 7/01/08. All new contracts and grants for FY2009 will have the language included.

Contact: *James Nimon, Director, Business Development, 624-9805*

(07-21)

Title: Subrecipient monitoring requirements not met

Prior Year Finding: No
State Department: Economic and Community Development (DECD)
State Bureau: Office of Community Development
Federal Agency: U.S. Department of Labor
CFDA Title: H-1B Job Training Grants
CFDA #: 17.268
Federal Award #: HG-14985-05-60

Compliance Area: Subrecipient monitoring

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

H-1B JOB TRAINING GRANTS

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (29 CFR §97.26)

Condition:

- The Department did not seek nor receive the annual A-133 audit report from a subrecipient that expended more than $500,000 in federal funds.

Context:

- The High Growth grant had only one subrecipient.

Cause:

- Lack of understanding of compliance requirements

Effect:

- No knowledge of subrecipients audit results

Recommendation: We recommend that the Department gain an understanding of all applicable federal grant requirements.

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

We were in error in not requesting the audit report in a timely manner. We have since received a copy of the report for our files. Management has reviewed the report and intends to follow up on any concerns (there were no findings related to this grant).

Contact: *Mike Baran, Acting Director, Office of Community Development, 624-9816*

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

(07-93) ***page E-185***

(07-96) ***page E-189***

(07-97) ***page E-191***

(07-98) ***page E-192***

(07-22)

Title: Unallowable bond service fees charged

Prior Year Finding: 06-19
State Department: Transportation
State Bureau: Finance and Administration
Federal Agency: U.S. Department of Transportation
CFDA Title: Highway Planning and Construction
CFDA #: 20.205
Federal Award #: PIN# 7965.61

Compliance Area: Allowable costs/cost principles

Type of Finding: Compliance

Known Questioned Costs: $48,395

Likely Questioned Costs: $48,395

Criteria: Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

Condition:

- Service fees totaling $48,395 were paid to the lender during fiscal year 2007 for services relating to Grant Anticipation Revenue Vehicles (GARVEE) bonds issued to finance the Waldo – Hancock Bridge project. These service fees are not an allowable cost of this program.

Context:

- This situation is unique to GARVEE bonds.

Cause:

- Lack of understanding of program regulations.

Effect:

- Program funds were used for unallowable costs.

Recommendation: We recommend that the Department follow through with their plan to repay the funds.

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

The Department has made the adjustments to repay Federal Highway Administration for the prior reimbursement claims, and will adjust our future commitments so that these fees will be expensed from the Highway Fund for the remainder of the GARVEE Debt Service Agreement.

The adjustment was made in August 2007 to charge the fees to the Highway Fund portion of the project. The following week's federal billing was reduced by the appropriate amount.

Contact: *Karen Doyle, Director, Capital Resource Management, 624-3202*

(07-23)

Title: Davis-Bacon requirements not followed

Prior Year Finding: 06-20
State Department: Transportation
State Bureau: Project Development
Federal Agency: U.S. Department of Transportation
CFDA Title: Highway Planning and Construction
CFDA #: 20.205
Federal Award #: Various (54 Project Identification Numbers)

Compliance Area: Davis-Bacon Act

Type of Finding: Internal control and compliance

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)

Condition:

- Resident engineers did not obtain all of the certified payrolls required by the Davis-Bacon Act. This occurred in 13 of 60 files reviewed.
- The Department did not conduct all of the required payroll interviews. Fifty-four of the 60 files reviewed contained at least some issue with the payroll interview process.
- The procedures used to ensure that the contractors are properly classifying and compensating their employees are not being systematically applied.

Context:

- The Department does not have an adequate system to ensure compliance with their own record keeping and proactive enforcement responsibilities even though the Department has a significant portion of their contract expenditures subjected to Davis-Bacon wage rate requirements.

Cause:

- The Department has not taken the steps needed to ensure compliance with the administrative requirements of the Davis-Bacon Act.

Effect:

- Possible federal sanctions for non-compliance with the Davis-Bacon Act.

Recommendation: We recommend that the Department implement a system of controls to ensure that all required wage rate activities are being performed in accordance with the Davis - Bacon Act.

Management's Response/Corrective Action Plan: *The Department of Transportation agrees that there is an administrative finding with Davis-Bacon compliance, but notes that there is no evidence that anyone was paid inappropriately.*

The Department is currently reviewing proposals for a new information system that will assist with documentation of Davis-Bacon compliance. This system will require 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. We hope to have the system available to pilot before the end of this construction season and then be fully functional by the end of the 2009 construction season. The Maine Division Office of the Federal Highway Administration has recently praised MaineDOT for the improvements staff have made in regards to interviews. We will continue to educate staff on the importance of Davis-Bacon compliance.

Contact: *Ken Sweeney, Director, Bureau of Project Development, 624-3400*

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

(07-96) ***page E-189***

(07-97) ***page E-191***

(07-98) ***page E-192***

PERFORMANCE PARTNERSHIP GRANTS

(07-24)

Title: Payroll certifications not prepared in accordance with applicable cost principles.

Prior Year Finding: No
State Department: Environmental Protection (DEP)
Agriculture
State Bureau: Bureau of Land and Water Quality
Bureau of Remediation and Waste Management
Bureau of Air Quality
Maine Board of Pesticide Control
Federal Agency: U.S. Environmental Protection Agency (EPA)
CFDA Title: Performance Partnership Grants
CFDA #: 66.605
Federal Award #: BG99182900; BG99182901; BG99182902

Compliance Area: Allowable costs/cost principles

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87)

Condition:

- DEP did not prepare payroll certifications in accordance with applicable cost principles.
- Department of Agriculture did not obtain the required payroll certification for applicable employees.

Context:

- Fourteen of twenty-five DEP employees tested were required to submit semi-annual certifications. Of those fourteen, one employee was certified to the wrong program for the January 2007 to June 2007 certification period. Additionally, certifications were completed for six employees who worked on multiple programs.
- No payroll certifications were obtained for Department of Agriculture employees working solely on this grant.

Cause:

- Misinterpretation of cost principles
- Staff turnover

Effect:
- Unallowable payroll costs may be charged to the program resulting in future questioned costs.
- Questionable reliability of certification

Recommendation: We recommend that the Department improve internal control procedures to ensure that semi-annual certifications are prepared in accordance with the applicable cost principles.

Management's Response/Corrective Action Plan: *The Department of Agriculture agrees and has made the necessary changes to address this finding.*

As of June 1, 2008, employees were notified that they are required to complete the projects/task portion of their timesheet in the Maine State Time Attendance Management System (MSTAMS) each pay period. The detail of each time sheet will be the certification required by OMB Circular A-87.

Contact: *Edwin R. Porter, Deputy Commissioner, Department of Agriculture, 287-3871*

The Department of Environmental Protection agrees and has made the necessary changes to address this finding.

As of June 1, 2008, staff was notified of the finding and certification will be properly reflected for compliance with the OMB Circular A-87.

Contact: *Rose Jean, Financial Analyst, NRSC, 287-7797*

(07-25)

Title: Suspension and debarment requirements not followed

Prior Year Finding: No
State Department: Environmental Protection
State Bureau: Bureau of Land and Water Quality
Bureau of Remediation and Waste Management
Bureau of Air Quality
Federal Agency: U.S. Environmental Protection Agency (EPA)
CFDA Title: Performance Partnership Grants
CFDA #: 66.605
Federal Award #: BG99182900; BG99182901; BG99182902

Compliance Area: Procurement, suspension and debarment

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Governmentwide Debarment and Suspension (Nonprocurement) (40 CFR §32)

Condition:

- The Department did not ensure that payments were not made to parties who had been suspended or debarred.

Context:

- Two of the nineteen subrecipient contracts tested did not include suspension and debarment certifications.
- All three of the vendor contracts tested did not include suspension and debarment certifications.
- None of these contract files contained evidence that the Excluded Parties List System (EPLS) website was checked to determine if these contractors were excluded or disqualified.

Cause:

- Lack of oversight

Effect:

- Potential payments to suspended or debarred parties, resulting in questioned costs.

Recommendation: We recommend that the Department implement internal controls to ensure all contracts include suspension and debarment certifications.

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

D.E.P. fully recognizes the importance of complying with the federal suspension and debarment requirements applicable to grants from the U.S. Environmental Protection Agency (40 CFR 31.35), that are identified for evaluation in Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. D.E.P. will take immediate action to issue guidance to all affected staff to ensure that going forward incorporation of what is known as Rider D becomes routine in all contracts. Additionally, D.E.P. will identify multi-year contracts and take measures to review the EPLS website to ensure the contractor is not listed as excluded or disqualified. Documentation supporting this review will be kept on file.

Contact: *Jim Dusch, Director, Policy Services, 287-8662*

PERFORMANCE PARTNERSHIP GRANTS

(07-26)

Title: Subrecipient monitoring requirements not met

Prior Year Finding: No
State Department: Environmental Protection
State Bureau: Land and Water Quality
Federal Agency: U.S. Environmental Protection Agency (EPA)
CFDA Title: Performance Partnership Grants
CFDA #: 66.605
Federal Award #: BG99182900; BG99182901; BG99182902

Compliance Area: Subrecipient monitoring

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (40 CFR §31.26); Audits of States, Local Governments and Non-Profit Organizations (OMB Circular A-133, Subpart D _____.400(d)(1))

Condition:
- The Department did not communicate all required grant award information to the subrecipient.
- The Department did not perform procedures to ensure that all subrecipients requiring an A-133 audit obtained one in a timely manner.

Context:
- We tested 17 of 63 subrecipients. None of the 17 subrecipients were provided with the award number, award year, or name of the federal agency.
- The Department did not ascertain if any of the 17 subrecipients were required to obtain an A-133 audit.

Cause:
- Unfamiliarity with requirements
- Failure to follow procedures

Effect:
- Potential subrecipient non-compliance with program requirements.

Recommendation: We recommend that subrecipient contracts include all required grant award information. We also recommend that the Department follow procedures to determine which subrecipients were required to receive A-133 audits and ensure that the audit reports are reviewed and management decisions are made within six months after receiving the reports.

Management's Response/Corrective Action Plan: *D.E.P. concurs with the need to fully comply with applicable grant information (40 CFR §31.20) and sub-grantee audit (40 CFR §31.26) requirements. Going forward D.E.P. will distribute necessary guidance regarding these requirements to all programs passing money to sub-recipients, and ensure that the employees directly responsible for implementation have execution of the requirements included as part of their annual work plans. The need for A-133 audits will be determined as a result of what will be a scheduled annual inquiry to active sub-recipients.*

To correct any 40 CFR §31.20 issues with currently open sub-recipient arrangements, D.E.P. will take immediate action to issue letters providing each with the required information and insert a copy of the correspondence in each project file.

Contact: *Cathy Levesque, Resource Administrator, 287-7835*

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

(07-96) ***page E-189***

(07-97) ***page E-191***

(07-98) ***page E-192***

(07-27)

Title: Subrecipient cash management requirements not followed

Prior Year Finding: 06-23
State Department: Education (MDOE)
Administrative and Financial Services (DAFS)
State Bureau: Support Systems Team - Finance
Division of Financial and Personnel Services
Federal Agency: U.S. Department of Education
CFDA Title: Title I Grants to Local Educational Agencies, Special Education Cluster
CFDA #: 84.010, 84.027, 84.173
Federal Award #: S010A060019A, H027A060109A

Compliance Area: Cash management

Type of Finding: Internal control and compliance

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)

Condition:
- The Department did not advance grant funds to subrecipients in compliance with federal regulations.
- The Department did not adequately monitor subrecipient cash balances.

Context: The reports utilized by the Department to monitor subrecipient cash balances contained the following errors:
- Two subrecipients were improperly identified as having excess cash.
- Four subrecipients having excess cash on hand were not properly identified. Two of the four inappropriately received their next scheduled payment. The other two subrecipients did not receive a payment since they were not scheduled. However, controls were not in place to ensure that scheduled payments were withheld.
- Three subrecipients had their excess cash balances reported inaccurately.

Cause:
- Staff turnover

Effect:
- Noncompliance with federal cash management requirements.

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

Management's Response/Corrective Action Plan: *The Department of Education and its Service Center within the Department of Administrative and Financial Services agrees with this finding.*

During FY2008, the new Department of Education Maine Education Data Management System (MEDMS) was scheduled to be implemented which should have allowed the Department of Education and Department of Administrative and Financial Services to gain electronic access to school system records that would allow close monitoring of actual cash to ensure school systems comply with cash management requirements and ensure that the cash drawn is within the allowable time period. The MEDMS system is not scheduled to be implemented until FY09.

Effective July 1, 2008, the Service Center will implement processes to address reporting issues and ensure that a list of all sub-recipients that are on cash management hold for non-reporting and excess cash are sent weekly to all program and account managers. Cash management reports will be handled centrally by one staff member who will ensure that records are updated and hold any invoices that should not be processed.

The staff responsible for these tasks from the Service Center and the Department of Education will meet quarterly to monitor the corrective action plan.

Contact: *David Stockford, Policy Director, Special Services, Education, 624-6650*
Loretta Baker, Accountant, Financial & Personnel Services, DAFS, 624-6827

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

(07-89) ***page E-178***

(07-90) ***page E-179***

(07-96) ***page E-189***

(07-97) ***page E-191***

(07-98) ***page E-192***

(07-28)

Title: Subrecipient maintenance of effort requirements not monitored

Prior Year Finding: 06-25
State Department: Education (MDOE)
State Bureau: Division of Special Services
Federal Agency: U.S. Department of Education
CFDA Title: Special Education Cluster
CFDA #: 84.027, 84.173
Federal Award #: H027A060109A

Compliance Area: Subrecipient monitoring

Type of Finding: Internal control and compliance

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: Assistance to States for the Education of Children with Disabilities (34 CFR §300.231)

Condition:

- The Department did not verify amounts reported by local educational agencies (LEA) used to support compliance with federal maintenance of effort requirements. MDOE is required to perform a pre-award comparison of each LEAs budgeted expenditures for the current grant year with their actual expenditures of the prior grant year to ensure compliance with maintenance of effort requirements.

Context:

- Although the required comparison of prior period actual to current budget was performed, none of the amounts reported by the LEAs were verified.

Cause:

- Lack of procedures

Effect:

- Noncompliance with LEA monitoring requirements
- Potential questioned costs resulting from incorrect LEA allocations

Recommendation: We recommend that the Department implement controls, such as performing a comparison of the amounts reported by each LEA on the application to the actual amounts reported on the audited EF-S-02 and EF-S-07, to ensure compliance with maintenance of effort requirements.

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

The State auditors found inadequate internal controls for Maintenance of Effort requirements. The issue was not that we failed to review Maintenance of Effort requirements, but that a verification of accuracy of the figures provided by the local school administrative units (or LEAs) was not being done. This was completed in December, 2007.

The question of Maintenance of Effort is part of our local entitlement application for federal funding and since the application is an electronic process completed over the web, we now download the actual data from State forms, EF-S-02 and EF-S-07, into the application when it becomes available, thus eliminating the chance of error on reporting actual cost when manually entered by the school units. The school unit has to enter budgeted amounts. The application for federal funds is not approved until the Maintenance of Effort question is satisfactorily addressed by the school units.

Because the close of the school year is June 30, the final expenditures for special education by the school units are not due at the Maine Department of Education until July 15. Our local entitlement application for federal funds is mailed to the school units around July 15 so figures for actual expenditures for special education are not available by the State to download into the application until later. Many applications are not in at this point. This process was completed this year and seems to be working fine.

Because the Commissioner of Education has to present to the State Board the figures for supporting education funding by January 1, the actual approval of previous year's expenditures is not completed until November/December.

We will continue to download the information to verify actual expenditures by the end of December. Our accountant will have completed review of all special education expenditures and provided a copy of those figures to our contractor who will then download everything into the school unit's individual local entitlement application with an accompanying email notifying them of this. This had not been done in the past resulting in a continuance of this audit finding. Once this is completed, we will run the list against the figures provided by the school units to verify the accuracy of the figures provided. We will follow up with those units where discrepancies exist and make corrections based on the actual figures submitted on the State forms EF-S-02 and EF-S-07. If the figures provided on the State forms are inaccurate, then those will be corrected.

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

SPECIAL EDUCATION CLUSTER

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

(07-27) ***page E-64***

(07-89) ***page E-178***

(07-90) ***page E-179***

(07-96) ***page E-189***

(07-97) ***page E-191***

(07-98) ***page E-192***

REHABILITATION SERVICES –
VOCATIONAL REHABILITATION GRANTS TO STATES

(07-29)

Title: Mileage reimbursements not made in accordance with State policy and federal regulations

Prior Year Finding: No
State Department: Labor (DOL)
State Bureau: Bureau of Rehabilitation Services
Federal Agency: U.S. Department of Education
CFDA Title: Rehabilitation Services - Vocational Rehabilitation Grants to States
CFDA #: 84.126
Federal Award #: H126AA070026, H126A070085

Compliance Area: Allowable costs/cost principles

Type of Finding: Internal control and compliance

Known Questioned Costs: $1,248

Likely Questioned Costs: $22,000

Criteria: State Travel Policy, Chapter 10.20.20 and 10.50.25c; Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

Condition:

- Two employees were improperly reimbursed for the cost of commuting.

Context:

- Expense reimbursements for 17 of 66 employees who received expense reimbursements greater than $1,000 were examined.

Cause:

- Management override of State travel policy requirements

Effect:

- Possible current and future disallowances

Recommendation: We recommend that the State travel policy be followed.

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

In the first instance, management did approve a deviation from State travel policy. This deviation was an approval to be reimbursed for travel from an office nearer to the employee's *home to the office where the employee was assigned. There was not an approval for mileage from home to the office. This arrangement ended in 2008.*

The second instance involves a personnel matter and appropriate personnel action has been taken.

***Contact:** Jill Duson, Director, Rehabilitation Services, 623-7942*
Anke Siem, Rehabilitation Services Manager, 623-6722

(07-30)

Title: Client service payments not adequately monitored

Prior Year Finding: 06-26
State Department: Labor (DOL)
State Bureau: Rehabilitation Services
Federal Agency: U.S. Department of Education
CFDA Title: Rehabilitation Services - Vocational Rehabilitation Grants to States
CFDA #: 84.126
Federal Award #: H126AA070026, H126A070085

Compliance Area: Allowable costs/cost principles

Type of Finding: Internal control and compliance

Known Questioned Costs: $16,183

Likely Questioned Costs: $1,800,000

The sample of 60 payments included 20 payments amounting to $265,285 that were selected based upon auditor judgment. Likely questioned costs of $5,509 ($7,000 X federal participation rate of 78.7%) are the same as the amount for known questioned costs.

The remaining 40 payments amounting to $60,791 were selected on a random basis. Likely questioned costs of $1,827,877 ($2,322,588 X federal participation rate of 78.7%) were determined by projecting known questioned costs to the population. The population and related sample were stratified by the dollar value of individual payments.

Criteria: Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

Condition:
The Department does not have adequate segregation of duties over client service payments. Rehabilitation counselors interview applicants, determine and verify applicant eligibility, establish individualized plans for employment, authorize, initiate and approve payments,

document consideration of comparable services, and determine when applicant participation should terminate without substantive supervisory review or approval. The following issues were identified in our sample:

- 12 of 60 payments were made without adequate support (e.g. invoice, report, paid receipt)
- One of 60 payments was made for a documented unmarketable employment goal

Context: The federal share of payments for client services was $7.5 million for the fiscal year.

Cause: Inadequate segregation of duties; insufficient oversight; and lack of written procedures

Effect: Questioned costs and potential future questioned costs

Recommendation: We recommend that the Department establish internal control procedures to ensure independent approval of case service expenditures and implement computer controls that would limit the ability of a system user to initiate, authorize, and approve the payment. We further recommend that the Department periodically review the work done by the rehabilitation counselors to ensure compliance with program requirements.

Management's Response/Corrective Action Plan: *The Department of Labor disagrees with a portion of this finding.*

The agency is actively improving its internal controls including segregation of duties, increased oversight, and internal audits. Many of these changes have also involved system improvements. All processes are being adequately documented. The changes have been reviewed by the Office of the State Controller's Internal Control Unit. All the changes are expected to be complete by December 2008.

The agency disagrees with one of the 'Condition' bullet points.

> *"One of 60 payments was made for a documented unmarketable employment goal."*
>
> *No connection is offered between this bullet and any compliance area, any known or likely questioned cost, any regulatory criteria, any cause, effect or recommendation offered. This bullet is a statement of personal opinion on a matter that is outside the professional expertise of the examiner. The Bureau feels strongly that this bullet does not belong in this report at all and should be deleted.*

Contact: *Jill Duson, Director, Rehabilitation Services, 623-7942*
Anke Siem, Rehabilitation Services Manager, 623-6722

Auditor's Conclusion:
The auditor's conclusion that one payment was made for a documented unmarketable employment goal is based upon a review of the entire case file. In addition, this auditor consulted with an official of the Rehabilitation Services Administration in Washington, D.C. This official was not averse to including this matter in a finding.

Federal compliance area *B-Allowable costs/cost principles* requires that expenditure of federal funds be consistent with OMB Circular A-87. In the Basic Guidelines (Section C) of this circular it is stated that costs must be reasonable, and should not exceed that which would be incurred by a prudent person. The auditor's professional conclusion is that the amount of spending for an individual client in combination with the nature of the employment goal was not reasonable. The amount included in known and likely questioned costs is $7,000, this was the amount incurred in FY07. The cumulative spending for this client was $210,000.

The auditor's identification of the cause, effect, and recommendation is addressed in the finding.

The finding remains as stated.

(07-31)

Title: The timeliness of eligibility decisions needs to be improved

Prior Year Finding: 06-28
State Department: Labor (DOL)
State Bureau: Bureau of Rehabilitation Services
Federal Agency: U.S. Department of Education
CFDA Title: Rehabilitation Services -Vocational Rehabilitation Grants to States
CFDA #: 84.126
Federal Award #: H126AA070026, H126A070085

Compliance Area: Eligibility

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Processing Referrals and Applications (34 CFR §361.41)

Condition:
- Eligibility decisions were not completed in the required timeframe of 60 days

Context:
- In 25 out of 60 cases examined the late eligibility decisions were made between 61 and 386 days, for an average of 104 days.

Cause: Management has indicated that a shortage of personnel has made compliance difficult.

Effect: Non-compliance with federal requirements

Recommendation: We recommend that procedures be developed that will improve the timeliness of eligibility decisions.

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

In May 2006 the Bureau implemented an automated control in ORSIS to address this issue. The system now issues a warning at 45 days and requires applicant agreement to extension if the 60 day limit is exceeded.

Contact: *Jill Duson, Director, Rehabilitation Services, 623-7942*

(07-32)

Title: State and federal procurement procedures are not being followed

Prior Year Finding: No
State Department: Labor (DOL)
State Bureau: Bureau of Rehabilitation Services (BRS)
Federal Agency: U.S. Department of Education
CFDA Title: Rehabilitation Services -Vocational Rehabilitation Grants to States
CFDA #: 84.126
Federal Award #: H126AA070026, H126A070085

Compliance Area: Procurement, suspension and debarment

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements For Grants and Cooperative Agreements to State And Local Governments - Procurement (34 CFR §80.36); Government-wide Debarment and Suspension (34 CFR §85 Part 85); State of Maine, Division of Purchases Policy Manual

Conditions:
- State procurement procedures are not used
- Noncompliance with federal regulations (federal regulations require that State procurement procedures be followed)
- Seventy-five percent of contracts did not contain information required by the federal government (e.g. accessibility, affirmative action).

- There were no procedures used to determine whether vendors were suspended or debarred from selling goods or services related to federal programs.

Context:
- Payments made for goods and services paid from the General and Federal Funds were \$1.8 million and \$6.7 million respectively.

Cause:
- Lack of understanding of State procurement policies, federal suspension and debarment regulations and contract language requirements.

Effects:
- No Statewide oversight of contracts
- Potential overpayment for goods and services; the possibility of reduced competition among potential vendors
- Federal sanctions (e.g. return on money related to payments to suspended or debarred parties)

Recommendation: We recommend that the Department follow State procurement requirements, incorporate language into contracts in accordance with federal requirements and implement procedures to comply with federal suspension and debarment requirements.

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

With the help of the Security & Employment Service Center, the Bureau is working with the Bureau of Purchases to make changes to the bureaus ORSIS system and the accounting system interface to accommodate all State and federal procurement requirements. The changes have been agreed to by all parties and have been reviewed by the Office of the State Controller. The changes will be fully implemented during the next fiscal year.

Contact: *Jill Duson, Director, Rehabilitation Services, 623-7942*
SESC Contact*: Anke Siem, Rehabilitation Services Manager, 623-6722*

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

(07-96) ***page E-189***

(07-97) ***page E-191***

(07-98) ***page E-192***

(07-33)

Title: Federal cash management requirements not followed

Prior Year Finding: No
State Department: Administrative and Financial Services (DAFS)
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Immunization Grants
CFDA #: 93.268
Federal Award #: H23/CCH122558

Compliance Area: Cash management

Type of Finding: Internal control and compliance

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 minimize the time between the drawdown of funds from the federal government and their disbursement for federal program purposes.

Context:
- We tested a sample of 15 individual draws from a population of 88 draws. Two draws exceeded federal cash management requirements ranging from 25 days to 35 days.

Cause:
- Inadequate monitoring to ensure that program funds are spent within the allowable time frame

Effect:
- Possibility of the federal government imposing more stringent cash management requirements on the program

Recommendation: We recommend that the Department implement procedures to ensure that federal cash is not drawn more than seven business days in advance of actual program expenditures.

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

The failure to comply is directly attributable to the intermingling of CDC funds. When funds are drawn for specific expenditures, other expenditures often use the cash causing a rejection of the targeted expenditure. This results in cash unused for a period of time until recognition and action. The Service Center currently monitors cash twice weekly. Going forward, we will monitor more frequently as our goal is to reduce non-compliance completely.

Contact: *Matthew J. Halloran, CPA, Managing Staff Accountant, 287-5498*

(07-34)

Title: Untimely reporting requirements

Prior Year Finding: 06-36
State Department: Administrative and Financial Services (DAFS)
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Immunization Grants
CFDA #: 93.268
Federal Award #: H23/CCH122558

Compliance Area: Reporting

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local and Tribal Governments (45 CFR §92.20, .40(b) and .41)

Condition:
- Financial and performance reports were submitted past the deadline of 90 days after the close of the grant year.

Context:
- Both reports reviewed were filed between four and six months after the due date.
- Per Immunization personnel, an extension to file was submitted for one report but could not be located.

Cause:
- Inadequate controls
- Lack of oversight

Effect:

- Sanctions for excessively late reporting

Recommendation: We recommend that the Department implement internal controls to ensure timely financial reports. We also recommend that any approvals for extension to file be kept with the report.

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

The DHHS Service Center intentionally delayed submission to report outlays negotiated by the Maine Immunization Program with Federal CDC. An email from the Maine Immunization Program indicates that an extension had been granted. No written documentation can be located to substantiate approval for delayed submission by Federal CDC.

Going forward the Department will take measures to ensure staffing is adequate to complete reports timely and extension approvals from the federal government will be kept on file.

Contact: *Matthew J. Halloran, CPA, Managing Staff Accountant, 287-5498*

(07-35)

Title: Program funds expended beyond period of availability

Prior Year Finding: None
State Department: Health and Human Services (DHHS)
State Bureau: Maine Center for Disease Control and Prevention (MCDC)
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Immunization Grants
CFDA #: 93.268
Federal Award #: H23/CCH122558

Compliance Area: Period of availability of federal funds

Type of Finding: Internal control and compliance

Known Questioned Costs: $49,381

Likely Questioned Costs: $49,381

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local and Tribal Governments (45 CFR §92.23)

Condition:

- Amounts were expended outside of the program's period of availability.

Context:

- Three invoices totaling $49,381 were paid beyond the period of availability.
- Grant funds spent beyond the period of availability were reported on the Financial Status report ending 12-31-07.

Cause:

- Inadequate monitoring to ensure that program funds are spent within the allowable time frame.

Effect:

- Current and potential future questioned costs

Recommendation: We recommend that the Department establish procedures to monitor period of availability to ensure compliance with federal regulations.

Management Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding; certain expenditures reported on the FSR were paid beyond the 90 day liquidation period.*

Failure to follow established internal control procedures caused this issue. First, the Report Category was omitted from the account coding. This reduced the possibility of identifying a problem during preparation of the FSR and the review process. Second, Program approval of invoices failed to identify invoices submitted by sub-recipients that were well beyond the 90 day liquidation period. In such instances, the internal control procedures in place are to notify the Federal Grant Manager and request an exception to the liquidation period. No such requests were made.

Going forward, the established control procedures will be followed.

Contact: *Christine Zukas-Lessard, Deputy Director, MCDC, 287-5179*

(07-36)

Title: Inadequate monitoring procedures for For-Profit Providers

Prior Year Finding: 06-38
State Department: Health and Human Services (DHHS)
State Bureau: Maine Center for Disease Control and Prevention (MCDC)
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Immunization Grants
CFDA #: 93.268
Federal Award #: H23/CCH122558

IMMUNIZATION GRANTS

Compliance Area: Special tests and provisions

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local and Tribal Governments (45 CFR §92.40(a))

Condition:
- The Immunization program could not demonstrate that all monitoring procedures were completed.

Context:
- From a population of 375 providers, we reviewed 60 and found the following:
  - Four field visits did not address eligibility.
  - Two field visits did not address control and accountability of vaccine.
  - Two field visits did not address recordkeeping.

Cause:
- Lack of sufficient training on new software package, CoCASA

Effect:
- Inadequate monitoring does not ensure that providers appropriately manage vaccine inventories.

Recommendation: We recommend that the Department provide further training for the staff and public health nurses who perform site visits, emphasizing the need for documentation in all fields of the software.

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

Contracts with Public Health Nursing and two city health departments to conduct site visits are no longer in effect. Maine Immunization Program (MIP) staff began conducting all site visits in May 2008 after participating in training of the CoCASA software in April 2008.

MIP also implemented an internal review process for site visit reports at the time of submission. Internal review began with the start of staff site visits in May 2008. Any missing data fields will be tracked and collected from the site visit staff. After the missing data is collected it will be added to the site visit questionnaire in CoCASA.

***Contact:** Karen Damren, Planning and Research Associate, 287-3746*

IMMUNIZATION GRANTS

(07-37)

Title: Monitoring certification not obtained

Prior Year Finding: 06-39
State Department: Health and Human Services (DHHS)
State Bureau: Maine Center for Disease Control and Prevention (MCDC)
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Immunization Grants
CFDA #: 93.268
Federal Award #: H23/CCH122558

Compliance Area: Special tests and provisions

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local and Tribal Governments (45 CFR §92.20(b)(3))

Condition:

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

Context:

- Procedures did not exist to ensure that an annual certification was obtained by the vendor or reviewed by Immunization program personnel.

Cause:

- Standard practice requires the vendor to have an annual certification. Numerous attempts were made to obtain the certification by Immunization personnel with no response from the vendor.

Effect:

- Potential loss of vaccines due to theft, expiration or improper temperature

Recommendation: We recommend that the Department obtain the contractor's annual certification from the third party's independent certified public accountant in a timely manner.

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

The Immunization distribution process has transferred from a third-party distributor to a central distribution process managed by the federal Centers for Disease Control. The contract with the third-party vendor is no longer in effect.

Contact: *Karen Damren, Planning and Research Associate, 287-3746*

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

(07-93) ***page E-185***

(07-95) ***page E-188***

(07-96) ***page E-189***

(07-97) ***page E-191***

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CDC AND PREVENTION- INVESTIGATIONS AND TECHNICAL ASSISTANCE

(07-38)

Title: Payroll costs not adequately supported

Prior Year Finding: 06-40
State Department: Health and Human Services (DHHS)
State Bureau: Maine Center For Disease Control (MCDC)
Federal Agency: U.S. Center for Disease Control
CFDA Title: CDC Prevention, Investigation & Technical Assistance
CFDA #: 93.283
Federal Award #: CCU116972-07, CCU122057-05, CCU122825-03-07, U38EH000185-03, CCU123809-02

Compliance Area: Allowable costs/cost principles

Type of Finding: Internal control and compliance

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

Condition:
- The Department did not obtain periodic certifications for employees who worked solely on this program.
- The Department did not perform quarterly reconciliations of budget to actual time for employees who worked on multiple programs.

Context:
- Approximately 20 percent of grant expenditures were for payroll.

Cause:
- Delays in implementing corrective action in response to a prior year finding.

Effect:
- Potential questioned costs

Recommendation: We recommend that the Department complete their corrective action as outlined in their response to the prior year finding.

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

The Service Center is working to identify those CDCP positions requiring re-allocation via the FY09 biennial budget. We have a list of all the people who are "split funded"; through the budget process we will link the position with the appropriate funding source. In addition, we are setting up the MSTAMS project and task function in the payroll system so that each person can click on the appropriate account for the appropriate timeframe that certifies that they worked that amount of time for that grant. Maine CDC is working to accomplish certifications for all staff funded 100% by grant funds. The process will be complete by June 2009.

Contact: *Christine Zukas-Lessard, Deputy Director, 287-5179*

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

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(07-39)

Title: Excessive computer costs charged

Prior Year Finding: No
State Department: Administrative and Financial Services (DAFS)
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Temporary Assistance for Needy Families (TANF)
CFDA #: 93.558
Federal Award #: ME TANF07

Compliance Area: Allowable costs/cost principles

Type of Finding: Internal control and compliance

Known Questioned Costs: $303,000

Likely Questioned Costs: $303,000

Criteria: Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

Condition:

- Computer costs charged entirely to the TANF program should have been allocated to TANF, Medicaid and Food Stamps.

Context:

- $313,000 was charged to TANF. Based on caseloads for that period, TANF should have been charged $10,000.

Cause:

- There was a misunderstanding of the funding source and applicable requirements related to this invoice.

Effect:

- Questioned costs for charges that should have been allocated to other programs

Recommendation: We recommend that the Department charge only the allocable share of expenditures to the program.

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

The use of TANF program funds for the purchase of computer costs occurs infrequently. In the future, formal procedures will be followed that appropriately allocate purchases when expenses should be allocated to multiple programs. The Department will calculate the amount that should *have been charged to TANF and return the overpayment to the federal government by December 31, 2008.*

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

(07-40)

Title: Report revisions not filed

Prior Year Finding: No
State Department: Administrative and Financial Services (DAFS)
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services (USDHHS)
CFDA Title: Temporary Assistance for Needy Families (TANF)
CFDA #: 93.558
Federal Award #: ME TANF03, ME TANF04,
ME TANF05, ME TANF06, ME TANF07

Compliance Area: Reporting

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Data Collection and Reporting Requirements (45 CFR §265)

Condition:
- TANF financial reports (ACF-196) going as far back as federal fiscal year 2003 contain significant errors. The Department is aware of these errors and has not yet submitted revised reports.

Context:
- Material errors were noted in the federal fiscal year 2005 report.

Cause:
- The Department made the decision not to revise these expenditure reports until they were aware of all errors that required amending.

Effect:
- The Department did not have an accurate portrayal of the financial position of the TANF grant. Programmatic decisions were made based on inaccurate data.
- The Department cannot reconcile federal draws to grant expenditures until these reports have been revised and reconciled to the State's accounting records.

Recommendation: We recommend that the Department ensure that all future report revisions are submitted timely. We further recommend that the Department continue to give priority to review and revise the federal fiscal year 2003 – 2007 financial reports as necessary and submit these revised reports to the USDHHS upon completion.

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

The reconciliation and revision process, which began in January 2008, is almost completed. The projected completion date for the revised TANF (ACF-196) report is September 2008. In addition, revisions will be made timely to TANF (ACF-196) reports to reflect any future adjustments. During fiscal years 2007 and 2008, the internal controls for reviewing the federal financial status report were strengthened. A checklist was created and implemented for both the preparer and the reviewer to use as tools for a thorough review of the federal report. Additional resources available to the Service Center will enable timely report revisions and adjustments.

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

(07-41)

Title: Excessive benefits paid to TANF clients

Prior Year Finding: No
State Department: Health and Human Services (DHHS)
State Bureau: Office of Integrated Access and Support
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Temporary Assistance for Needy Families (TANF)
CFDA #: 93.558
Federal Award #: ME TANF07

Compliance Area: Activities allowed or unallowed

Type of Finding: Internal control and compliance

Known Questioned Costs: $729

Likely Questioned Costs: Undeterminable

Criteria: Code of Maine Rules, 10-144 Chapter 331, Chapter V

Condition:

- When TANF clients become employed and no longer qualify for TANF cash benefits, they may qualify for Transitional Transportation (TT) benefits to help with transportation costs. The Department paid clients both cash benefits and TT benefits for the same period.

Context:

- In one of 25 clients reviewed a TANF cash benefit payment was made to a client at the same time that a transitional transportation payment was made. Additional testing was performed.
- Through additional testing of 40 transitional clients, it was determined that two of those clients received TANF cash benefits and transitional transportation benefits at the same time.

Cause:

- When a client is receiving transitional transportation benefits, then becomes eligible again to receive TANF cash benefits, the Department is not ensuring that their transitional payments are cut-off timely.

Effect:

- Overpayments to clients resulting in questioned costs

Recommendation: We recommend that the Department take measures to ensure that when TANF clients become eligible for TANF cash benefits while in the process of receiving transitional transportation benefits, the assigned caseworker takes appropriate action to cut-off transitional transportation benefits at the eligibility redetermination date.

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

The ACES system ends Transitional Transportation (TT) benefits when a TANF applicant is granted TANF. MIS staff verified this ACES logic on 6/11/08.

However, when TANF benefits are not granted on the same day a family applies and the TANF family is granted retroactive TANF benefits in a month when TT was provided, there may be an overlap of TANF and TT benefits. To prevent this situation from occurring, the Office of Integrated Access and Support will remind staff, through an Operating Memorandum, to end-date TT of the TANF application date.

The Department will review the three (3) cases identified in the audit to determine if an overpayment exists. The Operating Memorandum and the establishment of the overpayment will be completed by July 31, 2008.

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

(07-42)

Title: Eligibility determinations not adequately supported

Prior Year Finding: No
State Department: Health and Human Services (DHHS)
State Bureau: Office of Integrated Access and Support
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Temporary Assistance for Needy Families (TANF)
CFDA #: 93.558
Federal Award #: ME TANF07

Compliance Area: Eligibility

Type of Finding: Internal control

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 42 USC 608(a)(8), 42 USC 608(a)(9)(A)

Condition:
- The Department is not consistently documenting that all clients are eligible to receive TANF benefits.

Context:
- The Department ensures 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*" by including a signed statement in the TANF application. In four of 25 cases reviewed, documentation supporting this statement was not maintained in the case file.
- The Department ensures that TANF benefits are not provided to "*any individual who is fleeing to avoid prosecution, or custody or confinement after conviction, for a felony or attempt to commit a felony, or who is violating a condition of probation or parole imposed under Federal or State law*" by including a signed statement in the TANF application. In two of 25 cases reviewed, documentation supporting this statement was not maintained in the 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 all statements required by the eligibility requirements.
- Procedures were not followed.

Effect:
- Possible non-compliance with eligibility requirements
- Potential questioned costs resulting from ineligible clients

Recommendation: We recommend that the Department ensure that all clients are eligible for benefits before approving the application. We further recommend that proper documentation is maintained in the case files to support this eligibility determination.

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

The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, at section 408, requires:
- *"Denial of assistance for 10 years to a person found to have fraudulently misrepresented residence in order to obtain assistance in 2 or more states", and*
- *"Denial of assistance for fugitive felons and probation and parole violators."*

The federal government has approved ACES as the official client case record. The ACES rules engine is designed to deny assistance when the situations described above occur. Furthermore, applicants sign a statement under penalty of perjury that the information they provided during their ACES interactive interview is correct to the best of their knowledge.

To further ensure the accuracy of applications granted, the names of applicants are matched with TANF applications nationwide through the PARIS and e-DRS systems.

The Office of Integrated Access and Support will remind staff to file the appropriate "penalty or perjury" statement in the client's paper case file through issuance of an Operating Memorandum and discussion at a statewide Supervisors meeting this summer. This action will be completed by July 31, 2008.

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

(07-43)

Title: Inaccurate performance reports

Prior Year Finding: 06-44
State Department: Health and Human Services (DHHS)
State Bureau: Office of Integrated Access and Support
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Temporary Assistance for Needy Families
CFDA #: 93.558
Federal Award #: ME TANF07

Compliance Area: Reporting

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Data Collection and Reporting Requirements (45 CFR §265)

Condition:
- The Department did not ensure accurate reporting on the ACF-199 and ACF-209 quarterly reports, resulting in submission of inaccurate data.
- A series of discrepancy reports provided by the U.S. Department of Health and Human Services indicated potential errors in required performance data.

Context:
- Auditor reviewed the quarter ending June 30, 2007 discrepancy report. There were numerous potential errors which include: Client employment hours with no indication of earned income; clients reported as employed with no recorded work hours; and client sanction with no reported justification.

Cause:
- There were problems with system codes and classification of data in the Automated Client Eligibility System (ACES).
- The data discrepancies resulted from a combination of input and processing errors.

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

Recommendation: We recommend that the Department ensure the accuracy of performance reports prior to submission.

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

The June 2007 ACF Discrepancy Report contained discrepancies that did not accurately reflect program data contained in the Automated Client Eligibility System (ACES) A corrected report for federal fiscal year 2007, which includes June 2007, was resubmitted in April 2008 in compliance with an April 30, 2008 deadline which ACF extended to all states. In addition, the Department continues to focus efforts on staff training and support to minimize errors.

The ACF Discrepancy Report flags potentially problematic data for the State to analyze, and if necessary, correct. These discrepancies are not necessarily errors. Upon review of the report, a significant number of the possible discrepancies were determined to be accurate client circumstances not errors. Discrepancies that were found to be errors were not necessarily due to the integrity of ACES but rather were the result of data extract issues and/or worker errors:

- *Failure to write a query that was able to extract the accurate data contained in ACES. Over the past year, the Department has made significant progress toward improving the query. OIAS and OIT staff have been in contact with Patrick Brannan, Technology Consultant to ACF, who has provided guidance and feedback to creating ACF-199 and 209 reports that appropriately extract data from ACES. All potential discrepancies related to the ability to extract the correct data from ACES have been successfully addressed.*

The Department continues to focus its attention on staff training and support. The Department's plan for reducing worker errors to an acceptable level and to ensure the accuracy of its performance reports is to:

- *Write clarifying and or instructional Operating Memorandums that outline appropriate data input procedures.*
    1. *May 14, 2008: Statewide Supervisors meeting. Provided training on entering Earned Income and Self-Employment income on ACES. Provided the training materials to all Eligibility and ASPIRE Supervisors for their use in the training of their Unit Staff in regional offices.*
    2. *June 18, 2008: Statewide Supervisors meeting. Provided training on how to verify and record verification of Work Participation Hour, how to enter verified data to correct past client records, how to enter date for current and on-going client records, and how the ASPIRE Activity Input Screen works in ACES. Provided the training materials to all Eligibility and ASPIRE Supervisors for their use in the training of their Unit Staff in regional offices.*
- *Distribute Discrepancy Reports – Creating weekly queries identifying worker errors/omissions that create data errors. This information is sent to the Regions; a timeframe is given for corrections.*
    1. *Reports have been distributed weekly since April 2008; this practice will continue as long as the discrepancies exist.*
- *Hold weekly telephone conference meetings with Regional management to update progress, discuss errors, and provide guidance in making timely corrections.*
    1. *Telephone conferences have been held weekly at 8 AM on Thursdays since May 29, 2008. These conference calls will continue as long as needed.*
- *Monitor Corrective Action Plans – the OIAS Deputy Director has a corrective action plan from each Regional Program Administrator to demonstrate how they plan to correct the issues with staff and ensure that accurate data is entered.*
- *Conduct Staff Training – Provided at monthly supervisors' meetings.*
- *Conduct weekly meetings of TANF and ASPIRE Program Managers, ACF Business Analyst and ACES Programmer to review, analyze and update a correction plan for errors. This has been in place since before June 2007.*
    1. *Meetings are held weekly on Mondays from 9 AM to noon.*
- *The position of Management Analyst II has been assigned the task of ensuring the submission of an accurate ACF Report.*

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

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

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

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(07-44)

Title: Payroll certifications not obtained

Prior Year Finding: No
State Department: Administrative and Financial Services (DAFS)
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 #: 0704ME4004

Compliance Area: Allowable costs/cost principles

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

Condition:
- Those employees who worked exclusively on the Child Support Enforcement program did not adequately support their wages with a periodic certification.

Context:
- Four of the 40 employees we reviewed did not certify that they worked exclusively on the program at least semi-annually during fiscal year 2007.

Cause:
- Inadequate procedures

Effect:
- Noncompliance with allowable costs requirements

Recommendation: We recommend that the Department implement adequate procedures to ensure periodic certification requirements are met.

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

The Department utilizes the Maine State Time and Attendance Management System (MS-TAMS) project/task functionality to ensure periodic certification requirements are met. Due to workloads, however, periodic review was not performed as frequently as desired. Effective July 1, 2008, the Service Center will assign this task to a newly-created Senior Staff Accountant *position. As a result of this finding, the Department has modified the confirmation process in the Division of Support Enforcement and Recovery office (DSER). Going forward, DSER timesheet reviewers in the Office of Integrated Access and Support will confirm that all DSER timesheets (theirs or those that they approve) are activated in the MS-TAMS system.*

Contact: *Mark Toulouse, Deputy Director, HHS Service Center, 287-1869*

(07-45)

Title: Child Support Enforcement grant overdrawn

Prior Year Finding: No
State Department: Administrative and Financial Services (DAFS)
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 #: 0704ME4004

Compliance Area: Cash management

Type of Finding: Internal control and compliance

Known Questioned Costs: $1,888,000

Likely Questioned Costs: $1,888,000
Federal cash draws plus federal share of collections minus federal share of expenditures equals excessive draw amount (or known questioned cost)

Criteria: Rules and Procedures for Efficient Federal-State Funds Transfers (31 CFR §205)

Condition:

- The Child Support Enforcement program drew down federal funds in excess of reported expenditures by $1,888,000.

Context:

- Multiple accounting errors ranging from $678,000 to $6,600,000 contributed to this overdraw.

Cause:

- Complex accounting procedures
- Reconciliations were not done to ensure that the proper amounts were transferred.

Effect:

- Excessive federal funds were drawn
- Noncompliance with cash management requirements
- Misstated account balances
- Possible noncompliance with federal matching requirements

Recommendation: We recommend that the Department strengthen cash management procedures to address the causes identified above. We further recommend that the Department correct program accounts accordingly.

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

Cost allocation schedule amounts were calculated and charged to the incorrect account in fiscal year 2007. As a result, quarterly journal entries for all four quarters of fiscal year 2007 contained numerous errors.

Final reconciliation for fiscal year 2007 was posted via ABSJ 10A 81CS0607C on May 28, 2008 to correct the $677,722.41 error for the fourth quarter of fiscal year 2007.

In addition, quarters ending 9/30/06 ABSJ 81CS0906C; 12/31/06 ABSJ 81CS1206C; 5/30/07 ABSJ 81CS0307C; and 10/17/07 ABSJ 81CS0607CC were completed to correct prior erroneous journals for State share of IV-A collections. These were approved on 5/27/08. The errors occurred due to misunderstanding which amounts are to be journaled using the OCSE-396 A Reconciliation Report.

An ABSJ 8107CSAUDIT for $6,626,054.99 was completed on 5/27/08 that corrected the transfer of 6,626,054.99 in revenue to cover the federal share of expenditures transferred from an incorrect account.

In July 2007, DHHS Service Center assigned a financial analyst to oversee all cash management for the Department. This person meets with the Treasurer's Office CMIA (Cash Management Improvement Act) administrator and will implement procedures to limit draws to comply with federal cash management rules. However, due to the complexity of the journals and the nature of the errors (due to changes in the cost allocation), the root causes, as noted above, were complex accounting procedures and reconciliations as well as cash management procedures. A management review process is performed to ensure the accuracy of the journals and will continue to be performed.

Contact: *Mark Fisher, Managing Staff Accountant, 287-3160*
Deanna Boynton, Senior Staff Accountant, 287-5540

CHILD SUPPORT ENFORCEMENT

(07-46)

Title: State match not monitored

Prior Year Finding: No
State Department: Administrative and Financial Services (DAFS)
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 #: 0704ME4004

Compliance Area: Matching, level of effort, earmarking

Type of Finding: Internal control

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements with State, Local and Tribal Governments (45 CFR §92.20, §92.24)

Condition:

- The Child Support Enforcement program did not monitor their expenditures to ensure that they satisfied their matching requirements.

Context:

- The program charged $583,000 of the State's share of direct administrative costs to federal rather than State funds.
- However, $668,000 in legal costs that the Department intended to be paid with federal funds was unintentionally charged to the State. As a result of these two off-setting errors, the State met their federal matching requirements.

Cause:

- Inadequate accounting procedures
- Reconciliations were not performed to ensure that the proper amounts were transferred.
- Overly complex accounting

Effect:

- Without proper monitoring, the State may not satisfy their federal matching requirements.
- Potential future questioned costs

Recommendation: We recommend that the Department implement adequate monitoring procedures to ensure that the appropriate State and federal accounts are charged and that the

State satisfies their federal matching requirements. We further recommend that the State accounts be reimbursed for excess charges of approximately $85,000.

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

In order to satisfy federal matching requirements, each quarter, a review will be completed to monitor the appropriate State and federal accounts. This new review process will begin in the last quarter of 2008.

The State accounts were reimbursed for the excess charges of $85,000 via ABSJ 10A 8108DB060, which was approved on June 3, 2008 to correct the difference between the $668,000 and $583,000 errors noted in the finding.

Contact: *Mark Fisher, Managing Staff Accountant, 287-3160*
Deanna Boynton, Senior Staff Accountant, 287-5540

(07-47)

Title: Incorrect expenditures reported

Prior Year Finding: 06-47
State Department: Administrative and Financial Services (DAFS)
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 #: 0704ME4004

Compliance Area: Reporting

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local and Tribal Governments (45 CFR §92.20)

Condition:

- OCSE-396A expenditure report was inaccurate and not completed in accordance with applicable instructions

CHILD SUPPORT ENFORCEMENT

Context:

- In the last two quarters of fiscal year 2007, the Child Support Enforcement program overreported the federal share of legal costs by $42,706 and underreported the federal share of legal costs by $470,079 respectively.
- All four quarterly reports filed in fiscal year 2007 reported certain expenditures on the incorrect line of the report.

Cause:

- Inadequate accounting procedures
- Reporting instructions not followed

Effect:

- The OCSE-396A report is the basis for the amount retained of the federal share of collections. The program understated expenditures for the year in total and therefore retained an insufficient amount of federal funds.

Recommendation: We recommend that the Department modify the reporting process to ensure that the report contains complete and accurate information.

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

The expenses are now correctly reported on line 4 and 5 of the OCSE-396 A Report for fiscal year 2008. The incorrect reporting for fiscal year 2007 was corrected as a prior year adjustment on the 12/31/07 396 A Report that was filed on 3/5/08.

In addition, the underreported amount of $470,079 and the over reported amount of legal costs in the amount of $42,706 will be corrected on the 6/30/08 quarterly OCSE-396 A Report.

The reporting process was revised to ensure the accuracy of the expenses reported. The cost allocation amounts that are now reported are no longer linked, but are manually entered onto lines 4 and 5 of the OCSE-396 A Report. There is a review process for the quarterly OCSE-396 A Report before submission. The accuracy of the entries to lines 4 and 5 of the Report will also be a part of the review process beginning in the last quarter of 2008.

Contact: *Mark Fisher, Managing Staff Accountant, 287-3160*
Deanna Boynton, Senior Staff Accountant, 287-5540

(07-48)

Title: Untimely case record establishment

Prior Year Finding: 06-48
State Department: Health and Human Services (DHHS)
State Bureau: Office of Integrated Access and Support
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Child Support Enforcement
CFDA #: 93.563
Federal Award #: 0704ME4004

Compliance Area: Special tests and provisions

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Establishment of Cases and Maintenance of Case Records (45 CFR §303.2)

Condition:
- The Child Support Enforcement program did not establish case records within 20 calendar days of receipt of referral or application.

Context:
- The program did not meet the 20-day time frame in six of the 40 cases opened during fiscal year 2007 that we reviewed.

Cause:
- Lack of staff resources

Effect:
- Failure to timely comply may adversely affect child support collections and case management

Recommendation: We recommend that the Department provide adequate resources to ensure that all case records are established within the required 20-day time frame.

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

The Division of Support Enforcement & Recovery (DSER) in the Office of Integrated Access & Support completed testing and rolled out the improved IV-A/IV-D electronic interface between the eligibility programs and child support. The interface was designed to ensure timely and *accurate case files. This rollout was delayed until mid-May 2008 due to the complexity of gathering accurate information needed to implement the timely establishment of cases. The delay created a backlog in case establishment because all necessary information had to be gathered manually.*

To clear the backlog, DSER implemented authorized overtime for support staff to ensure that Maine would remain in compliance with federal time frames for case establishment. Currently, DSER is able to get all cases opened in a timely fashion and is working on getting all cases out to the field to ensure that other federal timelines will not be adversely affected.

Contact: *Stephen Hussey, Director, Division of Support Enforcement and Recovery, 287-2844*

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

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CHILD CARE CLUSTER

(07-49)

Title: Inadequate subrecipient monitoring

Prior Year Finding: No
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: Child Care Cluster
CFDA #: 93.575, 93.596
Federal Award #: G-0701MECCDF

Compliance Area: Subrecipient monitoring

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local and Tribal Governments (44 CFR §92.37)

Condition:

- The Department did not monitor all of their subrecipients.

Context:

- The Department's policy was to conduct site reviews only for subrecipients awarded more than $500,000 in grant awards.

Cause:

- Misunderstanding of monitoring requirements

Effect:

- Monitoring was inadequate to ensure appropriate use of grant funds by all subrecipients.

Recommendation: We recommend that the Department implement a policy to require periodic site reviews of all child care providers and resource development centers.

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

A misunderstanding of monitoring requirements led to a focus of site reviews on those sub-recipients who received over $500,000 in grant award. In fiscal year 2007, 21 contracted agencies were reviewed. Four of these agencies had awards of less than $500,000.

Corrective Action: A site review plan will be developed that will include all contracted child care slots agencies – those over $500,000 and those with smaller contracts with a two year period. We are currently contracting with 38 agencies. During the next few months, we will plan to visit all programs that were not visited last year.

During fiscal 2009, Maine will be required by the federal government to implement a new error rate methodology to determine whether and to what degree improper authorization of payments from the Child Care Development Fund exist. Each year 271 cases will be sampled out of 4273. This will require continued review of all contracted slots agencies as well as the DHHS managed child care voucher program. A prescribed process that will meet this new federal requirement as well as the subrecipient monitoring requirement will be implemented and results reported to the federal government.

***Contact:** Carolyn Drugge, Director, OCFS, 624-7957*

(07-50)

Title: Period of availability of grant funds not properly monitored

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: Child Care Cluster
CFDA #: 93.575, 93.596
Federal Award #: G-0701MECCDF

Compliance Area: Period of availability of federal funds

Type of Finding: Internal control

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Availability of Funds (45 CFR §98.55)

Condition:

- The Department did not adequately identify funds returned from subrecipients within the State's accounting system to ensure compliance with period of availability requirements.

Context:

- An estimated $931,000 of fiscal year 2007 funds were encumbered in the State's accounting system as 2008 grant funds.

Cause:
- Failure to properly utilize the State's accounting system to track period of availability

Effect:
- Identity of grant funds is obscured and hinders the ability to monitor period of availability
- Compromise accountability of program finances

Recommendation: We recommend that transactions be coded in a manner that facilitates tracking of program funds.

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

The Department received an unusually large amount of returns from community providers in 2007. We deposited returned funds into the three award categories: Mandatory, Matching, and Discretionary per the contract coding. Both Mandatory and Matching funds must be obligated in the fiscal year the funds are granted; therefore, we returned funds to the federal government. However, the discretionary funds may be used in the succeeding fiscal year. We used the funds appropriately but incorrectly accounted for them by using the 2008 unit code. This did confuse the accounting for the specific awards. We have since instituted procedures to identify the correct accounting upon receipt of repayment from community providers. A reconciliation of the accounts will be completed by September 30, 2008.

Contact: *Matthew J. Halloran, CPA, Managing Staff Accountant, 287-5498*

(07-51)

Title: Inaccurate financial reporting

Prior Year Finding: 06-49
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 Care Cluster
CFDA #: 93.575, 93.596
Federal Award #: G-0701MECCDF

Compliance Area: Reporting

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local and Tribal Governments (45 CFR §92.20 (a))

Condition: The ACF-696 financial reports did not accurately reflect expenditures related to specific federal grant awards. We found the following:

- The ACF-696 report for the federal fiscal year 2007 showed that the entire grant award had been spent. However, the 2007 grant award was not fully drawn until December of 2007, indicating that unused or returned prior grant award funds were used to pay current grant expenditures.
- Accounting detail shows more expenditures than awarded and reported.
- State matching funds are calculated rather than based on actual costs. However, actual costs met the matching requirements.
- ACF-696 reports are not revised to reflect grant settlements.
- Grant awards are incorrectly reported as fully expended within one year; however, award activity may extend for three years.

Context:

- All grant funds are typically spent in the first year of the grant award after which contracts are settled and unused funds are returned to the State.

Cause:

- The Department had not designed a transaction coding scheme in the primary accounting system that will ensure that federal funds maintain their identity and that expenditures are charged against appropriate federal awards in a manner that will facilitate accurate financial reporting.

Effect:

- Compromise accountability of program finances
- Misleading and inaccurate federal financial reports

Recommendation: We recommend that transactions be coded in a manner that facilitates accurate reporting.

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

Additional staffing provided in PL 2007, Chapter 539 will allow a redistribution of work providing the lead accountant with adequate time to complete the tasks outlined in this finding as well as establish the procedures necessary to carry out these functions. Recruitment and staffing changes begin July 1, 2008 and new staff will be in place beginning in July 2008. Over half of the payments within this grant are made through the Maine Child Welfare Information System (MACWIS); This system is not programmed to use codes identifying the grant year in the State's new accounting system. We will review this issue to determine if system adjustment is feasible. We expect to reconcile past issues by the end of FY 2009.

Contact: *Charles Woodman, Deputy Director, HHS Service Center, 287-2572*

CHILD CARE CLUSTER

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

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FOSTER CARE: TITLE IV-E

(07-52)

Title: Payments made on behalf of ineligible clients

Prior Year Finding: No
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 #: 0701ME1401

Compliance Area: Eligibility

Type of Finding: Internal control and compliance

Known Questioned Costs: \$12,030

Likely Questioned Costs: \$26,000
Likely questioned costs were computed by applying the sample error rate (18.2%) to the population of FY2007 maintenance payments made on behalf of clients eighteen years and older (\$227,282). The result was then multiplied by the blended federal medical assistance percentage (63.18%).

Criteria: 42 USC §672

Condition:
- Title IV-E payments were made on behalf of ineligible clients

Context:
- From a population of 59 clients aged eighteen and older, ten were tested
- Of the ten clients, four were ineligible
- Payment adjustments were made for one of the four ineligible clients

Cause:
- Established procedures not followed
- Electronic case files not updated with eligibility data

Effect:
- Current and future potential questioned costs
- Noncompliance with federal regulations

Recommendation: We recommend that the Department implement controls to ensure procedures are followed and review all cases and update any missing information.

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

MACWIS staff is currently reviewing all clients in this defined category receiving federal funding in State fiscal 2008 to ensure appropriate use of federal funding. During 2007, changes were made in the system for Title IV-E claiming of children over the age of eighteen. MACWIS staff will review fiscal year 2008 for any similar issues. MACWIS staff will review those cases and the findings of the auditors to better understand what manual or system processes may still be needed. Once review is completed, MACWIS staff, as necessary, will investigate possible enhancements to the system to reduce these issues in the future. Review and investigation of any required system changes will be completed by January 1, 2009. We expect questioned costs to be reported to the federal government with the report for the quarter ended June 30, 2008, with the subsequent return of funds.

Contact: *Robert Blanchard, Information Services Manager, 624-7955*

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

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FOSTER CARE: TITLE IV-E
ADOPTION ASSISTANCE

(07-53)

Title: Title IV-E cost allocation plan not followed

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; Adoption Assistance (AA)
CFDA #: 93.658, 93.659
Federal Award #: G0701ME1401; G0701ME1407

Compliance Area: Allowable costs/cost principles

Type of Finding: Internal control and compliance

Known Questioned Costs: $270,345 (AA)

Likely Questioned Costs: $270,345 (AA)

Criteria: General Administration - Cost Allocation Plans (45 CFR §95.507, §95.519), Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

Condition:

- The Department implemented a recently revised Title IV-E cost allocation plan (which is awaiting approval by the federal Division of Cost Allocation). The Department is not accumulating and allocating costs correctly in accordance with this provisional plan. We found the following:
  - Certain costs were claimed in excess of allowable amounts
  - Certain allowable costs were not claimed
  - Some costs that were claimed were not in accordance with the cost allocation plan
  - Some costs were not allocated correctly, including training costs that were incorrectly allocated between the two programs

Context:

- The Department did not claim $413,319 in allowable training expenditures for the Foster Care program.
- The Department did not claim $627,439 and $68,208 in allowable regional operations expenditures for the Title IV-E Foster Care and Adoption Assistance programs respectively.
- The Department charged the Adoption Assistance program $537,907 in unallowable training charges.
- The Department incorrectly applied allocation factors to administrative costs. This resulted in Foster Care and Adoption Assistance to be undercharged by $137,036 and $199,354 respectively.

Cause:

- Lack of communication between program personnel and finance personnel
- Accounting structure for the Title IV-E programs not adequately designed
- Staff turnover
- The Title IV-E cost allocation plan is not sufficiently designed to accurately apportion all costs to these programs.

Effect:

- Costs claimed incorrectly

Recommendation: We recommend that the Department perform a detailed review of their Title IV-E accounts and then revise the cost allocation plan in order to accurately claim all federal costs.

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

We will investigate the details provided by the auditors and revise our IV-E report to include the claimable costs and remove any non-claimable costs. The cost allocation plan referenced in this finding was replaced on July 1, 2007 with a newly developed plan which is in use pending approval by the Federal Division of Cost Allocation.

Contact: *Matthew J. Halloran, CPA, Managing Staff Accountant, 287-5498*

(07-54)

Title: Federal cash management requirements not followed

Prior Year Finding: 06-51
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 Adoption Assistance
CFDA #: 93.658, 93.659
Federal Award #: 0701ME1401, 0701ME1407

Compliance Area: Cash management

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

FOSTER CARE: TITLE IV-E
ADOPTION ASSISTANCE

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

Condition:
- Time was not minimized between the drawdown of federal funds and the disbursement as was required by federal regulations.

Context:
- Both programs held excessive federal cash for all 12 months. Federal cash was held on average between 13 and 120 days.

Cause:
- Failure to reconcile reported expenditures to the accounting system
- Draws are not reconciled to reported expenditures
- Unknown beginning cash balances
- Four federal programs accounted for in one appropriation account

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

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

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

In July 2007, DHHS Service Center assigned a financial analyst to oversee all cash management for the Department. This person meets with the Treasurer's Office CMIA (Cash Management Improvement Act) administrator and will implement procedures to limit draws to comply with federal cash management rules. Additional resources will be assigned to the cash management function to implement measures for compliance with federal cash management requirements.

Our goal is to reconcile individual cash balances in the 01310A0137 account by the end of Fiscal Year 2009.

Contact: *Matthew J. Halloran, CPA, Managing Staff Accountant, 287-5498*

07-55)

Title: Inadequate matching procedures

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
Adoption Assistance
CFDA #: 93.658, 93.659
Federal Award #: 0701ME1401, 0701ME1407

Compliance Area: Matching, level of effort, earmarking

Type of Finding: Internal control

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local and Tribal Governments (45 CFR §92.24)

Condition:
- The Department does not track their IV-E expenditures to ensure that the State satisfies their matching requirements.
- The State did not satisfy their federal matching requirements in relation to administrative costs charged to the program through the IV-E cost allocation plan. State match was deficient by $130,514. However, this deficiency would have been greater had the Department charged the federal IV-E programs as the cost allocation plan intended.
- Conversely, the Department miscoded training contract expenditures in the State's accounting system. This resulted in the State unintentionally paying $446,391 in excessive State match. The program's federal expenditure reports reflected the State's required match.

Context:
- This is a systemic problem.

Cause:
- Incomplete written policies and procedures
- Failure to reconcile reported expenditures to the State's accounting system
- Staff turnover
- Complex template used to prepare financial reports
- Complex accounting structure
- The program's accounts within the accounting system do not reflect all pertinent activity

Effect:
- Potential future questioned costs
- Sources and uses of federal IV-E funds are unclear
- The Department did not draw down all Federal funds associated with reported expenditures in relation to training costs due to accounting errors and the lack of a reconciliation of reported expenditures to the accounting system and related draws.
- Without proper monitoring the State may not satisfy their federal matching requirements

Recommendation: We recommend that the Department:
- Simplify the report template for the IV-E federal expenditures
- Simplify the accounting structure for the IV-E programs
- Enter all pertinent financial data into IV-E program accounts within the accounting system
- Reconcile reported expenditures to State's accounting system and related federal cash draws.

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

We will continue to review and improve the Title IV-E template and work towards a reconciliation report to facilitate understanding of the Title IV-E report and the State accounting system New resources available to the Service Center will enable creation of the IV – E template by the end of FY 2009.

Contact: *Matthew J. Halloran, CPA, Managing Staff Accountant, 287-5498*

(07-56)

Title: Inaccurate financial reports

Prior Year Finding: 06-53
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
Adoption Assistance
CFDA #: 93.658, 93.659
Federal Award #: 0701ME1401, 0701ME1407

Compliance Area: Reporting

Type of Finding: Internal control and compliance

Known Questioned Costs: None

FOSTER CARE: TITLE IV-E
ADOPTION ASSISTANCE

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (45 CFR §92.20)

Condition:
- The Department did not prepare accurate and complete expenditure reports for the Title IV-E Foster Care and Adoption Assistance programs.

Context:
- We reviewed one of the quarterly reports submitted during fiscal year 2007.

Cause:
- Incomplete written policies and procedures regarding reporting of expenditures
- Failure to reconcile reported expenditures to the accounting system
- Staff turnover
- Complex template used to prepare federal report
- Information must be obtained from multiple sources
- Accounting system does not contain all necessary data
- Incorrect formulas in supporting schedules
- Incorrect use of factor rates used for allocating costs
- Incorrect allocation of expenditures between the two programs

Effect:
- Provides misleading financial information
- Potential loss of revenue
- Potential questioned costs

Recommendation: We recommend that the Department:
- Improve the written procedures to enable the preparation of accurate financial reports
- Enter financial data into the accounting system
- Reconcile the reports to the State's accounting system
- Simplify the report template

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree that there is some inaccurate information in Title IV-E reporting.*

We continue to review and improve both the template and the content. For instance, starting with the report for the period ended March 31, 2008 we revised the method of reporting training costs to more accurately reflect the split between Foster Care and Adoption Assistance. The template and method for the Title IV-E report is the product of collaboration between the DHHS Cost Allocation Plan consultant and U.S. DHHS Administration on Children and Families. In *addition, changes have been made resulting from reviews by the Federal DHHS OIG. We are committed to improvement in reporting.*

Matthew J. Halloran, CPA, Staff Accountant, 287-5498

(07-57)

Title: Lack of internal controls to ensure payments are not made to suspended or debarred parties

Prior Year Finding: 06-52
State Department: Health and Human Services (DHHS)
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 Adoption Assistance
CFDA #: 93.658, 93.659
Federal Award #: 0701ME1401, 0701ME1407

Compliance Area: Procurement, suspension and debarment

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Subawards to Debarred and Suspended Parties (45 CFR §92.35)

Condition:
- DHHS did not ensure that payments were not made to suspended or debarred parties.

Context:
- Twenty-nine vendors received a total of $4.7 million. Fourteen of these 29 vendors were tested and did not have the required certifications.

Cause:
- Staff turnover
- Unfamiliarity with the requirements

Effect:
- Failure to comply with these program requirements could result in payments to vendors that have been suspended or debarred by the federal government. This could result in future questioned costs.

FOSTER CARE: TITLE IV-E
ADOPTION ASSISTANCE

Recommendation: We recommend that the Department put control procedures in place to ensure that suspension and debarment language is included or that the Excluded Parties List System (EPLS) website is checked in all contract agreements greater than $25,000.

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

Adequate controls are not in place to ensure that suspension and debarment language is included or that the EPLS website is checked in all contract agreements held by OCFS greater than $25,000. A workgroup will be developed to review practices in contracts, in foster care payments and in other outside vendor agreements so that by January 1, 2009 we will be in compliance.

Contact: *Virginia Marriner, Adoption Program Specialist, 624-7931*

ADOPTION ASSISTANCE

(07-58)

Title: Unintentional changes in eligibility status

Prior Year Finding: No
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: Adoption Assistance
CFDA #: 93.659
Federal Award #: G0701ME1407

Compliance Area: Eligibility

Type of Finding: Internal control and compliance

Known Questioned Cost: None

Likely Questioned Costs: None

Criteria: Requirements Applicable to Title IV-E (45 CFR §1356)

Condition:

- The Department's automated eligibility system (MACWIS) unintentionally changed the eligibility status for certain cases. Adoption Assistance eligibility should not change once correctly established.
- The Department's automated corrections to fix funding sources related to these status changes were incorrectly calculated for some cases.

Context:

- We tested 40 cases from a population of 138 cases with automated corrections. Six cases were incorrectly adjusted. The net effect of these adjustments was an undercharge of federal funds.

Cause:

- This resulted from an automated process (data fix) to remove unnecessary data from the case files. The resulting funding adjustments contained errors.

Effect:

- Eligibility status per MACWIS may not be reliable.

Recommendation: We recommend that the agency consider the ramifications of each data fix to ensure that all data change results are appropriate and intentional.

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

MACWIS staff is currently reviewing the automatic adjustment process. As part of that process, we will create a procedure for validating the outcomes of adjustments. MACWIS staff will review fiscal year 2008 for any similar issues and investigate possible enhancements to the system to reduce these issues in the future. Review and investigation of any required system changes will be completed by January 1, 2009.

Contact: *Robert Blanchard, Social Services Manger, 624-7955*

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

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(07-59)

Title: Federal cash management requirements not followed

Prior Year Finding: 06-55
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health & Human Services
CFDA Title: Social Services Block Grant
CFDA #: 93.667
Federal Award #: ME-SOSR06, ME-SOSR07

Compliance Area: Cash management

Type of Finding: Internal control and compliance

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:
- Time was not minimized between the drawdown of federal funds and the disbursement as required by federal regulations

Context:
- Cash on hand exceeded immediate cash needs in seven of the 12 months in fiscal year 2007. Average cash on hand for these seven months ranged from 10 days - 36 days
- The cash balance at year end was $977,175

Cause:
- Staff turnover rate
- A beginning cash balance of $748,000 was not taken into consideration when drawing down federal funds

Effect:
- Possibility of the federal government imposing more stringent cash management requirements on the program

Recommendation: We recommend that the Department draw federal cash for immediate cash needs and maintain a reasonable cash balance.

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

Our goal is to continually improve our cash monitoring. In July 2007, DHHS Service Center assigned a financial analyst to oversee all cash management for the Department. This person meets with the Treasurer's Office CMIA (Cash Management Improvement Act) administrator and will implement procedures to limit draws to comply with federal cash management rules.

Contact: *Matthew J. Halloran, CPA, Managing Staff Accountant, 287-5498*

(07-60)

Title: Federal expenditure report not filed

Prior Year Finding: No
State Department: Administrative and Financial Services (DAFS)
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health & Human Services
CFDA Title: Social Services Block Grant
CFDA #: 93.667
Federal Award #: ME-SOSR06, ME-SOSR07

Compliance Area: Reporting

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments – Financial Reporting (45 CFR §92.41)

Condition:

- The Health and Human Services Service Center did not submit the federal fiscal year 2006 Financial Status Report (SF-269A).

Context:

- DAFS did not submit the SF-269A Report to the federal agency within the required 90 days. The federal fiscal year 2006 report was due December 31, 2006. As of the end of our field work date, this report had not been submitted.

Cause:

- Staff turnover.
- Federal expenditure report filing not a priority.

Effect:
- Noncompliance with federal reporting requirements.

Recommendation: We recommend that the Department submit the SF-269A Report to the federal agency on time to ensure compliance with federal reporting requirements.

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

The plan is to complete the SSBG federal reports by September 30, 2008. The DHHS Service Center has prioritized invoice payment, cash management, and federal reporting. As such, we are utilizing the addition of 10 positions in PL 2007, Chapter 539 to improve accuracy and timeliness of these various processes.

Contact: *Matthew J. Halloran, CPA, Managing Staff Accountant, 287-5498*

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

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STATE CHILDREN'S INSURANCE PROGRAM

(07-61)

Title: Budgetary controls involving payments to certified seed providers are not effective.

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: Centers for Medicare and Medicaid Services
CFDA Title: State Children's Insurance Program (SCHIP)
CFDA #: 93.767
Federal Award #: 05-0505ME5021, 05-0605ME5021

Compliance Area: Activities allowed or unallowed

Type of Finding: Internal control and compliance

Known Questioned Costs: $18,523

Likely Questioned Costs: $18,523

Criteria: Standards for Financial Management Systems (45 CFR §92.20)

Condition: The Department implemented budgetary controls to ensure that payments to "certified seed" providers are limited by the amounts "certified" by the provider as local (non federal) match. These controls are not operating effectively. We found the following:

- For payments made on behalf of SCHIP members (recipient aid categories 30 and 3P), the amount shown in the certified seed amount field in the State's claims processing system (MECMS) is incorrect or blank.
- The funding allocation process did not appropriately charge the State share (seed) account string in Oracle Financials (an intermediary accounting system between the MMIS and the State's accounting system) .
- One certified seed provider in our sample of 52 paid claims exceeded their seed budget by $6,411. Therefore, we question the federal share of $18,523 as the matching funds were not documented.
- Payments for day treatment services were not split correctly between State and federal sources resulting in approximately $8,700 in excess payments from the general fund.
- Approximately 58,000 claims or $6.7 million in corresponding federal share of claims processed by MECMS did not charge a State or seed account string. Most of these were claims by seed providers. A small portion of these also included Medicaid claims.

Context:

- Budgetary accounts for each provider are established in Oracle Financials as a budgetary control and as a means to charge the seed share to a blank account string for which there is no actual payment.
- We determined that the federal share of the claims in our sample were calculated and paid correctly.

Cause:
- Apparent errors in MECMS' program logic and/or funding allocation process.

Effect:
- The seed share of the claims should be charged against provider seed budgets. Therefore, when provider seed budgets are not charged as intended, provider budgets are not capped with the result that providers can be paid the federal share of claims even after matching funds have been depleted.
- Nonfederal match may not be met.

Recommendation: We recommend that the Department work with the MECMS developer (CNSI) to resolve the programming issues or funding allocation issues to ensure effective tracking of certified seed matching amounts.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding as it relates to SCHIP claims.*

The Department has discussed the certified seed issue with CNSI. Although they are attempting to determine the cause, it is uncertain whether the issue will be resolved during the current fiscal year. Additionally, the Department is transitioning to a Fiscal Agent to be implemented in the first quarter of calendar year 2010; the Department will ensure this issue is resolved as a part of that transition.

Contact: *Colin Lindley, Director, MaineCare Finance, 287-1855*

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

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(07-67) ***page E-132***

(07-68) ***page E-137***

(07-69) ***page E-138***

(07-91) ***page E-181***

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(07-62)

Title: Cost of Care payments not credited to federal funds

Prior Year Finding: No
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Health and Human Services Service Center
Adults with Cognitive and Physical Disability Services
Federal Agency: Centers for Medicare and Medicaid Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775, 93.777, 93.778
Federal Award #: 05-0605ME5028, 05-0705ME5028

Compliance Area: Allowable costs/cost principles

Type of Finding: Internal control and compliance

Known Questioned Costs: $146,385 (Total cost of care payments received for Waiver clients multiplied by the blended FFP rate [$231,695 x 63.18%])

Likely Questioned Costs: $146,385

Criteria: Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

Condition:

- The Department did not credit the federal government with a proportionate share of Cost of Care payments received in relation to the Home and Community Based Services Waiver program.

Context:

- Waiver recipients may be responsible for paying for a portion of their cost of care. These payments amounted to $231,695 in fiscal year 2007; all were credited to the General Fund.

Cause:

- Poor communications, differing process flow

Effect:

- The State received 100% of Waiver Cost of Care payments, approximately two thirds should have been credited to federal funds.

Recommendation: We recommend that the Department revise its coding of these payments within the State's accounting system to ensure appropriate distribution to the paying funds.

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

A workgroup has been established to further research the steps needed to correct this issue. It is expected that within the next few months a plan to address the problem will be developed and implemented by fall 2008.

Contact: *Colin Lindley, Director, MaineCare Finance, 287-1855*

(07-63)

Title: Cost of Care payments for nursing homes not credited to federal funds

Prior Year Finding: 06-67
State Department: Administrative and Financial Services (DAFS)
Health and Human Services (DHHS)
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 #: 05-0605ME5028, 05-0705ME5028

Compliance Area: Allowable costs/cost principles

Type of Finding: Internal control and compliance

Known Questioned Costs: $633
We tested a sample of 15 claims totaling $91,047, for which the related cost of care paid on behalf of the clients should have been $12,550. The net misapplied cost of care for persons with income less than the SSI limits for which a cost of care would have likely been computed was $1,002, a dollar error rate of 1.1%. We question the federal portion of $633 ($1,002 X 63.1775%)

Likely Questioned Costs: $1,200,000
$1,200,000 is the likely questioned costs projected by multiplying the total nursing home related expenditures of $174,617,634 for fiscal year 2007 by the dollar error rate (1.1%) from the sample at the blended federal financial participation share (63.18%).

Criteria: Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

Condition:
- The Maine Claims Management System (MECMS) did not consistently deduct the Cost of Care assessment from payments to nursing homes. DHHS deducted incorrect

assessments for eight of 15 nursing home clients examined. Medicaid overpaid the required Cost of Care for six clients and underpaid for two others.

Context:
- The State pays nursing home providers for services to Medicaid clients. In some cases, the amount paid by the State should be reduced by an amount the nursing home should be collecting from the client. The portion to be paid by the client is referred to as the Cost of Care.

Cause: Logic errors exist in the electronic information system. From the advent of the MECMS development phase to the present, OMS has created 35 change control forms that have noted Cost of Care issues relative to claims processing. The noted deficiencies varied from incorrect Cost of Care amounts being deducted to no Cost of Care being applied to both new and adjustment claims. System users identified the following as possible causes:
- Ineffective system edits
- Illogical programming language regarding claim pricing
- Unsound application patches
- Errors in the placement of decimals during processing
- Interface problems from the Automated Client Eligibility System (ACES) to WELFRE/MECMS resulting in information not carrying over

Effect: Although the Department states that Nursing Home payments are cost settled through the DHHS audit division, there is a risk of overpayment to providers without adequate recovery.

Recommendation: We recommend that the Department close all "open" change control forms regarding Cost of Care. We recommend correction of the logical errors in the MECMS system and recovery of overpayments previously made to providers.

Managements Response/Corrective Action Plan: *The Department of Health and Human Services disagrees with this finding.*

The Department contends that the claims were properly paid initially. However, we believe there were retroactive changes in the cost of care applied. We currently have a workgroup with providers to analyze and reconcile the cost of care going back to 2005. We also made a systematic adjustment on 1/21/08 meant to correct most MECMS deficiencies with regard to members cost of care being appropriately deducted from claims. The adjustment done on 1/21/08 includes a systemic change to the system that enables us to more accurately identify the correct cost of care. Also, the Department is manually adjusting the claims for any overpayment and will make collection attempts for the overpayments.

Contact: *Robin Chacon, Director of Claims, OMS, 287-2769*

Auditor's Conclusion: Retroactive changes and systemic adjustments posted on 1/21/2008 were to correct for prior errors in the cost of care applied.

The finding remains as stated.

(07-64)

Title: Noncompliance with Automatic Data Processing (ADP) risk analysis and system security review requirements

Prior Year Finding: 06-83
State Department: Administrative and Financial Services (DAFS)
Health and Humans Services (DHHS)
State Bureau: Office of Information Technology
DHHS - Multiple Offices
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775, 93.777, 93.778
Federal Award #: 05-0605ME5028, 05-0705ME5028,
05-0605ME5048, 05-0705ME5048

Compliance Area: Special tests and provisions

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Automatic Data Processing Equipment and Services **(**45 CFR §95.601; 45 CFR §96.621)

Condition:

- The Department has not fully complied with all of the ADP security requirements promulgated at 45 CFR §95.621(f)(2)(ii) nor have they established a comprehensive program for conducting risk analyses.

Context:

- This requirement applies to all ADP systems used by State and local governments to administer programs covered under 45 CFR Part 95, Subpart F. This includes approved State plans applicable to titles I, IV-A, IV-B, IV-D, IV-E, X, XIV, XVI(AABD), XIX, or XXI of the Social Security Act and title IV chapter 2 of the Immigration and Nationality Act. Although DHHS has not achieved full compliance with 45 CFR §95.621, they have recently taken steps to determine some of the appropriate ADP security requirements and have established written policies and procedures to address the areas of ADP security at 95.621(f)(2)(ii). However, they have not developed the full assessment tools to comply with their information system security policies and procedures.

Cause:

- Lack of personnel and resources
- Insufficient understanding or awareness of program requirements

Effect:
- Noncompliance with federally promulgated ADP system security and risk analysis requirements
- Possible suspension or denial of federal financial participation for information systems or other penalties

Recommendation: To ensure that the level of security over DHHS' ADP systems is adequate and to comply with regulations, we recommend that the Department:
- Develop a comprehensive risk management program and conduct system-specific risk analyses;
- Determine the appropriate ADP system-specific security requirements based on standards governing security of federal ADP systems and information processing; and
- Conduct a biennial ADP system security review of installations involved in the administration of DHHS programs which, at a minimum, includes an evaluation of physical and data security operating procedures and personnel practices.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and DAFS-OIT agree with this finding, and also appreciate the acknowledgement of progress made during the past fiscal year given the limited resources.*

Over the course of the next year, OIT will continue its efforts to make progress regarding the components of this finding. A reassignment of resources within OIT will allow for continued progress. The plan is divided into three phases.

1. *The first phase is to pull together all existing documentation that aligns itself with 45 CFR §95.621. Per last year's response, there are several pieces that already exist, including IRS safeguard reviews for NECSES and ACES, application security plans for several major applications (including MACWIS, EIS, etc), as well as newer OIT policies on software deployment and change management. Target completion is the end of calendar year 2008.*
2. *The second phase is to perform a GAP analysis to determine which components are still missing from the document that will allow for full compliance. Target completion is January 2009.*
3. *Finally, the most difficult phase is coming into compliance for the missing pieces. Without knowing the extent and complexity of the missing components, this is difficult to project. However, using the GAP analysis, a more comprehensive plan will be developed by the end of March 2009.*

Contact: *Jim Lopatosky, Information Technology Director, 287-1921*

MEDICAID CLUSTER

(07-65)

Title: Claims processing and information retrieval system deficient

Prior Year Finding: 06-81
State Department: Health and Human Services (DHHS)
Administrative and Financial Services (DAFS)
State Bureau: Office of MaineCare Services (OMS)
Office of Information Technology (OIT)
Federal Agency: Centers for Medicare and Medicaid Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775, 93.777, 93.778
Federal Award #: 05-0605ME5028, 05-0705ME5028,
05-0605ME5048, 05-0705ME5048

Compliance Area: Special tests and provisions

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: State Fiscal Administration (42 CFR §433.10-§433.131), Section 11300 State Medicaid Manual

Condition: DHHS has been unable to make the Maine Claims Management System (MECMS) function properly. Four of six core subsystems do not accomplish all federally required functions and objectives for Medicaid Management Information Systems (MMIS).

The Claims Processing Subsystem cannot:

- Ensure that all input submitted is processed completely
- Ensure that reimbursements to providers are rendered promptly and correctly
- Provide a prompt response to all inquiries regarding the status of any claim, and
- Identify Third Party Liability (TPL) and assure that Medicaid is the payer of last resort.

The Recipient Subsystem cannot contain and use the data necessary to support TPL recovery activities.

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
- Produce program data necessary to satisfy federal Medicaid reporting requirements, and
- Monitor third party avoidances and collections in accordance with State plan requirements.

Many requested and necessary MaineCare reports are created outside of MECMS by "workarounds" designed by the University of Southern Maine, Muskie Center, under contract with DHHS.

From July 1, 2006 through June 30, 2007, OMS staff submitted to the system developer 290 change control forms to fix claim pricing errors, permission matrix problems, and to restore the system edits that were in question, failed or simply bypassed.

Examples of specific processing problems follow:

- Some claims processed through the Fund Exception Matrix were not assigned an accounting string
- Claims were paid at the wrong federal financial participation (FFP) rate
- Inability to generate cycle summary reports denoting the dollar amounts of which funds and accounts were debited or credited for payments made to program providers
- Inability to quantify duplicate payments made to providers
- Inability to re-price Void and Adjustment claims
- Inability to perform timely hospital cost settlements due to MECMS' inability to generate detail cost data
- Failed processing system edits as well as edits set to "ignore"
- An inordinate amount of claims in edits processing failure status
- Noncompliance with the current Health Insurance Portability and Accountability Act (HIPAA) claims format

Context: Medicaid is a $2 billion federally and State-funded program. The Claims Management System is essential to its operation.

Cause: The DHHS converted to the new 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: The persistent and unresolved system problems have caused the State to procure the services of a fiscal agent to process Medicaid claims. In 2008, DHHS awarded Unisys a $179 million, seven-year, firm-fixed-price contract to provide a new MMIS to manage Maine's Medicaid program. The new MMIS is expected to go live in 2010. The State has reached agreement with the original contractor to continue to operate and to correct problems while the fiscal agent solution is put into place. Much of the MECMS development and design was not documented such that another contractor or the State could operate the system without continuing contractor involvement.

MECMS problems have severely inconvenienced Medicaid providers; they continue to incur additional expenses, while trying to be reimbursed for services rendered. System problems initially caused hundreds of thousands of provider claims to “suspend” or fail to completely process, causing providers not to be paid. To provide cash flow that would allow the providers to stay in business, the State issued “Interim Payments” that were intended to approximate normal payments. As of June 30, 2007, Interim Payments totaled approximately $526 million. Lesser amounts continue to be paid in fiscal year 2008.

Interim Payments are not associated with actual claims. As the System started to process actual claims, some providers were overpaid, as they received both types of payments. The State is now attempting to reconcile the Interim Payments to actual provider claims and to reach agreements with the affected providers as to how much is still owed to them and to recover any amount overpaid. Some of the funds advanced to providers are expected never to be recovered; the State estimated that approximately $29.7 million might not be collectable.

Throughout the audit period, the federal government required the State to report not only the actual cash recoupments but also the amount of any provider agreements as adjustments on the State’s Medicaid quarterly financial reports. The reductions of expenditures will result in reductions of the State’s future Medicaid grant award and also the amount of federal cash available to be drawn.

The State engaged an actuary to estimate its liability for Medicaid claims incurred but not paid (IBNP). At June 30, 2007, the actuarial estimate for IBNP (exclusive of hospital cost settlements) was $317.4 million. While actuarial estimates of such liabilities are not uncommon, the estimate is somewhat unusual as the actuaries included a 15% margin for adverse deviation, $41.4 million, due to the uncertainties associated with MECMS. The liability estimate was not reduced to reflect any Interim Payments due back to the State.

A federal audit questioned the ability of MECMS to correctly process claims. The federal auditors recommended that DHHS reprocess all Medicaid claims since conversion; the State’s response was to reject that recommendation and to instead rely on quality testing. CMS has not issued a decision on the recommendation.

The ability of State agency personnel to complete their work has been adversely affected. Staff has been diverted to assist with stabilization efforts. Agency personnel have had no option but to use the new system, even while it continues to be developed.

Recommendation: We recommend that the Department:

- Work with the fiscal agent to implement a new MMIS with all of the required functionalities
- Continue the stabilization efforts in place so that MECMS provides for uninterrupted service

- Limit use of open-ended contracts; ensure that all contracts contain specific deliverables and provide for adequate DHHS oversight to ensure acceptable completion
- Implement the full complement of processing system cycle edits
- Generate a claims processing technical design plan
- Fully rectify or close all processing system change control forms (identifying system errors and inadequacies) currently in "open" status
- Investigate the status of each providers unprocessed and suspended claims and determine their respective overpayment amounts, if any
- Continue the formal recovery effort, which commenced in December of 2005, to recoup overpayments paid out in interim payments
- Develop the means to generate a report of duplicate payments made to providers and recoup any overpaid amounts
- Fully resolve with the federal government the current impasse over their reprocessing of MECMS claims recommendation

Management's Response/Corrective Action Plan: *DHHS agrees that the existing Medicaid Claims Management Information System (MECMS) implemented January 25, 2005 continues to operate deficiently and without necessary functionality for Third Party Liability recoveries and Program Integrity.*

The following actions have been taken to remedy the situation:

- *In 2006, the Office of MaineCare Services was reorganized and directors were hired for key division areas: Customer Service, Claims, Communications, and TPL. Additionally, in January 2007, management analyst positions and Quality Assurance staff were added in the Claims Division, to transition analytical and QA work previously supported by Deloitte Consulting.*
- *With the cooperation of CMS, DHHS entered into an 18-month agreement with CNSI to implement nine system development initiatives to remedy major deficiencies in the current MECMS program. These initiatives include:*
    - *Interim Payment Recovery (IPR) Claims Hold – to assist in recovery of Interim Payments, implemented March 2007*
    - *J-Code Functionality – to allow OMS to comply with drug rebate requirements, implemented June 2007*
    - *Voids Functionality – to allow providers and OMS to void claims, implemented October 2007*
    - *Edits Processing Failure Initiative – to prevent claims from failing to process, resulting in "stuck" claims, implemented January 2008*
    - *Modifiers Initiative – to allow providers to bill HCPCS codes with appropriate pricing and descriptive modifiers, implemented January 2008*
    - *Co-pay and Cost of Care Initiatives – to process claims with correct consideration of co-pays and cost of care, implemented January 2008*
    - *Adjustments Functionality – to allow providers and OMS to adjust incorrectly paid claims, implemented March 2008.*
    - *Limits Initiative – to apply limits appropriately in the adjudication of claims, to be implemented end of June 2008*

- *In addition to the development initiatives, CNSI is to support operation of MECMS and correct ongoing issues through a structured Patch process. Approximately four to six patches are implemented monthly to correct smaller data or processing issues.*
- *During contract negotiations with CNSI in February 2007, OIT sent several staff members to CNSI Headquarters in Maryland to fully train sufficient resources to take over system operations if needed. DHHS is confident that state staff could take over operations of MECMS if necessary. OIT continues to work with CNSI closely to automate systems operations maintenance functions to minimize dependence on human intervention.*

Even with these development issues, it was determined in January 2007 that MECMS could not be fixed to certification specifications. The Department decided at that time to pursue a Fiscal Agent solution, which was approved March 31st by CMS. Consequently, in February 2008, DHHS signed a contract with Unisys as a Fiscal Agent. We are actively partnering with them to implement the Fiscal Agent in the first quarter of calendar year 2010.

As the functionality has improved in MECMS, the Department has taken steps to recoup duplicate and interim overpayments. As of 6/13/08, the Interim Payment Recovery Team has recovered $478.1MM (90%) of the $530.7MM interim payments issued to providers. Efforts continue to recover the remaining balance. For duplicate payments made to providers, a CNSI system fix was attempted but was unsuccessful. In April 2008, the Program Integrity Division created a report that matches duplicate claims. The information is entered manually into an Excel spreadsheet to calculate any overpayment. As a result, recoupment letters totaling $1.5MM have been sent to providers.

Contact: *Robin Chacon, Director of Claims, OMS, 287-2769*
Marc Fecteau, Assistant Director, SURS, 287-9280
Norman Curtis, Director, PCR, 287-5336

(07-66)

Title: Federal matching requirements not met

Prior Year Finding: No
State Department: Administrative and Financial Services (DAFS)
Health and Human Services (DHHS)
State Bureau: Office of Information Technology (OIT);
Health and Human Services Service Center;
Office of MaineCare Services (OMS)
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster; State Children's Insurance Program (SCHIP)
CFDA #: 93.775, 93.777, 93.778; 93.767
Federal Award #: 05-0605ME5028, 05-0705ME5028;
05-0505ME5021, 05-0605ME5021

MEDICAID CLUSTER

Compliance Area: Matching, level of effort, earmarking

Type of Finding: Internal control and compliance

Known Questioned Costs: $17 (Medicaid)
$17 is the overcharge to the federal government resulting from incorrectly applied match rates in a test of $145,855, a dollar error rate of .0117%.

Likely Questioned Costs: $149,000 (Medicaid)
$149,000 is the likely questioned costs projected by multiplying the total Medicaid expenditures of $2,020,767,230 for fiscal year 2007 by the dollar error rate (.0117%) from the sample at the blended FFP rate (63.18%).

Criteria: Rates of FFP for Program Services (42 CFR §433.10); Enhanced FMAP rate for Children (42 CFR §433.11)

Condition: DHHS does not have adequate internal controls in place for the Medicaid and SCHIP programs to provide assurance that the correct federal/State share will be applied by the payment systems during the claims adjudication process.

Our examination of matching associated with paid claims resulted in the following:

- An incorrect federal medical assistance participation (FMAP) rate was applied to one of 60 Medicaid claims tested.
- Additionally, the SCHIP FMAP rate (74.23%) was applied to two of 60 Medicaid claims tested rather than the appropriate 63.18% Medicaid rate.
- Controls were insufficient to identify and account for the State share for thirteen of 60 SCHIP claims tested. Although the federal share paid was correct, the payment system did not consistently reflect the total claim amount and identify the "certified seed" portion paid from nonfederal sources.

Context: Medicaid is a $2 billion program, funded 63% with federal financial participation. SCHIP is a $37 million program, funded 74% with federal financial participation.

DHHS uses multiple interconnected automated systems to adjudicate claims for payment and assign client claims to the appropriate program for payment. The DHHS Office of MaineCare Services, the DAFS Office of Information Technology as well as an outside contractor are responsible for various aspects of the claims payment processes.

Cause:

- Administration of multiple federal and State programs within one entity, MaineCare, creates a lack of clarity regarding FMAP rates applicable for specific federal or State funded benefits.
- Segregation of payment, accounting and information technology functions causes a disconnect of responsibility, which impedes problem recognition and resolution.

- Unnecessarily complex, and at times inaccurate, methods used to classify the reasons that individuals are eligible lead to ambiguity or erroneous understanding as to how system rules should be designed for payment processing and accounting.
- Ineffective communication between the Department's own offices and the Office of Technology does not allow for adequate implementation of compensating controls or adjustments to take place.
- Inadequate monitoring and accounting for certified seed accounts related to the SCHIP program. Department records to account for the State share of certified seed payments were unreliable and do not seem adequately managed.

Effect:
- Costs may be charged to an incorrect State or federal program with resulting incorrect payments by State and federal funds and misstated program costs.
- Matching errors constitute noncompliance with federal regulations.

Recommendation: We recommend that the Department:
- Establish a means to ensure that the correct federal and State share of payments are applied to claims by the payments systems.
- Establish a means to adequately identify and track activities associated with the distinct federal and State funded programs administered as MaineCare
- More clearly define, support and coordinate the specific roles assigned to the different agencies and offices for all DHHS programs, including systems operations
- Appropriately secure and maintain programming logic for all systems activity

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

This is an issue with the MECMS exception matrix that will be resolved with the transition to the Fiscal Agent in the first quarter of calendar year2010.

Contact: *Colin Lindley, Director, MaineCare Finance, 287-1855.*

(07-67)

Title: Third party liability (TPL) data incomplete/ cost avoidance and recovery not maximized

Prior Year Finding: No
State Department: Health and Human Services (DHHS)
State Bureau: Office of MaineCare Services (OMS);
Office of Integrated Access and Support (OIAS);
Office of Child and Family Services (OCFS)
Federal Agency: U.S Department of Health and Human Services
CFDA Title: Medicaid Cluster;
State Children's Insurance Program (SCHIP)
CFDA #: 93.775, 93.777, 93.778, 93.767

MEDICAID CLUSTER

Federal Award #: 05-0605ME5028, 05-0705ME5028;
05-0505ME5021, 05-0605ME5021

Compliance Area: Activities allowed or unallowed; Allowable costs/cost principles

Type of Finding: Internal control and compliance

Known Questioned Costs: Related costs are questioned in finding 07-69

Likely Questioned Costs: Related costs are questioned in finding 07-69

Criteria: Standards for Program Operations (45 CFR §303); Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local and Tribal Governments (45 CFR §92.20)

Condition: The Department does not fully comply with requirements that ensure that Medicaid is the payer of last resort and that claims are net of all credits.

- DHHS offices including the Office of Integrated Access and Support (OIAS) and the Office of Child and Family Services (OCFS) routinely collect insurance and other information indicating potential third party payers from Medicaid applicants, but do not follow up on missing or incomplete information and do not pass all information obtained on to the Office of MaineCare Services (OMS), which is responsible for acting on it. Depending on the form used, OIAS may not update TPL information when they re-determine applicants' eligibility.
- Health insurance information pertaining to children covered by parents' insurance policies was not properly transmitted to the TPL unit due to deficiencies in transmitting data between DHHS automated systems. These deficiencies impact all activity since the new automated claims management system, MECMS, went online in January 2005.
- Controls are inadequate to ensure compliance with rate limitations. Currently, DHHS allows providers to submit claims that may be net of the amounts previously allowed and paid by other insurers, hindering the Departments ability to assess whether these limitations were exceeded. The claims also lack other information such as the total original claim amount and an explanation of benefits.
- OMS did not have and therefore did not use the TPL data for two of 60 randomly selected Medicaid paid claims examined. Although seven instances were found in which OIAS records identified another insurer that TPL unit records did not, only two appeared as though cost avoidance for the program could have occurred.
- Two of 60 randomly selected SCHIP paid claims that we examined appeared as though cost avoidance activities should have occurred. In one instance, OMS did not have the TPL data for another insurer identified in OIAS records; in the other instance OMS records identified medical, pharmacy and dental group coverage that OIAS records did not contain. TPL information for both clients should have caused them to be excluded from SCHIP participation (these costs are questioned in finding 07-69).

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:

- Deficient OIAS and OCFS 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 (TPL) unit efforts are impaired, resulting in Medicaid and SCHIP 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. We also recommend that the Department share among its own offices more responsibility in regard to the administration of Medicaid and SCHIP in the interest of cost avoidance and recovery.

Management's Response/Corrective Action Plan: *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. This problem will be eliminated as the Department transitions to a Fiscal Agent in the first quarter of calendar year 2010. The Department does acknowledge that, on occasion, the data being transferred to TPL may not occur as designed. The Department also acknowledges that on occasion OIAS staff may inadvertently forget to log into the ACES system the TPL information due to issues relating to workload and staffing. 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.*

The Claims Division agrees that the Department did not receive 100% verified information from OIAS but we believe that we have addressed this concern. To assist in addressing computer issues between OIAS and TPL and complete a backlog of verifications needed, the Department contracted first with PCG and then with HMS to assist with obtaining TPL information. In addition, OAIS was also using HMS to obtain information in 2007. We put a process in place in FY 07 to catch up the backlog and that was accomplished in May of 2008. We also extended that contract in order to assure that we continue to obtain as much TPL information as possible. However, it is noted that the contractor's data match does not take into account possible family members who may have different information.

With regard to the capitated rate limits, we believe that we have addressed this issue. Per claims processing procedures, staff is instructed to deny claims where there is a third party payer identified (other than Medicare) in MECMS that has not been indicated on the claim or where there is no attached explanation of benefits. In the instance of capitated services, the controls in *place are that there has to be an attached EOB from the primary payer for staff to view and determine correct billing by the provider.*

With regard to the recommendation that the Department share among its own offices more responsibility for federal Title XIX Medicaid and SCHIP in the interest of cost avoidance and recovery, we have also addressed this issue. As of June 30, 2007, we added 14 additional people to confirm data match and validity.

***Contact:** Robin Chacon, Director of Claims, OMS, 287-2769*
Beth Hamm, Family Independence Program Manager, 287-5093

(07-68)

Title: Waiver costs funded by incorrect program

Prior Year Finding: No
State Department: Administrative and Financial Services (DAFS)
Health and Human Services (DHHS)
State Bureau: Health and Human Services Service Center
Adults with Cognitive & Physical Disability Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
State Children's Insurance Program (SCHIP)
CFDA #: 93.775, 93.777, 93.778, 93.767
Federal Award #: 05-0605ME5028; 05-0705ME5028;
05-0505ME5021; 05-0605ME5021

Compliance Area: Eligibility

Type of Finding: Compliance

Known Questioned Costs: $801 (SCHIP)

Likely Questioned Costs: $203,000
Query of accounting system charges coded to SCHIPs for HCBS Waiver Services [$273,281 x 74.23% (FFP)]

Criteria: State of Maine HCBS Waiver #0159.90, Appendix C-1-Eligibility

Condition:

- The Department provided Home and Community Based Services (HCBS) Waiver mental retardation services to an individual determined to be eligible for the Medicaid Expansion component of the SCHIP program. SCHIP paid for services authorized only to Medicaid clients.

Context:

- The HCBS Waiver does not include Medicaid expansion as an allowable eligibility group. Medicaid expansion is an eligibility category authorized under the SCHIP Program, not Medicaid.

Cause:

- Unknown, coding of this service to the SCHIP program appears to be new in this fiscal year.

Effect:

- The SCHIP program paid for services authorized only to eligible Medicaid Waiver participants.

Recommendation: We recommend that the Department review the individual eligibility determinations for these apparent SCHIP clients to see if any were Medicaid eligible; if so, then those charges should be transferred to Medicaid accounts.

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

Under the waiver, the Medicaid Expansion group eligible for the enhanced SCHIP rate is not one of the identified coverage groups. The finding is correct in that the Department should have billed Medicaid Title XIX, not SCHIP Title XXI. The financial eligibility for the client was correct; however, the waiver should have been billed as the client was medically eligible for the waiver and under the waiver we can only bill for specified title XIX coverage groups.

The Department is transitioning to a Fiscal Agent effective the first quarter of calendar year 2010. Once successfully implemented, the funding source issue outlined in this finding will be eliminated.

Contact: *Beth Hamm, Family Independence Program Manger, 287-5093*

(07-69)

Title: Eligibility determinations incorrect

Prior Year Finding: 06-66
State Department: Health and Human Services (DHHS)
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; State Children's Insurance Program (SCHIP)
CFDA #: 93.775, 93.777, 93.778; 93.767
Federal Award #: 05-0605ME5028, 05-0705ME5028;
05-0505ME5021, 05-0605ME5021

MEDICAID CLUSTER

Compliance Area: Eligibility

Type of Finding: Internal control and compliance

Known Questioned Costs:
Medicaid - $35,238

$35,238 is the federal share of the total claims paid for ineligible persons ($55,776 at the blended FFP rate of 63.18 %).

SCHIP - $98,427

$98,427 is the federal share of the total claims paid for ineligible persons ($132,606 at the blended FFP rate of 74.23 %).

Likely Questioned Costs:
Medicaid - $16,600,000

Likely questioned costs were developed by multiplying the total Medicaid expenditures of $2.02 billion for fiscal year 2007 by the dollar error rate (1.3%) from the sample at the FFP rate (63.18%).

SCHIP - $2,400,000

Likely questioned costs were developed by multiplying the total SCHIP expenditures of $31.6 million for fiscal year 2007 by the dollar error rate (10.2%) from the sample at the blended FFP rate(74.23%).

Criteria: 42 CFR §431.10; 42 USC 1320b-7(d); 42 CFR §435.907 and §435.913; 42 CFR §435.910(g) and §435.920; 42 USC 1320b-7d; 42 CFR §435.916; State Plan for Medicaid (Title XIX) and State Plan for SCHIP (Title XXI) programs

Condition: The Department does not have adequate internal controls in place for the Medicaid and SCHIP programs to determine program eligibility, to maintain records of eligibility determinations or to charge the appropriate program for the associated costs of eligible individuals.

For SCHIP, all available third party liability information, such as private health insurance, is not incorporated into the ACES eligibility determination system and is therefore not appropriately considered when determining eligibility.

Our examination of eligibility determinations associated with paid claims tested resulted in the following:

- Two of 60 Medicaid clients tested were either not eligible or eligibility determinations could not be supported. One of the clients was not eligible for the program during the month that service was provided (the costs associated with this client were questioned in finding number (07-76)). Eligibility for the other client could not be supported: the automated case record in the eligibility system indicated that the client had been “grandfathered” for Maine Medicaid coverage; the client has lived in New Hampshire since birth. The client’s age was either 25 or 15; the age would effect the recipient aid category (RAC) and co-payment provisions. No written case file existed which might have supported the related facts and the eligibility determination. Because of the incorrect information, a pharmacy co-payment may not have been properly excluded in the payment system.

- Four of 60 SCHIP clients tested were not eligible. Two of the clients were eligible for Medicaid rather than SCHIP. Two others were not eligible for the program during the month that service was provided. Both already had health insurance coverage under another group insurance plan and were therefore not eligible for SCHIP. One of these two clients had requested that the case be closed immediately; DHHS closed the case in ACES but not WELFRE, and therefore the client remained eligible in the payment system. Client data in both the ACES and WELFRE eligibility systems appeared to be in disagreement with each other for both of these cases.

Context:

- Medicaid is a $2 billion program, funded 63% with federal financial participation. SCHIP is a $37 million program, funded 74% with federal financial participation.
- 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 and the DAFS Office of Information Technology as well as an outside contractor are responsible for various aspects of the eligibility and payment processes.
- DHHS must determine client eligibility in accordance with federal regulations for each individual program.

Cause:

- Administration of multiple federal and State programs within one entity, MaineCare, creates a lack of clarity regarding individual client eligibility for specific federal or State funded benefits.
- The distinct segregation of essential eligibility, payment, accounting and information technology functions within the same Department causes a severe disconnect of responsibility, which impedes problem recognition, and resolution.
- Unnecessarily complex and at times inaccurate methods used to classify the reasons that individuals are eligible.
- No Department policy or procedures to synchronize retroactive changes in client eligibility to payment for services; no policy or limit regarding how far back to change eligibility status; ineffective communication between the Department's own offices and the Office of Technology; and no control or policy regarding maintaining an audit trail of eligibility determinations within the eligibility systems available for user reference. The payment system does have a capability to research this type of information on an exception basis, but this is, however, not efficient or practical in such a large scale operating environment.

Effect:

- Costs may be charged to an incorrect State or federal program with resulting incorrect payments by State and federal funds and misstated program costs.
- Costs paid on behalf of ineligible individuals reduce funds available for those eligible.
- Eligibility errors may constitute material noncompliance with federal regulations.
- Current and possible future questioned costs.

Recommendation: We recommend that the Department:

- Establish a means to adequately identify and track activities associated with the distinct federal and State funded programs administered as MaineCare
- More clearly define, support and coordinate the specific roles assigned to the different agencies and offices for all DHHS programs, including systems operations
- Establish a policy regarding retroactive determination of eligibility and align the costs to the affected programs
- Appropriately secure and maintain programming logic for all systems activity

Management's Response/Corrective Action Plan: *The Department does not agree with the finding cited under Conditions above: "For SCHIP, all available third party liability information, such as private health insurance, is not incorporated into the ACES eligibility determination system and is therefore not appropriately considered when determining eligibility."*

The ACES system does capture third party liability information and will appropriately deny an individual for CubCare (SCHIP). ACES will not deny an individual if they meet the eligibility requirements for our Medicaid Expansion program if they have third party insurance. They are eligible for Medicaid and should not be denied due to having third party insurance. The Department acknowledges that the correct funding of Medicaid Expansion individuals with third party insurance should be through the Title XIX program and not Title XXI. The funding source will be captured on the claims system side based on TPL information on file with the claims system. The Department expects this process to improve with the transition to a Fiscal Agent in the first quarter of calendar year 2010.

The Department does not agree that 2 of the 60 Medicaid members were either not eligible or eligibility determinations could not be supported. One of the members in question was a child who had been placed in a New Hampshire Nursing Facility as the State of Maine did not have a facility that could address his needs. The Eligibility Worker did change the age of this child to get a desired eligibility result based on the type of facility the child was in. Subsequently she forgot to re-adjust the age back to the correct date of birth. The Auditor's finding states that because the age was not corrected a pharmacy co-payment may not have been properly excluded in the payment system. The Department disagrees with this statement because this case was classified as a Nursing Facility case and when an individual is in a Nursing Facility there are no co-pays charged; therefore, the age of the member is irrelevant. The Department agrees that if an individual under age 21 were charged a co-pay this would be incorrect. In the case cited, the individual was in a Nursing Facility and not required to have co-pay based on the living arrangement. Although the paper record in the Regional Office was purged, the Department *argues that the ACES case file is an official record as well as the Liberty system case file that does identify the correct date of birth.*

The Department is transitioning to a Fiscal Agent. Once successfully implemented, any funding source issues outlined in this finding will be eliminated. The Department believes that once the transition has occurred, the recommendation to consistently and appropriately administer retroactive changes so that they will align costs to the affected programs will be accomplished.

Contact: *Beth Hamm, Family Independence Program Manager, 287-5093*

Auditor's Conclusion:
1. Although Third Party Liability (TPL) information can be captured by the ACES eligibility system, the information in ACES was incomplete.

2. Individuals with Third Party insurance are never eligible for XXI SCHIP funded payments. They can only be funded by Title XIX Medicaid under Medicaid Expansion so long as their age and incomes do not exceed levels established in the federally approved State Plan. For the two cases we took exception to, the individuals had access to or were covered under other health insurance; their family income levels exceeded the State Plan thresholds.

3. The DHHS destroyed the contents of one case of a sample of 60 Medicaid cases earlier than the three year minimum allowed under HHS federal post-award record retention requirements. Only conflicting data in ACES was available to support the eligibility determination(s) made and to verify significant factors related to the case, such as: age, reasonability of his out-of-state location, and self-certification of facts by the client or his representative on an application.

The finding remains as stated.

(07-70)

Title: OMS unauthorized approval of non-timely filing

Prior Year Finding: 06-74
State Department: Health and Human Services (DHHS)
State Bureau: Office of MaineCare Services (OMS)
Federal Agency: Centers for Medicare and Medicaid Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775, 93.777, 93.778
Federal Award #: 05-0605ME5028, 05-0705ME5028

Compliance Area: Allowable costs/cost principles

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Timely Claims Payment (42 CFR §447.45(d)(1))

Condition:

- OMS did not obtain official federal approval to change claims filing, correction and adjustment deadlines.

Context:

- In January 2005, DHHS implemented a Medicaid claims payment management system (MECMS) that failed to work properly. The system failed to process many provider claims, could not issue timely payments or denials, and did not have the capacity to make claims adjustments within the required 120 days.
- The timely-filing edit was increased from 365 to 600 days during June 2006 and was not changed back to 365 days until approximately February of 2007.

Cause:

- OMS granted time extensions to providers because it believed these were necessary and appropriate due to the ongoing lack of MECMS functionality.

Effect:

- The General Fund may be liable for all claims processed in accordance with the June 1, 2006 advisory.
- The federal government could impose financial sanctions because the revised deadlines do not comply with federal requirements. However, a CMS official indicated that CMS was more interested in the State coming into compliance with federal requirements in January 2007, as promised.

Recommendation: We recommend that the Department obtain written consent from CMS when making policy changes that do not strictly comply with program regulations.

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

In the first quarter of 2007, the Timely Filing edit was updated in MECMS to comply with 42 CFR §447.45. The State experienced significant issues with the processing of claims when MECMS was implemented in January 2005. In early 2006, the State was still in the process of resolving issues, some of which prevented providers from submitting claims timely. At the beginning of 2007, the State recognized that certain components of the MMIS system could not be corrected and a decision was made with CMS to replace MECMS. The State has made significant strides in reducing claims processing issues so that providers can submit claims within 12 months of the date of service and has implemented additional controls and procedures to ensure stricter adherence to the federal timely filing requirements. This process includes management review and approval of any timely filing exceptions requested by providers.

Contact: *Robin Chacon, Director of Claims, OMS, 287-2769*

(07-71)

Title: Payments exceed authorized amounts/Insufficient claims payment controls

Prior Year Finding: 06-58
State Department: Health and Human Services (DHHS)
State Bureau: Adults with Cognitive & Physical Disability Services
Federal Agency: U. S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775, 93.777, 93.778
Federal Award #: 05-0605ME5028, 05-0705ME5028

Compliance Area: Allowable costs/cost principles

Type of Finding: Internal control and compliance

Known Questioned Costs: $5,455 (total amount paid in excess of that authorized ($8,633) multiplied by the blended FFP rate of 63.18%)

Likely Questioned Costs: $241,000
Total annual authorized costs for Waiver codes tested ($224,585,000) multiplied by the sample error rate of 0.17% multiplied by the blended FFP rate of 63.18%

Criteria: Medicaid claims management system requirements (42CFR §433.10-§433.131); U. S. Department of Health & Human Services Understanding Medicaid Home and Community Services: A Primer

Condition:

- Amounts paid to providers exceeded amounts authorized for 3 of 60 clients examined. For the 3 clients, payments were $8,633 (5%) higher than the $172,687 authorized for those specific services. The Department has not had an effective means to limit, track and compare actual costs per client by provider, to those authorized.

Context:

- HCBS Waiver services are required to be identified and authorized in the individual client's care plan. Amounts authorized are calculated based on the number of units approved for that client times that provider's approved rate. The methodology has been structured to cover the providers' costs, the Department changes either authorized units or rates to come to the total amount necessary to cover the provider's estimated costs. In the practical application, authorized units may not directly correlate to the actual number of units of service required for a particular client.

Cause:

- For these types of Waiver payments, the claims payment system has only one system limit, which limits the billable number of hours to 168 each week. There are no edit or limit checks to ensure that providers do not bill for more than the total dollars or units authorized on a weekly, monthly or annual basis.

Effect:

- Providers may be overpaid; controls are inadequate to limit actual HCBS Waiver costs to those budgeted.

Recommendation: We recommend that the Department:

- Authorize annual/weekly units of service that correspond to those actually required
- Periodically monitor providers to prevent overbilling
- Incorporate edit or limit checks to restrict payments to total annual units or dollars authorized
- Recover any overpayments

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

The Department is aware of difficulties with limits and is working to address the problem. We expect that any remaining concerns with limits will ultimately be addressed with implementation of the Fiscal Agent in the first quarter of calendar year 2010.

Contact: *David Goddu, Resource Development Manager, 287-6642*

(07-72)

Title: Rates paid to Medicaid providers not adequately supported

Prior Year Finding: No
State Department: Health & Human Services (DHHS)
State Bureau: Division of Financial Services- Rate-Setting Unit
Federal Agency: U.S. Department of Health & Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775, 93.777, 93.778
Federal Award #: 05-0605ME5028; 05-0705ME5028

Compliance Area: Allowable costs/cost principles

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: MaineCare Benefits Manual - Chapters II & III

Condition:

- DHHS's policy for establishing providers' rates does not include the use of dollar benchmarking as a basis for the standardization of rates for health care services. Medicaid regulations require that States set rates at a level that will attract a sufficient number of providers.
- DHHS procedures for determining the basis for providers' rates are not adequately documented for certain sections of policy.
- Negotiated rates for some services are based on providers' submitted budgets, rather than actual audited numbers.
- Rates for certain categories of expenditures are based on a weekly or monthly unit of service, rather than a smaller unit of service that would more appropriately match the actual unit of service provided.
- Rates used for the mental retardation waiver program were developed by DHHS Regional Offices staff who may not have performed an analyses of current rate data.
- The basis of some providers' rates was determined several years ago, with no systematic method of updating rates to coincide with current cost methodology. In our testing, seven providers were using rates established prior to 2003.
- Certain rates are provider specific where different providers are authorized different rates for the same procedure code (day treatment services). It should be noted that each provider is authorized to provide a different level of service.
- Rates for day treatment services are not computed in accordance with Chapter 41 of the MaineCare Benefit Manual which requires the State to compute a rate based on a per unit Statewide average cost. Our testing revealed that the rates for day treatment services are a per unit negotiated cost.
- Our testing revealed one instance where a payment was made to an out-of-State hospital for room and board charges at a rate of 100% of actual billed charges, rather than a per diem rate. The hospital billed the State at a rate of $2,300 per day. The authorized rate for this provider was $2,115 per diem plus consultation costs. In addition, DHHS did not have documentation to support the basis of the rate (percentage of charges) used for out-of-State hospitals.
- The Rate-Setting Unit could not provide support for the basis used to determine the rate for four payments. Payments based on unsupported rates totaled $ 1,091.

Context:

- The Rate-Setting Unit (DHHS) is responsible for setting rates for a variety of health care categories within the Medicaid program. The rates for 104 transactions were examined from 27 health care categories with total expenditures of $ 1.4 billion.
- To rectify some of the above weaknesses, DHHS has implemented, or will soon implement changes to its' published rate system that will standardize various rates. These changes should better correlate rates to a benchmark standard for providing services. The Rate Standardization Work Group is developing a new "super" section 65 to the MaineCare Benefit Manual. We also noted within this new section that the projected hourly rate for one specific procedure code will be significantly less than the previously authorized rate. The committee is also working on the conversion of procedure codes to HIPPA compliant codes and a price-specific methodology.

Cause:

- Lack of an objective methodology to measure health care payment rates in the competitive marketplace.
- The basis for some rates were determined prior to the establishment of the State's Rate-Setting Unit.
- The Medicaid claims payment system (MECMS) software is not programmed to accept a per diem edit limit on out-of-State hospitals.

Effect:

- Medicaid costs may be higher than necessary. Certain providers' rates are set based on their estimated costs and the projected number of units of service to be provided. If these costs or units of service are not incurred, or are over estimated, then providers could receive excessive payments.
- Without a cost analysis to determine the basis of rates, they could be unreasonable relative to the level of service provided.

Recommendation: We recommend that Medicaid rates be tied to a widely-accepted benchmark as an objective measure for determining the basis of rates for health care services. Further, the Rate-Setting Unit should implement a standardized methodology for developing comparative data of health care rates in the market place, and use this data as the basis for determining the rate structure of provider's rates. Certain categories of services, where rates are based on estimates, should be cost settled / audited.

We further recommend that procedures for determining the basis for providers' rates should be documented, and referenced to applicable federal / State regulations.

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

As noted in the finding, the Department has already implemented or is in the process of implementing changes to standardize rates based on appropriate benchmarks.

The finding that the Department’s policy for establishing providers’ rates does not include the use of dollar benchmarking as a basis for the standardization of rates is only partially true. In fact, many MaineCare rates have always been standardized based on appropriate benchmarks. For example, fees for physician services are benchmarked against Medicare rates. Provider-specific negotiated rates have existed primarily in the behavioral health area. The Department has been working toward replacement of provider-specific negotiated rates with standardized rates for several years. The Department began establishing caps on these rates several years ago in order to move toward a standardized rate. In the First Regular Session of the 123rd Legislature, the Department presented a comprehensive proposal to standardize all provider-specific rates for behavioral health services based on benchmark costs. At the direction of the Legislature, a work group was established to address the issue and the Department plans to institute standard rates for these services in FY09.

The Department acknowledges that rates for some services were set several years ago and that there is no systematic method of updating rates. As a policy matter the Department cannot routinely increase rates without appropriations to support such increases and is therefore precluded from incorporating automatic rate increases into the MaineCare rules or rate-setting methodologies.

Contact: *Geoffrey Green, Deputy Commissioner, 287-6613*
Russell Begin, Director, Fiscal & Program Coordination, 287-5758

(07-73)

Title: Medicaid Eligibility Quality Control (MEQC) procedures not met

Prior Year Finding: No
State Department: Health and Human Services (DHHS)
State Bureau: Office of Integrated Access and Support (OIAS)
Federal Agency: Centers for Medicare and Medicaid Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775, 93.777, 93.778
Federal Award #: 05-0605ME5028, 05-0705ME5028

Compliance Area: Eligibility

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Review Procedures (42 CFR §431.812(b); Sampling Plan and Procedures (42 CFR §431.814(a), (42 CFR §431.814(i), (42 CFR §431.814(h)); Case Review Completion Deadlines and Submittal of Reports (42 CFR §431.816(a)(1), (42 CFR §431.816 (a)(5)); Corrective Action Under the MQC Claims Processing (42 CFR §431.836 (c))

Condition:

- Negative case reviews were not conducted by quality control (QC) staff for the periods April - September 2006 and October - March 2007.
- For active case reviews, Maine did not meet its required QC sampling procedures and did not submit reports as required for the periods April - September 2006 and October - March 2007.

Context:

- Maine participated in a pilot project from April of 2005 through March of 2006 in which they were excused from complying with the traditional MEQC requirements. At the end of the project traditional MEQC requirements should have commenced.

- Additionally, many of the active case review files were archived prior to this audit and were not readily available for our review. QC supervisors insist that they conducted all of the required active case reviews since the MEQC requirements commenced but that they have simply not reported the results of their case reviews to CMS.

Cause:
- Unfamiliarity with the requirements due to staff turnover
- Lack of effective managerial oversight
- Diversion of QC staff to work on a special project

Effect:
- Noncompliance with negative case review reporting requirements for both monthly progress reports and bi-annual finding(s) reports
- For active cases:
    - Quality control reports on Maine's Medicaid eligibility determinations were not prepared or submitted for federal oversight
    - The required QC sampling procedures and report submission requirements were not followed
    - Possible federal sanctions

Recommendation: We recommend that negative case reviews be conducted as required. For active cases, we recommend that the OIAS establish effective controls to ensure compliance with QC sampling procedures and the timely submission of reports, as required. We further recommend that all unsubmitted monthly case review results, sampling plan universe estimates, sampling intervals, sample selection lists of active cases and other required summary reports be submitted to CMS. Finally, we recommend that all case review files be readily available for review for audit purposes.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding; the Department was noncompliant with MEQC negative case review requirements for the periods of April through September 2006 and October of 2006 through March 2007.*

The Department resumed compliance with this requirement on October 1, 2007. For the period of October 1, 2007 through September 30, 2008, the Department will submit to CMS the findings from negative case reviews that are being performed as part of the Payment Error Rate Measurement (PERM) initiative that is currently underway. Once the PERM initiative ends on September 30, 2008, the Department will resume negative case reviews as part of its standard MEQC review process.

Contact: *Beth Hamm, Family Independence Program Manager, 287-5093*

(07-74)

Title: HCBS Waiver Rates not supported and include unallowable costs

Prior Year Finding: 06-59, 06-62
State Department: Health and Human Services (DHHS)
State Bureau: Adults with Cognitive & Physical Disability Services
Federal Agency: Centers for Medicare and Medicaid
CFDA Title: Medicaid Cluster
CFDA #: 93.775, 93.777, 93.778
Federal Award #: 05-0605 ME5028, 05-0705 ME5028

Compliance Area: Allowable costs/cost principles

Type of Finding: Internal control and compliance

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable - Rates were based on estimated rather than actual costs.

Criteria: Financial accountability (42 CFR §441.302 (b)); U. S. Department of Health and Human Services, Understanding Medicaid Home and Community Services: A Primer; Limits on Federal Financial Participation(42 CFR §441.310); MaineCare Benefits Manual 21.05-1; Assurance of Transportation (42 CFR §431.53)

Condition:

- The Home and Community Based Services Waiver program does not have adequate internal controls to ensure financial accountability for program expenditures. Payment rates were not supported, varied widely and included unallowable costs. In our sample of 60, we noted the following:
  - Unsupported rates - 23 (38%) had no provider budgets to support payment rates established.
  - Unallowable administrative occupancy costs - 12 (32%) of those with budgets included unallowable administrative costs.
  - Unallowable transportation costs - six of the 60 (10%) care plans indicated that all transportation needs, including to medical appointments, were met by the provider; costs for five personal support services clients included transportation that is not allowable

Context:

- The Home and Community Based Services Waiver expended approximately $264 million in fiscal year 2007.

Cause:

- The program established rates based on both provider budgets and negotiated amounts. The process was not fully documented, was subjective and based on estimated not actual costs. The Department was not aware of the specific Waiver requirements pertaining to transportation. In January 2008 the Department changed to a "published rate" methodology which eliminated some of the problems inherent in the rate-setting process in effect in fiscal year 2007.

Effect:

- Rates paid to providers were based in part on unallowable costs; rates varied not dependent upon client need but rather providers' estimated costs of service

Recommendation: We recommend that the Department document the basis for all rates paid and ensure that the basis for those rates exclude all unallowable costs.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services acknowledges the finding, but believe that at this time the issue has been addressed with the new rate structure.*

As mentioned in the Cause section above, the Department changed to a published rate methodology in January 2008, effectively eliminating some of the problems that had been experienced with rate setting in fiscal year 2007 for services within the Comprehensive Waiver.

Contact: *David Goddu, Resource Development Manger, 287-6642.*

(07-75)

Title: Katie Beckett clients not eligible

Prior Year Finding: No
State Department: Health and Human Services (DHHS)
State Bureau: Office of Integrated Access and Support (OIAS)
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CDFA #: 93.775, 93.777, 93.778
Federal Award #: 05-0605 ME5028, 05-0705 ME5028

Compliance Area: Eligibility

Type of Finding: Internal control and compliance

Known Questioned Costs: $225,882

Likely Questioned Costs: Likely questioned costs were not determinable due to the number of variables within the Waiver.

Criteria: Individuals under 19 who would be eligible (42 CFR §435.225)

Condition: We found a high percentage of individuals tested were not eligible for the Katie Beckett program. Our test of 40 clients revealed that only six appeared to comply with all requirements. Our testing revealed the following:

- 19 were not living at home
- 11 were approved for eligibility by OIAS before OMS approved the level of care classification
- Three were not closed as recommended; one was over age
- 15 were not reviewed as scheduled for evidence of continuing disability

Context:

- To be eligible, individuals must be living at home, require the level of care provided in a hospital, skilled nursing facility, or intermediate care facility and appropriately receive that care outside of an institution. Fiscal year 2007 program expenditures were $27 million.

Cause:

- Poor communications
- Insufficient staff time
- Information provided not acted on appropriately

Effect:

- Noncompliance with program requirements
- Incorrect eligibility/program classification
- Misleading expenditure and participation summarizations - many children reported as Katie Beckett participants were otherwise Medicaid eligible

Recommendation: We recommend that the Office of Integrated Access and Support and the Office of Medicaid Services better coordinate the flow of information, consider combining the disability and classification reviews to avoid duplication of services, provide adequate staffing and ensure adequate communication of program requirements.

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

The Department acknowledges that many, if not all, of the 19 Katie Beckett children sampled should have been reviewed for a different MaineCare coverage group as soon as they had been out of the home for a full month, and, if eligible, should have been switched to SSI-related coverage on the first of that following month. Under SSI-related rules, the parental income and assets are not used to determine eligibility the month after the child no longer resides with the parents. However, the Department would note that the children were still eligible for the same type of Title XIX funding in either the Katie Beckett coverage group or the SSI-related coverage *group. This is not a matter of ineligibility but rather a matter of the coverage group the child is eligible under. The SSI-related coverage group entitles the child to the same level of coverage offered under the Katie Beckett program.*

It should also be noted that the Department is not always notified when children are out of the home. Given the implementation of premiums in the Katie Beckett program per PL 2007, c.539, the Department expects that parents will be more compliant with notification of the child's transfer to an out of home placement.

The Department will create and run a quarterly report that will identify PNMI claims for Katie Beckett children; Eligibility Workers will then call families to verify that the child(ren) remain in the home. If the child has been transferred, we will move them under another allowable coverage group rather than granting them Katie Beckett coverage.

The Department acknowledges that, out of the 11 cases granted without classifications, 4 had classifications in place but because the Department had an approved Waiver effective July 1, 2005 we were not able to grant retro-active MaineCare under this Waiver. The Department acknowledges 7 Katie Beckett cases were granted prior to receiving the medical classification. OIAS and OMS will work to streamline the Katie Beckett eligibility and classification process. In addition, OIAS is exploring a reduction in case assignment for Katie Beckett; this would mean that fewer staff members work with the program, but those few would be more familiar with the process.

The Department acknowledges that 3 Katie Beckett cases were not closed timely from the Katie Beckett program. As stated above, the Department will streamline the Katie Beckett process so there is less confusion and less opportunity for error in the future.

The Department acknowledges that 15 Katie Beckett cases were overdue for their disability determination. This was due to an increase in Disability packets as a result of implementing a wait list for the Non-Categorical program. The Medical Review Team Supervisor monitors on a monthly basis the status of overdue reviews and consults with the MaineCare Program Manager as to the status of Disability reviews.

***Contact:** Beth Hamm, Family Independence Program Manager, 287-5093*

(07-76)

Title: Program eligibility determinations related to Adoption Assistance cases inadequate

Prior Year Finding: No
State Department: Health and Human Services (DHHS)
State Bureau: Office of Integrated Access and Support
Office of Child and Family Services
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services

MEDICAID CLUSTER

CFDA Title: Medicaid Cluster
CFDA #: 93.775, 93.777, 93.778
Federal Award #: 05-0605ME5028, 05-0705ME5028

Compliance Area: Eligibility

Type of Finding: Internal control and compliance

Known Questioned Costs: \$39,785 (\$39,089 + \$696)

Likely Questioned Costs: \$2,900,000 (\$4,700,000 x the blended FFP rate of 63.18%)

Criteria: 42 CFR §431.10; 42 USC 1320b-7(d); 42 CFR §435.907 and §435.913; 42 CFR §435.910(g) and §435.920; 42 USC 1320b-7d; 42 CFR §435.916; State Plan for Medicaid (Title XIX) and State Plan for SCHIP (Title XXI) programs

Condition: The Department does not have adequate controls to ensure that Medicaid eligibility associated with Adoption Assistance cases is appropriately determined. Medicaid eligibility for these cases is automatically established solely based on the Recipient Aid Code that results when Office of Child and Family Services personnel enter demographic information into the Maine Automated Child Welfare Information System (MACWIS). As Adoption Assistance cases are automatically presumed eligible for Medicaid, no further review takes place; DHHS does not annually re-determine Medicaid eligibility as required. These cases remain open and Medicaid eligibility continues even after clients no longer satisfy the Adoption Assistance requirements.
Also, the current State's Medicaid claims processing system (MECMS) would not process claims for State funded adoption assistance clients, despite the fact that they were Medicaid eligible. As a result, DHHS intentionally miscoded \$4.6 million in claims for State funded adoption assistance clients as Title IV-E clients in order to process the claims.

We extended our testing of paid claims for such cases from the one selected in our overall sample to an additional 25 cases and noted the following:

- The initial client tested was not eligible. DHHS had not completed an annual redetermination since 2004. The child's eligibility code was incorrect; the client was in permanency guardianship and was not an adoption assistance case. While adoption assistance cases are entitled to Medicaid, permanency guardianship cases have not been indentified by the Centers for Medicare and Medicaid Services (CMS) as entitled to either mandatory or optional coverage under Medicaid. The basis for program eligibility as determined by MACWIS, therefore, is in error.
- Eight of the twenty-five additional clients were not Title IV-E eligible as identified by their assigned recipient aid category classification. Three of the eight had not been eligible adoption assistance cases for years; and two were incorrectly coded as IV-E eligible. Three recipients were determined eligible due to a MACWIS system error. They were respectively ages 30, 57 and 65. The first was a mother living out of state; the second and third were the grandparents of a potentially eligible child. None of the three

had applied for Medicaid eligibility. Medicaid paid $39,089 in related sample claims for the five and $696 for the three.
- All twenty-five MACWIS related cases examined failed to comply with federal Medicaid program regulations for annual eligibility re-determination.

We further extended our testing and found that DHHS paid Medicaid claims totaling $4,657,373 for 750 cases (includes the nine cases discussed above) identified as Adoption Assistance in the eligibility system WELFRE that were not actual adoption assistance cases according to OCFS records.

Context: Medicaid payments associated with MACWIS generated eligibility totaled approximately $24 million in fiscal year 2007.

Cause:
- OIAS does not determine or review Medicaid program eligibility for approximately 2,500 adoption related cases.
- OCFS case workers have no knowledge of Medicaid eligibility requirements or limited awareness that their work has an effect on Medicaid
- Recipient aid category coding used by the State payment systems to identify program eligibility or ineligibility is assigned automatically in the WELFRE system based on demographic client data recorded in MACWIS.
- Miscoding of State funded adoption assistance clients as Title IV-E eligible Adoption Assistance clients was reportedly done to force the associated medical claims through MECMS, which failed to accept the State funded coding as eligible for Medicaid payments
- Title IV-E federal requirements do not include annual eligibility re-determination, therefore, client demographic data in MACWIS is not subject to the annual eligibility review required for Medicaid participation.

Effect: DHHS has paid Medicaid claims on behalf of ineligible persons.

Recommendation: We recommend that the Department review all means by which eligibility is established to ensure that they satisfy program requirements and further recommend that it assign the responsibility of determining client eligibility only to personnel familiar with federal regulations for participation specific to the Medicaid program.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services partially agrees with the findings. The various eligibility requirements and the numerous program regulations combined are complex. The Department continually reviews its eligibility processes and works to ensure that program requirements are satisfied.*

The Department of Health and Human Services does concur with the finding in regards to the Adults who received $696 in Medicaid funding due to an inappropriate RAC code in WELFRE. The RAC Code is based on a child having a case type of adoption assistance. These three adults were given a case type of adoption assistance by the caseworker in error. A change released in MACWIS in June 2008 will prevent caseworkers from assigning that case type to adults. The

MACWIS technical staff are also currently checking WELFRE to find similar errors and will close any adoption assistance codes not open in MACWIS.

The Department of Health and Human Services does not concur with the finding in regards to the 8 clients without proper identification of IV-E eligibility in the WELFRE system, which was a manual change intentionally done on WELFRE. Several years ago based on work between MaineCare and OCFS it became evident that some children who were not title IV-E Eligible (RAC 0) but receiving Adoption Subsidy (A) were not being claimed as Medicaid Eligible; this meant that all costs were not processing in MECMS and the payments were made using only state funds. At that time there was a decision to force the payment by switching the RAC codes for these children from RAC A to RAC O. This was done because the Medicaid state plan states that all children receiving Adoption assistance (Title IV-E) or Subsidized Adoption payments are eligible for Medicaid at the states option; therefore, it was understood that it makes no difference which RAC is used. See below:

From **MAINECARE** ELIGIBILITY MANUAL
58- 59a
Rev.01/06

#227A

2150.02 IV-E ELIGIBLES AND STATE ADOPTION ASSISTANCE

I. **Move-In from Out of State**

A. An individual under the age of 21, who is receiving Title IVE funds from another state or is covered by a State Adoption Agreement from another state and moves to Maine from out of state, is eligible to enroll in MaineCare Full Benefits. The income and assets of neither the child nor parents is considered in determining eligibility for this child.

There must, however, be an assignment of rights to medical insurance and the Department must be provided with a Social Security number for the child.

There are 3 groups of children who fall into this category:

(1) children whose medical and financial circumstances qualify them for federal IV-E adoption assistance;

(2) children whose medical and financial circumstances qualify them for federal IV- foster care assistance.

(3) children whose medical and financial circumstances quality them for state adoption assistance.

The foster or adoptive parents in Maine are provided with a written explanation of their status by the state of origin which usually serves as verification of their status.

II. **Maine Residents**

A. a foster child eligible for Maine IVE funds, a child covered under a Maine Federal (IVE) or State Adoption Assistance agreement, or a child who enters Permanency Guardianship from foster care is eligible for MaineCare Full Benefits. This coverage is usually authorized by the Bureau of Child and Family Services.

If a foster child is not eligible for IVE funds or if a child is not eligible under a Federal or State Adoption Assistance agreement, eligibility for MaineCare is determined by the Office of Integrated Access and Support.

The Department of Health and Human Services does not concur with the finding in regards to the annual eligibility requirement. The Auditor is correct that Title IV-E does not require annual eligibility redetermination of Adoption Assistance after the initial Adoption Assistance eligibility is complete. However, OCFS does require an application be submitted annually by the families receiving this funding; if not received the funding is discontinued. The application requires the family to attest that the child is still in the family and that the eligibility requirements for either of the adoption subsidies still exist. We believe this meets the requirements of an annual redetermination of eligibility as requested by the State Auditor.

The Department of Health and Human Services does not concur that there is a requirement for OIAS to determine Eligibility for these adoption cases for reasons stated above.

The Department of Health and Human Services does not concur that the system requires OCFS caseworkers to have knowledge of Medicaid eligibility of categorically eligible clients. A State is required under Medicaid Law to provide Medicaid coverage to children who are deemed to be Title IV-E eligible. There is nothing in Medicaid or Title IV-E rules that requires caseworkers to understand Medicaid or IV-E eligibility; these are complex program issues that are beyond their role in directly serving the family. Because MACWIS requires the OCFS workers to input certain information at certain times, a determination of Title IV-E and thus Medicaid eligibility for children is made on a yearly basis.

The Department of Health and Human Services does not concur that the automatic assignment process of RAC codes is a weakness of the system. This process reduces the range of possible errors that could be made if the RAC codes were assigned manually by multiple staff data entry across the state systems.

The Department of Health and Human Services does not concur with the finding in regards to the miscoding as reported by the Auditor. Though admittedly not correctly representing the child's Title IV-E Eligibility in the WELFRE system, the miscoding had no impact on the claiming of Title IV-E Funds through the child welfare program; nor did it cause claims to be incorrectly charged to Medicaid.

Contact: *Beth Hamm, MaineCare Program Manager, 287-5093*
Bob Blanchard, Social Services Manager, OCFS, 624-7955

Auditor's Conclusion: We do agree that active adoption assistance cases, either Title IV-E or State funded, would be eligible for Title XIX funded Medicaid participation; and that the purpose of the intentional miscoding in the eligibility system of non-Title IV-E adoption assistance cases was to correct for system errors that were occurring in MECMS during payment processing. The result of correcting for system error in this manner, however, reduces the integrity and reliability of data in the eligibility system, and also in all other systems that interface with it. The effect may be non-compliance with federal post-award regulations related to financial management systems and records.

The following were incorrectly coded as eligible for Medicaid participation and caused claims to be incorrectly charged to Medicaid:

- One of the 60 random Medicaid cases we examined was presumed eligible for Medicaid based on an adoption assistance case classification in WELFRE. This had not been an adoption assistance case in years, and was, instead, a permanency guardianship case. Permanency guardianship cases are not identified in the State Plan approved for Medicaid by CMS. No explanation could be provided, however, to support the reason why this group is identified as eligible in the MaineCare Eligibility Manual.
- Three of the 25 cases examined in the sample had also not been eligible for adoption assistance in years; and three others in the 25, who had never been eligible cases, had been miscoded as eligible entirely due to MACWIS error.

Additionally, as stated in the finding, comparison of all client IDs classified in the eligibility system as adoption assistance cases eligible for Medicaid and OCFS records used to track adoption assistance cases was also conducted. This testing revealed that Medicaid payments for about 750 clients ($4,657,373 in payments) were made for persons not listed in the OCFS adoption assistance records. Therefore, these claims were likely charged incorrectly to Medicaid.

The fact that all such errors remained undetected during the normal course of OCFS activities serves as evidence that the conditions for XIX Medicaid eligibility were not properly reconsidered on an annual basis.

The finding remains as stated.

(07-77)

Title: Inadequate surveillance and utilization review of Medicaid Services

Prior Year Finding: 06-80
State Department: Health and Human Services (DHHS)
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 #: 05-0605ME5028, 05-0705ME5028

Compliance Area: Special tests and provisions

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Utilization Control (42 CFR §456 Subparts A and B); MaineCare Benefits Manual (Section f 1.18 and 1.19)

Condition:
- No comprehensive system in place to ensure the ongoing evaluation, on a sample basis, of the need for and the quality and timeliness of Medicaid services
- An inadequately designed post payment review process

Context:
- DHHS Medicaid expenditures amount to approximately $2 billion. Utilization controls are a necessary safeguard against the unnecessary or inappropriate use of Medicaid services.

Cause:
- The State's new claims processing system is not fully functional and as a result is lacking a surveillance utilization review (SURS) subsystem.

Effect:
- Noncompliance with utilization control and program integrity requirements

Recommendation: We recommend that DHHS:
- Fully implement a SURS subsystem as a required core MMIS subsystem
- Continue to develop a more comprehensive post-payment review process that reviews recipient utilization and provider service profiles and identify exception criteria

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

DHHS has contracted with Unisys as its Fiscal Agent. We are actively partnering with them to implement the Fiscal Agent in the first quarter of calendar year 2010. Included in the contract is the expectation of Unisys to implement a nationally recognized and fully certified Surveillance and Utilization Review (SUR) component. The SUR component will be the J-SURS software tool developed by UPI-Government Group. UPI has developed SUR systems for nearly 30 years and its products are used in numerous states; J-SURS is the latest version of its SUR system. CMS has certified J-SURS in states that have replaced their MMIS. J-SURS will meet or exceed all federal minimum requirements for developing and refining the data analysis component of a comprehensive post payment review process to monitor recipient and provider utilization, produce profiles, and provide an extensive exception processing capability.

Contact: *Marc Fecteau, Director of Program Integrity, 287-9280*

MEDICAID CLUSTER

(07-78)

Title: No verification method for services furnished to recipients

Prior Year Finding: No
State Department: Health and Human Services (DHHS)
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 #: 05-0605ME5028, 05-0705ME5028

Compliance Area: Special tests and provisions

Type of Finding: Internal control

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Basis and Scope (42 CFR §455.1(a)(2))

Condition:

- The State does not have a method to verify whether services reimbursed by Medicaid were actually furnished to recipients.

Context:

- Maine 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:

- Although the issuance of EOMBs ceased prior to MECMS coming online, MECMS currently does not have the capability to generate them.

Effect:

- Noncompliance with State fraud detection and investigation program requirements

Recommendation: We recommend that the Department develop a method to verify whether services reimbursed by Medicaid were actually furnished to program beneficiaries.

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

The transition of MECMS to a Fiscal Agent through the Department's contract with Unisys will include the ability to produce monthly Explanation of Medical Benefits (EOMB). This transition *to Unisys is expected to be implemented in the first quarter of calendar year 2010. The Department will mail a selected sample, which will meet federal requirements.*

Contact: *Marc Fecteau, Assistant Director, SURS, 287-9280*

(07-79)

Title: Katie Beckett Waiver requirements not 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 #: 05-0605 ME5028, 05-0705 ME5028

Compliance Area: Activities allowed or unallowed

Type of Finding: Internal control and compliance

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA 134), Maine's Health Insurance Flexibility and Accountability Waiver #11-W-00158/1 (Health Care Reform Demonstration)

Condition:
- The Department did not comply with Waiver provisions; it did not establish caps on individual client's expenditures, monitor budget neutrality, collect premiums as required, separately report expenditures for Childless Adults and TEFRA 134 children, file the final report to allow federal assessment of overall compliance.
- The Department did not reduce Waiver costs as Legislatively required.

Context:
- The Department received federal approval to amend the existing Waiver for Childless Adults to include children age 18 and under who are otherwise eligible for Medicaid under Section 134 of TEFRA, also known as Katie Beckett children. The Waiver became effective July 2005 and ended September 2007. The amendments were sought in an attempt to reduce the cost of the Katie Beckett program; legislation was passed to reduce costs by $1.5 million. Waiver permission was necessary in order to obtain that reduction by imposing cost sharing premiums on Katie Beckett families. Among other things, the Waiver authorized and required monthly premiums and cost-sharing payments and made

three-month retroactive coverage from the date of an application not available to TEFRA Section 134 children. An existing TEFRA 134 requirement continued that required, on an individual basis, that costs for medical assistance for care outside of an institution not exceed the amount that would have been expended for care if the individual were in a medical institution. Maine was placed at risk for the per capita costs, if the limit was exceeded. The limit for budget neutrality was to be determined using a per capita cost method, enforced over the life of the demonstration, and less the amount of premiums paid. Budget neutrality was to be enforced by CMS over the life of the demonstration rather than on an annual basis. If, at the end of the demonstration period, the budget neutrality limit was exceeded, the Department is required to return any excess federal participation to CMS. Fiscal year 2007 combined State and federal expenditures were $27 million.

Cause:

- The Department was not able to reach agreement with the Katie Beckett families on the amounts of caps by type of institution, it could not determine actual costs paid for each individual because of problems with newly implemented Maine Claims Management System, MECMS.

Effect:

- The Department is in substantial noncompliance with the Waiver Agreement. Costs per client were not controlled and may well have exceeded individual limits by type of facility, those limits were not established. Federal participation was to be reduced by the amount of premiums to be collected; as premiums were not collected an equivalent amount will need to be refunded or otherwise negotiated with CMS. The unallowable costs may be offset to some extent as many high expenditure individuals who are coded as Katie Beckett do not live at home and appear to be otherwise eligible for Medicaid. The Department will have to research the exact makeup and distribution of the population in order to determine the extent of any unallowable costs. Noncompliance occurred throughout the life of the Waiver.

Recommendation: We recommend that the Department immediately contact CMS to engage in a dialogue to resolve the noncompliance with Waiver requirements. As the Katie Beckett program is on-going (since September 2007 under the State Plan and not as a Waiver), we recommend that the Department advise the Legislature of the problems with caps, and its inability to monitor or enforce cost neutrality.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services will continue to work with CMS to establish caps for categories of Katie Beckett members and cost neutrality for the Katie Beckett waiver program. The Department acknowledges that there have been difficulties in establishing caps for Katie Beckett members. However, we believe that many of the children enrolled under Katie Beckett are also SSI eligible and because of the nature of services provided would not exceed a cap based on the level of care that they require. The Department currently has a workgroup actively working on the implementation of caps for Katie Beckett members. We expect to implement caps for the program within the next few months.*

The Department began collecting premiums from Katie Beckett families as of April 2008.

Contact: *Dawn Gallagher, Social Service Program Manager, 287-9366.*

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

(07-91) ***page E-181***

(07-92) ***page E-183***

(07-94) ***page E-186***

(07-95) ***page E-188***

(07-96) ***page E-189***

(07-97) ***page E-191***

(07-98) ***page E-192***

BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE

(07-80)

Title: Excess cash related to audit settlements

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: Block Grants for Prevention and Treatment of Substance Abuse
CFDA #: 93.959
Federal Award #: 05B1MESAPT01, 06B1MESAPT01

Compliance Area: Cash management

Type of Finding: Internal control and compliance

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement (31 CFR §205 Subpart B); Financial Settlement (45 CFR §96.32)

Condition:
- Funds returned to the State by subrecipients as a result of audit settlements were not reported or returned to the federal granting agency, resulting in excess cash on hand.

Context:
- As of June 30, 2007 the program's cash balance was $1.4 million.

Cause:
- Cash balances not monitored
- A lack of understanding of how to properly handle subrecipient audit settlement returned to the State.

Effect:
- The federal government may impose more stringent cash management requirements.
- The federal government may undertake recovery of the returned funds.

Recommendation: We recommend that the Department:
- Complete an analysis to specifically identify all audit settlements returned by subrecipients and ensure that they are reported to the federal government.
- Implement controls to ensure that cash balances are regularly monitored for reasonableness.

- Track funds returned by subrecipients in the future to ensure proper reporting and remittance to the federal government.

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

As a result of staff turnover, audit settlements were not reported and remitted to the federal government nor were cash balances regularly monitored for reasonableness. A return of audit settlements has begun and will be completed by September 30, 2008. Procedures will be instituted to ensure greater accountability by thorough adherence to a routine review schedule.

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

(07-81)

Title: Financial reports not submitted

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: Substance Abuse and Mental Health Services Administration
CFDA Title: Block Grants for Prevention and Treatment of Substance Abuse
CFDA #: 93.959
Federal Award #: 05B1MESAPT

Compliance Area: Reporting

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Fiscal and Administrative Requirements (45 CFR §96.30)

Condition:

- The Department did not complete or file the required Financial Status Report (SF269) for the 2005 grant.

Context:

- The Financial Status Report for the 2005 grant was due on December 31, 2006. As of the end of our fieldwork date, this report had not yet been filed.

Cause:

- No procedures exist to ensure that financial status reports are filed.

Effect:

- Non-compliance with financial reporting requirements

Recommendation: We recommend that the Department prepare and submit a Financial Status Report for the 2005 grant. We further recommend that the Department establish procedures to ensure that all future financial reports are filed by the due date.

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

As a result of staff turnover, the FSR was not completed. The FSR will be submitted by September 30, 2008. A regular review of FSR reports and their completion due dates has been instituted which will ensure greater accountability.

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

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

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(07-96) ***page E-189***

(07-97) ***page E-191***

(07-98) ***page E-192***

DISABILITY INSURANCE/
SSI CLUSTER

(07-82)

Title: Cost principles related to personal services not followed

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Disability Determination Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Disability Insurance/SSI Cluster
CFDA #: 96.001
Federal Award #: 0604MEDI00, 0704MEDI00

Compliance Area: Allowable costs/cost principles

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

Condition:
- Payroll certifications were not obtained for employees who work solely on the SSDI/SSI programs.

Context:
- Payroll certifications were not obtained for the employees working solely on these programs.

Cause:
- Program manager was unaware of the requirement.

Effect:
- Federal program may be charged for salaries/wages of personnel working on other activities.

Recommendation: We recommend that the Department provide periodic certifications of employees who work solely on the SSDI/SSI programs.

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

DISABILITY INSURANCE/
SSI CLUSTER

Although the Social Security Administration does not require the payroll certification, they do recommend OIAS follow the OMB Circular guidelines. Effective July 1, 2008, OIAS-DDS will complete and retain a semi-annual certification for all Disability Determination Staff.

Contact: *Scott Mack, Director, Disability Determination, 377-9501*

(07-83)

Title: Noncompliance with suspension and debarment requirements.

Prior Year Finding: No
State Department: Health and Human Services (DHHS)
State Bureau: Disability Determination Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Disability Insurance/SSI Cluster
CFDA #: 96.001
Federal Award #: 0604MEDI00, 0704MEDI00

Compliance Area: Procurement, suspension and debarment

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Government-wide Debarment and Suspension (non-procurement) (45 CFR §76.300)

Condition:
- The Department did not include suspension and debarment certification language in all contracts or check the Excluded Parties List System (EPLS) website to determine that the contractor was not excluded or disqualified.

Context:
- Sixteen of seventeen contracts did not include suspension and debarment language nor was the EPLS website checked to determine if contractor was excluded or disqualified.

Cause:
- Starting in fiscal year 2007, contracts were sent out to providers by purchasing personnel, rather than program personnel. Purchasing personnel were not informed that suspension and debarment language (located in Rider D) must be included in the contracts or that the EPLS website should be checked to determine if the contractor was excluded or disqualified.

Effect:

- Possible noncompliance with suspension and debarment requirements. However, we verified that the contracted parties were not suspended or debarred.

Recommendation: We recommend that the Department put control procedures in place to ensure that suspension and debarment language is included or that the EPLS website is checked in all contract agreements greater than $25,000.

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

This finding pertains to the medical and psychological consultants who handle disability requests. Rider A requires that each consultant hold a valid license. The Department requires proof of licensure annually. If the license is suspended or revoked, consultant services provided by the doctor would cease.

Effective with the next contract renewals, the Office of Integrated Access and Support will ensure that Rider D and the required disbarment form is completed. Additionally, a review will be performed to identify multi year contracts and steps will be taken to check the EPLS website to ensure the vendor is not excluded or disqualified. This review will be documented.

Contact: *Thomas Keyes, Deputy Director, OIAS, 287-2310*

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

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(07-96) ***page E-189***

(07-97) ***page E-191***

(07-98) ***page E-192***

HOMELAND SECURITY CLUSTER

(07-84)

Title: Payroll costs are not supported in accordance with federal requirements.

Prior Year Finding: 06-91
State Department: Defense, Veterans, and Emergency Management
State Bureau: Maine Emergency Management Agency
Federal Agency: U.S. Department of Homeland Security
CFDA Title: Homeland Security Cluster
CFDA #: 97.004, 97.067
Federal Award #: 2005-GE-T5-0053

Compliance Area: Allowable costs/cost principles

Type of Finding: Internal control and compliance

Known Questioned Costs: $57,000

Likely Questioned Costs: $57,000

Criteria: Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

Condition:

- The Department did not obtain the required semi-annual certifications for employees who work solely on Homeland Security Cluster.
- Payroll costs were not allocated in relation to the overall duties of the individuals who devoted their time to Homeland Security Cluster and other programs.

Context:

- Payroll expenditures are material to the program and represent 5% of total expenditures.
- Nine employees charged 100% of their time to this program. Two of these employees did not devote all of their time on grant related activities. Grant managers estimated that one of these employees spent approximately 25% of her time and the other spent approximately 50% of his time on the program.

Cause:

- There are no established procedures to ensure compliance with federal cost principles.

Effect:

- Unallowable payroll costs may be charged to the program resulting in future questioned costs.

Recommendation: We recommend that the Department implement internal control procedures to ensure that required semi-annual certifications are obtained from employees who work solely on the Homeland Security Cluster. We also recommend that payroll costs are allocated in relation to the overall duties of the individual working on federal program in accordance with federal cost principles.

Management's Response/Corrective Action Plan: *The Department of Defense, Veterans, and Emergency Management agrees.*

After a great deal of staff time and effort working with the Department of Administrative and Financial Services Securities and Employment Service Center, all employees who are funded in part or in full by Homeland Security Grant funds are now required to code their MS-TAMS timesheets with proper funding account information. This change went into effect in March 2008. We believe this deficiency has been corrected with the new practice.

Contact: *Ron Looman, Senior Contract Grant Specialist, 624-4450*
Ginnie Ricker, Deputy Director, MEMA, 624-4471

(07-85)

Title: Inadequate controls to ensure compliance with earmarking requirements

Prior Year Finding: 06-93
State Department: Defense, Veterans, and Emergency Management
State Bureau: Maine Emergency Management Agency
Federal Agency: U.S. Department of Homeland Security
CFDA Title: Homeland Security Cluster
CFDA #: 97.004, 97.067
Federal Award #: 2004-GE-T4-0041

Compliance Area: Matching, level of effort, earmarking

Type of Finding: Internal control

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: Grant program for State and Local Domestic Preparedness Support (42 USC §3714(c)(2))

Condition:

- The earmarking control spreadsheet utilized by the Department was incomplete and did not contain sufficient detail to determine if the three programs within the Homeland Security Grant exceeded their 3% management and administrative earmarking limits.

Context:
- The Department's earmarking control spreadsheet did not identify $370,000 of the $22.4 million in grant expenditures.

Cause:
- Inadequate tracking of grant expenditures for earmarking purposes.

Effect:
- Potentially exceeding earmarking limitations
- Potential questioned costs.

Recommendation: We recommend that the Department improve their procedures to ensure compliance with earmarking requirements.

Management's Response/Corrective Action Plan: *The Department of Defense, Veterans, and Emergency Management agrees.*

We continue to work on ensuring that expenditures are earmarked appropriately and monitor our internal tracking system to ensure correct reporting.

We believe the issue noted in this Finding may be linked in part to a separate finding we received, which noted a deficiency in the Agency's tracking of funds used to employ Homeland Security staff people within the Agency.

MEMA has worked with the Department of Administrative and Financial Services Service Center to ensure proper tracking and accounting of hours spent by Homeland Security staff corresponds to funding used to pay for salary and benefits. Employees are now required to code their MS-TAMS timesheets with proper funding account information. This new requirement went into effect in March 2008. We anticipate this will more accurately reflect Management and Administrative (M&A) costs associated with each grant.

Additionally, on July 1, 2007 MEMA started using detailed account coding in the Advantage system, which will ensure that no more than 3% of any Homeland Security Grant can be spent on M&A activities. MEMA had not used this level of detail in the past, which may explain why M&A expenses were not tracked as accurately as they will be now and in the future.

Contact: *Ron Looman, Senior Contract Grant Specialist, 624-4450*
Ginnie Ricker, Deputy Director, MEMA, 624-4474

HOMELAND SECURITY CLUSTER

(07-86)

Title: Program funds expended beyond period of availability

Prior Year Finding: 06-94
State Department: Defense, Veterans, and Emergency Management
State Bureau: Maine Emergency Management Agency
Federal Agency: U.S. Department of Homeland Security
CFDA Title: Homeland Security Cluster
CFDA #: 97.004, 97.067
Federal Award #: 2003-TE-TX-0158; 2003-MU-T3-0016

Compliance Area: Period of availability of federal funds

Type of Finding: Internal control and compliance

Known Questioned Costs: $33,870

Likely Questioned Costs: $33,870

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (28 CFR §66.23)

Condition:
- Program expenditures were not properly liquidated within the period of availability as required by federal regulations.

Context:
- The program spent $155,173 of federal funds outside the period of availability, of which $121,303 was questioned in fiscal year 2006. The resulting questioned cost is $33,870.

Cause:
- Inadequate monitoring to ensure that program funds are spent within the allowable time frame.
- Department not drawing federal funds timely

Effect:
- Current and potential future questioned costs

Recommendation: We recommend that the Department improve internal control procedures to ensure grant funds are properly monitored and if available, obligated within the period of availability to ensure compliance with federal regulations.

Management's Response/Corrective Action Plan: *The Department of Defense, Veterans, and Emergency Management agrees.*

We believe this was an issue during the 90 day "grace period" provided by DHS. We believe this Finding represents old expenditures, previously noted and audited again as part of the current fiscal year 2007 audit process. We believe this issue has since been corrected through a better understanding of the grant processes/cycles by our current staff. For example we are currently making final payments on the federal fiscal year 2005 Homeland Security Grant during the "grace period" to close this grant out on time by June 30, 2008.

Contact: *Bruce Fitzgerald, Director, Homeland Security, 624-4474*
Ginnie Ricker, Deputy Director, MEMA, 624-4471

(07-87)

Title: Inaccurate financial reporting

Prior Year Finding: 06-96
State Department: Defense, Veterans, and Emergency Management
State Bureau: Maine Emergency Management Agency
Federal Agency: U.S. Department of Homeland Security
CFDA Title: Homeland Security Cluster
CFDA #: 97.004, 97.067
Federal Award #: 2004-GE-T4-0041; 2005-GE-T5-0053; 2006-GE-T6-0047

Compliance Area: Reporting

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Standards for Financial Management Systems (28 CFR §66.20)

Condition:
- Estimates rather than actual expenditures were reported. These estimates were based on a calculation using unobligated balances, total federal funds authorized, and previously reported expenditures.
- Homeland Security expenditures incurred by other State agencies, in the amount of $1,534,807 were not reported on quarterly reports.

Context:
- Twelve quarterly reports were filed for fiscal year 2007. Of those twelve quarterly reports, errors were noted in seven.

Cause:
- Inadequate controls to ensure all program expenditures are identified and reported on quarterly reports.

Effect:
- Reporting inaccuracies could result in a hold on grant funds

Recommendation: We recommend that the Department improve their procedures to ensure accurate financial reporting.

Management's Response/Corrective Action Plan: *The Department of Defense, Veterans, and Emergency Management agrees.*

As noted in response to previous year findings, the Agency has taken steps to correct this deficiency. Quarterly reports are now filed on time and accurately reflect expenditures, supported by General Ledger reports.

Contact: *Ron Looman, Senior Contract Grant Specialist, 624-4450*
Ginnie Ricker, Deputy Director, MEMA, 624-4471

(07-88)

Title: Subrecipient monitoring requirements not followed

Prior Year Finding: 06-97
State Department: Defense, Veterans, and Emergency Management
State Bureau: Maine Emergency Management Agency
Federal Agency: U.S. Department of Homeland Security
CFDA Title: Homeland Security Cluster
CFDA #: 97.004, 97.067
Federal Award #: 2004-GE-T4-0041; 2005-GE-T5-0053; 2006-GE-T6-0047

Compliance Area: Subrecipient monitoring

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (28 CFR §66.26 and §66.37)

Condition:
- No procedures were in place to ensure that subrecipients with expenditures exceeding the OMB Circular A-133 audit threshold submitted an audit report.
- The Department did not have procedures in place to ensure that management decisions on audit findings were issued within six months after the receipt of the subrecipients Single Audit Report.
- The standard letter used to communicate the grant award did not contain the CFDA title, name of federal awarding agency and compliance requirements.

Context:
- Eighty-six percent ($10.8M) of grant expenditures were passed through to subrecipients.
- Currently, the Department has no procedures in place to review subrecipient A-133 audit reports.

Cause:
- The Department requested assistance from the Office of the State Controller to determine which subrecipients were required to submit A-133 audit reports. This assistance was not provided timely.
- Inadequate procedures

Effect:
- Subrecipients may not be aware they are receiving federal grant funds nor of the applicable federal program requirements, potentially resulting in noncompliance with federal regulations.

Recommendation: We recommend that the Department establish procedures to ensure that subrecipient A-133 audit reports are reviewed and management decisions are made within six months of receiving the reports. We further recommend that subgrantees are provided with all the required grant award information.

Management's Response/Corrective Action Plan: *The Department of Defense, Veterans, and Emergency Management agrees.*

MEMA/DVEM continues to work with the State Controller's Office to address the issue of sub-recipient monitoring and review of A-133 Audit Reports submitted annually by subgrantees.

MEMA has also made improvements to its standard grant award notices and documentation that are issued to subgrantees starting with the fiscal year 2006 grants. In addition to CFDA Number, Award Name, Number and Year, and Award Amount, all grant award notices will also include CFDA Title, Name of Federal Agency (DHS), and Compliance Requirements as part of the formal letter. Grant announcements, guidance, and application documents have also been updated to include appropriate information that must be communicated to subgrantees.

Contact: *Bruce Fitzgerald, Director, Homeland Security, 624-4474*
Ginnie Ricker, Deputy Director, MEMA, 624-4471

HOMELAND SECURITY CLUSTER

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

(07-96) ***page E-189***

(07-97) ***page E-191***

(07-98) ***page E-192***

(07-89)

Title: Subrecipient monitoring efforts not effective

Prior Year Finding: No
State Department: Education (DOE)
State Bureau: Support Systems Team - Finance
Federal Agency: U.S. Department of Education
CFDA Title: Title I Grants to LEAs
Special Education Cluster
Child Nutrition Cluster
CFDA #: 84.010, 84.027, 84.173, 10.553, 10.555, 10.556, 10.559
Federal Award #: S010A060019A; H027A060109A; 4ME300301

Compliance Area: Subrecipient monitoring

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Audits of States, Local Governments, and Non-Profit Organizations, (OMB Circular A-133 §400(d)); Title 20-A MRSA §6051

Condition: The Department has not performed effective subrecipient monitoring procedures as indicated by the following:

- Required subrecipient audits were not completed
- Subrecipients submitted their A-133 audit reports late
- Sanctions were not imposed in cases where subrecipients continually did not obtain required audits
- Procedures were not in place to identify subrecipients who requested or were granted federal extensions for submissions of annual audit reports
- Procedures were not in place to ensure the subrecipients submitted the State mandated report on compliance with the Maine School Finance Act
- Subrecipients who expend between $100,000 and $500,000 did not have a "limited scope review"
- Appropriate action was not taken by DOE when subrecipients' audit reports included findings.

Context: In a sample of 40 subrecipients tested we noted the following:

- Four subrecipients did not submit audit reports for fiscal year ended 6/30/06
- No receipt dates were recorded for 17 subrecipients
- Four subrecipients submitted audit reports within a month after submission deadline
- Five subrecipients submitted audit reports almost one year after submission deadline

- Of 36 subrecipients that submitted audit reports we noted that nine did not have the report indicating compliance with the Maine School Finance Act
- DOE did not take appropriate measures to ensure that the required corrective action plans were submitted for 13 subrecipients whose audit reports included findings.
- The Department did not follow-up with one subrecipient that failed to complete a limited scope review.

Cause:
- Staff turnover
- Lack of training
- Lack of supervisory review

Effect:
- Noncompliance with subrecipient monitoring requirements and potential future federal sanctions.

Recommendation: We recommend that the Department follow procedures already in place to ensure compliance with federal subrecipient monitoring requirements. We also recommend that the Department establish procedures to ensure compliance with State regulations.

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

This finding for the Audits of States, Local Governments, and Non-Profit Organizations sub-recipient monitoring has been resolved in the current fiscal year (2007-08) ensuring compliance with federal sub-recipient monitoring requirements and State statutes. The Department of Education audit staff has established procedures for sub-recipient monitoring including tracking and follow-up on annual audit report and additional supervision to audit staff will be provided to ensure compliance with federal sub-recipient monitoring requirements as well as bi-weekly meetings to determine the status of required audits and audit reporting. Additional procedures have also been established to ensure compliance with State regulations.

Contact: *Suzan Beaudoin, School Finance Supervisor, 624-6790*

(07-90)

Title: Federal cash management requirements not followed

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 Grants to Local Educational Agencies
Child Nutrition Cluster
CFDA #: 84.010, 84.027, 10.553, 10.555, 10.556, 10.559

VARIOUS

Federal Award #: S010A060019A; H027A060109A; 4ME300301

Compliance Area: Cash management

Type of Finding: Internal control and compliance

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 ensure that funds were drawn in accordance with procedures outlined in the Treasury-State Agreement (CFDA #'s 84.010, 84.027, 10.555).
- For those programs not included in the Treasury-State Agreement (TSA), the Department maintained Federal cash on hand longer than allowed (CFDA #'s 10.553, 10.556, 10.559).

Context:
- Federal cash was not consistently drawn for programs covered by the TSA. Cash draws ranged from eight business days earlier to eleven business days later than allowed.
- For those programs not included in the TSA, federal cash was held in longer than allowed. We found excessive cash was held as follows:
    - 20 days in December 2006 (CFDA #10.553)
    - 21 days in January, 19 days in February and 22 days in March 2007(CFDA #10.556)
    - 20 days in April 2007, 19 days in May 2007, and 18 days in June 2007 (CFDA #10.559)

Cause:
- Staff turnover
- Inadequate monitoring to ensure program funds are spent within the allowable time frame
- Lack of specificity on the federal grant award document, resulting in the Child Nutrition Cluster programs being incorrectly accounted for as one program.

Effect:
- Interest liability to the State (for those programs included in the TSA)
- The possibility that the federal government could impose more stringent cash management requirements on those programs not covered by the TSA.

Recommendation: We recommend that the Department establish procedures to monitor receipts and disbursements to ensure that these grant funds are spent within the allowable time frames. We further recommend that the Department account for the programs within the Child Nutrition

Cluster as separate programs to facilitate compliance with federal cash management requirements.

Management's Response/Corrective Action Plan: *The General Government Service Center responsible for these accounts within the Department of Administrative and Financial Services agrees with this finding.*

Beginning July 1, 2008, the service center will ensure that the account manager responsible maintains a spreadsheet listing a breakdown of the grant by budget amounts. Each time cash is drawn it will be logged into the spreadsheet and a cash receipt will be processed. The backup for the cash receipt will contain the check dates for the expenses drawn. This will ensure that the cash is drawn within the allowable time period.

Beginning July 1, 2008, only one person will be assigned to handling the Child Nutrition Cluster and that account manager will separate programs to facilitate compliance with federal cash management requirements for all future cash draws. The Child Nutrition Cluster will be monitored by Senior and/or Managing Staff Accountant on a regular basis to ensure excess cash is not being held longer than the three day federal regulation.

Contact: *Loretta Baker, Accountant, Financial & Personnel Services, 624-6867*

(07-91)

Title: Cost allocation plan not followed and allocated costs not properly reported

Prior Year Finding: 06-07, 06-08, 06-46
State Department: Administrative and Financial Services (DAFS)
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Agriculture
U.S. Department of Health and Human Services
CFDA Title: Food Stamp Cluster, Temporary Assistance for Needy Families,
Child Support Enforcement, Foster Care - Title IV-E, Adoption Assistance,
Social Services Block Grant, State Children's Insurance Program, Medicaid Cluster
CFDA #: 10.551, 10.561, 93.558, 93.563, 93.658, 93.659, 93.667, 93.767,
93.775, 93.777, 93.778
Federal Award #: 4ME400401; 0702METANF; 0704ME4004;
0701ME1401; 0701ME1407; MESOSR06;
MESOSR07; 05-0505ME5021; 05-0605ME5021;
05-0705ME5028; 05-0705ME5048

Compliance Area: Allowable costs/cost principles; Reporting

Type of Finding: Internal control and compliance

Known Questioned Costs: $530,762 ($222,928, SCHIP; $307,834 Food Stamps)

VARIOUS

Likely Questioned Costs: Undeterminable

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

Condition:

- The Department did not comply with the Department of Health and Human Services' federally-approved cost allocation plan. We found the following:
  - Reported allocated costs were not based on final allocation schedules
  - Incorrect amounts were entered on cost allocation schedules
  - Factor rates were not consistently updated and some could not be adequately supported
  - The methodology for accumulating and allocating some costs was not adequately documented
  - Certain allocated costs were removed from the cost allocation plan without federal approval
  - Allocated costs were charged incorrectly to various federal programs

Context:

- During fiscal year 2007, Medicaid underreported its fair share of allocated costs by $2.7 million and SCHIP over-reported its fair share of allocated costs by $222,928.
- The Social Services Block Grant (SSBG) program paid for $36,427 in legal services costs though there is no documentation to support the allocation of these costs to this program. However, as SSBG is allowed to claim a portion of legal services costs, we do not question costs.
- The Food Stamps and Child Support Enforcement programs were charged for $307,834 (included in the questioned costs) and $221,034 (included in the questioned costs of finding (07-45) in excessive allocated costs respectively.
- The Foster Care, TANF, and Medicaid programs were not charged their fair share of allocated costs by $529,507, $221,397, and $198,975 respectively.

Cause:

- Staff turnover
- Inadequate accounting procedures
- Medicaid and SCHIP accounting personnel did not report allocated costs based on the cost allocation schedules
- Outdated cost allocation plan that no longer reflects the current operation of the Department

Effect:

- Inaccurate financial reports
- Unallowable costs claimed
- Allowable costs not claimed
- Current and potential future questioned costs
- Disproportionate share of allocated costs charged to federal programs
- Cash shortages or overages

Recommendation: We recommend that the Department continue in its efforts to develop a revised cost allocation plan that more accurately reflects current operations. We further recommend that the Department implement accounting procedures to ensure that the State's accounting records adequately reflect the proper allocation of pooled costs.

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

While many of the causes cited in this finding were addressed in previous fiscal years, continued staff turnover prevented the Department's ability to efficiently administer the Cost Allocation Plan.

The Department submitted its new Public Assistance Cost Allocation Plan (PACAP) to the federal Division of Cost Allocation in December 2005 and began using it effective July 1, 2007 under federal code Title 45, Subtitle A, Part 95, Section 95-517. The new CAP utilizes database technology and reduced manual input to eliminate many of the errors discussed in this finding. The cost allocation for DHHS is a complex process; we are committed to continued review and refinement to ensure appropriate allocation.

Prior to September 30, 2008 journals will be processed to correct the overcharges and return the questioned costs.

Contact: *Donna Wheeler, Senior Staff Accountant, 287-1860*

(07-92)

Title: Cash management requirements not consistently followed

Prior Year Finding: 06-43
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: Temporary Assistance for Needy Families, Child Support Enforcement, Child Care Cluster, State Children's Insurance Program, Medicaid Cluster
CFDA #: 93.558, 93.563, 93.575, 93.596, 93.767, 93.775, 93.777, 93.778
Federal Award #: 0702METANF, 0704ME4004, G-0701MECCDF, 05-0505ME5021, 05-0605ME5021, 05-0705ME5028, 05-0705ME5048

Compliance Area: Cash management

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Rules and Procedures for Efficient Federal - State Funds Transfers - Rules Applicable to Federal Assistance Programs Included in a Treasury-State Agreement (31 CFR §205 Subpart A)

Condition:
- The Department did not comply with the terms of the 2007 Treasury-State Agreement (TSA).

Context:
- Draws of federal cash were both earlier and later than the TSA allowed
- The Department could not provide adequate supporting documentation for certain draws.

Cause:
- Timing of draws is not consistently based on disbursement dates
- Lack of adequate documentation to support amounts being drawn

Effect:
- The possibility of insufficient cash when federal funds are drawn late.
- Excess federal cash on hand could result in an interest liability due the federal government.

Recommendation: We recommend that the Department:
- Improve grant accountability so that program managers and accountants are able to comply with the terms to the Treasury-State Agreement
- Consistently maintain adequate documentation to support draws of federal cash

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with this finding. Continued staff turnover has prevented our ability to efficiently address the conditions cited.*

In July 2007, DHHS Service Center assigned a financial analyst to oversee all cash management for the Department. This person meets with the Treasurer's Office CMIA (Cash Management Improvement Act) administrator and will implement procedures to limit draws to comply with federal cash management rules. Beginning in July 2008, additional resources will be deployed to bring cash management into compliance.

Contact: *Charles Woodman, Deputy Director, HHS Service Center, 287-2572*

(07-93)

Title: Inaccurate SEFA reporting

Prior Year Finding: 06-37
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Security and Employment Service Center
Federal Agency: U.S. Department of Health and Human Services
U.S. Department of Labor
CFDA Title: H-1B Job Training Grants; Immunization Grants; Child Care Cluster; Social Services Block Grant; Medicaid Cluster
CFDA #: 17.268; 93.268; 93.575, 93.596; 93.667; 93.775, 93.777, 93.778
Federal Award #: WR-15403-06-60; H23/CCH122558; G-0701MECCDF; ME-SOSR07; 05-0705ME5028, 05-0705ME5048;

Compliance Area: Reporting

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Audits of States, Local Governments and Non-Profit Organizations (OMB Circular A-133 §310(b))

Condition: Expenditures were incorrectly reported on the Schedule of Expenditures of Federal Awards (SEFA)

Context: Of the 25 programs audited, 10 programs had variances greater than $200,000. These programs had federal expenditures ranging from $3.8 million to $1.3 billion. Of these 10 programs, four programs had variances that exceeded individual program materiality as follows:

- Immunization Grants - ($888,834)
- Child Care Cluster - $3.4 million
- Social Services Block Grant - $1.2 million
- H-1B Job Training Grants - $933,398

Cause: Despite attempts to provide adequate instructions and guidance by the Office of the State Controller (OSC), there remains:

- Insufficient understanding of how to compile SEFA expenditures by State agency personnel
- Inadequate oversight by State agency personnel
- Vaccine purchases rather than vaccines distributed were included in the SEFA
- Agency SEFA submission to the OSC was not updated after expenditure reports were revised

- Lack of reconciliation of a subsidiary accounting system to the State's accounting system
- Certain worksheets used compile expenditures contained duplicate costs and did not appropriately take contract settlements into consideration

Additionally, the Department continues to incorrectly calculate the SEFA amount for the Medicaid Cluster. The methodology used to compile the intended 2007 SEFA amount contained significant errors, which would have underreported SEFA expenditures by $162 million. However, the Department mistakenly did not submit the 2007 SEFA calculation to the OSC. Instead, the Department submitted a SEFA amount incorrectly calculated using fiscal year 2006 expenditures. By happenstance, the SEFA amount reported for the Medicaid Cluster was only overstated by $654,346.

Effect:

- Incorrect SEFA - which is used as a basis to determine which federal programs are audited and is also used to determine which programs are to be included in the Treasury State Agreement for management of federal cash.

Recommendation: We recommend that the Department continue to work with the OSC to improve their understanding of how to properly report federal expenditures on the SEFA.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services, Department of Labor, and their Service Centers agree with this finding.*

The Service Centers will continue to work with the Office of the State Controller to improve and ensure correct reporting of expenditures on the SEFA Report.

Going forward, the Service Centers will remind accounting staff to notify the Financial Analyst responsible for SEFA reporting of any revisions to program reported federal expenditures.

Contact: *Donna Wheeler, Senior Staff Accountant, 287-1860*
Dennis Corliss, Director, SESC, 623-6701

(07-94)

Title: Inadequate support for PSC-272 reports

Prior Year Finding: 06-100
State Department: Administrative and Financial Services (DAFS)
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Temporary Assistance for Needy Families,
State Children's Insurance Program, Medicaid Cluster
CFDA #: 93.558, 93.767, 93.775, 93.777, 93.778
Federal Award #: 0602METANF, 0605ME5021, 0605ME5048, 0605ME5028

VARIOUS

Compliance Area: Reporting

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Standards for Financial Management Systems (45 CFR §92.20)

Condition:
- The Department does not consistently maintain adequate supporting documentation for amounts reported on the Federal Cash Transactions Reports (PSC 272). As a result, no verifiable documentation was provided by the agency for three of the seven audited programs.
- One program was found to have not reported at all.

Context:
- We reviewed the reports for the quarters ending September 30, 2006 and June 30, 2007. The issues listed resulted from the quarter ending September 30, 2006

Cause:
- The agency did not consistently retain supporting schedules.
- The agency did not consistently use proper source information to compile the PSC 272 report.
- The agency did not consistently use corroborating expenditure reports when available.

Effect:
- Amounts reported were not properly supported in three of the seven programs tested.
- Amounts were incorrectly reported in one of the seven programs tested.

Recommendation: We recommend that the Department implement procedures to ensure that adequate support for the PSC 272 reports are maintained. We further recommend that the Department reconcile amounts reported on the PSC 272 report to the applicable programs expenditure report.

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

We will develop procedures to ensure adequate support is maintained for the PSC 272 and also will reconcile the PSC 272 report to the applicable program expenditures reports by end of FY09.

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

(07-95)

Title: Administration of federal funds inadequate

Prior Year Finding: 06-99
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
U.S. Department of Agriculture
CFDA Title: Various
CFDA #: Various
Federal Award #: Various

Compliance Area: Allowable costs/cost principles
Cash Management
Reporting

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 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 consistently utilize separate accounts within the State's accounting system for each federal program. For some federal programs, "reporting organizations" are used for individual programs but are combined into a single "appropriation organization," which controls the cash for multiple programs. The Department is not always able to provide a complete and accurate list of the accounts established and used for each program.
- The State's accounting records do not accurately reflect the sources and uses of funds. Transactions are not always posted or transferred to the relevant accounts. This is particularly true for costs related to accounts within the Department's cost allocation plan. Those costs are significant because they include regional office costs and other costs that benefit multiple programs. This process complicates the administration of federal funds.
- The Department "self-funds" some programs through a method they refer to as "earned revenue". This "earned revenue" is the result of federally qualified expenditures having been paid for with State funds. When the Department subsequently receives federal reimbursement, the State's General Fund is not refunded. Instead, these federal reimbursements are often transferred to Other Special Revenue Fund accounts and used to "self-fund" other Department programs. This "self-funding" approach also makes tracing the sources and uses of funds difficult or, if proper documentation is not

maintained, impossible. The Title IV-E Foster Care and Adoption Assistance programs are examples of programs that used the "earned revenue" approach.

Context:
- This is a systemic problem.

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

Effect:
- Difficulty identifying sources and uses of funds
- Insufficient supporting documentation
- Noncompliance with federal regulations (e.g. cash management, reporting, allowable cost/cost principles, etc.)

Recommendation: We recommend that the Department:
- Establish and maintain a chart of accounts
- Document all procedures in writing
- Record all activity relating to specific programs into distinct accounts
- Consistently review and reconcile account activity

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the recommendations to maintain a chart of accounts, document all procedures and review and reconcile account activity.*

Additional staffing authorized in PL2007, c. 539 and currently being recruited will effect these changes. It is standard practice across all State agencies to place multiple grants in one appropriation organization. Placing all grants in separate appropriation organizations would add over 100 to the Department's chart of accounts. The earned revenue account referred to in the final recommendation is authorized in statute, Public Law 2007, Chapter I, Part V.

Contact: *Charles Woodman, Deputy Director, HHS Service Center,* 287-2572

(07-96)

Title: Federal share of excess reserves in Internal Service Fund not returned

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

VARIOUS

CFDA #: Various
Federal Award #: Various

Compliance Area: Allowable costs/cost principles

Type of Finding: Compliance

Known Questioned Costs: $1,396,601

Likely Questioned Costs: $1,396,601

Criteria: Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

Condition:

- The Office of State Controller (OSC) transferred to the State's General Fund and Highway Fund, as mandated by the Maine Legislature, a portion of the excess reserves in the Accident, Sickness and Health Insurance Internal Service Fund during fiscal year 2007. Federal regulations require that the excess reserves, attributable to federal funding sources, be returned to them in proportion to the original transfer. A corresponding transfer to the federal Funds was neither authorized nor made.
- We noted that subsequent legislation authorized the State Controller to transfer the equitable share of the excess reserves to each participating fund by June 30, 2008. The OSC is currently in negotiations with the federal government to finalize those amounts.

Context:

- These transfers were made to facilitate the State's budgeting process.

Cause:

- Actions mandated by the 122nd Maine Legislature through PL2005 C. 457, JJ-2, JJ-3 and III-1 and the 123rd Maine Legislature through PL2007 C. 240, III-1 and C329, J-1

Effect:

- Current questioned costs

Recommendation: We recommend that the Department return the excess reserves to the federal government based on a negotiated distribution and in accordance with authorized legislation.

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

The Office of the State Controller has contacted the Federal Division of Cost Allocation and is waiting for instructions on how to return the funds to the participating federal programs. Corrective action will be completed by September 30, 2008.

Contact: *Terry Brann, Deputy State Controller, 626-8423*

(07-97)

Title: Excess working capital reserves

Prior Year Finding: 06-101
State Department: Administrative and Financial Services (DAFS)
State Bureau: General Government Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Various
CFDA #: Various
Federal Award #: Various

Compliance Area: Allowable costs/cost principles

Type of Finding: Compliance

Known Questioned Costs: $275,000 (Questioned costs were calculated by multiplying the excess working capital reserve balance of $5.6 million by 4.9%, which is the estimated percentage paid by federal funds in relation to all other funds)

Likely Questioned Costs: $275,000

Criteria: Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

Condition:
- The Risk Management Fund had a balance of $8.2 million in retained earnings with an allowable reserve of $2.6 million as of June 30, 2007. This resulted in excess working capital reserves of $5.6 million of which approximately $275,000 is attributable to federal funds. We are questioning these costs because no acceptable plan to reduce the excess working capital reserves has been negotiated with the federal government.

Context:
- The amount of excess working capital reserves is determined on an annual basis by DAFS. Although rates are periodically adjusted, the rates charged were higher than necessary to offset ongoing expenditures.

Cause:
- Management decisions.

Effect:
- Current and potential future questioned costs

Recommendation: We recommend that the Department adjust billing rates to ensure compliance with federal working capital reserve requirements.

Management's Response/Corrective Action Plan *The Department of Administrative and Financial Services understands this finding to assert that a biennial actuarial analysis conducted by the Division of Risk Management failed to identify sufficient information as required by the federal government to sustain a certain level of reserve funds, nor did the Department provide justification for reserves in excess of what the actuary identified in the Statewide Internal Service Fund cost allocation plan.*

The Department strongly believes that the current reserve in this self insurance fund is reasonable and necessary in order to comply with State laws requiring certain minimum reserve levels be maintained and to secure financial stability against sudden and accidental losses for State Government. However, we understand and agree that improved documentation and explanation is needed to justify the reserves and to avoid the perception expressed in this finding that the Division of Risk Management's reserves are anything other than in compliance with all applicable rules and laws, including MRSA 5, Chapter 152.

Noting the requirements of OMB A-87 and GASB 10, the Division of Risk Management will continue to seek actuarial reports which address the necessity of reserve funds. The fiscal year 2007 Internal Service Fund cost allocation plan will be amended to provide justification for the excess reserve in an effort to obtain the necessary approval from the federal government. Additionally, we will take measures to ensure that future Internal Service Fund cost allocation plans provide the necessary information to support any excess reserves in this fund.

Contact: *Dave Fitts, Director, Risk Management, 287-3352*
Denise Garland, Director, General Government Service Center 624-7413

(07-98)

Title: Excess working capital reserves - Retiree Health Insurance Fund

Prior Year Finding: 06-101
State Department: Administrative and Financial Services (DAFS)
State Bureau: General Government Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Various
CFDA #: Various
Federal Award #: Various

Compliance Area: Allowable costs/cost principles

Type of Finding: Compliance

Known Questioned Costs: $15,142,659 (Questioned costs were calculated by multiplying the excess reserves of $94,464,500 by 16.03 %, which is the percentage paid by federal programs in relation to all other funds)

Likely Questioned Costs: $15,142,659

Criteria: Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87)

Condition:

- The Department did not comply with federal working capital reserve requirements. The Retiree Health Insurance Fund had excess working capital reserves of $94,464,500 for fiscal year 2007. The portion of this excess that was attributable to federal funds was $15,142,659. These amounts were included in the DAFS cost allocation plan submitted to the U.S. Department of Health and Human Services in December of 2007.

Context:

- This fund converted from pay-as-you-go to actuarially funded on July 1, 2007. The state is actively seeking federal approval to utilize these funds as an initial deposit in an irrevocable trust fund for this purpose.

Cause:

- Management decisions.

Effect:

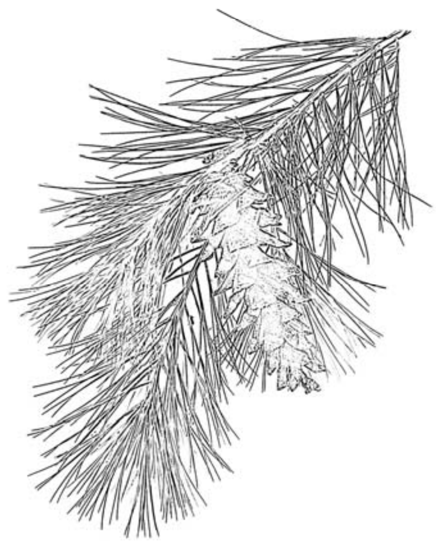
- Current and potential future questioned costs

Recommendation: We recommend that the Department finalize the approval process with the federal government or adjust billing rates to ensure compliance with federal working capital reserve requirements.

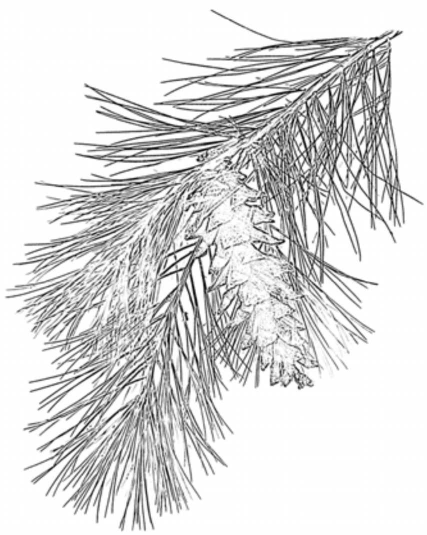
Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services agrees with this finding.*

The Retiree Health Insurance fund converted from pay as you go to actuarial basis funding on July 1, 2007, and the excess reserve funds were transferred to an irrevocable trust fund in accordance with GASB 45 requirements. The Office of the State Controller is currently working with the Federal Division of Cost Allocation to address their questions regarding the structure of the trust, the federal share of the amount transferred and the federal programs impacted. The State fully expects to receive approval from the federal government within the next few weeks.

Contact: *Ed Karass, State Controller, 626-8420*



STATE OF MAINE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007



State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2007

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
03-11	Various	DAFS	Excess working capital reserve balance	$613,212	Awaiting federal approval	Finding was not repeated
04-06	84.027, 84.010	DAFS	Internal control procedures over subrecipients' cash balances not followed.	None	Corrective action not completed in FY07	See 07-27 No further action warranted per OMB A-133 §315(b)(4)
04-09	Various	DAFS	Excess working capital reserve balance	$788,965	Awaiting federal approval	Finding was not repeated
04-17	84.027, 84.010	DOE	Internal control procedures over subrecipients' cash balances not followed	None	Corrective action not completed in FY07	See 07-27 No further action warranted per OMB A-133 §315(b)(4)
04-19	10.551	DHHS	Inadequate controls over federal reporting requirements	None	Corrective action taken in FY07	No further action warranted per OMB A-133 §315(b)(4)
04-24	10.561	DHHS	Inadequate controls over financial reporting	None	Corrective action taken in FY07	No further action warranted per OMB A-133 §315(b)(4)

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
04-25	93.268	DHHS	Inconsistent monitoring of pediatric providers and no established procedures for the monitoring of non-pediatric providers	None	Corrective action not completed in FY07	See 07-36 No further action warranted per OMB A-133 §315(b)(4)
04-26	93.268	DHHS	No established procedures for monitoring the safeguarding of vaccine inventory	None	Corrective action not completed in FY07	See 07-37 No further action warranted per OMB A-133 §315(b)(4)
04-27	93.268	DHHS	Inadequate controls over cash management and timely reimbursement	None	Corrective action not completed in FY07	See 07-95 No further action warranted per OMB A-133 §315(b)(4)
04-30	93.268	DHHS	Inadequate control procedures over reporting/period of availability	$390,085	Corrective action not completed in FY07	See 07-34 No further action warranted per OMB A-133 §315(b)(4)
04-31	93.558	DHHS	Noncompliance with income eligibility and verification system requirements	None	Corrective action not completed in FY07	No further action warranted per OMB A-133 §315(b)(4)

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
04-32	93.558	DHHS	Insufficient controls to ensure accurate data reporting on ACF-199 and ACF-209 quarterly performance reports	None	Corrective action not completed in FY07	See 07-43 No further action warranted per OMB A-133 §315(b)(4)
04-33	93.563	DHHS	Inadequate system of internal controls over accounting for child support	None	Corrective action not completed in FY07	See 07-95 No further action warranted per OMB A-133 §315(b)(4)
04-36	93.563	DHHS	Transfers for program services in excess of costs claimed	$101,331	Corrective action not completed in FY07	See 07-91 No further action warranted per OMB A-133 §315(b)(4)
04-37	93.563	DHHS	Financial reporting inconsistencies and errors	None	Corrective action not completed in FY07	See 07-47 No further action warranted per OMB A-133 §315(b)(4)
04-40	93.575, 93.596	DHHS	Federal financial reports not accurate	None	Corrective action not completed in FY07	See 07-51 No further action warranted per OMB A-133 §315(b)(4)

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
04-46	93.658	DHHS	Insufficient internal controls to ensure accurate reporting	$420,224	Corrective action not completed in FY07	See 07-56 & 07-95 No further action warranted per OMB A-133 §315(b)(4)
04-47	93.659	DHHS	Payments made to ineligible clients	$34,831	Corrective action taken in FY07	No further action warranted per OMB A-133 §315(b)(4)
04-48	93.659	DHHS	Inadequate accounting and reporting controls	None	Corrective action not completed in FY07	See 07-56 & 07-95 No further action warranted per OMB A-133 §315(b)(4)
04-49	93.667	DHHS	Inadequate cash management procedures	None	Corrective action not completed in FY07	See 07-59 No further action warranted per OMB A-133 §315(b)(4)
04-53	93.778	DHHS	Surveillance and utilization reviews not performed on a sampling basis	None	Corrective action not completed in FY07	See 07-77 No further action warranted per OMB A-133 §315(b)(4)

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
04-55	93.778	DHHS	Unallowable case management claim payments	$7,462	Awaiting final federal interpretation of requirements	Finding was not repeated
04-58	93.778	DHHS	Medicaid financial reports not accurate and not reconciled; Matching controls insufficient	None	Corrective action taken in FY07	No further action warranted per OMB A-133 §315(b)(4)
04-60	93.775, 93.777, 93.778	DHHS	No internal control system established for ADP risk analyses and system security reviews	None	Corrective action not completed in FY07	See 07-64 No further action warranted per OMB A-133 §315(b)(4)
04-61	None	DHHS	Lack of control over issuing management decisions	None	Corrective action not completed in FY07	No further action warranted per OMB A-133 §315(b)(4)
04-62	Various	DHHS	Costs charged twice, cost allocation plan errors not detected	$1,979,288	Corrective action not completed in FY07	See 07-91 & 07-95 No further action warranted per OMB A-133 §315(b)(4)

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
04-64	93.558, 93.575, 93.658, 93.778	DHHS	Cash management and accounting records inadequate	None	Corrective action not completed in FY07	See 07-92 & 07-95 No further action warranted per OMB A-133 §315(b)(4)
04-66	Various	DHHS	Estimated/incorrect grant disbursement amounts reported	None	Corrective action not completed in FY07	See 07-94 No further action warranted per OMB A-133 §315(b)(4)
04-67	n/a	DHHS	Administration of federal funds inadequate	None	Corrective action not completed in FY07	See 07-95 No further action warranted per OMB A-133 §315(b)(4)
04-73	84.126	DOL	Non-compliance with eligibility time frames	None	Corrective action not completed in FY07	See 07-31 No further action warranted per OMB A-133 §315(b)(4)
04-75	84.126	DOL	Supervisory review practices over financial reporting are not adequate	None	Corrective action taken in FY07	No further action warranted per OMB A-133 §315(b)(4)

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
04-76	84.126	DOL	Lack of controls over client service payments	None	Corrective action not completed in FY07	See 07-30 No further action warranted per OMB A-133 §315(b)(4)
04-77	84.126	DOL	Controls inadequate to ensure proper reporting of program income	None	Corrective action not completed in FY07	No further action warranted per OMB A-133 §315(b)(4)
04-78	84.126	DOL	Inadequate controls over cash management	None	Corrective action not completed in FY07	No further action warranted per OMB A-133 §315(b)(4)
04-79	20.205	DOT	Internal control procedures not followed/Noncompliance with Davis Bacon requirements	None	Corrective action not completed in FY07	See 07-23 No further action warranted per OMB A-133 §315(b)(4)
04-81	20.205	DOT	Inadequate internal controls over procurement for construction and consultant contracts. Noncompliance with procurement requirements	None	Corrective action taken in FY07	No further action warranted per OMB A-133 §315(b)(4)
05-04	10.551, 10.561	DAFS	Inadequate controls to ensure accurate reporting of program expenditures	$1,277,640	Corrective action taken in FY07	Finding was not repeated

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
05-09	84.010, 84.027, 84.287	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY07	07-27
05-11	84.027	DAFS	Inadequate controls to ensure compliance with suspension and debarment requirements; and non-compliance	None	Corrective action taken in FY07	Finding was not repeated
05-12	84.126	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY07	Finding was not repeated
05-13	84.126	DAFS	Inadequate controls to ensure accurate reporting of program expenditures	None	Corrective action taken in FY07	Finding was not repeated
05-14	93.268	DAFS	Inadequate controls to ensure compliance with cash management requirements	None	Corrective action not completed in FY07	07-95
05-16	93.268	DAFS	Inadequate controls to ensure accurate reporting of program expenditures; and non-compliance	None	Corrective action not completed in FY07	07-34
05-18	93.558	DAFS	Inadequate controls to ensure accurate reporting of program expenditures; and non-compliance	None	Corrective action not completed in FY07	Finding was not repeated
05-19	93.558	DAFS	Inadequate controls to ensure accurate reporting of program expenditures; and non-compliance	None	Corrective action not completed in FY07	Finding was not repeated

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
05-21	93.563	DAFS	Inadequate controls to ensure accurate program accounting; and non-compliance with allowable costs requirements	None	Corrective action not completed in FY07	07-95
05-23	93.563	DAFS	Inadequate controls to ensure accurate accounting for program expenditures	None	Corrective action not completed in FY07	07-91
05-24	93.563	DAFS	Inadequate controls to ensure accurate reporting of program expenditures; and non-compliance with allowable costs requirements	$47,924	Corrective action not completed in FY07	07-47
05-25	93.575, 93.596	DAFS	Inadequate controls to ensure accurate financial reporting and reporting for the Schedule of Expenditures of Federal Awards	None	Corrective action not completed in FY07	07-51
05-27	93.658, 93.659	DAFS	Inadequate controls to ensure accurate financial reporting; and non-compliance	$307,382	Corrective action not completed in FY07	07-56 07-95
05-28	93.667	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY07	07-59
05-30	93.775, 93.777, 93.778	DAFS	Inadequate controls to ensure accurate reporting and compliance with matching requirements	None	Corrective action taken in FY07	Finding was not repeated

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
05-31	93.775, 93.777, 93.778	DAFS	Inadequate controls to ensure a functional claims management system was in place	None	Corrective action not completed in FY07	07-65
05-32	Various	DAFS	Inadequate controls to ensure that program draws were properly supported	None	Corrective action not completed in FY07	07-94
05-33	Various	DAFS	Inadequate controls over provider grant close-out and audit settlement process	None	Corrective action not completed in FY07	Finding was not repeated
05-34	Various	DAFS	Inadequate controls to ensure compliance with working capital reserve requirements; and non-compliance	$1,170,000	Awaiting federal approval	Finding was not repeated
05-35	Various	DAFS	Inadequate controls to ensure compliance with cost allocation principles; and non-compliance with allowable costs requirements	$1,065,582	Corrective action not completed in FY07	07-91 07-95
05-36	Various	DAFS	Inadequate controls to ensure compliance with cash management agreement; and inadequate support for program draws	None	Corrective action not completed in FY07	07-92 07-95
05-37	97.004	DVEM	Inadequate controls to ensure compliance with certification requirement for employees who work solely for one program	None	Corrective action not completed in FY07	07-84

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
05-39	97.004	DVEM	Inadequate controls to ensure compliance with subrecipient monitoring requirements - CFDA identification not on grant awards	None	Corrective action not completed in FY07	07-88
05-42	10.551, 10.561	DHHS	Inadequate controls to ensure compliance with reporting requirements; and non-compliance	None	Corrective action taken in FY07	Finding was not repeated
05-43	10.557	DHHS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY07	07-13
05-44	10.557	DHHS	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	None	Corrective action not completed in FY07	07-14
05-45	10.558	DHHS	Inadequate controls to ensure accurate financial reporting; and non-compliance	None	Corrective action not completed in FY07	Finding was not repeated
05-48	93.268	DHHS	Inadequate controls to ensure compliance with requirements for monitoring and certification of the vaccine inventory vendor; and non-compliance	None	Corrective action not completed in FY07	07-37

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
05-49	93.268	DHHS	Inadequate controls to ensure compliance with requirements for monitoring providers' compliance with grant requirements; and non-compliance	None	Corrective action not completed in FY07	07-36
05-50	93.558	DHHS	Inadequate controls to ensure accurate performance reporting; and non-compliance	None	Corrective action not completed in FY07	07-43
05-51	93.563	DHHS	Inadequate controls to ensure compliance with requirements for timely establishment of case records; and non-compliance	None	Corrective action not completed in FY07	07-48
05-53	93.659	DHHS	Inadequate controls to ensure program funds are spent on eligible clients, resulting in payments on behalf of ineligible clients	$13,944	Corrective action taken in FY07	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
05-56	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure a functional claims mgmt system was in place; and non-compliance	None	Corrective action not completed in FY07	07-65

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
05-57	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure compliance with allowable cost requirements; and non-compliance	None	Corrective action not completed in FY07	07-74
05-60	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure compliance with State & federal automated data processing review requirements; and non-compliance	None	Corrective action not completed in FY07	07-64
05-63	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure ongoing evaluation, by sampling, of the need for & quality & timeliness of Medicaid services; and non-compliance	None	Corrective action not completed in FY07	07-77
05-65	Various	DHHS	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	None	Corrective action not completed in FY07	Finding was not repeated
05-67	Various	DHHS	Inadequate controls to ensure appropriate exchange & analysis of income & eligibility verifications; and non-compliance.	None	Corrective action not completed in FY07	Finding was not repeated
05-69	84.126	DOL	Inadequate controls to ensure compliance with allowable cost requirements	None	Corrective action not completed in FY07	07-30

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
05-71	84.126	DOL	Inadequate controls to ensure compliance with requirements regarding eligibility determinations; and non-compliance.	None	Corrective action not completed in FY07	07-31
05-72	84.126	DOL	Inadequate controls to ensure compliance with program income requirements; and non-compliance	None	Corrective action not completed in FY07	Finding was not repeated
05-74	20.205	DOT	Inadequate controls to ensure compliance with procurement, suspension and debarment requirements; and non-compliance	None	Corrective action taken in FY07	Finding was not repeated
05-75	20.205	DOT	Inadequate controls to ensure compliance with Davis-Bacon Act requirements; and non-compliance	None	Corrective action not completed in FY07	07-23
06-06	10.551, 10.561	DAFS	Inadequate controls to ensure accurate reporting of program expenditures; and non-compliance	$138,265	Corrective action taken in FY07	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 FY07	07-91

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
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 FY07	07-91
06-09	10.551, 10.561	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	$674,000	Corrective action not completed in FY07	07-09
06-10	Various	DAFS	Inadequate controls to ensure compliance with matching requirements; and non-compliance	Not determinable	Corrective action not completed in FY07	Finding was not repeated
06-11	10.551, 10.561	DHHS	Inadequate controls to ensure accurate FNS-209 reports	None	Corrective action taken in FY07	Finding was not repeated
06-12	10.551, 10.561	DHHS	Inadequate controls to ensure that redeterminations are performed, or benefits are terminated; and non-compliance	$17,149	Corrective action taken in FY07	Finding was not repeated
06-13	10.557	DHHS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY07	07-13
06-14	10.557	DHHS	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	None	Corrective action not completed in FY07	07-14

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
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 FY07	07-16
06-16	10.558	DHHS	Inadequate controls to ensure accurate FNS-44 reports; and non-compliance	None	Corrective action not completed in FY07	Finding was not repeated
06-17	Various	DHHS	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	None	Corrective action not completed in FY07	Finding was not repeated
06-18	17.258, 17.259, 17.260	DOL	Non-compliance with financial monitoring requirements	None	Corrective action taken in FY07	Finding was not repeated
06-19	20.205	DOT	Program funds used for unallowable costs	$49,359	Corrective action not completed in FY07	07-22
06-20	20.205	DOT	Inadequate controls to ensure compliance with Davis-Bacon requirements; and non-compliance	None	Corrective action not completed in FY07	07-23
06-21	20.205	DOT	Inadequate controls to ensure compliance with suspension and debarment requirements; and non-compliance	None	Corrective action taken in FY07	Finding was not repeated

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
06-22	20.205	DOT	Inadequate controls to ensure compliance with program income requirements; and non-compliance	$378	Corrective action taken in FY07	Finding was not repeated
06-23	Various	DAFS	Inadequate controls to ensure compliance with subrecipient cash management requirements; and non-compliance	None	Corrective action not completed in FY07	07-27
06-24	84.027	DAFS	Inadequate controls to ensure compliance with suspension and debarment requirements; and non-compliance	None	Corrective action taken in FY07	Finding was not repeated
06-25	84.027	DOE	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	Not determinable	Corrective action not completed in FY07	07-28
06-26	84.126	DOL	Inadequate controls to ensure compliance with allowable costs requirements; and non-compliance	None	Corrective action not completed in FY07	07-30
06-27	84.126	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY07	Finding was not repeated
06-28	84.126	DOL	Inadequate controls to ensure timely eligibility determinations	None	Corrective action not completed in FY07	07-31

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
06-29	84.126	DAFS	Inadequate controls to ensure compliance with program income requirements	None	Corrective action not completed in FY07	Finding was not repeated
06-30	84.126	DAFS	Inadequate controls to ensure accurate reporting; and non-compliance	None	Corrective action taken in FY07	Finding was not repeated
06-31	93.044, 93.045, 93.053	DHHS	Inadequate controls to ensure compliance with allowable costs principles; and non-compliance	Not determinable	Corrective action not completed in FY07	Program was not audited
06-32	93.044, 93.045, 93.053	DAFS	Non-compliance with cash management requirements	None	Corrective action not completed in FY07	Program was not audited
06-33	93.044, 93.045, 93.053	DHHS	Inadequate controls to ensure accurate reporting; and non-compliance	None	Corrective action not completed in FY07	Program was not audited
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 FY07	Program was not audited
06-35	93.044, 93.045, 93.053	DHHS	Inadequate controls to ensure the accuracy of meal counts reported	None	Corrective action not completed in FY07	Program was not audited
06-36	93.268	DAFS	Inadequate controls to ensure accurate reporting; and non-compliance	None	Corrective action not completed in FY07	07-34

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
06-37	Various	DAFS	Inadequate controls to ensure accurate SEFA reporting; and non-compliance	None	Corrective action not completed in FY07	07-93
06-38	93.268	DHHS	Inadequate controls to ensure compliance with provider contract monitoring requirements; and non-compliance	None	Corrective action not completed in FY07	07-36
06-39	93.268	DHHS	Inadequate controls to ensure compliance with requirements to obtain independent certification of vaccine security; and non-compliance	None	Corrective action not completed in FY07	07-37
06-40	93.283	DHHS	Inadequate controls to ensure compliance with allowable costs principles; and non-compliance	Not determinable	Corrective action not completed in FY07	07-38
06-41	93.558	DHHS	Inadequate controls to ensure compliance with allowable costs principles; and non-compliance	None	Corrective action taken in FY07	Finding was not repeated
06-42	93.558	DAFS	Inadequate controls to prevent federal draws in excess of reported expenditures; and non-compliance	$929,000	Corrective action not completed in FY07	Finding was not repeated
06-43	Various	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY07	07-92

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
06-44	93.558	DHHS	Inadequate controls to ensure compliance with performance reporting requirements; and non-compliance	None	Corrective action not completed in FY07	07-43
06-45	93.558	DAFS	Inadequate controls to ensure accurate reporting of grant expenditures and transfers; and non-compliance	None	Corrective action not completed in FY07	Finding was not repeated
06-46	93.563	DAFS	Inadequate controls to ensure compliance with allowable costs principles; and non-compliance	None	Corrective action not completed in FY07	07-91
06-47	93.563	DAFS	Inadequate controls to ensure accurate reporting; and non-compliance	None	Corrective action not completed in FY07	07-47
06-48	93.563	DHHS	Inadequate controls to ensure timely actions on case records; and non-compliance	None	Corrective action not completed in FY07	07-48
06-49	93.575, 93.596	DAFS	Inadequate controls to ensure accurate reporting; and non-compliance	None	Corrective action not completed in FY07	07-51
06-50	93.658, 93.659	DHHS	Inadequate controls to ensure that accurate matching rates are used; and non-compliance	None	Corrective action taken in FY07	Finding was not repeated
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 FY07	07-54

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
06-52	93.658, 93.659	DHHS	Inadequate controls to ensure compliance with suspension and debarment requirements; and non-compliance	None	Corrective action not completed in FY07	07-57
06-53	93.658, 93.659	DAFS	Inadequate controls to ensure accurate reporting; and non-compliance	$22,602	Corrective action not completed in FY07	07-56
06-54	93.658, 93.659	DHHS	Non-compliance with eligibility requirements	$62,325	Corrective action taken in FY07	Finding was not repeated
06-55	93.667	DHHS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY07	07-59
06-56	93.767	DAFS	Non-compliance with reporting requirements - reported estimated rather than actual administrative costs	None	Corrective action taken in FY07	Finding was not repeated
06-57	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure costs are allowable; and non-compliance	$130,912	Corrective action not completed in FY07	Finding was not repeated
06-58	93.775, 93.777, 93.778	DHHS	Claims management system has inadequate controls to ensure costs are allowable; and non-compliance	$12,173	Corrective action not completed in FY07	07-71
06-59	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure costs are allowable; and non-compliance	Not determinable	Corrective action not completed in FY07	07-74

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Summary Schedule of Prior Audit Findings
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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
06-60	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure costs are allowable; and non-compliance	$27,870	Awaiting final federal interpretation of requirements	Finding was not repeated
06-61	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure compliance with eligibility requirements; and non-compliance	$112	Corrective action not completed in FY07	Finding was not repeated
06-62	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure costs are allowable under waiver program; and non-compliance	Not determinable	Corrective action not completed in FY07	07-74
06-63	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure costs are allowable under waiver program; and non-compliance	Not determinable	Corrective action not completed in FY07	Finding was not repeated
06-64	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure costs are allowable; and non-compliance	$8	Corrective action not completed in FY07	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 not completed in FY07	Finding was not repeated
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 FY07	07-69

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
06-67	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure costs are allowable; and non-compliance	$117	Corrective action not completed in FY07	07-63
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 FY07	Finding was not repeated
06-69	93.775, 93.777, 93.778	DHHS	Inadequate procedures for identifying, investigating, and referring cases of suspected Medicaid fraud	None	Corrective action not completed in FY07	Finding was not repeated
06-70	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure that timely eligibility re-determinations are performed; and non-compliance	None	Corrective action not completed in FY07	Finding was not repeated
06-71	Various	DAFS and DHHS	Inadequate controls to ensure compliance with eligibility requirements; and non-compliance	None	Corrective action not completed in FY07	Finding was not repeated
06-72	93.775, 93.777, 93.778, 93.767	DAFS and DHHS	Inadequate controls to ensure compliance with eligibility requirements	None	Corrective action not completed in FY07	Finding was not repeated
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	Corrective action not completed in FY07	Finding was not repeated
06-74	93.775, 93.777, 93.778, 93.767	DHHS	Federal written approval not obtained for period of availability extension given to providers	None	Corrective action not completed in FY07	07-70

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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
06-75	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure complete and accurate reporting; and non-compliance	None	Corrective action taken in FY07	Finding was not repeated
06-76	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure accurate reporting of actual, rather than estimated, costs; and non-compliance	None	Corrective action taken in FY07	Finding was not repeated
06-77	93.775, 93.777, 93.778	DHHS	HCBS Waiver report data cannot be verified	None	Corrective action not completed in FY07	Finding was not repeated
06-78	93.775, 93.777, 93.778	DHHS	Incorrect coding of crisis intervention services	None	Corrective action not completed in FY07	Finding was not repeated
06-79	93.775, 93.777, 93.778, 93.767	DHHS	Inadequate follow-up in cases of suspected fraud	None	Corrective action not completed in FY07	Finding was not repeated
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 FY07	07-77
06-81	93.775, 93.777, 93.778	DAFS and DHHS	Claims processing and information retrieval system deficient	None	Corrective action not completed in FY07	07-65
06-82	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure compliance with information system security requirements	None	Corrective action not completed in FY07	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2007

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
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 not completed in FY07	07-64
06-84	93.775, 93.777, 93.778	DHHS	Incomplete documentation of Individual Care Plans	None	Corrective action not completed in FY07	Finding was not repeated
06-85	93.775, 93.777, 93.778	DHHS	Inadequate surveillance and utilization review of prescription drugs and supplies	$11	Corrective action not completed in FY07	Finding was not repeated
06-86	93.889	DHHS	Inadequate controls to ensure compliance with allowable costs principles; and non-compliance	Not determinable	Corrective action not completed in FY07	Program was not audited
06-87	93.889	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY07	Program was not audited
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 FY07	Program was not audited
06-89	93.889	DAFS	Inadequate controls to ensure accurate reporting; and non-compliance	None	Corrective action not completed in FY07	Program was not audited
06-90	93.889	DAFS	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	None	Corrective action not completed in FY07	Program was not audited

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Summary Schedule of Prior Audit Findings
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Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
06-91	97.004, 97.067	DVEM	Payroll certifications not obtained	None	Corrective action not completed in FY07	07-84
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 FY07	Finding was not repeated
06-93	97.004, 97.067	DVEM	Inadequate controls to ensure compliance with earmarking requirements; and non-compliance	$671,000	Corrective action not completed in FY07	07-85
06-94	97.004, 97.067	DVEM	Inadequate controls to ensure compliance with period of availability requirements; and non-compliance	$121,303	Corrective action not completed in FY07	07-86
06-95	97.004, 97.067	DVEM	Inadequate controls to ensure accurate SEFA reporting; and non-compliance	None	Corrective action taken in FY07	Finding was not repeated
06-96	97.004, 97.067	DVEM	Inadequate controls to ensure accurate reporting; and non-compliance	None	Corrective action not completed in FY07	07-87
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 FY07	07-88
06-98	97.036	DVEM	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	None	Corrective action not completed in FY07	Program was not audited

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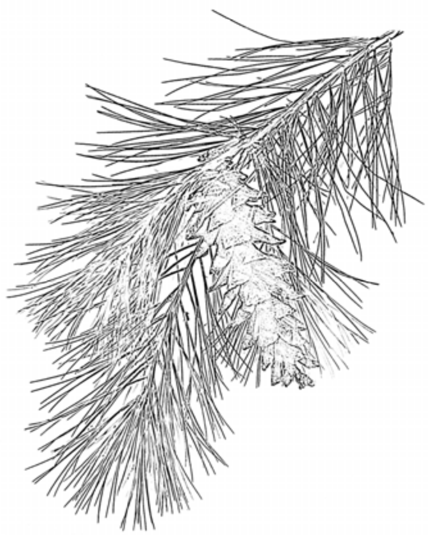
Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY07 status (refer to auditee's complete Corrective Action Plan)	FY07 Repeat Finding
06-99	Various	DAFS	Inadequate controls over the administration of federal funds	None	Corrective action not completed in FY07	07-95
06-100	Various	DAFS	Inadequate support for Federal Cash Transaction Report	None	Corrective action not completed in FY07	07-94
06-101	w/c funds 038, 045, 046	DAFS	Excess working capital reserves	$15,800,000	Corrective action not completed in FY07	07-97 07-98

Agency Legend:

DAFS	Department of Administrative and Financial Services
DHHS	Department of Health and Human Services
DOE	Department of Education
DOL	Department of Labor
DOT	Department of Transportation
DVEM	Department of Defense, Veterans and Emergency Services



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