STATE OF MAINE

SINGLE AUDIT REPORT
OMB Circular A-133
Fiscal Year Ending June 30, 2013

Office of the State Auditor
Pola A. Buckley, CPA, CISA
State Auditor

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2013

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Letter of Transmittal

Senator Justin L. Alfond
President of the Senate

Representative Mark W. Eves
Speaker of the House of Representatives

The Honorable Paul R. LePage
Governor of Maine

I am pleased to submit the Single Audit of the State of Maine for the fiscal year ended June 30, 2013. This audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; the requirements of the Single Audit Act Amendments of 1996; and the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Our audit complies with 5 MRSA §243 and is also a prerequisite for the receipt of federal financial assistance. During fiscal year 2013, $3.2 billion in federal financial assistance was received by the State of Maine.

This document contains the following reports and schedules:

- Independent Auditor's Report
- Basic Financial Statements, Management's Discussion and Analysis, Notes to Financial Statements, and Required Supplementary Information
- Independent Auditor's 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*
- Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by 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 Office of the State Auditor, I thank employees throughout Maine government who have assisted us during our audit.

Please contact me if you have questions or comments about the 2013 Single Audit of the State of Maine.

Respectfully submitted,

Pola Buckley

Pola A. Buckley
State Auditor

March 28, 2014

STATE OF MAINE
EXECUTIVE SUMMARY
FOR THE YEAR ENDED JUNE 30, 2013

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2013

EXECUTIVE SUMMARY

The Office of the State Auditor performs an annual financial and compliance audit, the Single Audit of the State of Maine, in order to comply with federal and State requirements. Our audit included twenty-one major federal programs representing 88% of the $3.2 billion in federal assistance that the State expended. The Single Audit Report consists of various audit reports along with related financial statement and federal audit findings and recommendations.

Independent Auditor's Report

We rendered an unqualified opinion on the State's basic financial statements. This means that the State of Maine's financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles. This report also includes an opinion on the Schedule of Expenditures of Federal Awards in relation to the basic financial statements taken as a whole.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

We reported on internal control over financial reporting and did not identify any deficiencies in internal control that we considered to be material weaknesses. A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees to prevent, or detect and correct financial statement misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies such that there is a reasonable possibility that a material misstatement of the State's financial statements would not be prevented, or detected and corrected on a timely basis. We did detect one significant deficiency over financial reporting for the Employment Security Fund (Unemployment Insurance). This finding is identified as 13-0308-01.

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

Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

Compliance with program requirements

We qualified our opinions on compliance with program requirements for the Unemployment Insurance program and the Statewide Data Systems Cluster because of material noncompliance. The remaining nineteen federal programs complied in all material respects with program requirements.

Internal control over compliance

We identified forty-four deficiencies in internal control over compliance. A *deficiency* exists when the operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program, on a timely basis.

Forty-two deficiencies were considered to be *significant deficiencies* in internal control over compliance. A *significant deficiency* exists when there is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Two deficiencies were considered to be *material weaknesses* in internal control. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs includes managements’ responses and plans for corrective action for addressing the audit findings. Our Single Audit Report also identified a total of $1.58 million of *known questioned costs* and three other instances for which the *known questioned costs* could not be determined. *Questioned costs* are amounts of federal financial assistance that we believe were not spent in accordance with program requirements. The federal government may or may not disallow these costs and could result in reimbursements from the State to the federal government.

STATE OF MAINE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

INDEX TO FINANCIAL INFORMATION

General Purpose Financial Statements of the State of Maine
For the Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

Honorable Justin L. Alfond
President of the Senate

Honorable Mark W. Eves
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, 2013, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units: Child Development Services, Connect ME Authority, Efficiency Maine Trust, Finance Authority of Maine, Loring Development Authority, Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine State Housing Authority, Maine Technology Institute, Maine Turnpike Authority, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and the University of Maine System. These financial statements reflect 100% of the assets and net position of the Aggregate Discretely Presented Component Units and 95% of assets and 96% of net position/fund balance of the Aggregate Remaining Fund Information. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it related 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 the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Maine Educational Loan Authority, the Maine Technology Institute, Northern New England Passenger Rail Authority and the Small Enterprise Growth Fund were not audited in accordance with *Government Auditing Standards.*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages B-7 through B-18, Budgetary Comparison information, State Retirement Plan and Other Post-Employment Benefit Plans and Information about Infrastructure Assets Reported Using the Modified Approach on pages B-102 through B-113, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards

Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consist of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to theunderlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, the procedures performed as described above, and the report of other auditors, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2013, on our consideration of the State of Maine's internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Maine's internal control over financial reporting and compliance.

Pola Buckley

Pola A. Buckley, CPA, CISA
State Auditor
Office of the State Auditor

December 23, 2013

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, 2013. 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 position increased by 6.7 percent from the previous fiscal year. Net position of Governmental Activities increased by $388.5 million, while net position of Business-Type Activities decreased by $70.1 million. The State's assets exceeded its liabilities by $5.1 billion at the close of fiscal year 2013. Component units reported net position of $2.8 billion, an increase of $77.5 million (2.9 percent) from the previous year.

Fund level:

- At the end of the fiscal year, the State's governmental funds reported combined ending fund balances of $244.6 million, a increase of $244 thousand from the previous year. The General Fund's total fund balance was a negative $144.4 million, an improvement of $205.6 million from the previous year. The Highway Fund total fund balance was $34.3 million, a decline of $1.8 million from the prior year.

- The proprietary funds reported net position at year end of $574.6 million, a decrease of $57.7 million from the previous year. This decrease is due to several factors: an increase in the Alcoholic Beverages Fund of $12.5 million, an increase in the Employment Security Fund of $25.5 million, offset by a decrease in the Transit, Aviation & Rail Transportation Fund of $103.4 million.

Long-term Debt:

- The State's liability for general obligation bonds decreased by $102.3 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State did not issue any new bonds and made principal payments of $102.3 million.

Additional information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 8.

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 Position presents all of the State's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases and decreases in net position are an indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the State's net position changed during the most recent fiscal year. All changes in net position 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 and human services, education, governmental support and operations, justice and 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" two component units, the Maine Governmental Facilities Authority (MGFA) and Child Development Services (CDS) with Governmental Activities as described above. Maine reports 18 other component units (7 major and 11 non-major) as discretely presented component units of the State, and one component unit is reported with the State's fiduciary funds. Complete financial statements of the individual component units may be obtained directly from their respective administrative offices as shown in Note 1 A to the financial statements.

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

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

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

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

- Internal service funds are reported as Governmental Activities, but reported as proprietary funds in the fund financial statements.

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

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

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

- Net position balances are allocated as follows:

  Net Investment in Capital Assets 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 Position 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.

Unrestricted Net Position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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 and Supply Fund. Internal service funds are reported as Governmental Activities on the government-wide statements.

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements. Budgetary comparison schedules by agency are also included for the general fund, the highway fund, federal funds, and other special revenue fund.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's net position increased by 6.7 percent to $5.1 billion at June 30, 2013, as detailed in Tables A-1 and A-2.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Current and other noncurrent assets	$ 1,937,953	$ 1,911,603	$ 362,402	$ 350,609	$ 2,300,355	$ 2,262,212
Capital assets	5,418,957	5,085,498	55,340	152,763	5,474,297	5,238,261
Total Assets	**7,356,910**	**6,997,101**	**417,742**	**503,372**	**7,774,652**	**7,500,473**
Current liabilities	1,444,030	1,424,285	33,778	37,185	1,477,808	1,461,470
Long-term liabilities	1,232,666	1,281,137	4,981	17,117	1,237,647	1,298,254
Total Liabilities	**2,676,696**	**2,705,422**	**38,759**	**54,302**	**2,715,455**	**2,759,724**
Net position (deficit):						
Net investment in capital assets	4,740,708	4,408,377	55,340	152,763	4,796,048	4,561,140
Restricted	404,218	398,122 *	321,112	295,632	725,330	693,754 *
Unrestricted (deficit)	(464,712)	(514,820) *	2,531	675	(462,181)	(514,145) *
Total Net Position	**$ 4,680,214**	**$4,291,679**	**$ 378,983**	**$ 449,070**	**$ 5,059,197**	**$4,740,749**

* Amounts reported as restricted and unrestricted were restated. Total net position did not change.

Changes in Net Position

The State's fiscal year 2013 revenues totaled $7.8 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 45.3 percent and 39.1 percent, respectively, of every dollar raised. The remainder came from charges for services and other miscellaneous sources.

The total cost of all programs and services totaled $7.5 billion for the year 2013. (See Table A-2) These expenses are predominantly (70.1 percent) related to health & human services and education activities. The State's governmental support & operations activities accounted for 5.7 percent of total costs. Total net position increased by $318.4 million.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Revenues						
Program Revenues:						
Charges for Services	$ 508,039	$ 488,832	$ 543,926	$ 540,924	$ 1,051,965	$ 1,029,756
Operating Grants/Contributions	3,047,714	3,160,241	7,032	7,823	3,054,746	3,168,064
General Revenues:						
Taxes	3,540,712	3,472,588	-	-	3,540,712	3,472,588
Other	161,340	130,091	-	-	161,340	130,091
Total Revenues	7,257,805	7,251,752	550,958	548,747	7,808,763	7,800,499
Expenses						
Governmental Activities:						
Governmental Support	428,011	456,622			428,011	456,622
Education	1,581,556	1,610,095			1,581,556	1,610,095
Health & Human Services	3,657,573	3,750,402			3,657,573	3,750,402
Justice & Protection	401,656	401,740			401,656	401,740
Transportation Safety	384,852	376,689			384,852	376,689
Other	516,398	591,281			516,398	591,281
Interest	46,541	45,551			46,541	45,551
Business-Type Activities:						
Employment Security			169,334	187,703	169,334	187,703
Lottery			176,094	176,837	176,094	176,837
Military Equip. Maint.			36,971	35,058	36,971	35,058
Dirigo Health			56,229	56,702	56,229	56,702
Other			19,213	28,430	19,213	28,430
Total Expenses	7,016,587	7,232,380	457,841	484,730	7,474,428	7,717,110
Excess (Deficiency) before Special Items and Transfers	241,218	19,372	93,117	64,017	334,335	83,389
Special Items	92,401	-	(108,288)	-	(15,887)	-
Transfers	54,916	54,968	(54,916)	(54,968)	-	-
Increase (Decrease) in Net Position	388,535	74,340	(70,087)	9,049	318,448	83,389
Net Position, beginning of year	4,291,679	4,217,339	449,070	440,021	4,740,749	4,657,360
Ending Net Position	$ 4,680,214	$ 4,291,679	$ 378,983	$ 449,070	$ 5,059,197	$ 4,740,749

Governmental Activities

Revenues for the State's Governmental Activities totaled $7.3 billion while total expenses equaled $7.0 billion. The increase in net position for Governmental Activities was $388.5 million in 2013, much of which was the result of transfers from the State’s Business-Type Activities discussed below. Program revenues were insufficient to cover program expenses, therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes. Tax revenue increased by $68.1 million from the prior year, primarily in the Individual Income and Sales and Use Tax lines. Net expenses supported by tax revenue decreased by approximately $122.5 million, primarily in the Health and Human Services area, due to program changes in an effort to manage costs. Additionally, the State's Business-Type Activities transferred $147.3 million (net) to the Governmental Activities, which included statutorily required profit transfers, capital contributions, and the transfer of balances from the Transit, Aviation and Rail Transportation Enterprise Fund. These transfers are discussed futher on page 11.

The users of the State's programs financed $508.0 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $3.0 billion. $3.7 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 2013

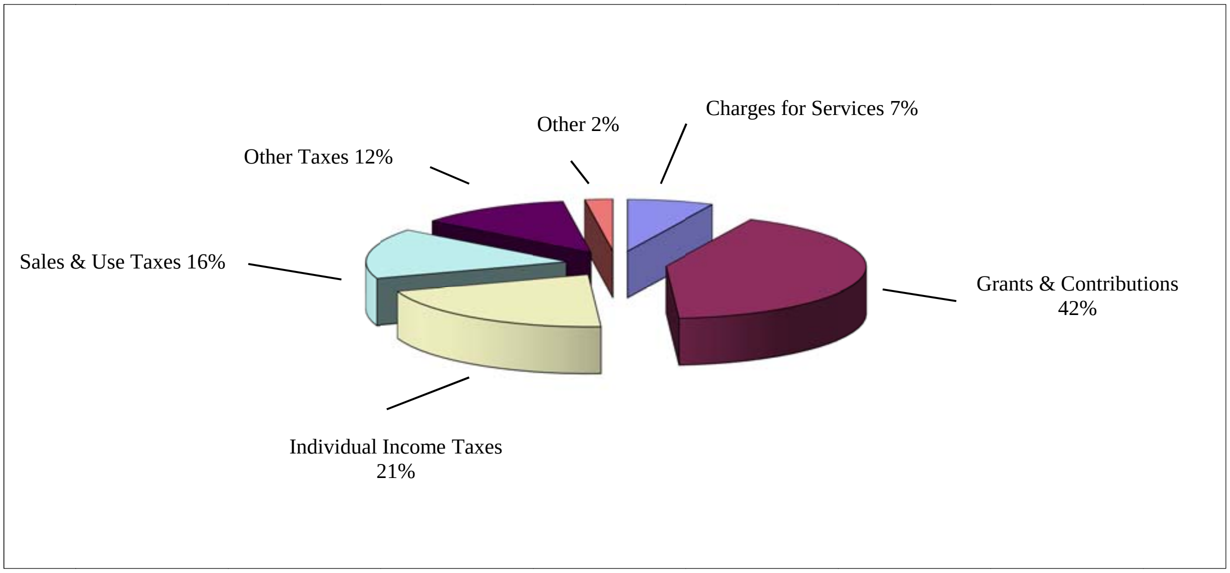
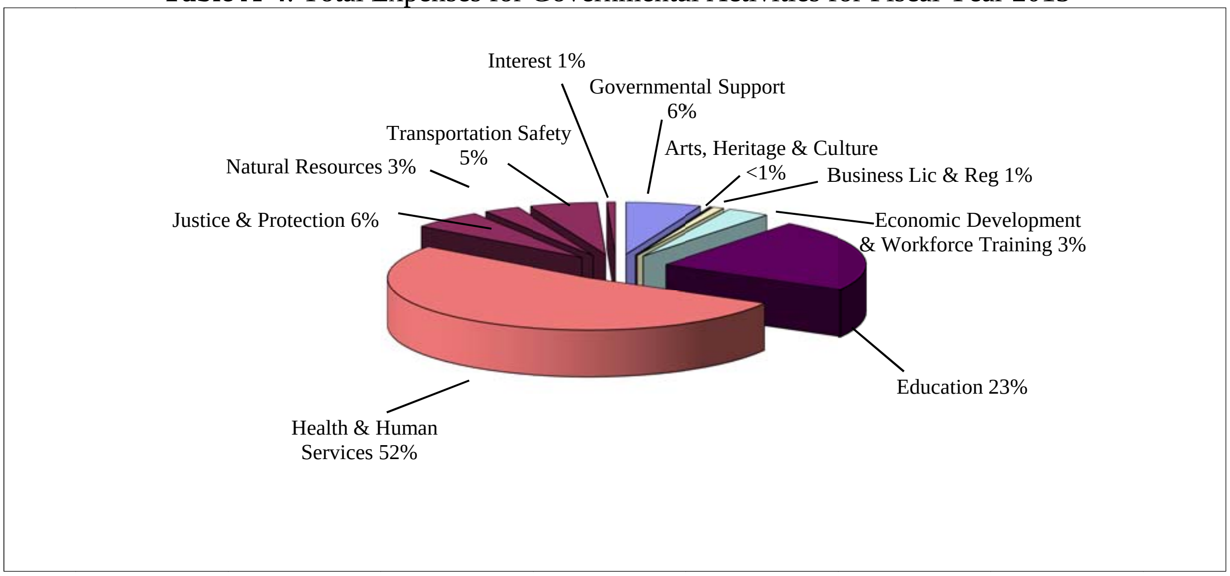


Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2013



Business-Type Activities

Revenues for the State's Business-Type Activities totaled $551.0 million while expenses totaled $457.8 million. However, due to the conversion of the Transit, Aviation and Rail Transportation Enterprise Fund to an Other Special Revenue Fund and the disposal of assets and transfer of balances totaling $103.6 million (see Note 17), the net position for Business-Type Activities decreased by $70.1 million in 2013.

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)

Category	Total Cost 2013	Total Cost 2012	Net (Cost) Revenue 2013	Net (Cost) Revenue 2012
Employment Security	$ 169,334	$ 187,703	$ 26,531	$ (3,235)
Alcoholic Beverages	-	-	12,533	12,532
Lottery	176,094	176,837	53,471	54,178
Military Equip. Maint.	36,971	35,058	(1,157)	46
Dirigo Health	56,229	56,702	9,225	13,594
Other	19,213	28,430	(7,486)	(13,098)
Total	$ 457,841	$ 484,730	$ 93,117	$ 64,017

The cost of all Business-Type Activities this year was $457.8 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-Type Activities was $93.1 million, with the Lottery making up $53.5 million of the total. The State’s Business-Type Activities transferred $147.3 million (net) to the Governmental Activities, which included statutorily required profit transfers of $53.5 million and the transfer of balances totaling $92.4 million from the Transit, Aviation and Rail Transportation Enterprise Fund (see Note 17). Additionally, the Governmental Activities contributed $7.3 million to purchase capital assets that are recorded in the Business-Type activities.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

Fund	2013	2012	Change
General	$ (144,375)	$ (349,935)	$ 205,560
Highway	34,324	36,109	(1,785)
Federal	24,751	15,128	9,623
Other Special Revenue	247,223	443,250	(196,027)
Other Governmental	82,713	99,840	(17,127)
Total	$ 244,636	$ 244,392	$ 244

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $244.6 million, an increase of $244 thousand in comparison with the prior year. Of this total amount, $22.7 million (9.3 percent) is classified as non-spendable, either due to its form or legal constraints, and $505.6 million (206.7 percent) is restricted for specific programs by external constraints, constitutional provisions, or contractual obligations. Unspent bond proceeds, revenue restricted for transportation, natural resources or other programs are included in restricted fund balance. At the end of the current fiscal year, the unassigned fund balance of the General Fund was a deficit of $151.3 million, an improvement of $204.6 million.

General Fund revenues and other sources surpassed General Fund expenditures and other uses resulting in an increase in the fund balance by $205.6 million. Revenues and other sources of the General Fund increased by approximately $128.1 million (3.88 percent) which is mainly attributed to an increase in tax revenue ($87.0 million from Individual Income and Sales and Use Taxes) and an increase in transfers in from other funds ($47.2 million). General Fund expenditures and other financing uses decreased by $191.1 million (5.6 percent). This is due, primarily, to a decrease in accrued expenditures for health and human services. Prior to fiscal year 2013, the State's share of the accrual related to the settlement of the State's hospital debt was recorded in the General Fund. In fiscal year 2013 the State's share was recorded in both the General Fund ($12.4 million) and the Other Special Revenue Fund ($183.5 million) to reflect the payment of the debt that occurred in fiscal year 2014.

The fund balance of the Highway Fund decreased only $1.8 million from fiscal year 2012, due mainly to the Highway Fund's reimbursement of approximately $12.3 million from the Federal Fund for prior period expenditures that were ultimately approved for federal funding.

Budgetary Highlights

For the 2013 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to $3.1 billion, an increase of about $154.8 million from the original legally adopted budget of approximately $3.0 billion. Actual expenditures on a budgetary basis amounted to approximately $89.5 million less than those authorized in the final budget. After deducting the encumbered obligations and other commitments that will come due in fiscal year 2014, including the budgeted starting balance for Fiscal Year 2013, there were funds remaining of $57.9 million to distribute in Fiscal Year 2013. Actual revenues exceeded final budget forecasts by $57.7 million. As a part of the final budget adjustment for Fiscal Year 2013, the Legislature approved net transfers of $27 million from the State's Budget Stabilization Fund to unappropriated surplus. In addition, the year-end cascade transferred $42.1 million to the Budget Stabilization Fund. Interest earnings along with the legislatively and statutorily approved transfers increased the balance in the Fund to $59.7 million as of June 30, 2013. 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 2013, the State had roughly $5.5 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2013, the State acquired or constructed more than $352.3 million of capital assets. The most significant impact on capital assets during the year resulted from continued construction and rehabilitation of roads and bridges, and major construction and renovation of State-owned facilities. More detailed information about the State's capital assets and significant construction commitments is presented in Notes 8 and 15 to the financial statements.

Table A-7 - Capital Assets
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Land	$ 571,268	$ 497,893	$ 7,292	$ 58,888	$ 578,560	$ 556,781
Buildings	660,538	626,202	4,395	9,449	664,933	635,651
Equipment	265,956	272,567	36,339	80,892	302,295	353,459
Improvements	52,251	20,843	48,767	74,889	101,018	95,732
Software	72,551	41,789	-	-	72,551	41,789
Infrastructure	4,212,934	4,018,966	-	-	4,212,934	4,018,966
Construction in Progress	68,346	48,473	1,138	18,555	69,484	67,028
Total Capital Assets	5,903,844	5,526,733	97,931	242,673	6,001,775	5,769,406
Accumulated Depreciation	484,887	441,235	42,591	89,910	527,478	531,145
Capital Assets, net	$ 5,418,957	$ 5,085,498	$ 55,340	$ 152,763	$ 5,474,297	$ 5,238,261

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 8,822 highway miles or 17,953 lane miles within the State. Bridges have a deck area of 11.8 million square feet among 2,964 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2013, 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, 2013. Preservation costs for fiscal year 2013 totaled $105.2 million compared to estimated preservation costs of $97.8 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 645, PL 2009, $1.1 million in General fund bonds was spent during FY2013.

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

Long-Term Debt

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

At year-end, the State had $1.4 billion in general obligation and other long-term debt outstanding. More detailed information about the State's long-term liabilities is presented in Note 11 to the financial statements.

Table A-8 - Outstanding Long-Term Debt
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
General Obligation Bonds	$ 369,725	$ 472,055	$ -	$ -	$ 369,725	$ 472,055
Other Long-Term Obligations	1,035,226	1,001,843	5,147	4,726	1,040,373	1,006,569
Total	$ 1,404,951	$ 1,473,898	$ 5,147	$ 4,726	$ 1,410,098	$ 1,478,624

During the year, the State reduced outstanding long-term obligations by $102.3 million for outstanding general obligation bonds and $629.3 million for other long-term debt. Also during fiscal year 2013, the State incurred $663.1 million of additional long-term obligations.

Credit Ratings

The State's credit was rated during fiscal year 2013 by Moody's Investors Service as Aa2 with a negative outlook and by Standard & Poor's as AA with a stable outlook.

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

According to the November 2013 report of the Maine Consensus Economic Forecasting Commission (CEFC), the Maine and U.S. economies continued on a slow and bumpy road to recovery since their last meeting in March 2013. Maine's economy continued to grow more slowly than the nation as a whole. Maine's Gross Domestic Product for 2012 was slightly higher than 2011, with all of the growth coming from private industry. Personal income in Maine grew 2.3 percent year-over-year in the first half of 2013, while wage and salary income grew 2.1 percent over the same period. The Consumer Price Index was 1.5 percent higher in August 2013 than it was in August 2012.

The price of crude oil increased 6.3 percent in the third quarter of 2013 to around $110 per barrel. Heating oil and gasoline prices remained relatively steady. Existing single-family home sales in Maine were up 20 percent in August 2013 compared to August 2012 and housing permits for the September 2012-August 2013 year were 13 percent higher than the previous September-August period. The median home price in the Portland Metropolitan Statistical Area (York, Cumberland, and Sagadahoc Counties) increased 3.3 percent year-over-year in the second quarter of 2013. Mortgage delinquency rates remain well above pre-recession levels but below peak crisis levels. The foreclosure rate in Maine increased in the second quarter of 2013 and remains well above pre-recession levels.

The federal government experienced a 16-day shutdown earlier in October, ending shortly before the debt ceiling deadline was reached as Congress and the President came to agreement on a short-term solution. While there are certainly negative economic effects from the shutdown, not least of which is an erosion of consumer confidence, the relatively short length of the shutdown averted any severe economic consequences. However, the next budget and debt ceiling debate will occur soon, with the next deadlines in January and February 2014. If a similar scenario were to play out, economic conditions may deteriorate further, posing a risk to the forecast in the near term. The CEFC will review and revise the forecast by February 1, 2014, and will consider the impacts of actual policy decisions at the federal level at that time.

The 2013 wage and salary employment forecast was revised downwards slightly, while the 2014-2017 employment forecast was revised downwards as well. Wage and salary income growth was revised downwards for 2014-2017 based on the lower employment growth. Total personal income was also revised downwards for 2013-2015, reflecting the lower wage and salary income growth. Personal income for 2016 was revised upwards slightly and 2017 was left unchanged. Inflation, as measured by the Consumer Price Index (CPI), was revised downwards for 2013 and 2014 and upwards for 2015, 2016 and 2017.

General Fund revenue estimates were revised upward in fiscal year 2014 and fiscal year 2015. Upward revisions to the Sales and Use Tax and the Individual Income Tax offset a downward adjustment to the Corporate Income Tax to account for most of the net changes to the General Fund revenue forecast.

At June 30, 2013, the deficit in the State of Maine's Unassigned Fund Balance Account in the General Fund has decreased to $151.3 million (from a deficit unassigned balance of $355.9 for fiscal year 2012). This decrease is primarily due to a decrease in General Fund expenditures for health and human services ($219.7 million) as described on page 12.

There are several factors that adversely affect our General Fund Balance Sheet that we should strive to improve over the next several years. The primary factors that have a significant impact on the State's Financial Statements compiled and issued in accordance with Generally Accepted Accounting Principles as applicable to governments include such items as accruing tax revenues for budgetary purposes and for financial statement purposes without accruing the offsetting liabilities for budgetary purposes and the increase in the demand for appropriations whose balances carry from year to year which results in a lack funds accruing to the Unassigned Fund Balance of the General Fund. This combined with the lack of significant reserves weakens the General Fund equity position.

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

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

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

State of Maine
Office of the State Controller
14 State House Station
Augusta, ME 04333-0014
(207)-626-8420
financialreporting@maine.gov


DIRIGO
MAINE

STATE OF MAINE
STATEMENT OF NET POSITION

June 30, 2013
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ 281,703	$ 10,166	$ 291,869	$ 50,738
Cash and Cash Equivalents	1,641	2,514	4,155	92,150
Cash with Fiscal Agent	117,419	-	117,419	-
Investments	81,901	-	81,901	670,330
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	9,418	-	9,418	-
Restricted Deposits and Investments	3,748	280,808	284,556	116,810
Inventories	4,436	2,309	6,745	3,699
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	361,456	-	361,456	-
Loans Receivable	4,924	-	4,924	102,734
Notes Receivable	-	-	-	5,319
Other Receivables	229,868	65,659	295,527	84,829
Internal Balances	5,851	(5,851)	-	-
Due from Other Governments	552,844	-	552,844	160,035
Due from Primary Government	-	-	-	17,676
Loans Receivable from Primary Government	-	-	-	24,884
Due from Component Units	46,166	-	46,166	-
Other Current Assets	5,195	2,046	7,241	45,490
Total Current Assets	1,706,570	357,651	2,064,221	1,374,694
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	131,793	4,751	136,544	23,708
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	4,223	-	4,223	-
Restricted Deposits and Investments	-	-	-	537,762
Investments	-	-	-	465,437
Receivables, Net of Current Portion:				
Taxes Receivable	80,850	-	80,850	-
Loans Receivable	-	-	-	2,432,621
Notes Receivable	-	-	-	68,413
Other Receivables	3,988	-	3,988	9,668
Due from Other Governments	8,658	-	8,658	1,370,861
Loans Receivable from Primary Government	-	-	-	279,161
Due From Primary Government	-	-	-	3,817
Post-Employment Benefit Asset	1,871	-	1,871	11,258
Other Noncurrent Assets	-	-	-	30,257
Capital Assets:				
Land, Infrastructure and Other Non-Depreciable Assets	4,852,548	8,430	4,860,978	564,827
Buildings, Equipment and Other Depreciable Assets, Net	566,409	46,910	613,319	1,010,155
Total Noncurrent Assets	5,650,340	60,091	5,710,431	6,807,945
Total Assets	7,356,910	417,742	7,774,652	8,182,639
Deferred Outflows of Resources				
Accumulated Decrease in Fair Value of Hedging Derivatives	-	-	-	26,926
Deferred Loss on Refunding	-	-	-	10,251
Total Deferred Outflows of Resources	$ -	$ -	$ -	$ 37,177

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

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Liabilities				
Current Liabilities:				
Accounts Payable	$ 927,908	$ 4,018	$ 931,926	$ 100,337
Accrued Payroll	43,315	1,557	44,872	3,444
Tax Refunds Payable	182,956	-	182,956	-
Due to Component Units	17,676	-	17,676	-
Due to Primary Government	-	-	-	46,166
Current Portion of Long-Term Obligations:				
Compensated Absences	5,969	166	6,135	2,227
Due to Other Governments	76,526	-	76,526	986
Amounts Held under State & Federal Loan Programs	-	-	-	35,685
Claims Payable	29,826	-	29,826	-
Bonds and Notes Payable	83,480	-	83,480	178,993
Notes Payable	-	-	-	2,077
Revenue Bonds Payable	18,290	-	18,290	53,097
Obligations under Capital Leases	5,944	-	5,944	395
Certificates of Participation and Other Financing Arrangements	14,987	-	14,987	-
Loans Payable to Component Unit	24,884	-	24,884	-
Accrued Interest Payable	5,606	-	5,606	42,186
Deferred Revenue	1,171	12,763	13,934	57,622
Other Current Liabilities	5,492	15,274	20,766	76,321
Total Current Liabilities	1,444,030	33,778	1,477,808	599,536
Long-Term Liabilities:				
Compensated Absences	35,743	1,214	36,957	-
Due to Component Units	3,817	-	3,817	-
Due to Other Governments	-	-	-	3,190
Amounts Held under State & Federal Loan Programs	-	-	-	41,081
Claims Payable	40,638	-	40,638	-
Bonds and Notes Payable	286,245	-	286,245	3,448,916
Notes Payable	-	-	-	24,421
Revenue Bonds Payable	181,620	-	181,620	1,143,839
Obligations under Capital Leases	33,031	-	33,031	5,623
Certificates of Participation and Other Financing Arrangements	32,951	-	32,951	-
Loans Payable to Component Unit	279,161	-	279,161	-
Deferred Revenue	7,278	-	7,278	29,443
Pension Obligation	1,989	-	1,989	-
Other Post-Employment Benefit Obligation	298,061	3,767	301,828	-
Pollution Remediation and Landfill Obligations	32,132	-	32,132	-
Other Noncurrent Liabilities	-	-	-	139,543
Total Long-Term Liabilities	1,232,666	4,981	1,237,647	4,836,056
Total Liabilities	2,676,696	38,759	2,715,455	5,435,592
Net Position				
Net Investment in Capital Assets	4,740,708	55,340	4,796,048	979,001
Restricted:				
Transportation Purposes	89,932	-	89,932	-
Business Licensing & Regulation	70,265	-	70,265	-
Justice and Protection	8,914	-	8,914	-
Natural Resources	43,883	-	43,883	-
Health and Human Services	38,035	-	38,035	-
Capital Projects	2,980	-	2,980	-
Government Support & Operations	57,097	-	57,097	-
Unemployment Compensation	-	321,112	321,112	-
Other Purposes	11,085	-	11,085	1,168,018
Funds Held as Permanent Investments:				
Expendable	64,233	-	64,233	-
Nonexpendable	17,794	-	17,794	218,778
Unrestricted	(464,712)	2,531	(462,181)	418,427
Total Net Position	$ 4,680,214	$ 378,983	$ 5,059,197	$ 2,784,224

STATE OF MAINE
STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

		Program Revenues		
			Operating	Capital
	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions
Primary government:				
Governmental activities:				
Governmental Support & Operations	$ 428,011	$ 89,374	$ 17,371	$ -
Arts, Heritage & Cultural Enrichment	10,538	869	2,498	-
Business Licensing & Regulation	63,406	69,196	230	-
Economic Development & Workforce Training	240,475	7,910	173,613	-
Education	1,581,556	26,098	198,952	-
Health & Human Services	3,657,573	18,801	2,296,473	-
Justice & Protection	401,656	83,173	54,240	-
Natural Resources Development & Protection	201,979	93,531	55,060	-
Transportation Safety & Development	384,852	119,087	249,277	-
Interest Expense	46,541	-	-	-
Total Governmental Activities	7,016,587	508,039	3,047,714	-
Business-Type Activities:				
Employment Security	169,334	188,833	7,032	-
Alcoholic Beverages	-	12,533	-	-
Lottery	176,094	229,565	-	-
Ferry Services	12,030	4,584	-	-
Military Equipment Maintenance	36,971	35,814	-	-
Dirigo Health	56,229	65,454	-	-
Other	7,183	7,143	-	-
Total Business-Type Activities	457,841	543,926	7,032	-
Total Primary Government	$ 7,474,428	$ 1,051,965	$ 3,054,746	$ -
Component Units:				
Finance Authority of Maine	41,750	17,356	19,893	-
Maine Community College System	126,966	16,777	59,719	626
Maine Health & Higher Educational Facilities Authority	50,062	45,641	2,684	-
Maine Municipal Bond Bank	69,512	61,429	(4,408)	24,688
Maine State Housing Authority	238,020	75,911	158,791	-
Maine Turnpike Authority	95,247	109,702	-	-
University of Maine System	684,261	299,106	200,065	8,106
All Other Non-Major Component Units	142,957	47,044	64,938	25,941
Total Component Units	$ 1,448,775	$ 672,966	$ 501,682	$ 59,361
General Revenues:				
Taxes:				
Corporate				
Individual Income				
Fuel				
Property				
Sales & Use				
Other				
Unrestricted Investment Earnings				
Non-Program Specific Grants, Contributions & Appropriations				
Miscellaneous Income				
Loss on Assets Held for Sale				
Tobacco Settlement				
Special Items				
Transfers - Internal Activities				
Total General Revenues and Transfers				
Change in Net Position				
Net Position - Beginning (As Restated)				
Net Position - Ending				

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

Net (Expenses) Revenues and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (321,266)	$ -	$ (321,266)	$ -
(7,171)	-	(7,171)	-
6,020	-	6,020	-
(58,952)	-	(58,952)	-
(1,356,506)	-	(1,356,506)	-
(1,342,299)	-	(1,342,299)	-
(264,243)	-	(264,243)	-
(53,388)	-	(53,388)	-
(16,488)	-	(16,488)	-
(46,541)	-	(46,541)	-
(3,460,834)	-	(3,460,834)	-
-	26,531	26,531	-
-	12,533	12,533	-
-	53,471	53,471	-
-	(7,446)	(7,446)	-
-	(1,157)	(1,157)	-
-	9,225	9,225	-
-	(40)	(40)	-
-	93,117	93,117	-
$ (3,460,834)	$ 93,117	$ (3,367,717)	$ -
-	-	-	(4,501)
-	-	-	(49,844)
-	-	-	(1,737)
-	-	-	12,197
-	-	-	(3,318)
-	-	-	14,455
-	-	-	(176,984)
-	-	-	(5,034)
$ -	$ -	$ -	$ (214,766)
294,333	-	294,333	-
1,508,024	-	1,508,024	-
235,112	-	235,112	-
49,444	-	49,444	-
1,140,645	-	1,140,645	-
313,154	-	313,154	-
10,288	-	10,288	13,841
-	-	-	281,543
100,329	-	100,329	4,604
-	-	-	(7,692)
50,723	-	50,723	-
92,401	(108,288)	(15,887)	-
54,916	(54,916)	-	-
3,849,369	(163,204)	3,686,165	292,296
388,535	(70,087)	318,448	77,530
4,291,679	449,070	4,740,749	2,706,694
$ 4,680,214	$ 378,983	$ 5,059,197	$ 2,784,224

STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2013
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Treasurer's Cash Pool	$ 12,691	$ 39,096	$ 14,026	$ 212,576	$ 126	$ 278,515
Cash and Short-Term Investments	123	116	1	45	1,353	1,638
Cash with Fiscal Agent	1,079	1,028	-	103,722	-	105,829
Investments	-	-	-	-	81,901	81,901
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	380	-	-	-	13,261	13,641
Inventories	1,612	-	758	-	-	2,370
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	407,726	23,495	-	11,085	-	442,306
Loans Receivable	1	18	-	4,905	-	4,924
Other Receivable	74,635	1,428	68,199	74,864	10	219,136
Due from Other Funds	12,513	9,869	5,701	45,382	484	73,949
Due from Other Governments	-	-	552,249	-	-	552,249
Due from Component Units	-	-	-	46,060	106	46,166
Other Assets	1,904	55	344	202	101	2,606
Working Capital Advances Receivable	111	-	-	-	-	111
Total Assets	$ 512,775	$ 75,105	$ 641,278	$ 498,841	$ 97,342	$ 1,825,341
Liabilities and Fund Balances						
Accounts Payable	$ 146,457	$ 24,592	$ 514,942	$ 208,793	$ 4,413	$ 899,197
Accrued Payroll	18,063	6,758	5,052	8,491	962	39,326
Tax Refunds Payable	182,950	6	-	-	-	182,956
Due to Other Governments	3,792	-	70,689	-	-	74,481
Due to Other Funds	80,021	3,413	16,422	3,375	17	103,248
Due to Component Units	3,731	12	5,340	281	8,331	17,695
Compensated Absences	-	-	-	-	430	430
Deferred Revenue	219,962	6,000	2,803	27,751	7	256,523
Other Accrued Liabilities	2,174	-	1,279	2,927	469	6,849
Total Liabilities	657,150	40,781	616,527	251,618	14,629	1,580,705
Fund Balances:						
Nonspendable:						
Permanent Fund Principal	-	-	-	-	17,794	17,794
Inventories and Prepaid Items	3,341	55	1,104	296	101	4,897
Restricted	3,534	34,269	23,647	376,904	67,288	505,642
Unassigned	(151,250)	-	-	(129,977)	(2,470)	(283,697)
Total Fund Balances	(144,375)	34,324	24,751	247,223	82,713	244,636
Total Liabilities and Fund Balances	$ 512,775	$ 75,105	$ 641,278	$ 498,841	$ 97,342	$ 1,825,341

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 POSITION

June 30, 2013
(Expressed in Thousands)

Total fund balances for governmental funds		$ 244,636
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	5,532,331	
Less: Accumulated depreciation	(295,247)	5,237,084
Other post-employment benefit assets are not financial resources		1,871
Pollution remediation receivable		8,851
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 Position. This is the net effect of these balances on the statement:		
Bonds payable	(569,635)	
Interest payable related to long-term financing	(3,748)	
Certificates of participation and other financing arrangements	(7,723)	
Capital leases	(4,294)	
Other accrued	(9)	
Loans payable to component unit	(304,045)	
Compensated absences	(37,604)	
Pension obligation	(1,989)	
Other post-employment benefit obligation	(298,061)	
Pollution remediation and landfill obligations	(32,132)	(1,259,240)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		251,415
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 Position.		195,597
Net position of governmental activities		$ 4,680,214

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, 2013
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$ 3,077,321	$ 214,241	$ -	$ 267,319	$ -	$ 3,558,881
Assessments and Other Revenue	106,086	93,365	-	152,059	-	351,510
Federal Grants and Reimbursements	1,726	-	3,039,702	6,641	-	3,048,069
Service Charges	46,281	4,181	405	88,806	1,685	141,358
Investment Income	356	105	13	(18)	9,465	9,921
Miscellaneous Revenue	10,467	3,445	105	116,534	64	130,615
Total Revenues	3,242,237	315,337	3,040,225	631,341	11,214	7,240,354
Expenditures						
Current:						
Governmental Support & Operations	265,160	2,552	9,786	124,420	98	402,016
Economic Development & Workforce Training	31,922	-	172,478	35,052	1,664	241,116
Education	1,332,688	-	205,209	17,029	35,669	1,590,595
Health and Human Services	907,141	-	2,281,867	485,863	1,961	3,676,832
Business Licensing & Regulation	992	-	242	61,649	-	62,883
Natural Resources Development & Protection	64,184	33	53,323	87,226	3,687	208,453
Justice and Protection	258,969	29,542	55,053	48,488	300	392,352
Arts, Heritage & Cultural Enrichment	6,932	-	2,348	911	107	10,298
Transportation Safety & Development	-	272,371	221,016	88,104	2,710	584,201
Debt Service:						
Principal Payments	103,840	16,735	12,005	10,630	19	143,229
Interest Payments	20,657	4,873	3,762	9,499	-	38,791
Capital Outlay	-	-	-	-	7,753	7,753
Total Expenditures	2,992,485	326,106	3,017,089	968,871	53,968	7,358,519
Revenue over (under) Expenditures	249,752	(10,769)	23,136	(337,530)	(42,754)	(118,165)
Other Financing Sources (Uses):						
Transfer from Other Funds	181,932	17,938	19,973	223,122	29,348	472,313
Transfer to Other Funds	(230,298)	(9,983)	(33,486)	(122,282)	(3,742)	(399,791)
COP's and Other	4,174	1,029	-	1,147	21	6,371
Bonds Issued	-	-	-	30,290	-	30,290
Premium on Bonds Issued	-	-	-	2,210	-	2,210
Net Other Finance Sources (Uses)	(44,192)	8,984	(13,513)	134,487	25,627	111,393
Special Item	-	-	-	7,016	-	7,016
Net Change in Fund Balances	205,560	(1,785)	9,623	(196,027)	(17,127)	244
Fund Balances at Beginning of Year	(349,935)	36,109	15,128	443,250	99,840	244,392
Fund Balances at End of Year	$ (144,375)	$ 34,324	$ 24,751	$ 247,223	$ 82,713	$ 244,636

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, 2013
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ 244
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	253,075	
Capital assets transfer, net	85,118	
Depreciation expense	(30,810)	307,383
The net effect of various transactions involving capital assets (i.e. sales, trade-ins and contributions) is to increase net position.		(6)
Post-employment benefit asset funding, net		111
Pollution Remediation Receivable		4,480
The issuance of long-term debt provides current financial resources to governmental funds which increases long-term debt in the Statement of Net Position. 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 Position. This is the amount that proceeds exceed repayments:		
Bond proceeds	(30,290)	
Proceeds from other financing arrangements	(6,350)	
Loan proceeds from component unit	-	
New capitalized leases	(4,255)	
Repayment of bond principal	120,575	
Repayment of other financing debt	11,771	
Repayment of pledged revenue principal	24,086	
Repayment of capitalized lease principal	19	
Accrued interest	793	116,349
Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported as expenditures on the Statement of Net Position and have been eliminated from the Statement of Position as follows:		
Pension obligation	21	
Other post-employment benefit obligation	(31,356)	
Pollution remediation and landfill obligations	(3,252)	
Compensated absences	91	(34,496)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		(17,875)
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.		12,345
Changes in net position of governmental activities		$ 388,535

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

STATE OF MAINE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2013
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		Internal
	Employment Security	Other Enterprise	Total	Service Funds
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ -	$ 10,166	$ 10,166	$ 92,000
Cash and Short-Term Investments	1,758	756	2,514	3
Cash with Fiscal Agent	-	-	-	11,590
Restricted Assets:				
Restricted Deposits and Investments	280,808	-	280,808	3,748
Inventories	-	2,309	2,309	2,066
Receivables, Net of Allowance for Uncollectibles:				
Other Receivable	41,161	24,498	65,659	10,636
Due from Other Funds	231	188	419	20,702
Other Current Assets	-	2,046	2,046	2,589
Total Current Assets	323,958	39,963	363,921	143,334
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	-	4,751	4,751	42,981
Capital Assets - Net of Depreciation	-	55,340	55,340	181,873
Total Noncurrent Assets	-	60,091	60,091	224,854
Total Assets	323,958	100,054	424,012	368,188
Liabilities				
Current Liabilities:				
Accounts Payable	2,090	1,928	4,018	8,161
Accrued Payroll	-	1,557	1,557	3,989
Due to Other Funds	-	5,941	5,941	6,335
Due to Component Units	-	-	-	3,798
Current Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	-	-	-	12,386
Obligations Under Capital Leases	-	-	-	5,396
Claims Payable	-	-	-	29,826
Compensated Absences	-	166	166	442
Deferred Revenue	-	12,763	12,763	409
Other Accrued Liabilities	756	14,518	15,274	492
Total Current Liabilities	2,846	36,873	39,719	71,234
Long-Term Liabilities:				
Working Capital Advances Payable	-	-	-	111
Deferred Revenue	-	-	-	587
Certificates of Participation and Other Financing Arrangements	-	-	-	27,829
Obligations Under Capital Leases	-	-	-	29,285
Claims Payable	-	-	-	40,638
Compensated Absences	-	1,214	1,214	3,236
Other Post-Employment Benefit Obligation	-	3,767	3,767	-
Total Long-Term Liabilities	-	4,981	4,981	101,686
Total Liabilities	2,846	41,854	44,700	172,920
Net Position				
Net Investment in Capital Assets	-	55,340	55,340	125,099
Restricted for:				
Unemployment Compensation	321,112	-	321,112	-
Other Purposes	-	-	-	383
Unrestricted	-	2,860	2,860	69,786
Total Net Position	$ 321,112	$ 58,200	$ 379,312	$ 195,268
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-type activites			(329)	
			$ 378,983	

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

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

Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		Internal
	Employment Security	Other Enterprise	Total	Service Funds
Operating Revenues				
Charges for Services	$ -	$ 341,996	$ 341,996	$ 410,741
Assessments	188,833	-	188,833	-
Miscellaneous Revenues	-	702	702	637
Total Operating Revenues	188,833	342,698	531,531	411,378
Operating Expenses				
General Operations	-	284,616	284,616	370,424
Depreciation	-	4,038	4,038	16,107
Claims/Fees Expense	169,334	-	169,334	11,494
Other Operating Expenses	-	-	-	611
Total Operating Expenses	169,334	288,654	457,988	398,636
Operating Income (Loss)	19,499	54,044	73,543	12,742
Nonoperating Revenues (Expenses)				
Investment Revenue (Expense) - net	7,032	-	7,032	368
Interest Expense	-	-	-	(10,060)
Other Nonoperating Revenues (Expenses) - net	-	12,395	12,395	(1,550)
Total Nonoperating Revenues (Expenses)	7,032	12,395	19,427	(11,242)
Income (Loss) Before Capital Contributions, Transfers and Special Items	26,531	66,439	92,970	1,500
Capital Contributions, Transfers and Special Items				
Capital Contributions from (to) Other Funds	-	7,347	7,347	730
Transfers from Other Funds	-	4,566	4,566	10,469
Transfers to Other Funds	(1,051)	(65,778)	(66,829)	(205)
Special Items	-	(108,288)	(108,288)	-
Total Capital Contributions, Transfers In (Out) and Special Items	(1,051)	(162,153)	(163,204)	10,994
Change in Net Position	25,480	(95,714)	(70,234)	12,494
Net Position - Beginning of Year	295,632	153,914	449,546	182,774
Net Position - End of Year	$ 321,112	$ 58,200		$ 195,268
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			147	
Changes in Business-Type Net Position			$ (70,087)	

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

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2013
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		Internal
	Employment Security	Other Enterprise	Totals	Service Funds
Cash Flows from Operating Activities				
Receipts from Customers and Users	$ 178,931	$ 343,430	$ 522,361	$ 401,041
Payments of Benefits	(173,088)	-	(173,088)	-
Payments to Prize Winners	-	(143,938)	(143,938)	-
Payments to Suppliers	-	(112,663)	(112,663)	(323,684)
Payments to Employees	-	(26,503)	(26,503)	(68,233)
Net Cash Provided (Used) by Operating Activities	5,843	60,326	66,169	9,124
Cash Flows from Noncapital Financing Activities				
Transfers from Other Funds	-	4,566	4,566	10,464
Transfers to Other Funds	(1,051)	(65,778)	(66,829)	(200)
Net Cash Provided (Used) by Noncapital Financing Activities	(1,051)	(61,212)	(62,263)	10,264
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets	-	(7,699)	(7,699)	(33,747)
Proceeds from Financing Arrangements	-	-	-	20,400
Principal and Interest Paid on Financing Arrangements	-	-	-	(33,551)
Proceeds from Sale of Capital Assets	-	-	-	50
Net Cash Provided (Used) by Capital Financing Activities	-	(7,699)	(7,699)	(46,848)
Cash Flows from Investing Activities				
Interest Revenue	7,032	38	7,070	368
Net Cash Provided (Used) by Investing Activities	7,032	38	7,070	368
Net Increase (Decrease) in Cash/Cash Equivalents	11,824	(8,547)	3,277	(27,092)
Cash/Cash Equivalents - Beginning of Year	270,742	24,220	294,962	177,414
Cash/Cash Equivalents - End of Year	$ 282,566	$ 15,673	$ 298,239	$ 150,322
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	$ 19,499	$ 54,044	$ 73,543	$ 12,742
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	-	4,038	4,038	16,107
Decrease (Increase) in Assets				
Accounts Receivable	(9,695)	732	(8,963)	(10,175)
Interfund Balances	(207)	784	577	(1,183)
Inventories	-	188	188	2,098
Other Assets	-	-	-	(1,028)
Increase (Decrease) in Liabilities				
Accounts Payable	(3,845)	(810)	(4,655)	(14,888)
Accrued Payroll Expenses	-	137	137	195
Change in Compensated Absences	-	(209)	(209)	(331)
Other Accruals	91	1,422	1,513	5,587
Total Adjustments	(13,656)	6,282	(7,374)	(3,618)
Net Cash Provided (Used) by Operating Activities	$ 5,843	$ 60,326	$ 66,169	$ 9,124
Non Cash Investing, Capital and Financing Activities				
Property Leased, Accrued or Acquired	-	-	-	9,324
Contributed Capital Assets	-	7,347	7,347	730
Decrease of deferred revenue from the sale of liquor operations	-	12,500	12,500	-
Special Item	-	(108,288)	(108,288)	-

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


DIRIGO
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STATE OF MAINE
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2013
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
Assets			
Equity in Treasurer's Cash Pool	$ -	$ 1,800	$ 22,227
Cash and Short-Term Investments	31,109	-	27
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	1,840	-	-
Interest and Dividends	4,932	-	-
Due from Brokers for Securities Sold	230	-	-
Other	15,804	-	-
Investments at Fair Value:			
Debt Securities	3,356	-	-
Equity Securities	3,830,239	-	-
Common/Collective Trusts	7,734,931	-	-
Other	-	12,811	-
Restricted Deposits and Investments	-	-	11
Securities Lending Collateral	1,481,238	-	-
Due from Other Funds	-	20,550	-
Investments Held on Behalf of Others	-	-	65,519
Capital Assets - Net of Depreciation	8,930	-	-
Other Assets	-	5,543	1,775
Total Assets	13,112,609	40,704	89,559
Liabilities			
Accounts Payable	5,236	80	837
Due to Other Funds	-	7	89
Agency Liabilities	-	-	87,537
Obligations Under Securities Lending	1,481,238	-	-
Other Accrued Liabilities	25,035	-	1,096
Total Liabilities	1,511,509	87	89,559
Net Position			
Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	11,601,100	40,617	-
Total Net Position	$ 11,601,100	$ 40,617	$ -

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

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

Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts
Additions:		
Contributions:		
Members	$ 160,780	$ -
State and Local Agencies	361,254	-
Investment Income (Loss):		
Net Increase (Decrease) in the Fair Value of Investments	1,089,235	1,310
Capital Gains Distributions from Investments	-	-
Interest and Dividends	128,398	300
Securities Lending Income	5,030	-
Less Investment Expense:		
Investment Activity Expense	31,368	-
Securities Lending Expense	509	-
Net Investment Income (Loss)	1,190,786	1,610
Miscellaneous Revenues	-	12,624
Transfers In	-	767
Total Additions	1,712,820	15,001
Deductions:		
Benefits Paid to Participants or Beneficiaries	842,257	68
Refunds and Withdrawals	24,670	-
Administrative Expenses	10,959	194
Claims Processing Expense	701	-
Distribution of Assets to FAME*	-	6,013,670
Transfers Out	-	21,262
Total Deductions	878,587	6,035,194
Net Increase (Decrease)	834,233	(6,020,193)
Net Position:		
Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year	10,766,867	6,060,810
End of Year	$ 11,601,100	$ 40,617

*Pursuant to Maine law, beginning July 1, 2012, the State's fiduciary responsibility for the NextGen College Investing Plan was transferred to the Finance Authority of Maine.

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

STATE OF MAINE
STATEMENT OF NET POSITION
COMPONENT UNITS

June 30, 2013
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority	Maine Municipal Bond Bank
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ 17,644	$ 14,005	$ 3,441	$ -
Cash and Cash Equivalents	3,360	8,217	2,938	312
Investments	45,534	40,472	36,436	19,475
Restricted Assets:				
Restricted Deposits and Investments	-	-	-	-
Inventories	-	1,295	-	-
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	52,624	-
Notes Receivable	-	-	-	-
Other Receivables	1,128	11,353	401	863
Due from Other Governments	92	-	-	135,425
Due from Primary Government	-	351	-	3,901
Loans Receivable from Primary Government	-	-	-	24,884
Other Current Assets	1,973	1,860	917	33,680
Total Current Assets	69,731	77,553	96,757	218,540
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	8,244	6,545	1,608	-
Restricted Assets:				
Restricted Deposits and Investments	-	1,623	148,270	341,306
Investments	-	13,417	-	-
Receivables, Net of Current Portion:				
Loans Receivable	-	-	1,026,808	-
Notes Receivable	23,656	-	-	-
Other Receivables	-	-	203	-
Due from Other Governments	-	-	-	1,370,861
Due from Primary Government	-	-	-	-
Loans Receivable from Primary Government	-	-	-	279,161
Post-Employment Benefit Asset	-	11,258	-	-
Capital Assets - Net of Depreciation	1,526	154,540	-	606
Other Noncurrent Assets	-	212	-	991
Total Noncurrent Assets	33,426	187,595	1,176,889	1,992,925
Total Assets	103,157	265,148	1,273,646	2,211,465
Deferred Outflows of Resources				
Accumulated Decrease in Fair Value of Hedging Derivatives	-	-	-	-
Deferred Loss on Refunding	-	-	-	-
Total Deferred Outflows of Resources	$ -	$ -	$ -	$ -
Liabilities				
Current Liabilities:				
Accounts Payable	3,736	3,415	72	568
Accrued Payroll	-	-	-	-
Compensated Absences	-	2,034	-	-
Due to Other Governments	-	-	-	180
Due to Primary Government	-	-	-	45,732
Amounts Held Under State & Federal Loan Programs	-	-	-	35,685
Bonds and Notes Payable	807	622	52,945	128,866
Obligations Under Capital Leases	-	10	-	-
Accrued Interest Payable	-	-	22,583	12,545
Deferred Revenue	1,225	2,452	2,669	-
Other Current Liabilities	23,846	8,676	-	-
Total Current Liabilities	29,614	17,209	78,269	223,576
Long-Term Liabilities:				
Due to Other Governments	-	-	302	1,178
Amounts Held Under State & Federal Loan Programs	41,081	-	-	-
Bonds and Notes Payable	650	23,323	1,142,275	1,353,898
Obligations Under Capital Leases	-	2,208	-	-
Deferred Revenue	-	-	-	-
Other Noncurrent Liabilities	-	-	-	-
Total Long-Term Liabilities	41,731	25,531	1,142,577	1,355,076
Total Liabilities	71,345	42,740	1,220,846	1,578,652
Net Position				
Net Investment in Capital Assets	1,526	130,212	-	606
Restricted	15,287	44,002	31,732	559,093
Unrestricted	14,999	48,194	21,068	73,114
Total Net Position	$ 31,812	$ 222,408	$ 52,800	$ 632,813

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

Maine State Housing Authority	Maine Turnpike Authority	University of Maine System	Non-Major Component Units	Total
$ -	$ -	$ 14,574	$ 1,074	$ 50,738
1,195	5,573	1,577	68,978	92,150
286,777	-	226,532	15,104	670,330
-	92,102	-	24,708	116,810
-	1,643	-	761	3,699
30,889	-	-	19,221	102,734
3	-	63	5,253	5,319
24,086	4,068	36,986	5,944	84,829
4,456	-	12,491	7,571	160,035
-	-	7,588	5,836	17,676
-	-	-	-	24,884
-	848	4,806	1,406	45,490
347,406	104,234	304,617	155,856	1,374,694
-	-	6,809	502	23,708
-	24,319	6,366	15,878	537,762
96,530	14,894	320,900	19,696	465,437
1,291,912	-	-	113,901	2,432,621
101	-	40,830	3,826	68,413
627	98	6,517	2,223	9,668
-	-	-	-	1,370,861
-	-	3,678	139	3,817
-	-	-	-	279,161
-	-	-	-	11,258
2,236	489,031	688,079	238,964	1,574,982
6,351	19,829	1,844	1,030	30,257
1,397,757	548,171	1,075,023	396,159	6,807,945
1,745,163	652,405	1,379,640	552,015	8,182,639
26,926	-	-	-	26,926
-	9,147	-	1,104	10,251
$ 26,926	$ 9,147	$ -	$ 1,104	$ 37,177
54,883	6,616	16,401	14,646	100,337
-	3,092	-	352	3,444
-	-	-	193	2,227
277	-	-	529	986
-	-	-	434	46,166
-	-	-	-	35,685
14,255	15,560	12,147	8,965	234,167
-	-	375	10	395
6,422	-	-	636	42,186
3,627	6,747	11,531	29,371	57,622
-	11,159	30,630	2,010	76,321
79,464	43,174	71,084	57,146	599,536
-	-	-	1,710	3,190
-	-	-	-	41,081
1,318,895	451,304	165,763	161,068	4,617,176
-	-	3,410	5	5,623
27,895	-	-	1,548	29,443
26,926	13,446	99,042	129	139,543
1,373,716	464,750	268,215	164,460	4,836,056
1,453,180	507,924	339,299	221,606	5,435,592
2,236	115,190	513,909	215,322	979,001
292,357	31,776	336,572	75,977	1,386,796
24,316	6,662	189,860	40,214	418,427
$ 318,909	$ 153,628	$1,040,341	$ 331,513	$ 2,784,224

STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority	Maine Municipal Bond Bank
Expenses	$ 41,750	$ 126,966	$ 50,062	$ 69,512
Program Revenues				
Charges for Services	17,356	16,777	45,641	61,429
Program Investment Income	23	2,240	2,684	(4,769)
Operating Grants and Contributions	19,870	57,479	-	361
Capital Grants and Contributions	-	626	-	24,688
Net Revenue (Expense)	(4,501)	(49,844)	(1,737)	12,197
General Revenues				
Unrestricted Investment Earnings	(67)	1,080	53	27
Non-program Specific Grants, Contributions and Appropriations	-	54,495	-	-
Miscellaneous Income	18	1,601	115	1,264
Gain (Loss) on Assets Held for Sale	-	-	-	-
Total General Revenues	(49)	57,176	168	1,291
Change in Net Position	(4,550)	7,332	(1,569)	13,488
Net Position, Beginning of the Year (as restated)	36,362	215,076	54,369	619,325
Net Position, End of Year	$ 31,812	$ 222,408	$ 52,800	$ 632,813

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

Maine State Housing Authority	Maine Turnpike Authority	University of Maine System	Non-Major Component Units	Total
$ 238,020	$ 95,247	$ 684,261	$ 142,957	$1,448,775
75,911	109,702	299,106	47,044	672,966
3,380	-	22,422	152	26,132
155,411	-	177,643	64,786	475,550
-	-	8,106	25,941	59,361
(3,318)	14,455	(176,984)	(5,034)	(214,766)
14	141	9,586	3,007	13,841
-	-	209,340	17,708	281,543
-	-	-	1,606	4,604
-	-	-	(7,692)	(7,692)
14	141	218,926	14,629	292,296
(3,304)	14,596	41,942	9,595	77,530
322,213	139,032	998,399	321,918	2,706,694
$ 318,909	$ 153,628	$1,040,341	$ 331,513	$2,784,224

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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.

Financial accountability is defined in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. 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 and there exists a financial benefit or burden relationship with the State. Entities that do not meet the specific criteria for inclusion may still be included 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.

Under GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement No. 14*, individually significant legally separate, tax-exempt entities that should be reported as component units if their resources are for the direct benefit of the State and the State can access those resources. 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 – Blended component units are entities that are legally separate from the State, but provide services entirely, or almost entirely to the State or otherwise exclusively, or almost exclusively, benefits the primary government even though they do not provide services directly to it. The State reports two 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. Its purpose includes 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. In their separately issued financial statements, MGFA records a lease receivable from the State and a liability for bonds issued. However, in accordance with GASB, capital leases that exist between the State and MGFA are not recorded as leases in this report. The assets associated with these leases are reported in the government-wide statements along with the related debt. The corresponding debt service activity is recorded in the Governmental Funds. MGFA financial activity associated with servicing the debt is reported in an internal service fund. Therefore, the State reports MGFA's balances and transactions as though they were part of the primary government, using the blending method.

Child Development Services (CDS) is a legally separate organization, which ensures the provision of child find activities, early intervention services and free, appropriate public education services to eligible children. The State's Education Commissioner appoints and supervises the CDS director. Therefore, the State reports CDS balances and transactions as though they were a non-major special revenue fund.

Discrete Component Units - Discrete component units are entities that are legally separate from the State but are either accountable to the State or related so closely to the State that exclusion would cause the State's financial statements to be misleading or incomplete. Component units that are not material to the State's financial statements have been excluded. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government.

The State is able to impose its will upon these discretely presented component units whose boards of directors or boards of trustees are appointed by the Governor:

The Maine Community College System is Maine's comprehensive two-year college system and offers certificate, diploma and associate degree programs. The combined financial statements of the System include the activity of seven colleges, the central administrative office and the Center for Career Development (including the Maine Career Advantage and Maine Quality Centers programs), and its component unit, Maine Community College Educational Foundations.

The Maine Turnpike Authority (MTA) constructs, maintains and operates a turnpike at such a location approved by the State Highway Commission and to issue turnpike revenue bonds payable solely from revenues of the Authority. The Authority's fiscal year ends 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, eight centers, the central administrative office, and its component units, which include several foundations and alumni associations that raise funds on the System's behalf.

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

The Finance Authority of Maine provides commercial financing and loan guarantees to Maine businesses and educational financing to Maine students and their parents. The Authority also provides financial and other services for the NextGen College Investing Plan, Potato Marketing Improvement Fund Board, the Nutrient Management Fund Board, the Northern Maine Transmission Corporation, the Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Agricultural Marketing Loan Fund Board, and the Occupational Safety Program Fund Board. The Governor appoints the fifteen voting members of the Authority.

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

The Maine Municipal Bond Bank issues bonds on behalf of counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations or eligible borrowers as designated by the Legislature (the "governmental units") within the State. The Governor appoints three residents of the State to the five-member Board of Commissioners. The remaining two members include the Treasurer of State and Superintendent of Financial Institutions who serve as commissioners, *ex officio*.

Maine State Housing Authority issues bonds to purchase notes and mortgages on residential units, both single and multi-family, for the purpose of providing housing for persons and families of low income in the State. The Authority also acts as an agent for the State in administering federal weatherization, energy conservation, fuel assistance and homeless grant programs and collecting and disbursing federal rent subsidies for low income housing. The Governor appoints five of the Authority's seven commissioners. The remaining two commissioners are the Treasurer of State and the Director of the Maine State Housing Authority, both of whom serve *ex officio*. The Authority's fiscal year ends on December 31.

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

Maine Public Employees Retirement System administers an agent-multiple employer public employee retirement system. It provides pension, death, and disability benefits to its members, which include employees of the State, some public school employees, employees of approximately 296 local municipalities and other public entities in Maine. The Governor appoints four of the Board's eight voting trustees. A fifth trustee is either the Treasurer of State or the Deputy Treasurer of State.

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

Finance Authority of Maine 5 Community Dr. PO Box 949 Augusta, ME 04332	Maine Health and Higher Ed. Facilities Authority PO Box 2268 Augusta, ME 04338	Maine Public Employees Retirement System 46 State House Station Augusta, ME 04333	Maine Turnpike Authority 2360 Congress Street Portland, ME 04102
Maine Community College System 323 State Street Augusta, ME 04330	Maine Municipal Bond Bank PO Box 2268 Augusta, ME 04338	Maine State Housing Authority 89 State House Station 353 Water Street Augusta, ME 04330	University of Maine System 16 Central Street Bangor, ME 04401

Related Organizations
Officials of the State's primary government appoint a voting majority of the governing board of the Maine Veteran's Home. The primary government has no material accountability for this organization beyond making board appointments.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements
The Statement of Net Position 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 Position* presents the reporting entity's non-fiduciary assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is reported in three components:

Net investment in capital assets component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. Constraints placed on restricted components of net position 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 position reports $725.3 million of restricted net position, of which $131.3 million is restricted by enabling legislation.

Unrestricted component of net position consists of the net amount of assets, deferred outflow of resources, liabilities, and deferred inflows of resources that do not meet the definition of the two preceding categories. The unrestricted component of net position often is designated, to indicate that management does not consider it to be available for general operations and 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.

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

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the governmental funds when they become susceptible to accrual, generally when they become both measurable and available. "Available" means earned and collected or expected to be collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers revenues available if they are collected within 60 days of the end of the fiscal year.

Significant revenues susceptible to accrual include: income taxes, sales and use taxes, and other taxes; federal grants; federal reimbursements; and other reimbursements for use of materials and services. Revenues from other sources are recognized when received because they are generally not measurable until received in cash. Property taxes are recognized as revenue in the year for which they are levied, provided the "available" criterion is met.

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

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

Financial Statement Presentation

The State reports the following major governmental funds:

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

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

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

The *Other Special Revenue Fund* accounts for specific revenue sources that are legally restricted to expenditures for specified purposes, and the related current liabilities, including some major capital projects that are not accounted for in the Highway and Federal Funds. Examples of the most significant types of revenue sources include: Fund for a Healthy Maine (tobacco settlement revenue), State municipal revenue sharing, hospital and service provider taxes, and oil transfer fees.

The State reports the following major enterprise fund:

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

Additionally, the State reports the following fund types:

Governmental Fund Types:

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

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

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

Proprietary Fund Types:

Enterprise Funds report the activities for which fees are charged to external users for goods or services, such as 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 (MPERS). The fund also reports resources that are required to be held in trust for members and beneficiaries of the State's retiree healthcare benefits. The investment trust, managed by the Maine Public Employees Retirement System, holds the long-term investments of the trust. The trustees of the Other Employee Benefit Trust Fund are the State Controller and State Treasurer.

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

Agency Funds report assets and liabilities for deposits and investments entrusted to the State as an agent for others. Examples include amounts held for payroll withholdings, inmate and student guardianship accounts.

D. FISCAL YEAR-ENDS

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

E. ASSETS, LIABILITIES, AND NET POSITION/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 Position 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 $115 million of Workers' Compensation, $53 million of Bureau of Insurance, and $28 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.

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 Position.

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 nonspendable fund balance designations indicating that the long-term loans do not constitute expendable financial resources.

Due from/to Primary Government/Component Units
Numerous transactions are made between the primary government and component units to finance operations, provide services, acquire or construct assets, or repay bonds. To the extent that transactions between funds were not completed as of June 30, “Due from Primary Government” and “Due to Component Unit” receivables and payables have been recorded. Two component units have December 31 year ends, therefore the “due to” and “due from” amounts may differ.

Due from/to Other Governments
Due from/to Other Governments represents amounts receivable from or payable to municipalities or the federal government. Due from Other Governments represents primarily federal grants receivable for Medicaid claims, other health and human services programs, and federal grants receivable for transportation-related expenditures. Due from Other Governments in the component units’ column represents amounts receivable for grants, bond repayment and retirement benefits. Due to Other Governments primarily consist of amounts owed to municipalities for Municipal Revenue Sharing and the federal government for Medicaid cost recoveries from providers.

Capital Assets
Capital assets, which include land, buildings, equipment and infrastructure assets (e.g., roads, bridges, ramps and similar items), are reported in the government-wide statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide statements. The State capitalizes governmental fund buildings valued at $1 million or more and proprietary fund buildings valued at $100 thousand or more. Governmental fund equipment is capitalized at $10 thousand or more and proprietary fund equipment is capitalized $5 thousand or more. Governmental and proprietary fund software is capitalized at $1 million 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 software, 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 non-road 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. The Maine Turnpike Authority (MTA) uses the modified approach for reporting its significant infrastructure assets. As long as MTA maintains and preserves its infrastructure assets at pre-determined condition levels, maintenance costs are expensed and depreciation is not reported.

Accounts Payable
Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers. Incurred but not paid (IBNP) Medicaid claims settlements are actuarially estimated. The IBNP estimate recorded at June 30, 2013 is $231 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 a long-term liability as required by GASB. In the governmental fund financial statements, vested or accumulated leave is reported as an expenditure and fund liability when incurred upon retirement, termination or death. Sick and vacation payments to terminated employees as of June 30, 2013 but paid after the fiscal year end is also reported in the funds. 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 not yet issued. Deferred revenue in the Alcoholic Beverages Fund comprises the proceeds from the sale of the State's liquor operations.

Loans Payable to Component Unit
In the Statement of Net Position, the amount of bond proceeds received by a component unit for unmatured GARVEE and TransCap bond proceeds is called "Loans Payable to Component Unit." The offsetting receivables are classified as "Loans Receivable from Primary Government."

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

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

Net Position/Fund Balances
The difference between fund assets, deferred outflow of resources, liabilities and deferred inflow of resources is "Net Position" on the government-wide, proprietary, and fiduciary fund statements and "Fund Balances" on governmental fund statements.

Fund Balance Restrictions
Fund balances for governmental funds have been classified in accordance with GASB Statement No. 54.

The State reported the following fund balance restrictions:

Nonspendable Fund Balance **-** indicates items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless those proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted Fund Balances – include balances that are legally restricted for specific purposes due to constraints that are either externally imposed by creditors, grantors, contributors, or imposed by law through a constitutional provision or enabling legislation.

Committed Fund Balances – indicates assets can be used only for specific purposes pursuant to constraints imposed by a formal action of the Maine Legislature, the State's highest level of decision-making authority. This formal action is the passage of law by the legislature, creating, modifying, or rescinding an appropriation.

Assigned Fund Balances – include amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted or committed. Legislative assignments include formal actions passed into law that lapse. Maine statute also set forth powers and duties of management. Assignments also include decisions made by management, including encumbrances. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted or committed.

Unassigned Fund Balance – is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

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.

The State's policy is that restricted amounts are spent first when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Within unrestricted fund balance, the State's policy is that committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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 $151 million unassigned 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. As the fourth priority before any other transfer, the State Controller is required to transfer 80 percent of the unappropriated surplus of the General Fund when the fund is not at its statutory cap. In accordance with the statute, the State Controller made the required transfer for fiscal year 2013. Per Public Law 2011, Chapter 657, Part D and Public Law 2013, Chapter 1, Part I a net $27 million was transferred from the Budget Stabilization Fund to the General Fund unappropriated surplus. Additionally, $253 thousand was transferred to general purpose aid for local schools within the Department of Education in accordance with Title 5 MRSA C.142 Section 1532.

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 2013 actual General Fund revenue, the statutory cap at the close of fiscal year 2013 and during fiscal year 2013 was $371.3 million. At the close of fiscal year 2013, the balance of the Maine Budget Stabilization Fund was $59.7 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	$	44,809
Increase in fund balance		14,892
Balance, end of year	$	59,701

Budget and Budgetary Expenditures
The gross unified budget bills and budget document encompass resources from the General Fund, Highway Fund, Federal Expenditures Fund, Federal Block Grant Fund, Other Special Revenue Fund, internal service funds and enterprise funds. Separate gross unified budget bills must be submitted for the General Fund and the Highway Fund. All funds except trust and agency funds, bond funds and costs of goods sold expenditures in internal service funds and enterprise funds are subject to legislative allocation. The biennial budget sets forth proposed expenditures for the administration, operation and maintenance of the departments and agencies of the State Government; all interest and debt redemption charges during each fiscal year and all expenditures for capital projects to be undertaken and executed during each fiscal year. Within this structure, budgetary control by agency is maintained at the program and line category level. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers.

Except in specific instances, only the Legislature may transfer appropriations between departments. Changes in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budgets or separate pieces of legislation. For the year ended June 30, 2013, the Legislature increased appropriations to the General Fund by $75.0 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.

Governmental Fund Balances – Restricted, Committed and Assigned

The State's fund balances represent: (1) restricted purposes, which include balances legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; (2) committed purposes, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Legislature; (3) assigned purposes, which includes balances that are constrained by government's intent to be used for specific purposes, but are neither restricted or committed. A summary of the nature and purpose of these fund balance types at June 30, 2013 are as follows:

Governmental Fund Balances
(Expressed in Thousands)

	Restricted
General Fund:	
Natural Resources Development & Protection	$ 3,534
Highway Fund:	
Transportation Safety & Development	$ 30,445
Justice and Protection	3,463
Governmental Support & Operations	358
Natural Resources Development & Protection	3
Total	$ 34,269
Federal Fund:	
Governmental Support & Operations	$ 5,123
Health and Human Services	11,860
Economic Development & Workforce Training	2,042
Natural Resources Development & Protection	1,433
Transportation Safety & Development	1,637
Other	1,552
Total	$ 23,647
Other Special Revenue Fund:	
Business Licensing & Regulation	$ 75,901
Governmental Support & Operations	74,237
Health and Human Services	19,799
Justice and Protection	35,185
Natural Resources Development & Protection	51,983
Transportation Safety & Development	114,798
Other	5,001
Total	$ 376,904
Other Governmental Funds:	
Capital Projects	$ 2,980
Natural Resources Development & Protection	64,068
Other	240
Total	$ 67,288

NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS

Accounting Changes
During fiscal year ended June 30, 2013, the State implemented four new accounting standards.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement addresses issues related to service concession arrangements, which are a type of public-private or public-public partnership. There was no impact on the State's financial statements as a result of implementing GASB 60.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. There was no impact on the State's financial statements as a result of implementing GASB 61.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. There was no impact on the State's financial statements as a result of implementing GASB 62.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial elements, which are distinct from assets and liabilities. As a result of implementing this new standard, government-wide statements, proprietary and fiduciary fund statements report Statements of Net Position. The term "net assets" is changed to "net position" throughout the financial statements which use the economic resources measurement focus and the accrual basis of accounting.

Component Units
The University of Maine System (UMS) implemented GASB Statement No. 61 in fiscal year 2013. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. UMS determined that a component unit discretely presented as of and for the year end June 30, 2012 does not meet the criteria for inclusion as a component unit, and as a result, the beginning net assets were reduced by $18.0 million.

As a result of implementing GASB Statement No. 63, Maine State Housing Authority (MSHA) recognized $26.9 million in resources that arise from an effective hedging relationship as deferred outflows of resources. In previous years, the accumulated decrease in fair value of hedging derivatives had been reported as a long-term asset.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. This Statement clarifies the termination provisions in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, when a counterparty of an interest rate or commodity swap is replaced. There was no impact on MSHA's financial statements as a result of the adoption of GASB 64.

A non-major component unit, Maine Educational Loan Authority, early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. When standards impact the presentation of net position, the resulting change is not reflected as current operating activity, but rather as an accounting change presented as a restatement of beginning balances. Beginning net position increased $.6 million as a result of restating the deferred loss on refinancing. Additionally, $1.1 million in deferred loss on refinancing is presented as a deferred outflow of resources instead of a long-term asset.

The Maine Turnpike Authority (MTA) reduced its beginning net position $1.8 million as a correction of an error. In addition, MTA reclassified $9.2 million of deferred loss on refunding bonds from a long-term asset to a deferred outflow of resources.

A non-major component unit, Midcoast Regional Redevelopment Authority (MRDA), excluded certain construction and engineering costs from the calculation of construction in progress. Beginning net position increased $.6 million as a result of this restatement.

NOTE 4 - DEFICIT FUND BALANCES/NET POSITION

Three internal service funds showed deficits for the fiscal year ended June 30, 2013. The Workers' Compensation Fund reported a deficit of $18.8 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund had a deficit of $3.7 million because rates charged were insufficient to cover expenses incurred. The Postal, Printing & Supply fund reported a deficit of $2.3 million because expenses are recognized when incurred; however, related revenue is not earned until jobs are satisfactorily completed. All of the deficits mentioned above are expected to be funded by future service charges.

The Alcoholic Beverages Enterprise Fund shows a deficit of $12.5 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 General Fund shows a deficit fund balance of $144.4 million at June 30, 2013. This deficit is primarily due to the full recognition of the State's share of Medicaid liabilities at fiscal year end. The federal portion of these liabilities is also fully accrued, with an offsetting receivable from the federal government as allowed under Governmental Accounting Standards Board (GASB) Statement No. 33. Per GASB 33, revenue associated with government mandated non-exchange transactions should be recognized when applicable eligibility requirements have been met and the resources are available. Medicaid is an entitlement program. Therefore, the funds are available when the payments for these liabilities are processed.

The Child Development Services Special Revenue Fund shows a deficit of $2.3 million. This deficit has accumulated through operating losses dating back to the year ended June 30, 2008.

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 that mature not more than 36 months from the date of investment and have a long-term rating of no less that "AA" or the equivalent; corporate bonds rated "AAA" that mature within 36 months from the date of investment; banker's acceptances with an original maturity not exceeding 180 days and rated in the highest short-term category by at least one nationally recognized securities rating organization (NRSRO); and "no-load" shares of an investment company registered under the Federal Investment Company Act of 1940, which are rated "AAAm" or "AAAm-G" by Standard & Poor's, or the equivalent by another NRSRO. 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. This program earmarks $4 million 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, 2013:

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	$ 413,496	$ 14,917	$ 1,800	$ 22,227	$ 452,440
Cash and Cash Equivalents	1,641	2,514	-	27	4,182
Cash with Fiscal Agent	117,419	-	-	-	117,419
Investments	81,901	-	12,811	-	94,712
Restricted Equity in Treasurer's Cash Pool	13,641	-	-	-	13,641
Restricted Deposits and Investments	3,748	280,808	-	11	284,567
Investments Held on Behalf of Others	-	-	-	65,519	65,519
Other Assets	-	-	-	-	-
Total Primary Government	$ 631,846	$ 298,239	$ 14,611	$ 87,784	$ 1,032,480

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, 2013:

	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	$ 10,807	$145,069	$ -	$ -	$ -	$ -	$ 155,876
US Treasury Notes	-	8,206	-	-	-	-	8,206
Repurchase Agreements	-	-	-	-	-	-	-
Corporate Notes and Bonds	-	-	-	-	-	-	-
Commercial Paper	47,713	-	-	-	-	-	47,713
Certificates of Deposit	4,832	-	-	-	-	-	4,832
Money Market	-	-	-	-	-	-	-
Cash and Cash Equivalents	-	-	-	-	-	233,330	233,330
Unemployment Fund Deposits with US Treasury	-	-	-	-	-	280,808	280,808
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	533	8,038	28	144	713	-	9,456
US Treasury Notes	3,621	8,106	3,746	2,941	-	-	18,414
Repurchase Agreements	-	-	-	-	-	-	-
Corporate Notes and Bonds	148	3,348	7,531	7,156	1,154	-	19,337
Other Fixed Income Securities	9,351	24	6,135	-	-	-	15,510
Commercial Paper	2,593	-	-	-	-	-	2,593
Certificates of Deposit	8,213	386	-	-	-	2,791	11,390
Money Market	-	-	-	-	-	1,943	1,943
Cash and Cash Equivalents	-	-	-	-	-	29,014	29,014
Equities	-	-	-	-	-	70,993	70,993
Other	-	-	-	-	-	5,646	5,646
	$ 87,811	$173,177	$17,440	$10,241	$ 1,867	$ 624,525	$ 915,061
Other Assets							-
Cash with Fiscal Agent							117,419
Total Primary Government							$1,032,480

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. The State's investment policy limits its investments to those with high credit quality made by or with the advice and upon the due diligence of the State's independent investment advisor. The State limits credit risk in its trusts by ensuring that the fixed income credit quality at the time of purchase is a minimum bond rating of "A" by either Standard & Poor's or Moody's rating service. Fixed income holdings thereafter shall maintain a minimum bond rating of "BBB".

The Primary Government's total investments by credit quality rating as of June 30, 2013 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	$ -	$ -	$ 155,876	$ -	$ -	$ -	$ -	$ -	$ 155,876
US Treasury Notes	-	-	8,206	-	-	-	-	-	8,206
Corporate Notes and Bonds	-	-	-	-	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-	-	-	-
Money Market	-	-	-	-	-	-	-	-	-
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	-	-	8,355	-	-	-	-	1,101	9,456
US Treasury Notes	-	-	1,457	-	-	-	-	16,957	18,414
Corporate Notes and Bonds	-	724	225	-	-	20	544	17,824	19,337
Commercial Paper	-	-	-	-	-	-	-	-	-
Money Market	-	-	-	-	-	-	-	-	-
Other Fixed Income Securities	-	-	-	-	6,155	-	-	9,355	15,510
Total Primary Government	$ -	$724	$174,119	$ -	$ 6,155	$ 20	$ 544	$45,237	$ 226,799

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 7 percent of the total portfolio. There is no concentration of credit risk policy for the Treasurer's Cash Pool. At June 30, 2013, there were no investments that exceeded five percent of the Treasurer's Cash Pool.

Custodial Credit Risk **-** For investments, custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The State limits its custodial credit risk for the Treasurer's Cash Pool by maintaining a file of the most recent credit rating analysis reports performed for each approved financial institution. The State also requires that all securities be perfected in the name of the State and held in third party safekeeping by a state approved custodian. Of the cash pool's $6.2 million invested in non-negotiable certificates of deposit, none exceeded the FDIC insured amounts for the institutions at which they were held. The State does not have a policy regarding custodial credit risk for its trusts. The Percival P. Baxter Trust is held by the counterparty's trust department, but not in the State's name.

The fair value of the trust's investments as of June 30, 2013 was $64.0 million and was comprised of the following (expressed in thousands):

U.S. Instrumentalities	$ 906
US Treasury Notes	1,011
Corporate Notes and Bonds	1,615
Other Fixed Income Securities	9,375
Equities	46,965
Cash and Equivalents	1,094
Other	3,037
Total	$ 64,003

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to its vendors. During fiscal year 2013 these disbursements, on average, exceeded $116.5 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, infrastructure, private equity, real estate, mutual funds, commingled mutual and index funds, derivative financial instruments, and other investment securities established by the Trustee's investment policy.

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

Foreign currency forward contracts are used to hedge against the currency risk in the System's foreign equity and fixed income security portfolios. The System's fixed income managers invest in Collateralized Mortgage Obligations (CMOs) and Asset-Backed Securities to improve the yield or adjust the duration of the fixed income portfolio. At June 30, 2013, no balances of the System's CMO and Asset-Backed Security holdings were outstanding. The System also invests in swaps. Interest rate swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities.

Securities Lending **-** The System has also entered into agreements for securities lending transactions, which are collateralized in an amount generally valued at 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 Core Limited Collateral Section. Cash collateral may also be invested separately in "term loans." At June 30, 2013 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, 2013 was $1.484 million and $1.450 million, respectively.

The following table details the System's derivative investments at June 30, 2013:

(Expressed in Thousands)

	2013 Changes in Fair Value	Fair Value at June 30, 2013		Notional
		Classification	Amount	Amount
Futures:				
Equity Index Futures Contracts	$ (1,664)	Investments	$ (209)	$ 50,269

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 14 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 $74.4 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 $8.8 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 as invested in the Treasurer's Cash Pool.

NOTE 6 - RECEIVABLES

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

Primary Government – Receivables
(Expressed in Thousands)

	Taxes	Accounts	Loans	Allowance for Uncollectibles	Net Receivables
Governmental Funds:					
General	$556,778	$131,026	$1	($205,443)	$482,362
Highway	25,225	1,440	18	(1,742)	24,941
Federal	-	123,771	-	(55,572)	68,199
Other Special Revenue	11,937	87,330	4,905	(13,318)	90,854
Other Governmental Funds	-	10	-	-	10
Total Governmental Funds	593,940	343,577	4,924	(276,075)	666,366
Allowance for Uncollectibles	(151,634)	(124,441)	-		
Net Receivables	$442,306	$219,136	$4,924		$666,366
Proprietary Funds:					
Employment Security	$ -	$61,929	$ -	($20,768)	$41,161
Nonmajor Enterprise	-	$25,082	-	($584)	24,498
Internal Service	-	10,636	-	-	10,636
Total Proprietary Funds	-	97,647	-	(21,352)	76,295
Allowance for Uncollectibles	-	(21,352)	-		
Net Receivables	$ -	$ 76,295	$ -		$76,295

Component Units – Receivables
(Expressed in Thousands)

	Accounts	Loans	Notes	Allowance For Uncollectibles	Net Receivables
Finance Authority of Maine	$1,128	$ -	$29,230	($5,574)	$24,784
Maine Community College System	12,472	-	-	(1,119)	11,353
Maine Health and Educational Facilities Authority	877	1,079,432	-	(273)	1,080,036
Maine Municipal Bond Bank	863	-	-	-	863
Maine State Housing Authority	24,713	1,334,003	131	(11,229)	1,347,618
Maine Turnpike Authority	4,166	-	-	-	4,166
University of Maine System	49,101	-	42,306	(7,011)	84,396

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, 2013 were:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds				
Due from Other Funds	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ -	$ -	$ 1,307	$ -	$ -
Highway	5	3	9,860	-	-
Federal	5,569	1	126	5	-
Other Special Revenue	43,820	75	1,294	147	17
Other Governmental	484	-	-	-	-
Employment Security	-	-	231	-	-
Non-Major Enterprise	100	86	-	2	-
Internal Service	9,493	3,248	3,604	3,221	-
Fiduciary	20,550	-	-	-	-
Total	$ 80,021	$ 3,413	$ 16,422	$ 3,375	$ 17

Due from Other Funds	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ -	$ 5,703	$ 5,417	$ 86	$ 12,513
Highway	-	-	1	-	9,869
Federal	-	-	-	-	5,701
Other Special Revenue	-	1	28	-	45,382
Other Governmental	-	-	-	-	484
Employment Security	-	-	-	-	231
Non-Major Enterprise	-	-	-	-	188
Internal Service	-	237	889	10	20,702
Fiduciary	-	-	-	-	20,550
Total	$ -	$ 5,941	$ 6,335	$ 96	$ 115,620

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

Included in the Due to/Due from other funds is $32 million due to the Other Special Revenue Fund related to the General Fund's negative cash position in the Treasurer's Cash Pool. This type of temporary loan is typical; cash is frequently borrowed and returned depending on cash flow needs.

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 2013, the State of Maine, in accordance with the legislatively authorized budget, recorded the following non-routine, nonrecurring transfers.

The Other Special Revenue Fund transferred $28.3 million to the unappropriated surplus of the General Fund.

Interfund transfers for the year ended June 30, 2013, consisted of the following:

Interfund Transfers
(Expressed in Thousands)

	Transferred From				
Transferred To	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ -	$ -	$ 7,617	$ 100,722	$ -
Highway	1,935	-	12,300	3,703	-
Federal	1,067	-	-	17,855	-
Other Special Revenue	188,582	5,419	13,569	-	1,872
Other Governmental Funds	28,245	-	-	-	1,103
Employment Security	-	-	-	-	-
Non-Major Enterprise	-	4,564	-	2	-
Internal Service	10,469	-	-	-	-
Fiduciary	-	-	-	-	767
Total	$ 230,298	$ 9,983	$ 33,486	$ 122,282	$ 3,742

	Transferred From				
Transferred To	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ -	$ 52,941	$ 205	$ 20,447	$ 181,932
Highway	-	-	-	-	17,938
Federal	1,051	-	-	-	19,973
Other Special Revenue	-	12,837	-	843	223,122
Other Governmental Funds	-	-	-	-	29,348
Employment Security	-	-	-	-	-
Non-Major Enterprise	-	-	-	-	4,566
Internal Service	-	-	-	-	10,469
Fiduciary	-	-	-	-	767
Total	$ 1,051	$ 65,778	$ 205	$ 21,290	$ 488,115

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, 2013:

Primary Government – Capital Assets
(Expressed in Thousands)

	Beginning Balance	Increases and Other Additions	Decreases and Deletions	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 497,893	$ 73,495	$ 120	$ 571,268
Construction in progress	48,473	65,090	45,217	68,346
Infrastructure	4,018,966	193,968	-	4,212,934
Total capital assets not being depreciated	4,565,332	332,553 *	45,337	4,852,548
Capital assets being depreciated:				
Buildings	626,201	47,357	13,020	660,538
Equipment	255,628	34,281	23,953	265,956
Improvements other than buildings	20,843	31,419	11	52,251
Software	58,729	13,822	-	72,551
Total capital assets being depreciated	961,401	126,879 *	36,984	1,051,296
Less accumulated depreciation for:				
Buildings	249,721	23,981	11,980	261,722
Equipment	172,827	26,817	22,183	177,461
Improvements other than buildings	14,058	20,633	10	34,681
Software	4,629	6,394	-	11,023
Total accumulated depreciation	441,235	77,825 *	34,173	484,887
Total capital assets being depreciated, net	520,166	49,054	2,811	566,409
Governmental Activities Capital Assets, net	$ 5,085,498	$ 381,607	$ 48,148	$ 5,418,957

	Beginning Balance	Net Additions	Net Deletions	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 58,888	$ -	$ 51,596	$ 7,292
Construction in progress	18,555	1,138	18,555	1,138
Total capital assets not being depreciated	77,443	1,138	70,151	8,430
Capital assets being depreciated:				
Buildings	9,449	-	5,054	4,395
Equipment	80,892	2,403	46,956	36,339
Improvements other than buildings	74,889	5,279	31,401	48,767
Total capital assets being depreciated	165,230	7,682	83,411	89,501
Less accumulated depreciation for:				
Buildings	6,171	132	4,127	2,176
Equipment	52,703	1,801	37,513	16,991
Improvements other than buildings	31,036	2,094	9,706	23,424
Total accumulated depreciation	89,910	4,027	51,346	42,591
Total capital assets being depreciated, net	75,320	3,655	32,065	46,910
Business-Type Activities Capital Assets, net	$ 152,763	$ 4,793	$ 102,216	$ 55,340

* The total Increase and Other Additions for Governmental Activities and Net Deletions for Business-Type Activities includes $116.0 million in assets net of $30.9 million in accumulated depreciation related to the transfer of assets from an Enterprise Fund in FY 2013. See Footnote 17 - Special Items disclosure for additional information.

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	$	12
Business Licensing and Regulation		381
Economic Development and Workforce Training		1,037
Education		514
Governmental Support and Operations		6,063
Health and Human Services		8,676
Justice and Protection		16,756
Natural Resources Development and Protection		3,383
Transportation Safety and Development		10,095
Total Depreciation Expense – Governmental Activities	$	46,917

NOTE 9 - MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

PLAN DESCRIPTIONS

The Maine Public Employees Retirement System, formerly named the Maine State Retirement System (the System) is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Title 5 MRSA C. 421, 423, and 425. The System provides pension, disability, and death benefits to its members, which includes employees of the State, public school employees (defined by Maine law as teachers and for whom the State is the employer for retirement contribution and benefit purposes, or SETP) and employees of 296 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine, each of which contracts for participation in the System under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2013 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The Maine Public Employees Retirement System management's interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries. The System is therefore regarded as administering an agent, multiple-employer plan for financial reporting purposes. The statements include $2.2 billion of assets related to the PLD's. The Attorney General's Office does not concur that these assets are available for payment of State benefits.

The total funds managed by the System are constitutionally restricted and held in trust for the payment of pension and related benefits to its members. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs separate actuarial valuations for each participating entity's respective plan.

The System administers three defined contribution plans for employees of PLD's that elect to participate. At June 30, 2013, there were 58 employers participating in these plans. The 869 participants individually direct the $20.3 million in net assets covered by the plans.

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

BASIS OF ACCOUNTING

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

INVESTMENTS

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

CONTRIBUTION INFORMATION

Membership in each defined benefit plan consisted of the following at June 30, 2013:

	State Employees and Teachers Plan	Consolidated Plan for PLD
Active vested and nonvested members	42,051	11,140
Terminated vested participants	6,921	2,030
Retirees and benefit recipients	31,987	9,126
Total	80,959	22,296
Number of participating employers/sponsors	1	296

Contributions from members and employers and earnings from investments fund retirement benefits. Employer contributions and investment earnings fund disability and death benefits. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined by biennial actuarial valuations.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to terminated members' accounts is set by the System's Board of Trustees and is currently 5 percent.

STATE EMPLOYEES AND TEACHERS PENSION PLAN SPECIFICS

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. Vesting occurs upon the earning of five years of service credit or the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age for State employees and teachers is age 60, 62 or 65. The normal retirement age is determined by whether a member had met certain creditable service requirements on specific dates, as established by statute. The monthly benefit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The System also provides disability and survivor benefits, which are established by statute for State employee and teacher members, and by contract with other participating employers under applicable statutory provisions.

PARTICIPATING LOCAL DISTRICTS PLAN SPECIFICS

In the event that a PLD withdraws from the System, its individual employee-members can terminate membership or remain contributing members. The PLD remains liable for contributions sufficient to fund benefits for its already retired former employee-members; for its terminated vested members; and for those active employees, whether or not vested, who remain contributing System members.

SPECIAL FUNDING SITUATION – TEACHERS DEFINED BENEFIT PENSION PLAN

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

FUNDED STATUS AND FUNDING PROGRESS – DEFINED BENEFIT PENSION PLANS

The funded status of each plan as of June 30, 2013, the most recent biennial actuarial valuation date, is as follows:

(Expressed in Thousands)

Plans	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) – Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
SETP	9,238,577	11,889,897	2,651,320	77.7%	1,671,668	158.6%
PLD's	2,213,417	2,504,420	291,003	88.4%	459,854	63.3%

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

	SETP	PLD's
Valuation date	June 30, 2013	June 30, 2013
Actuarial cost method	Entry age	Entry age
Version	Individual	Individual
Amortization method	Level percent closed	Level dollar open
Remaining amortization period	15 [1]	15
Asset valuation method	3 - Year smoothed market	3 - Year smoothed market
Actuarial assumptions:		
Investment rate of return	7.25%	7.25%
Projected salary increases	3.50%	3.50% - 9.50%
Includes inflation at	3.50%	3.50%
Cost of living adjustments	2.55%	3.12%
Most recent review of plan experience:	2011	2011

[1] The System amortizes the unfunded liability of the State and teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The contribution rate in effect for 2010 was determined by the 2008 valuation, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 4 years remained at June 30, 2013.

CONTRIBUTION RATES – DEFINED BENEFIT PENSION PLANS

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

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 2013 for participating entities:

State	
Employees [1]	7.65 - 8.65%
Employer [1]	11.98 - 39.36%
Teachers	
Employees	7.65%
Employer	13.85%
Participating Local Entities	
Employees [1]	3.0 - 8.0%
Employer [1]	2.8 - 12.2%

[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	$ 264,381
Interest on net pension obligation	146
Adjustment to annual required contribution	(167)
Annual pension cost	264,360
Contributions made	264,381
Increase (decrease) in net pension obligation	(21)
Net pension obligation beginning of year	2,010
Net pension obligation end of year	$ 1,989

Analysis of Funding Progress
(Expressed in Thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
2013	$ 264,360	100.01%	$ 1,989
2012	252,812	100.01%	2,010
2011	328,127	101.77%	2,028

Employer contributions met actuarially determined contribution requirements.

COMPONENT UNIT PARTICIPANTS

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

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

POST-RETIREMENT HEALTHCARE PLANS

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

The State of Maine funds 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 officers and municipal firefighters, as defined in subsection 286-M, who participate in an employer-sponsored retirement plan and, prior to July 1, 2007 were enrolled in a self-insured health benefits plan offered by the employing county or municipality.

The State pays 100 percent of postretirement health insurance premiums for state employee retirees who were first employed on or before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than five years participation to 100 percent for retirees with ten or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Per Title 5 MRSA § 285 paragraphs 2 and 3, coverage depends upon terms and conditions contained in collective bargaining agreements with the State Health Commission. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. Retirees must pay for Medicare Part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees ineligible for Medicare includes basic hospitalization; supplemental major medical and prescription drugs; and costs for treatment of mental health, alcoholism, and substance abuse.

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

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

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

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

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

PLAN MEMBERSHIP

Membership in the four healthcare plans is as follows:

	State Employees	Teachers	First Responders	Ancillary Groups
Actives	12,419	28,375	741	63
Retirees	9,587	9,520	80	13
Total	22,006	37,895	821	76
Number of employers	1			2
Contributing entities		1	1	2

STATE EMPLOYEES PLAN FUNDING POLICY

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

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

TEACHERS PLAN AND FIRST RESPONDERS PLAN FUNDING

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

Public Law 2011, Chapter 380 Pt. Y § 2 established separate Irrevocable Trust Funds for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants who are the beneficiaries of the irrevocable trust funds. Annually, beginning with the fiscal year starting July 1, 2011, the Legislature shall appropriate funds to meet the State's obligations to retire the unfunded liability for eligible first responders in 30 years or less from July 1, 2007. Annually, beginning with the fiscal year starting July 1, 2013, the Legislature shall appropriate funds to meet the State's obligations to retire the unfunded liability at June 30, 2006 for eligible teachers in 30 years or less from July 1, 2007.

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

ANCILLARY GROUP PLAN

The following plan, administered by the State, is financially independent and is not included in the State Retiree Health Internal Service Fund. This multiple-employer agent postemployment benefit plan covers 13 retirees of two non-major component units: Maine Educational Center for the Deaf and Hard of Hearing and the Northern New England Passenger Rail Authority. All active employees participate in the State Employee Group Health Insurance Plan. All eligible retired employees who elect coverage are included in this plan. The State Employee Health Commission establishes premiums annually.

ANNUAL OPEB COST

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

(Expressed in Thousands)

	State Employees	**Teachers**	**First Responders**
Annual required contribution	$ 94,000	$ 44,000	$ 1,689
Interest on net OPEB obligation	4,000	7,000	146
Adjustment to annual required contribution	(11,000)	(14,000)	(272)
Annual OPEB cost	87,000	37,000	1,563
Contributions made	68,000	25,000	577
Increase (decrease) in net healthcare obligation	19,000	12,000	986
Net healthcare obligation beginning of year	92,228	173,956	3,658
Net healthcare obligation end of year	$ 111,228	$ 185,956	$ 4,644

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

Analysis of Funding Progress
(Expressed in Thousands)

Plan	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
State Employees	6/30/2013	87,000	78.16%	111,228
	6/30/2012	123,000	59.35%	92,228
	6/30/2011	119,000	71.43%	42,228
Teachers	6/30/2013	37,000	67.57%	185,956
	6/30/2012	49,000	44.90%	173,956
	6/30/2011	58,000	31.03%	146,956
First Responders	6/30/2013	1,563	36.92%	4,644
	6/30/2012	1,254	34.61%	3,658
	6/30/2011	845	61.89%	2,838

FUNDED STATUS AND FUNDING PROGRESS
The funded status of the plans as of June 30, 2013 was as follows:

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability	(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, 2013	150	1,166	1,016	12.86%	518	196.14%
State Employees	June 30, 2012	136	1,316	1,180	10.33%	502	235.06%
(in millions)	June 30, 2011	112	1,544	1,432	7.25%	567	252.56%
Teachers	June 30, 2013	0	685	685	0.00%	1,194	57.37%
(in millions)	June 30, 2012	0	665	665	0.00%	1,156	57.53%
	June 30, 2011	0	801	801	0.00%	1,098	72.95%
	June 30, 2012	0	23,442	23,442	0.00%	43,510	53.88%
First Responders	June 30, 2011	0	21,921	21,921	0.00%	42,242	51.89%
(in thousands)	June 30, 2010	0	19,158	19,158	0.00%	53,821	35.60%

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

ACTUARIAL METHODS AND ASSUMPTIONS

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

	State Employees	Teachers	First Responders
Valuation date	June 30, 2013	June 30, 2013	June 30, 2012
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed	Level percent closed
Remaining amortization period - UAAL	24	24	25
Plan changes	30-year fixed	30-year fixed	20-year fixed
Actuarial (gains) /losses	10-year fixed	15-year fixed	rolling 15 year period
Asset valuation method	investment gains and losses spread over a 5 - year period no less than 80% nor more than 120% of market value	n/a	n/a
Actuarial assumptions:			
Investment rate of return	4.00% 7.25% ultimate	4.00% 7.25% ultimate	4.00%
Projected salary increases	3.25%	3.25%	3.00%
Inflation rate	3.00%	3.00%	3.00%
Healthcare inflation rate	initial - actual premiums ultimate 5.00%	initial - actual premiums ultimate 5.00%	8.50% ultimate 5.00%
Former actuarial assumptions:			
Investment rate of return			4.50%
Projected salary increases			3.75%
Inflation rate			3.75%
Healthcare inflation rate			8.00%

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CONTRIBUTIONS AND RESERVES

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

INVESTMENTS

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

POST RETIREMENT GROUP LIFE INSURANCE BENEFIT PLAN

The Maine Public Employees Retirement System, (the System), is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit Group Life Insurance Plan (GLIP) administered by a third party insurance company in accordance with Title 5 MRSA C. 423 and 425. Members include employees of the State, public school employees (defined by Maine law as teachers and for whom the State acts like the employer for retirement contribution and benefit purposes), members of the Judiciary and the Legislature, that are eligible for membership in the System. Group life insurance benefits are also provided to employees of 296 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine that elect to participate under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2013 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

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

Group life insurance funds managed by the System are constitutionally restricted and held in trust for the payment of benefits to participants or their beneficiaries. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs a single actuarial valuation that provides separate data for each participating entity.

BASIS OF ACCOUNTING

The System's financial statements are prepared on the accrual basis of accounting. Premiums paid, by or on behalf of those covered, are set and collected by the System. The insurance company makes benefit payments. The System remits payments to the insurance company for premiums collected plus additional payments representing administrative fees.

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

INVESTMENTS

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

FUNDING POLICY

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

ANNUAL OPEB COST

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

(Expressed in Thousands)

	State Employees	**Teachers**
Annual required contribution	$ 4,592	$ 3,099
Interest on net OPEB obligation	(136)	-
Adjustment to annual required contribution	106	-
Annual OPEB cost	4,562	3,099
Contributions made	4,673	3,099
Increase (decrease) in net healthcare obligation	(111)	-
Net healthcare (asset) obligation beginning of year	(1,760)	-
Net healthcare (asset) obligation end of year	$ (1,871)	$ -

The State's OPEB cost, percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows:

Analysis of Funding Progress
(Expressed in Thousands)

Plan	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB (Asset)
State Employees	6/30/2013	4,562	102.43%	(1,871)
	6/30/2012	3,224	145.29%	(1,760)
	6/30/2011	4,268	89.22%	(300)
Teachers	6/30/2013	3,099	100.00%	-
	6/30/2012	2,959	100.00%	-
	6/30/2011	2,532	100.00%	-

FUNDED STATUS AND FUNDING PROGRESS
The funded status of the plan as of June 30, 2013 was as follows:

(Expressed in Thousands)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
State Employees	June 30, 2013	27,000	83,800	56,800	32.22%	572,800	9.92%
	June 30, 2012	24,700	80,900	56,200	30.53%	553,500	10.15%
	June 30, 2011	24,400	78,700	54,300	31.00%	623,600	8.71%
Teachers	June 30, 2013	36,000	74,200	38,200	48.52%	652,800	5.85%
	June 30, 2012	30,100	71,000	40,900	42.39%	630,800	6.48%
	June 30, 2011	27,800	67,600	39,800	41.12%	659,100	6.04%

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

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

Significant methods and assumptions were as follows:

Valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Asset valuation method	market
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	3.25%
Inflation rate	3.50%
Cost of living increases in life benefits	N/A
Participation percent for future retirees	100.00%
Form of benefit payment	lump sum

NOTE 11 - LONG-TERM OBLIGATIONS

PRIMARY GOVERNMENT
The State records its liability for general obligation bonds in the Governmental Activities column on the Statement of Net Position. Other long-term obligations recognized by the State include: revenue bonds issued by the Maine Governmental Facilities Authority, a blended component unit; obligations under Certificates of Participation and other financing arrangements; loans payable to component unit for repayment of bonds issued by the Maine Municipal Bond Bank on behalf of the Maine Department of Transportation; compensated employee absences; and the State's net pension obligation; other post-employment benefits; and obligations for pollution remediation and landfill closure and post-closure care costs.

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 2013 were:

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

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013	Due Within One Year
General Obligation Debt:					
General Fund	$ 347,090	$ -	$ 85,595	$ 261,495	$ 67,445
Special Revenue Fund	124,965	-	16,735	108,230	16,035
Total	$ 472,055	$ -	$ 102,330	$ 369,725	$ 83,480

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2013 until maturity, are summarized in the following table:

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

Fiscal Year	Principal	Interest	Total
2014	$ 83,480	$ 14,704	$ 98,184
2015	69,650	11,886	81,536
2016	54,340	9,411	63,751
2017	49,105	7,102	56,207
2018	42,995	4,879	47,874
2019 - 2022	70,155	5,731	75,886
Total	$ 369,725	$ 53,713	$ 423,438

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2013 are as follows:

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

	Amounts Issued	Outstanding June 30, 2013	Fiscal Year Maturities First Year	Fiscal Year Maturities Last Year	Interest Rates
General Fund:					
Series 2004	$ 117,275	6,520	2005	2014	2.00% - 5.27%
Series 2005	137,525	30,620	2006	2015	2.00% - 5.27%
Series 2006	52,390	15,705	2007	2016	4.00% - 5.51%
Series 2007	33,975	13,580	2008	2017	4.00% - 5.50%
Series 2008	46,525	23,250	2009	2018	3.00% - 5.13%
Series 2009	96,035	52,240	2011	2019	2.50% - 5.00%
Series 2010	31,755	17,360	2011	2020	1.41% - 4.00%
Series 2011	86,010	59,585	2012	2021	1.625% - 5.00%
Series 2012	49,265	42,635	2013	2022	1.00% - 5.00%
Total General Fund		$ 261,495			
Special Revenue Fund:					
Series 2004	$ 13,000	$ 725	2005	2014	2.00% - 4.00%
Series 2007	27,000	10,800	2008	2017	4.00% - 5.50%
Series 2008	57,550	28,775	2009	2018	3.00% - 5.13%
Series 2009	37,310	27,760	2011	2019	2.50% - 5.00%
Series 2010	25,080	22,475	2011	2020	1.41% - 4.00%
Series 2011	22,125	17,695	2012	2021	1.625% - 5.00%
Total Special Revenue		$ 108,230			

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, 2013, general obligations bonds authorized and unissued totaled $104.6 million.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY

The State included $199.9 million in other financing arrangements to reflect revenue bonds issued by the Maine Governmental Facilities Authority (MGFA), a blended component unit. Payment of the bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature. Debt issued by MGFA is not debt of the State or any political subdivision within the State. The State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. MGFA may not issue securities in excess of $325.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2013, MGFA issued Series 2013A Bonds, which totaled $30.3 million at an interest rate between 2.00 percent and 5.00 percent. At June 30, 2013, there were no MGFA in-substance defeased bonds outstanding.

CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS

The State uses financing companies, Certificates of Participation (COP's), and lease/purchase agreements to finance construction of certain State buildings, to purchase or generate software, and to purchase equipment and vehicles, including school buses. COP's are issued through a trustee, and the State is responsible for payments to the trustee that approximate the interest and principal payments made to the certificate holders. The State and school districts maintain custody and use of the assets; however, the trustee holds a lien as security until such time as the certificates are fully paid.

Neither COP's nor the other financing arrangements constitute a legal debt, liability, or contractual obligation in excess of amounts appropriated. The State's obligation to make minimum payments or any other obligation under agreements is subject to, and dependent upon, appropriations being made by the Legislature. The Legislature has no obligation to appropriate the money for future minimum payments or other obligations under any agreement.

SHORT-TERM OBLIGATIONS

The State of Maine did not issue or retire Bond Anticipation Notes during fiscal year 2013. Short-term obligations are used to meet temporary operating cash flow needs. At June 30, 2013 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 Position, the State has recorded long-term obligations for its compensated employee absences, net pension obligation, other post-employment benefit obligations, pollution remediation landfill closure and post-closure care costs.

Changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2013, are summarized as follows:

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

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Governmental Activities:					
MGFA Revenue Bonds	$ 187,865	$ 30,290	$ 18,245	$ 199,910	$ 18,290
COP's and Other Financing	52,097	26,750	30,909	47,938	14,987
Compensated Absences	42,054	4,088	4,430	41,712	5,969
Claims Payable	64,323	188,317	182,176	70,464	29,826
Capital Leases	29,778	18,237	9,040	38,975	5,944
Loans Payable to Component Unit	328,131	-	24,086	304,045	24,884
Net Pension Obligation	2,010	264,360	264,381	1,989	-
Other Post-Employment Benefit Obligation	266,705	122,621	91,265	298,061	-
Pollution Remediation and Landfill	28,880	5,500	2,248	32,132	-
Total Governmental Activities	$ 1,001,843	$ 660,163	$ 626,780	$ 1,035,226	$ 99,900
Business-Type Activities:					
Compensated Absences	$ 1,589		$ 209	$ 1,380	$ 166
Other Post-Employment Benefit Obligation	3,137	2,942	2,312	3,767	-
Total Business-Type Activities	$ 4,726	$ 2,942	$ 2,521	$ 5,147	$ 166

Debt service requirements (principal and interest) for COP's and other financing arrangements of the primary government, from June 30, 2013 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
2014	$ 2,601	$ 81	$ 2,682	$ 30,676	$ 8,695	$ 39,371
2015	2,033	47	2,080	28,361	7,915	36,276
2016	1,359	28	1,387	26,384	6,951	33,335
2017	860	16	876	23,919	6,023	29,942
2018	870	7	877	19,312	5,168	24,480
2019 - 2023	-	-	-	57,187	16,417	73,604
2024 - 2028	-	-	-	30,790	8,427	39,217
2029 - 2033	-	-	-	21,300	2,395	23,695
2034 - 2038	-	-	-	2,196	43	2,239
Total	$ 7,723	$ 179	$ 7,902	$ 240,125	$ 62,034	$ 302,159

LOANS PAYABLE TO COMPONENT UNIT

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

Changes in GARVEE and TransCap revenue bonds during fiscal year 2013 were:

Primary Government - Changes in GARVEE and TransCap Loans Payable
(Expressed in Thousands)

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013	Due Within One Year
Loans Payable to Components Unit:					
Federal Funds	$ 108,251	$ -	$ 12,292	$ 95,959	$ 12,712
Special Revenue Fund	219,880	-	11,794	208,086	12,172
Total	$ 328,131	$ -	$ 24,086	$ 304,045	$ 24,884

Payment of principal and interest on the GARVEE bonds shall be subject to appropriation each year by the Legislature in an amount sufficient to cover the principal and interest requirements of MMBB's debt for these bonds. The State's receipt of these funds is subject to continuing federal appropriations. MMBB insured payments of principal and interest with a financial guaranty insurance policy. The bonds do not constitute a debt or obligation of the State.

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

GARVEE and TransCap Revenue bonds issued and outstanding at June 30, 2013 are as follows:

GARVEE and TransCap Revenue Bonds Outstanding
(Expressed in Thousands)

	Amounts Issued	Outstanding June 30, 2013	Fiscal Year Maturities First Year	Last Year	Interest Rates
Federal Funds:					
Series 2004	$ 48,395	$ 15,290	2005	2015	2.50% - 5.00%
Series 2008	50,000	35,605	2009	2020	3.25% - 4.00%
Series 2010A	25,915	19,845	2011	2017	2.00% - 5.00%
Series 2010B	24,085	24,085	2018	2022	4.52% - 5.32%
Total Federal Funds		$ 94,825			
Special Revenue Fund:					
Series 2008	$ 50,000	$ 40,055	2009	2023	3.00% - 5.50%
Series 2009A	105,000	87,290	2010	2023	2.50% - 5.00%
Series 2009B	30,000	27,500	2010	2024	2.00% - 5.00%
Series 2011A	55,000	54,080	2012	2026	2.00% - 5.00%
Total Special Revenue		$ 208,925			

Total principal and interest requirements over the life of the 2004 GARVEE bonds are $60.2 million, with annual requirements of up to $5.6 million; for the 2008 GARVEE bonds total principal and interest requirements are $63.1 million, with annual requirements of up to $5.3 million; for 2010 GARVEE bonds total principal and interest requirements are $66.3 million, with annual requirements of up to $5.3 million. Federal transportation funds received by the State for the federal fiscal year preceding the issuance of the 2004 GARVEE bonds totaled $175 million. Total federal highway transportation funds received in federal fiscal year 2013 were $223 million. Current year payments to MMBB for GARVEE bonds were $15.9 million (7.2 percent of federal highway transportation funds received).

Total principal and interest requirements over the life of the 2008 TransCap Revenue Bond are $71.9 million, with annual requirements up to $4.8 million. Total principal and interest requirements over the life of the 2009A TransCap Revenue Bonds are $144.3 million, with annual requirements up to $10.1 million; for the 2009B TransCap Revenue Bonds total principal and interest requirements are $46.2 million, with annual requirements up to $16.9 million. Total principal and interest requirements over the life of the 2011A TransCap Revenue Bond are $84.2 million, with annual requirements up to $20.3 million. Total revenue received for revenue sources used as pledged revenues were $40.0 million in fiscal year 2013.

OBLIGATIONS UNDER CAPITAL LEASES

The State leases various assets under non-cancelable 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, 2013 capital assets include capitalized buildings of $74.2 million in Governmental Activities, net of related accumulated depreciation of $39.5 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 $2.9 million during the year.

A summary of the operating and non-cancelable capital lease commitments to maturity follows:

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

Fiscal Year	Capital Leases	Operating Leases
2014	$ 5,944	$ 3,138
2015	5,318	2,726
2016	4,810	2,269
2017	4,449	1,765
2018	4,363	1,487
2019 - 2023	13,341	4,054
2024 - 2028	4,629	818
2029 - 2033	2,299	754
2034 - 2038	-	752
2039 - 2043	-	837
2044- 2048	-	916
2049 - 2053	-	712
Total Minimum Payments	45,153	$ 20,228
Less: Amount Representing Interest	6,178	
Present Value of Future Minimum Payments	$ 38,975	

MGFA REVENUE BONDS, COP'S AND OTHER FINANCING ARRANGEMENTS

MGFA revenue bonds will be liquidated by the MGFA Internal Service Fund, from revenues received through lease agreements with various governmental funds. The liability for loans payable to the component unit will be liquidated from the Federal Fund and Highway Fund. The vast majority of COP's and other financing arrangements will be liquidated by the internal service fund in which the leases are recorded; the General and Highway Funds will pay relatively small amounts.

CLAIMS PAYABLE

Claims payable that represent Medicaid claims will be paid from the General Fund and Federal Fund. Claims payable that represent workers' compensation and retiree/employee health will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. Other claims and judgments attributable to governmental activities will be liquidated by the General Fund and related special revenue funds.

COMPENSATED ABSENCES

In the government-wide statements and proprietary fund financial statements, compensated absences are reported as long-term liabilities as required by GASB. In the governmental fund financial statements, vested or accumulated leave is reported as an expenditure and fund liability when incurred upon retirement, termination or death. Sick and vacation payments made to terminated employees as of June 30, 2013 but paid after the fiscal year end is also reported in the funds.

COMPONENT UNITS

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

Component Unit Bonds Outstanding
(Expressed in Thousands)

Component Unit	Interest Rates	Amount	Maturity Dates
Finance Authority of Maine	1.00%	1,457	2013 – 2025
Maine Community College System	3.0 - 5.0%	23,945	2013 - 2037
Maine Health and Higher Educational Facilities Authority	1.25 - 6.2%	1,195,220	2013 - 2040
Maine Municipal Bond Bank	.5 - 6.1%	1,482,764	2013 - 2043
Maine State Housing Authority	0.85 - 5.45%	1,333,150	2013 – 2042
Maine Turnpike Authority	2.0 - 6.0%	466,864	2013 – 2042
University of Maine System	2.0 - 5.75%	177,910	2013 – 2037

At June 30, 2013, MHHEFA had approximately $6.9 million of in-substance defeased bonds remaining outstanding with respect to advance refunded conduit debt of bond issues of the general resolution.

In periods of declining interest rates, MHHEFA has refunded its bond obligations, reducing aggregate debt service. The proceeds of the refunding bonds were principally used to purchase U.S. Government securities that will provide for future payment on the debt. On May 23, 2013, MHHEFA issued $64.0 million of reserve resolution bonds with an average interest rate of 4.44 percent to in-substance defease $73.0 million of various outstanding bonds. The net proceeds of $74.4 million were used to purchase U.S. Government securities that will provide for future payment on the debt. The economic benefits associated with the refunding inure to the respective institutions. At June 30, 2013 there were approximately $163.9 million of in-substance defeased bonds remaining outstanding with respect to all advance-refunding issues within the reserve fund resolution.

On May 23, 2013, UMS issued $65.3 million in revenue bonds to currently refund $10.8 million in revenue bonds and to advance refund $61.3 million in revenue bonds. UMS completed the refunding to reduce its total debt service payments over the following 22 years by $10.5 million and to obtain economic gain (difference between the present values of the old and new debt service payments) of $7.5 million. The principal amount of debt refunded through in-substance defeasance was $72.0 million. The amount still outstanding at June 30, 2013 was $61.3 million. Refunding proceeds of $77.0 million were placed in an escrow account to pay the interest due on the refunded bonds and to retire the bonds on their respective maturity dates which range from fiscal year 2013 through fiscal year 2015. The escrow is invested to yield enough earnings to pay required future payments, which are $66.3 million as of June 30, 2013. The refunding resulted in a deferred amount of refunding of $4.8 million which represents the difference between the reacquisition price and the carrying value of the refunded bonds.

In periods of declining interest rates, MMBB has refunded its bond obligations, reducing aggregate debt service. Where allowed, the bank retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Government securities that will provide for future payment on the debt. During the current year, MMBB issued $42.0 million of General Tax-Exempt Series 2012 FG Bonds consisting of $30.2 million in tax-exempt and $11.8 million in taxable bonds with an average interest rate of 4.65 percent and 1.57 percent; respectively, to in-substance defease $42.7 million of various outstanding bonds with an average interest rate of 5.01 percent. Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of approximately $5.6 million, MMBB in effect reduced its aggregate debt service payments by approximately $4.6 million over the next 21 years and obtained an economic gain of approximately $4.0 million. Future debt service requirements were reduced $2.4 million. At June 30, 2013 the remaining balances of the General Tax-Exempt Fund Group and Clean Water Revolving Loan Fund in-substance defeased bonds total approximately $161.6 million and $16.2 million, respectively.

For the period ended December 31, 2012, MSHA redeemed prior to maturity $267.1 million of its Mortgage Purchase Fund Group bonds and $1.5 million of its Housing Finance Revenue Fund Group bonds from surplus revenues and the proceeds of refunding bonds. Mortgage Purchase Fund losses of $1.1 million and Housing Finance Revenue Fund Group losses of $24 thousand were attributable to recognition of the bond discount and debt issuance expenses associated with the redeemed bonds.

For the year ended December 31, 2012, MTA issued $84.2 million of Series 2012B Revenue Refunding Bonds. The proceeds from the bonds were used to in-substance defease $87.1 million of Series 2003 and Series 2004 bonds outstanding. The reacquisition price exceeded the carrying amount of the old debt by $6.4 million. This amount is being netted against the new debt and amortized over the life of the old debt. The transaction resulted in a reduction in future debt service payments of $10.7 million and an economic gain of $8.8 million.

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	MTA	UMS	MHHEFA
2014	$ 807	$ 125,029	$ 622	$ 14,255	$ 15,560	$ 10,662	$ 52,945
2015	57	121,985	649	36,220	17,820	12,164	58,050
2016	58	115,317	671	46,205	18,655	8,352	53,335
2017	58	109,094	698	44,985	19,445	8,674	53,920
2018	59	105,559	729	49,830	20,365	9,118	54,050
2019 - 2023	303	452,430	4,121	279,455	83,890	42,186	279,200
2024 - 2028	115	306,576	5,198	291,930	97,980	35,750	256,275
2029 - 2033	-	105,955	6,265	259,685	92,505	35,175	216,375
2034 - 2038	-	8,740	4,352	233,025	49,450	8,495	145,380
2039 - 2043	-	2,465	-	88,180	23,025	-	25,690
2044 - 2048	-	75	-	-	-	-	-
Net unamortized premium or (deferred amount)	-	29,539	640	(10,620)	28,169	7,334	-
Total Principal Payments	$ 1,457	$ 1,482,764	$ 23,945	$1,333,150	$ 466,864	$ 177,910	$1,195,220

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. These plans have limits of liability of as much as $2 million per occurrence.

In some cases the State purchases excess insurance to limit the State's liability for insured events. For example, coverage for property damage is $400 million per occurrence. The State retains $2 million of this risk per occurrence. A private insurance carrier covers the remaining risk (excess insurance). Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

Coverage, risk retention, and excess insurance amounts for major types of insurance are listed below:

Type of Insurance	Coverage Per Occurrence	Risk Retention Per Occurrence	Excess Insurance Per Occurrence
Property *	$400 million	$ 2 million	$400 million
Ocean Marine Boat Liability *[1]	10 million	10 thousand	10 million
Boiler and Machinery*	150 million	2 million	150 million
General Liability Including Employment Practices	400 thousand	400 thousand	none
Police Professionals	400 thousand	400 thousand	none
Vehicular Liability [2]	400 thousand	400 thousand	600 thousand
Bonding	500 thousand	500 thousand	none
Foster Parents	300 thousand	300 thousand	none
Inland Marine (various policies)	500 thousand	500 thousand	none
Aircraft Liability*[3]	3 million	none	3 million

* These lines of insurance have commercial excess insurance covering losses above the risk retention amount up to the per occurrence amount listed. All other insurance programs are wholly self-insured.
[1] $10 million is the maximum limit for per occurrence coverage. Some agencies have chosen $400 thousand.
[2] Excess insurance is only for out of state travel.
[3] $3 million is the maximum limit for per occurrence coverage. Some agencies have chosen $500 thousand.

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

All risk-financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims liabilities represent the estimated cost of claims as of March 31, 2012. This cost of claims includes case reserves, the development of known claims, and the direct administrative expenses for settling specific claims.

Claims liabilities are determined on an actuarial basis. Biennial re-evaluation occurs to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount.

At March 31, 2013 and 2012, the present value of the claims payable for the State's self-insurance plan was estimated at $4.0 million and $3.8 million, respectively. The actuary calculated this based on the State's rate on investments.

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

	2013	2012
Liability at Beginning of Year	$ 3,770	$ 3,872
Current Year Claims and Changes in Estimates	686	1,253
Claims Payments	424	1,355
Liability at End of Year	$ 4,032	$ 3,770

As of June 30, 2013, fund assets of $26.2 million exceeded fund liabilities of $4.5 million by $21.7 million. The portion of this amount that may be reserved for catastrophic losses has not been determined.

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 $1.5 million for the fiscal year ended June 30, 2013

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, 2013:

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

	2013	**2012**
Liability at Beginning of Year	$ 42,113	$ 39,282
Current Year Claims and Changes in Estimates	11,069	11,468
Claims Payments	9,335	8,637
Liability at End of Year	$ 43,847	$ 42,113

Based on the actuarial calculation as of June 30, 2013, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $52.8 million. The discounted amount is $43.8 million and was calculated based on a 3.0 percent interest rate on investments.

D. EMPLOYEE HEALTH INSURANCE

The employee health and retiree health insurance programs are accounted for in two Internal Service Funds. The State became self insured for employee and retiree health care coverage on July 1, 2003. A stop loss agreement with Aetna provides catastrophic coverage for individual claims exceeding $500 thousand.

The State retained third-party administration (TPA) services for claims administration, utilization review, and case management services. Premium equivalents are paid to the TPA based upon rates established with the technical assistance of the plan's consulting actuary.

There are two primary health plans available. POS II is a point-of-service plan available to all active employees and retirees not eligible for Medicare. Smart Value is a Medicare Advantage plan available to Medicare eligible retirees. Total enrollment averaged approximately 37,901 covered individuals. This total includes 30,162 active employees and dependents and 7,739 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, 2013 the State recorded a receivable of $10.1 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 $22.6 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2013 follows (in thousands):

	Employee Health Fund	Retiree Health Fund
Liability at Beginning of Year	$ 13,830	$ 4,610
Current Year Claims and Changes in Estimates	148,521	28,041
Claims Payments	145,412	27,005
Liability at End of Year	$ 16,939	$ 5,646

The table above reflects actual activity of the employee health and retiree health insurance programs. In accordance with GASB Statement No. 45, certain costs reported above were reclassified for financial statement purposes. Retiree healthcare costs of $45.5 million were reclassified from the internal service fund to the OPEB Trust Fund, a fiduciary fund. Additionally, $14.0 million of active employee healthcare costs was reclassified from the internal service fund to the OPEB Trust Fund to reflect age-adjusted claims.

NOTE 13 – JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose. The State of Maine participates in two separate joint venture arrangements: the Tri-State Lotto Commission (Commission) and the Multi-State Lottery Association (MUSL).

Tri-State Lotto Commission

The Commission was established in 1985 pursuant to passage into law of the Tri-State Lotto Compact by the States of Maine, New Hampshire, and Vermont. The Commission is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including ticket prices, prizes, and the licensing of agents under Title 8 MRSA C. 16.

The Commission is composed of one member from each of the participating states. Each member State’s commission appoints one of its members to serve on the Commission and each member holds office at the pleasure of his or her appointing authority. The Commission annually elects a chairman from among its members. The Commission designated that 50 percent of its sales revenue be reserved for prize awards and agent bonuses.

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

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

The Tri-State Lotto Commission financial report for fiscal year 2013, 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	$ 16,116
Noncurrent Assets	37,218
Total Assets	$ 53,334
Current Liabilities	$ 13,077
Long-term Liabilities	29,104
Total Liabilities	42,181
Designated Prize Reserves	4,346
Reserve for Unrealized Gains	6,807
Total Net Position	11,153
Total Liabilities and Net Position	$ 53,334
Total Revenue	$ 54,286
Total Expenses	37,126
Allocation to Member States	17,160
Change in Unrealized Gain on Investments Held for Resale	(2,459)
Change in Net Position	$ (2,459)

Multi-State Lottery Association

The Maine State Lottery became a member of the Multi-State Lottery Association (MUSL) in July 2004. The MUSL currently has 32 member State lotteries, including the District of Columbia and the United States Virgin Islands. The MUSL is managed by a board of directors, which is comprised of the lottery directors or their designee from each of the party States, and authorized to initiate, promulgate, administer and carry out one or more lottery product offerings that will enhance the participating party lottery's revenue.

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

The Multi-State Lottery Association's financial report for fiscal year 2013 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	$ 216,478
Investments in US Government Securities	78,698
US Government Securities Held for Prize Annuities	210,014
Due from Party Lotteries	35,880
Patent, net of accumulated amortization	11,916
Other Assets	1,041
Total Assets	$ 554,027
Amount Held for Future Prizes	$ 317,376
Grand Prize Annuities Payable	219,135
Other Liabilities	5,492
	542,003
Net Assets, Unrestricted	12,024
Total Liabilities and Net Assets	$ 554,027
Total Revenue	$ 17,258
Total Expenses	5,389
Excess of revenue over expenses	11,869
Net assets, beginning	155
Net assets, ending	$ 12,024

NOTE 14 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

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 Parks and Lands. 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 2013 to 2018.

COMPONENT UNITS

The State provided appropriations and grant monies to the following discretely presented component units: University of Maine System, $221.6 million; Maine Community College System, $60.8 million; Maine Municipal Bond Bank, $40.4 million; Finance Authority of Maine, $11.0 million; and Maine State Housing Authority, $10.0 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $34.9 million at June 30, 2013, as a liability in Amounts Held Under State Revolving Loan Programs in their fiduciary financial statements. The state reports the asset as a receivable in the Special Revenue Fund. During fiscal year 2013, the State expended $3.0 million to FAME for State revolving loan funds. The State also transferred $1 million from its Loan Insurance Reserves to FAME. In fiscal 2012, State statute required FAME to return $5 million of the Loan Insurance Reserves. As of June 30, 2013, no balance was owed to the State.

Title 20-A MRSA Chapter 419-A established the Maine State Grant Program as a fund under the jurisdiction of the Finance Authority of Maine. All grant revenues under this fund must be distributed by FAME to students who meet the eligibility requirements for a grant under this chapter. During fiscal year 2007, the NextGen College Savings grant funds and the Maine State Grant funds were pooled into the new State of Maine Grant. FAME paid approximately $7.3 million in grants to the University of Maine System (UMS) on behalf of eligible students. The UMS reflected these as grant revenues from the State.

The Maine Turnpike Authority (MTA) pays the State for services rendered by the Maine State Police (MSP). MSP has a separate troop responsible for patrolling the Maine Turnpike. MTA pays all costs associated with that troop. For fiscal 2013, the amount billed totaled $5.2 million.

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. Certain 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.

Aldrich v. LePage. This matter involves the provision of home- and community-based services to persons with intellectual disabilities and/or autism. The case is before the Superior Court of Maine. It could potentially result in relief costing more than $1 million. Probability of losing is 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.

ENCUMBRANCES

Encumbrances are reported in the restricted, committed, and assigned fund balances of the governmental funds. General fund, highway fund, federal fund, other special revenue fund and other governmental funds balances are $23.3 million, $2.8 million, $103.0 million, $22.0 million and $.6 million, respectively.

FEDERAL GRANTS

The State receives significant financial assistance from the federal government. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Grants are subject to the Federal Single Audit Act. Disallowances by federal officials as a result of these audits may become liabilities of the State. The amount of expenditures that may be disallowed by the grantor agencies cannot be determined at this time.

POLLUTION REMEDIATION

The Department of Environmental Protection (DEP) and Department of Transportation (DOT) have pollution remediation obligations as defined by Governmental Accounting Standards Board (GASB) Statement No. 49. The State's total amount of pollution remediation obligation as of June 30, 2013 is $24.7 million. Superfund sites account for approximately $13.5 million. Superfund is the federal government program to clean up hazardous waste sites.

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

Eastland Woolen Mill – The State recorded a liability for pollution remediation activities of approximately $1.5 million. Currently the State shares the costs with Environmental Protection Agency (EPA) in a cost-sharing ratio of 10 percent State, 90 percent EPA. Beginning in September of 2018, the State will assume 100 percent of the operation and maintenance and long-term monitoring costs.

Eastern Surplus – The State recorded a liability for pollution remediation activities of approximately $5.1 million. Beginning in August of 2012, the State assumed 100 percent of the operation and maintenance and monitoring costs. As of June 30, 2013 the State has received $2.2 million in recoveries from the Department of Defense. The State expects to recover additional costs of $4.9 million.

Callahan Mine – The State recorded a liability for pollution remediation activities of approximately $6.9 million. Currently the State shares the costs with EPA in a cost-sharing ratio of 10 percent State, 90 percent EPA. The State will assume 100 percent of the cost for the operation and maintenance of the site.

The State recorded a liability for pollution remediation activities of approximately $11.9 million (net of unrealized recoveries of $660 thousand) related five uncontrolled hazardous substance sites. The State expects to recover $4 million in costs. The Uncontrolled Hazardous Substance Sites Program was created in response to the threats and potential threats to human health and the environment posed primarily by abandoned hazardous waste sites. The Uncontrolled Hazardous Substance Sites program is the State's equivalent to the Federal Superfund Program.

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

MUNICIPAL SOLID WASTE LANDFILLS

Dolby Landfills – On September 16, 2011 the State entered into an agreement with Katahdin Paper Company (KPC) to acquire the Dolby Landfills, a solid waste disposal facility, located in the Town of Millinocket. The State, as a holder of the permits, is responsible for closure and post closure monitoring and maintenance activities and costs.

The State will recognize a portion of the estimated total current cost of closure and postclosure care as an expense and a liability on the Statement of Activities and Statement of Net Position, respectively, in each period that the landfill accepts solid waste. The $7.4 million reported as landfill closure and postclosure care liability at June 30, 2013, represents the cumulative amount reported to date based on the use of 94 percent of the estimated capacity of the landfill. The State will recognize the remaining estimated cost of closure and postclosure care of $465 thousand as the remaining estimated capacity is filled. Based on estimated annual disposal volumes of 500 cubic yard to 1,000 cubic yards per year, the estimated remaining landfill life would be 400 to 800 years. Actual costs may be higher due to inflation, changes in technology or changes in applicable laws or regulations.

Cost-Sharing Program – Title 38 M.R.S.A., §1310-F establishes within the Department of Environmental Protection (DEP) a cost-sharing program for the closure and remediation of municipal solid waste landfills that pose an actual or potential hazard to the environment and public health.

The State's obligation to provide cost sharing to municipalities is subject to the availability of funds approved for that purpose. During fiscal year 2013, there was no Solid Waste funding available to reimburse municipalities for closure or remediation activities until the final quarter. At that time, a new fee on disposal of Construction and Demolition Debris earmarked for landfill closure and remediation came into effect (38 MRS §2203-A), resulting in receipt of $83 thousand for reimbursement of the obligations discussed below. The fee doubles effective January 1, 2014, when it will generate roughly $770 thousand per year.

Regarding landfill closures, at the end of fiscal year 2012 DEP had met all its existing obligations and no expenditures were made by DEP in fiscal year 2013. However, recent changes (PL 2011, c.544) to landfill legislation at 38 MRSA § 1310-F(1-B)(E) now obligates the DEP to reimburse 75 percent of landfill closure expenses at several municipal landfills until fiscal year 2015. One (1) application for past closure costs was filed in fiscal year 2013 for a total outstanding State obligation of $1 million; several more closure reimbursement filings are anticipated in fiscal year 2014.

For landfill remediation, State expenditures totaled $18 thousand in fiscal year 2013. Under the law the State is obligated to pay for 90 percent of the cost of remediation for threats posed by municipal landfills 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. As of the end of fiscal year 2013, the DEP owed $2.6 million for remedial work completed between calendar year 2008 and 2011. In light of ongoing investigations and the increasing frequency of residential development near closed municipal landfills, the State’s obligation for landfill remediation is expected to grow.

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 $9 million. This consists of approximately $5 million for State-owned facilities and approximately $4 million for the State’s share, under a cost sharing arrangement, for municipal facilities.

POLLUTION ABATEMENT PROGRAM

Title 38 MRSA § 411, § 411-A, § 412 establishes within DEP cost-sharing programs for pollution abatement projects. Subject to funding by the Legislature and the approval of the Commissioner, the State may contribute to the planning of municipal pollution abatement facilities; the design, engineering and construction of private, commercial and municipal pollution abatement facilities; and make payments to the Maine Municipal Bond Bank to supply the State's share of the revolving loan fund established by Title 30-A §6006-A. During the 2013 fiscal year, $1.1 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2013, amounts encumbered for pollution abatement projects totaled $0.65 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $1.58 million. As of June 30, 2013, DEP estimated the total cost (federal, State, and local) of future projects to be $1 billion.

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 cleanup 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 47.29 percent of the annual payments. As of June 30, 2013, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $1.0 billion.

At June 30, 2013, the Department of Transportation had contractual commitments of approximately $157.4 million for construction of various highway projects. The State's share of that amount is expected to be approximately $24.7 million. Of these amounts, $4.7 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 six civil jurisdictions (collectively known under the MSA as the "Settling States"), entered into a Master Settlement Agreement (MSA) with certain Participating Tobacco Manufacturers (PM's). The MSA is a settlement of lawsuits brought by many States against the four largest tobacco companies alleging multiple counts of misconduct and claiming punitive and compensatory damages, including a claim for all the State's Medicaid costs caused by or related to tobacco use. The MSA includes provisions to annually compensate the State for smoking-related Medicaid costs and to impose marketing and advertising restrictions on PM's to protect public health. In this settlement, the PM's agreed, among other things, to make annual payments to the states and jurisdictions based on their allocable share of the market. In return, the states agreed to relinquish claims to further damages resulting from, among other things, Medicaid costs. Annual payments fluctuate subject to various adjustments and are partially contingent on the passage and enforcement of a State statute imposing economic conditions related to the State's public health claims on the Nonparticipating manufacturers (NPM's) in the form of an annual escrow payment due from each NPM with in-state sales. The NPM Adjustment is set forth in the Master Settlement Agreement (MSA). If the PM's claim an NPM Adjustment for a given year and prove that they lost market share to the NPM's and it is determined that the MSA was a significant factor contributing to that lost market share then an NPM Adjustment 'shall apply' unless a Settling State passed a qualifying statute and 'diligently enforced' that statute. In effect this means that the Allocated Payment to a Settling State that diligently enforced will not be reduced, but a Settling State that did not diligently enforce its qualifying statute will be subject to a reduction in its payment due to the NPM Adjustment. NPM Adjustment Due to the provisions of the MSA, a State that is found not to have diligently enforced its qualifying statute may lose up to its entire annual payment amount due to the NPM Adjustment for a given year.

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

In addition, in the MSA, the PM’s agreed to pay $8.6 billion in Strategic Contribution Payments (SCP) to certain states and jurisdictions as compensation for their contribution to the overall settlement. Maine’s share of this total amount is approximately $114 million. Maine will receive this amount through ten annual SCP payments starting in 2008. In April 2013, Maine received a total of $51 million including both the annual payment amount and the strategic contribution amount.

ESCHEAT PROPERTY

The State Abandoned Property Statute requires the deposit of certain defined and unclaimed assets into a state-managed Abandoned Property Fund (Private Purpose Trust Fund). The State Statute provides that whenever the cash balance of the fund exceeds $500 thousand at fiscal year-end, the excess must be remitted to the General Fund where it is reported as operating transfers from other funds. At June 30, 2013, the Fund included $5.5 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2013 of approximately $192.1 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, 2013, the amount reported in the Fund for claimant liability is $26.6 million. The General Fund shows a $20.5 million payable to the Escheat Fund.

CONSTITUTIONAL OBLIGATIONS

Article 9, § 14-A, C, and D of the Maine State Constitution provides that the State may insure the payment of mortgage loans for industrial, manufacturing, fishing, agricultural and recreational enterprises; mortgage loans for the acquisition, construction, repair and remodeling of houses owned or to be owned by members of two tribes on several Indian reservations; and mortgage loans to resident Maine veterans of the Armed Forces of the United States, including loans to a business organization owned in whole or in part by resident Maine veterans. The aggregate of these obligations, at any one time, may not exceed $90 million, $1 million, and $4 million, respectively. At June 30, 2013, loans outstanding pursuant to these authorizations are $72.5 million, less than $1 million, and less than $1 million, respectively. The State has not paid, nor does it expect to pay, any amounts as a result of these authorizations as of June 30, 2013.

Article 8, § 2, of the Maine State Constitution provides that the State may secure funds, through the issuance of bonds authorized by the Governor, for loans to Maine students attending institutions of higher education. The amount of bonds issued and outstanding shall not at any one time exceed $4 million in the aggregate. At June 30, 2013, no bonds were outstanding. The State has not paid, nor does it expect to pay, any amount as a result of this authorization as of June 30, 2013.

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	$ 1,195,220	$ 104,316	no limit	22 MRSA § 2075
Finance Authority of Maine	35,705	-	$ 642,000	10 MRSA §1032, 1053
	-	-	50,000	20-A MRSA §11449
	-	-	50,000	38 MRSA §2221
Loring Development Authority *	-	-	100,000	5 MRSA §13080-N
Maine Municipal Bond Bank	1,117,779	126,845	no limit	30-A MRSA §6006
Maine Educational Loan Authority *	149,935	15,118	225,000	20-A MRSA §11424
Maine State Housing Authority	1,296,880	86,862	2,150,000	30-A MRSA §4906
Total	$ 3,795,519	$ 333,141		

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

COMPONENT UNITS

CONSTRUCTION CONTRACTS

At June 30, 2013, UMS had outstanding commitments on uncompleted construction contracts that totaled $24.2 million.

At June 30, 2013, MCCS had $5.7 million remaining in construction commitments primarily to improve existing academic buildings.

MORTGAGE COMMITMENTS

Mortgage commitments are agreements to lend provided there is no violation of any term or condition of the agreement. Generally, once exercised, the loans made under the terms of such commitments are secured by a lien on the related property and other collateral as deemed necessary. At December 31, 2012 Maine State Housing Authority (MSHA) had outstanding commitments to originate multi-family loans of approximately $48.4 million.

MSHA, under its single-family program, enters into purchase agreements to lenders to purchase mortgage loans. At December 31, 2012, single-family loans being processed by lenders totaled $9.4 million.

INSURED LOAN COMMITMENTS

The Finance Authority of Maine (FAME) insures loans made by financial institutions to qualifying businesses under various insurance programs. FAME is contingently liable for the insured portion of payments due on these loans. At June 30, 2013, FAME had insurance outstanding for commercial loans under the Loan Insurance Program totaling approximately $96.3 million. At June 30, 2013, FAME was insuring loans with an aggregate outstanding principle balance approximating $4.5 million which were 90 or more days delinquent. The aggregate insured balance of these loans was approximately $2.1 million at June 30, 2013. In addition, FAME has entered into commitments to insure loans at some future date. At June 30, 2013, these commitments under the Loan Insurance Program were approximately $7.6 million.

NOTE 16 - SUBSEQUENT EVENTS

PRIMARY GOVERNMENT

On August 1, 2013, September 15, 2013 and October 30, 2013 the State entered into lease-purchase agreements with Apple Computer for $71.6 million, $891 thousand, and $550 thousand respectively with interest rates of 0 percent and maturity dates of 2017, for the purchase of computer equipment for school administrative districts.

On September 5, 2013, the Maine Municipal Bond Bank, issued $220.7 million of Liquor Operations Revenue Bonds on behalf of the State of Maine. The bonds mature from 2015 to 2024 and carry interest rates ranging from 1.068 percent to 4.352 percent. The proceeds from the bonds funded the State's share of MaineCare payments due to health care providers for services prior to December 1, 2012. The bonds will be repaid from future net liquor sales and operations received by the state. The bonds do not constitute a debt or obligation of the State.

On September 27, 2013 the State entered into lease-purchase agreements with Hewlett-Packard for $1.7 million and $67 thousand with interest rates of 3.111 percent and 3.114 percent, respectively, and maturity dates of 2017, for the purchase of computer equipment for school administrative districts.

COMPONENT UNITS

Through March 1, 2013, Maine State Housing Authority (MSHA) redeemed at par $120.4 million of bonds in the General Mortgage Purchase Bond Resolution. On February 21, 2013, MSHA issued, at par $88.0 million and at a premium $27.0 million of bonds in the General Mortgage Purchase Bond Resolution.

After year-end several borrowers made payments to Maine Health and Higher Educational Facilities Authority in the amount of $88.9 million to pay off the balance of their reserve fund bonds.

NOTE 17 – SPECIAL ITEMS

During the fiscal year, the State transferred $4.7 million of assets associated with Mack Point Cargo Port Facility from the Marine Ports enterprise fund to the Maine Port Authority, part of the Town of Searsport, Maine. The transfer is recorded as a Special Item in the Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position.

Pursuant to Public Law 2011, Chapter 649 Section E-2, the State Transit, Aviation and Rail (STAR) Enterprise Fund was converted to an Other Special Revenue Fund. Accordingly, the State transferred balances totaling $92.4 million from the STAR Fund to the Other Special Revenue Fund. As part of the conversion, the State also transferred STAR assets with a net value of $11.2 million to various non-state providers of public transit. These transfers are recorded as Special Items in the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position ($103.6 million), the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances ($7 million), and the Entity-wide Statement of Activities ($103.6 million).


DIRIGO
MAINE

Required Supplementary Information - Budgetary Reporting

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2013
(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	$ 2,914,171	$ 2,934,176	$ 2,984,987	$ 50,811	$ 219,694	213,301	$ 214,542	$ 1,241
Assessments and Other	105,285	104,617	105,360	743	88,442	93,084	95,167	2,083
Federal Grants	1,915	1,594	1,726	132	-	-	-	-
Service Charges	64,692	45,681	44,346	(1,335)	4,372	4,210	4,181	(29)
Income from Investments	142	84	277	193	111	100	105	5
Miscellaneous Revenue	8,613	8,296	15,402	7,106	1,912	2,584	3,445	861
Total Revenues	3,094,818	3,094,448	3,152,098	57,650	314,531	313,279	317,440	4,161
Expenditures								
Governmental Support and Operations	285,958	281,801	266,830	14,971	36,683	38,168	33,720	4,448
Economic Development & Workforce Training	33,481	32,879	31,728	1,151	-	-	-	-
Education	1,397,224	1,359,539	1,341,083	18,456	-	-	-	-
Health and Human Services	921,119	1,110,554	1,079,612	30,942	-	-	-	-
Business Licensing & Regulation	(37)	3,648	578	3,070	-	-	-	-
Natural Resources Development & Protection	66,305	66,022	63,852	2,170	33	33	33	-
Justice and Protection	278,971	283,342	264,824	18,518	30,861	30,196	28,584	1,612
Arts, Heritage & Cultural Enrichment	7,106	7,130	6,932	198	-	-	-	-
Transportation Safety & Development	-	-	-	-	245,391	301,160	265,385	35,775
Total Expenditures	2,990,127	3,144,915	3,055,439	89,476	312,968	369,557	327,722	41,835
Revenues Over (Under) Expenditures	104,691	(50,467)	96,659	147,126	1,563	(56,278)	(10,282)	45,996
Other Financing Sources (Uses)								
Operating Transfers Net	(49,753)	(59,516)	(125,614)	(66,098)	2,127	2,127	7,955	5,828
Proceeds from Pledged Future Revenues								
Net Other Financing Sources (Uses)	(49,753)	(59,516)	(125,614)	(66,098)	2,127	2,127	7,955	5,828
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ 54,938	$ (109,983)	$ (28,955)	$ 81,028	$ 3,690	$ (54,151)	$ (2,327)	$ 51,824
Fund Balances at Beginning of Year			219,616				61,101	
Fund Balances at End of Year			$ 190,661				$ 58,774	

Federal Funds				Other Special Revenue Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
$ -	$ -	$ -	$ -	$ 273,687	$ 270,729	$ 267,413	$ (3,316)
4	4	-	(4)	171,633	179,900	152,980	(26,920)
2,672,310	3,285,285	2,619,838	(665,447)	17,969	21,472	6,641	(14,831)
435	435	405	(30)	149,551	223,185	184,563	(38,622)
-	-	13	13	1,493	1,503	328	(1,175)
39	795	105	(690)	283,763	252,523	198,696	(53,827)
2,672,788	3,286,519	2,620,361	(666,158)	898,096	949,312	810,621	(138,691)
6,770	14,437	8,154	6,283	166,193	176,557	170,723	5,834
115,035	213,132	173,552	39,580	43,424	44,951	34,855	10,096
262,214	290,128	201,686	88,442	18,948	21,435	14,283	7,152
1,945,189	2,299,111	1,837,633	461,478	517,001	579,405	473,593	105,812
1,292	1,302	248	1,054	72,677	74,346	63,469	10,877
51,406	77,349	50,390	26,959	126,641	141,164	87,272	53,892
127,139	130,111	48,460	81,651	37,741	47,342	37,708	9,634
3,236	3,253	2,366	887	1,782	1,773	909	864
186,312	259,619	229,843	29,776	37,604	123,464	87,247	36,217
2,698,593	3,288,442	2,552,332	736,110	1,022,011	1,210,437	970,059	240,378
(25,805)	(1,923)	68,029	69,952	(123,915)	(261,125)	(159,438)	101,687
(49,971)	(53,335)	(59,257)	(5,922)	120,448	141,299	194,237	52,938
				19,737	97,737	68,905	(28,832)
(49,971)	(53,335)	(59,257)	(5,922)	140,185	239,036	263,142	24,106
$ (75,776)	$ (55,258)	$ 8,772	$ 64,030	$ 16,270	$ (22,089)	$ 103,704	$ 125,793
		6,402				151,638	
		$ 15,174				$ 255,342	


DIRIGO
MAINE

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

	General Fund	Highway Fund	Federal Funds	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 190,661	$ 58,774	$ 15,174	$ 255,342
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	221,811	2,245	-	10,093
Intergovernmental Receivables	-	-	552,035	-
Other Receivables	47,426	1,335	67,563	68,324
Inventories	1,610	-	758	-
Due from Component Units	-		-	46,060
Due from Other Funds	13,676	12,878	5,548	146,924
Other Assets	1,729	55	293	296
Deferred Revenues	(219,962)	(6,000)	(2,803)	(26,254)
Total Revenue Accruals/Adjustments	66,290	10,513	623,394	245,443
Expenditure Accruals/Adjustments:				
Accounts Payable	(147,964)	(24,783)	(516,119)	(208,261)
Due to Component Units	(3,301)	(3)	(4,169)	(167)
Accrued Liabilities	(15,298)	(6,758)	(6,418)	(8,491)
Taxes Payable	(182,950)	(6)	-	-
Intergovernmental Payables	(3,792)	-	(70,689)	-
Due to Other Funds	(48,021)	(3,413)	(16,422)	(36,643)
Total Expenditure Accruals/Adjustments	(401,326)	(34,963)	(613,817)	(253,562)
Fund Balances - GAAP Basis	$ (144,375)	$ 34,324	$ 24,751	$ 247,223

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 or separate pieces of legislation. For the year ended June 30, 2013, the legislature increased appropriations to the General Fund by $75.0 million.

Governmental funds use 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. Unencumbered appropriations in the General Fund and Highway Fund lapse at June 30 unless, by law, they are carried forward to a subsequent year. In the State's accounting system, amounts carried forward are shown as reservations of fund balance. For financial statement purposes, unless amounts would create deficits, fund balance is classified based on existing resources, if any, which will liquidate the encumbrances outstanding at June 30 (shown as restrictions, commitments or assignments 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 2012-2013, as well as the actual resource inflows, outflows and fund balances stated on the budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of June 20, 2011, and includes encumbrances carried forward from the prior year.

Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the "final budget" column. Therefore updated revenue estimates available for appropriations as of June 30, 2013 rather than the amounts shown in the original budget, are reported.

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

Compliance at the Legal Level of Budgetary Control

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

Required Supplementary Information – State Retirement Plan

Schedule of Funding Progress

(Expressed in Thousands)

Actuarial Valuation June 30,	(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)
2013	9,238,577	11,889,897	2,651,320	77.7%	1,671,668	158.6%
2012	8,939,788	11,605,891	2,666,103	77.0%	1,727,667	154.3%
2011	8,795,250	11,335,259	2,540,009	77.6%	1,652,576	153.7%
2010	8,369,772	12,676,367	4,306,595	66.0%	1,681,593	256.1%
2009	8,383,148	12,377,262	3,994,114	67.7%	1,678,931	237.9%
2008	8,691,076	11,721,272	3,030,196	74.1%	1,628,421	186.1%
2007	8,302,467	11,209,708	2,907,241	74.1%	1,595,200	182.2%
2006	7,556,515	10,598,346	3,041,831	71.3%	1,546,316	196.7%

Major changes in actuarial assumptions include the following:

Valuation date	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2008
Former actuarial assumptions:				
Retirement assumption	Lowered to reflect the closing of the retirement window for early retiree health coverage			
Version of actuarial cost method	New entrant		No changes	
Investment rate of return		7.25%	were made	7.75%
Projected salary increases		3.50%	to 2008	4.75% - 10.00%
Includes inflation at		3.50%	plan	4.50%
Cost of living adjustments		2.25%	assumptions	3.75%

The June 30, 2011 valuation included changes to the plan and actuarial assumptions. For members with fewer than 5 years of creditable service on July 1, 2011, the normal retirement age increased to 65. Projected salary increases include a 3.5 percent across the board increase at each year of service. The first 2 fiscal years assume a flat 1.5 percent pay increase across the board. The cap on annual cost of living adjustments was lowered from 4 percent per year to 3 percent per year on the first $20,000 of annual benefit (indexed). No COLA will be made until September 2014.

The Maine Public Retirement System (the System), which is a component unit of the State, is the administrator of an agent, multiple-employer, defined benefit public employee retirement system. The June 30, 2013 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The System amortizes the unfunded liability of the State and Teacher Plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period. In

2005, the State repealed the “sunset” provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The contribution rate in effect for 2013 was determined by the 2010 valuation, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 4 years remained at June 30, 2013.

Note: Unless plan changes occur, actuarial valuations are performed biennially on even years. Rollforward valuations occur on odd numbered years. The latest actuarial valuation occurred June 30, 2012.

Required Supplementary Information – Other Post-employment Benefit Plans

Schedules of Funding Progress

Healthcare Plans

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability	(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, 2013	150	1,166	1,016	12.86%	518	196.14%
State Employees	June 30, 2012	136	1,316	1,180	10.33%	502	235.06%
(in millions)	June 30, 2011	112	1,544	1,432	7.25%	567	252.56%
Teachers	June 30, 2013	0	685	685	0.00%	1,194	57.37%
(in millions)	June 30, 2012	0	665	665	0.00%	1,156	57.53%
	June 30, 2011	0	801	801	0.00%	1,098	72.95%
	June 30, 2012	0	23,442	23,442	0.00%	43,510	53.88%
First Responders	June 30, 2011	0	21,921	21,921	0.00%	42,242	51.89%
(in thousands)	June 30, 2010	0	19,158	19,158	0.00%	53,821	35.60%

Group Life Insurance Plans

(Expressed in Thousands)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
State Employees	June 30, 2013	27,000	83,800	56,800	32.22%	572,800	9.92%
	June 30, 2012	24,700	80,900	56,200	30.53%	553,500	10.15%
	June 30, 2011	24,400	78,700	54,300	31.00%	623,600	8.71%
	June 30, 2013	36,000	74,200	38,200	48.52%	652,800	5.85%
Teachers	June 30, 2012	30,100	71,000	40,900	42.39%	630,800	6.48%
	June 30, 2011	27,800	67,600	39,800	41.12%	659,100	6.04%

Required Supplementary Information – Other Post-employment Benefit Plans (continued)

Schedule of Employer Contributions
(Expressed in Thousands)

	State Employees		Teachers		First Responders	
Fiscal Year Ended June 30,	**Annual Required Contribution**	**Percentage Contributed**	**Annual Required Contribution**	**Percentage Contributed**	**Annual Required Contribution**	**Percentage Contributed**
Healthcare - 2013	$94,000	77.66%	$44,000	56.82%	$1,689	34.16%
Healthcare - 2012	126,000	57.94%	55,000	40.00%	1,350	32.15%
Healthcare - 2011	120,000	70.84%	61,000	29.51%	916	57.10%
Group Life - 2013	4,591	101.79%	3,099	100.00%	N/A	N/A
Group Life - 2012	3,250	144.13%	2,959	100.00%	N/A	N/A
Group Life - 2011	4,268	89.20%	2,532	100.00%	N/A	N/A

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

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Assets accounted for under the modified approach include 8,822 highway miles or 17,953 lane miles of roads and 2,964 bridges having a total deck area of 11.8 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 vs. 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
2013	76.0	78.0
2012	75.4	79.0
2011	74.8	78.0

Comparison of Estimated-to-Actual Preservation Costs

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

Actual Preservation Costs
(Expressed in millions)

	2013	2012	2011	2010	2009
Highways	$ 90.5	$ 91.5	$ 101.4	$ 68.6	$ 74.5
Bridges	14.7	13.2	9.3	9.2	1.6
Total	$ 105.2	$ 104.7	$ 110.7	$ 77.8	$ 76.1

Estimated Preservation Costs
(Expressed in millions)

	2013	2012	2011	2010	2009
Highways	$ 84.1	$ 155.0	$ 86.1	$ 48.5	$ 55.8
Bridges	13.7	30.0	7.9	6.5	1.2
Total	$ 97.8	$ 185.0	$ 94.0	$ 55.0	$ 57.0

Transportation Bonds

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 645, PL 2009, $1.1 million in General fund bonds was spent during FY2013.

STATE OF MAINE
REPORTS ON INTERNAL CONTROL AND COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2013

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INDEPENDENT AUDITORS' 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*

Honorable Justin L. Alfond
President of the Senate

Honorable Mark W. Eves
Speaker of the House of Representatives

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2013, and the related notes to the financial statements, which collectively comprise the State of Maine's basic financial statements, and have issued our report thereon dated December 23, 2013. Our report includes a reference to other auditors who audited the financial statements of the following component units: Child Development Services, ConnectME Authority, Efficiency Maine Trust, Finance Authority of Maine, Loring Development Authority, Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine State Housing Authority, Maine Technology Institute, Maine Turnpike Authority, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and the University of Maine System, 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, the Northern New England Passenger Rail Authority, and the Small Enterprise Growth Fund were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Maine's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Maine's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies that we consider to be material weaknesses. However, material weaknesses may exist that may not have been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Maine's financial statements are free from 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.*

State of Maine's Response to Findings

The State of Maine's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The State of Maine's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and on the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pola Buckley

Pola A. Buckley, CPA, CISA
State Auditor
Office of the State Auditor

Augusta, Maine
December 23, 2013

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STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Honorable Justin L. Alfond
President of the Senate

Honorable Mark W. Eves
Speaker of the House of Representatives

Report on Compliance for Each Major Federal Program

We have audited the State of Maine's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State of Maine's major federal programs for the year ended June 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State of Maine's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the State of Maine's compliance.

Basis for Qualified Opinion on the Unemployment Insurance Program and the Statewide Data Systems Cluster

As described in the accompanying schedule of findings and questioned costs, the State of Maine did not comply with requirements regarding Unemployment Insurance (CFDA #17.225) as described in finding number 13-1302-01 for Eligibility or with compliance requirements regarding the Statewide Data Systems Cluster (CFDA #84.384) as described in finding number 13-1213-05 for Allowable Costs. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to those programs.

Qualified Opinion on the Unemployment Insurance Program and the Statewide Data Systems Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph above, the State of Maine complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Unemployment Insurance Program and the Statewide Data Systems Cluster for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the State of Maine complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, 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 13-1106-01, 13-1106-02, 13-1106-07, 13-1106-08, 13-1106-16, 13-1106-17, 13-1106-19, and 13-1140-04 Our opinion on each major federal program is not modified with respect to these matters.

The State of Maine's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The State of Maine's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the State of Maine is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State of Maine's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express 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 was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 13-1213-05 and 13-1302-01 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 13-0906-02, 13-1106-01 through 13-1106-14, 13-1106-16, 13-1106-17, 13-1106-19, 13-1108-01, 13-1109-01, 13-1111-01, 13-1111-02, 13-1111-04, 13-1113-01, 13-1113-03, 13-1140-02 through 13-1140-04, 13-1200-01, 13-1200-02, 13-1201-01, 12-1203-01, 13-1213-01 through 13-1213-04, 13-1221-01, 13-1401-03, 13-1404-01, 13-1505-01, 13-1505-02, and 13-1530-01 to be significant deficiencies.

The State of Maine's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The State of Maine's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The primary purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Pola Buckley

Pola A. Buckley, CPA, CISA
State Auditor
Office of the State Auditor

Augusta, Maine
March 28, 2014

STATE OF MAINE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Agency CFDA#	Clusters and Program Titles	ARRA	Non-ARRA	CFDA Total	
Department of Agriculture					
10.025	Plant and Animal Disease, Pest Control, and Animal Care		548,762	548,762	
10.156	Federal-State Marketing Improvement Program		676,398	676,398	
10.162	Inspection Grading and Standardization		781,254	781,254	
10.163	Market Protection and Promotion		80,945	80,945	
10.168	Farmers' Market Promotion Program		25,451	25,451	
10.170	Specialty Crop Block Grant Program - Farm Bill		421,433	421,433	
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection		257,670	257,670	
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children		18,285,268	18,285,268	*
10.558	Child and Adult Care Food Program		10,127,609	10,127,609	
10.560	State Administrative Expenses for Child Nutrition		1,563,473	1,563,473	
10.572	WIC Farmers' Market Nutrition Program (FMNP)		75,610	75,610	
10.574	Team Nutrition Grants		52,846	52,846	
10.576	Senior Farmers Market Nutrition Program		885,591	885,591	
10.578	WIC Grants To States (WGS)	788,287		788,287	
10.579	Child Nutrition Discretionary Grants Limited Availability		266,707	266,707	
10.580	Supplemental Nutrition Assistance Program, Process and Technology Improvement Grants		40,219	40,219	
10.582	Fresh Fruit and Vegetable Program		1,893,940	1,893,940	
10.652	Forestry Research		382,642	382,642	
10.664	Cooperative Forestry Assistance		2,098,881	2,098,881	
10.675	Urban and Community Forestry Program		224,485	224,485	
10.676	Forest Legacy Program		11,440,216	11,440,216	*
10.678	Forest Stewardship Program		243,424	243,424	
10.680	Forest Health Protection		403,427	403,427	
10.688	Recovery Act of 2009: Wildland Fire Management	3,220,573		3,220,573	*
10.868	Rural Energy for America Program		113,084	113,084	
10.902	Soil and Water Conservation		55,367	55,367	
10.912	Environmental Quality Incentives Program		133,578	133,578	
10.914	Wildlife Habitat Incentive Program		212	212	
SNAP Cluster					
10.551	Supplemental Nutrition Assistance Program		370,531,765	370,531,765	*
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program		12,561,401	12,561,401	*
SNAP Cluster Total			383,093,166	383,093,166	
Food Distribution Cluster					
10.565	Commodity Supplemental Food Program		158,021	158,021	
10.568	Emergency Food Assistance Program (Administrative Costs)		100,306	100,306	
10.569	Emergency Food Assistance Program (Food Commodities)		1,616,175	1,616,175	
Food Distribution Cluster Total			1,874,502	1,874,502	
Child Nutrition Cluster					
10.555	National School Lunch Program		47,875,412	47,875,412	*
10.559	Summer Food Service Program for Children		1,487,274	1,487,274	*
Child Nutrition Cluster Total			49,362,686	49,362,686	
Department of Agriculture Total		4,008,860	485,408,846	489,417,706	
Department of Commerce					
11.407	Interjurisdictional Fisheries Act of 1986		(1,164)	(1,164)	
11.419	Coastal Zone Management Administration Awards	17,191	2,519,670	2,536,861	
11.452	Unallied Industry Projects		722,137	722,137	
11.454	Unallied Management Projects		105,297	105,297	
11.472	Unallied Science Program [1 & 2]		1,475,461	1,475,461	
11.474	Atlantic Coastal Fisheries Cooperative Management Act		639,970	639,970	
11.555	Public Safety Interoperable Communications Grant Program		437,080	437,080	
11.557	Broadband Technology Opportunities Program (BTOP)	50,096		50,096	
11.558	State Broadband Data and Development Grant Program	147,308		147,308	
11.999	EA133F10CN0075 - Exploratory Fixed Gear Survey in the Inshore Gulf of Maine		24,001	24,001	
11.999	EA-133F-12-SU-0025 - Access Point Angler Intercept Survey Data Collection		33,783	33,783	
11.999	EA-133F-12-5E-0872 - Large Pelagics Intercept and Survey		32,779	32,779	
11.999	11-142 - Reducing Juvenile Alewife, Blueback and American Shad by Catch [2]		21,095	21,095	
11.999	2009 JEA - Joint Enforcement Cooperative Agreements		11,943	11,943	
11.999	2010 JEA - Joint Enforcement Cooperative Agreements		76,585	76,585	
11.999	2011 JEA - Joint Enforcement Cooperative Agreements		258,860	258,860	
11.999	2012 JEA - Joint Enforcement Cooperative Agreements		529,229	529,229	
Department of Commerce Total		214,594	6,886,726	7,101,320	
Department of Defense					
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services		465,990	465,990	
12.400	Military Construction, National Guard		1,791,232	1,791,232	
12.401	National Guard Military Operations and Maintenance (O&M) Projects		57,219,100	57,219,100	
12.404	National Guard ChalleNGe Program		219,750	219,750	
Department of Defense Total			59,696,071	59,696,071	
Department of Housing And Urban Development					
14.171	Manufactured Home Dispute Resolution		21,127	21,127	
14.238	Shelter Plus Care		5,509,703	5,509,703	

Federal Agency CFDA#	Clusters and Program Titles	ARRA	Non-ARRA	CFDA Total
14.401	Fair Housing Assistance Program State and Local		190,138	190,138
CDBG - State-Administered CDBG Cluster				
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii		20,769,505	20,769,505 *
CDBG - State-Administered CDBG Cluster Total			20,769,505	20,769,505
Department of Housing And Urban Development Total			26,490,473	26,490,473
Department of the Interior				
15.242	National Fire Plan - Rural Fire Assistance		11,928	11,928
15.608	Fish and Wildlife Management Assistance		197,692	197,692
15.614	Coastal Wetlands Planning, Protection and Restoration Act		225,000	225,000
15.615	Cooperative Endangered Species Conservation Fund		20,533	20,533
15.616	Clean Vessel Act		411,438	411,438
15.622	Sportfishing and Boating Safety Act		100,000	100,000
15.623	North American Wetlands Conservation Fund		178,172	178,172
15.630	Coastal Program		63,488	63,488
15.633	Landowner Incentive Program		1,153,264	1,153,264
15.634	State Wildlife Grants		602,655	602,655
15.637	Migratory Bird Joint Ventures		(2,651)	(2,651)
15.642	Challenge Cost Share		3,196	3,196
15.649	Service Training and Technical Assistance (Generic Training)		(10,785)	(10,785)
15.650	Research Grants (Generic)		3,854	3,854
15.654	Visitor Facility Enhancements - Refuges and Wildlife		22,228	22,228
15.657	Endangered Species Conservation – Recovery Implementation Funds		14,962	14,962
15.808	U.S. Geological Survey Research and Data Collection		10,700	10,700
15.809	National Spatial Data Infrastructure Cooperative Agreements Program		77,500	77,500
15.810	National Cooperative Geologic Mapping Program		96,157	96,157
15.814	National Geological and Geophysical Data Preservation Program		17,639	17,639
15.904	Historic Preservation Fund Grants-In-Aid		558,520	558,520
15.916	Outdoor Recreation Acquisition, Development and Planning		186,518	186,518
15.931	Conservation Activities by Youth Service Organizations		80,753	80,753
15.999	01-0000 - Fish and Wildlife Enhancement		129,144	129,144
Fish and Wildlife Cluster				
15.605	Sport Fish Restoration Program		3,768,716	3,768,716
15.611	Wildlife Restoration and Basic Hunter Education		3,201,284	3,201,284
Fish and Wildlife Cluster Total			6,970,000	6,970,000
Department of the Interior Total			11,121,907	11,121,907
Department of Justice				
16.005	Public Education on Drug Abuse Information		15,055	15,055
16.017	Sexual Assault Services Formula Program		374,772	374,772
16.523	Juvenile Accountability Block Grants		108,914	108,914
16.527	Supervised Visitation, Safe Havens for Children		117,882	117,882
16.540	Juvenile Justice and Delinquency Prevention Allocation to States		416,390	416,390
16.543	Missing Children's Assistance	84,760	222,426	307,186
16.544	Youth Gang Prevention	(119)	141,413	141,293
16.548	Title V Delinquency Prevention Program		47,100	47,100
16.550	State Justice Statistics Program for Statistical Analysis Centers		49,322	49,322
16.575	Crime Victim Assistance		2,053,523	2,053,523
16.576	Crime Victim Compensation		239,369	239,369
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program		94,504	94,504
16.585	Drug Court Discretionary Grant Program		576,881	576,881
16.588	Violence Against Women Formula Grants	(172)	951,448	951,276
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program [4]		269,020	269,020
16.593	Residential Substance Abuse Treatment for State Prisoners		36,479	36,479
16.606	State Criminal Alien Assistance Program		16,698	16,698
16.609	Project Safe Neighborhoods		79,892	79,892
16.710	Public Safety Partnership and Community Policing Grants		1,020,309	1,020,309
16.726	Juvenile Mentoring Program		27,027	27,027
16.727	Enforcing Underage Drinking Laws Program		436,951	436,951
16.735	Protecting Inmates and Safeguarding Communities Discretionary Grant Program		158,146	158,146
16.741	DNA Backlog Reduction Program		157,006	157,006
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program		154,684	154,684
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program		39,174	39,174
16.748	Convicted Offender and/or Arrestee DNA Backlog Reduction Program		35,377	35,377
16.754	Harold Rogers Prescription Drug Monitoring Program		134,485	134,485
16.801	Recovery Act - State Victim Assistance Formula Grant Program	22,589		22,589
16.922	Equitable Sharing Program		21,081	21,081
JAG Program Cluster				
16.738	Edward Byrne Memorial Justice Assistance Grant Program		1,004,566	1,004,566
16.803	Recovery Act - Eward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories [3]	680,853	57,629	738,482
JAG Program Cluster Total		680,853	1,062,195	1,743,048
Department of Justice Total		787,910	9,057,521	9,845,431

Federal Agency CFDA#	Clusters and Program Titles	ARRA	Non-ARRA	CFDA Total	
Department of Labor					
17.002	Labor Force Statistics		1,131,609	1,131,609	
17.005	Compensation and Working Conditions		110,940	110,940	
17.225	Unemployment Insurance	67,216,964	215,502,237	282,719,201	*
17.235	Senior Community Service Employment Program		526,840	526,840	
17.245	Trade Adjustment Assistance		2,542,218	2,542,218	
17.260	WIA Dislocated Workers		493,523	493,523	
17.261	WIA Pilots, Demonstrations, and Research Projects		504,178	504,178	
17.271	Work Opportunity Tax Credit Program (WOTC)		91,179	91,179	
17.273	Temporary Labor Certification for Foreign Workers		284,937	284,937	
17.275	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	1,834,592		1,834,592	*
17.276	Health Care Tax Credit (HCTC) National Emergency Grants (NEGs)	28,160		28,160	
17.277	Workforce Investment Act (WIA) National Emergency Grants		435,185	435,185	
17.504	Consultation Agreements		579,719	579,719	
17.505	OSHA Data Initiative		11,361	11,361	
17.600	Mine Health and Safety Grants		45,927	45,927	
WIA Cluster					
17.258	WIA Adult Program		3,022,839	3,022,839	
17.259	WIA Youth Activities		2,924,578	2,924,578	
17.278	WIA Dislocated Worker Formula Grants		3,681,086	3,681,086	
WIA Cluster Total			9,628,503	9,628,503	
Employment Service Cluster					
17.207	Employment Service/Wagner-Peyser Funded Activities		4,581,076	4,581,076	
17.801	Disabled Veterans' Outreach Program (DVOP)		427,893	427,893	
17.804	Local Veterans' Employment Representative Program		382,538	382,538	
Employment Service Cluster Total			5,391,507	5,391,507	
Department of Labor Total		69,079,716	237,279,862	306,359,578	
Department of Transportation					
20.106	Airport Improvement Program		2,923,523	2,923,523	
20.218	National Motor Carrier Safety		246,946	246,946	
20.232	Commercial Driver's License Program Improvement Grant		536,448	536,448	
20.233	Border Enforcement Grants		379,450	379,450	
20.234	Safety Data Improvement Program		116,482	116,482	
20.237	Commercial Vehicle Information Systems and Networks		193,070	193,070	
20.505	Metropolitan Transportation Planning		99,778	99,778	
20.509	Formula Grants for Other Than Urbanized Areas		6,664,180	6,664,180	
20.520	Paul S. Sarbanes Transit in the Parks		307,510	307,510	
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants		37,746	37,746	
20.700	Pipeline Safety Program State Base Grant		130,367	130,367	
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants		112,671	112,671	
20.721	PHMSA Pipeline Safety Program One Call Grant		45,000	45,000	
20.932	Surface Transportation Discretionary Grants for Capital Investment.	2,087,645		2,087,645	*
20.933	National Infrastructure Investments		5,070,637	5,070,637	
Transit Services Programs Cluster					
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities		1,013,318	1,013,318	
20.516	Job Access Reverse Commute		752,664	752,664	
20.521	New Freedom Program		438,196	438,196	
Transit Services Programs Cluster Total			2,204,178	2,204,178	
Highway Safety Cluster					
20.600	State and Community Highway Safety		1,318,750	1,318,750	
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I		816,884	816,884	
20.602	Occupant Protection Incentive Grants		203,082	203,082	
20.609	Safety Belt Performance Grants		251,843	251,843	
20.610	State Traffic Safety Information System Improvement Grants		292,258	292,258	
20.612	Incentive Grant Program to Increase Motorcyclist Safety		167,068	167,068	
20.613	Child Safety and Child Booster Seats Incentive Grants		27,751	27,751	
Highway Safety Cluster Total			3,077,637	3,077,637	
Highway Planning and Construction Cluster					
20.205	Highway Planning and Construction	3,347,151	214,836,173	218,183,325	*
20.219	Recreational Trails Program		1,019,239	1,019,239	*
Highway Planning and Construction Cluster Total		3,347,151	215,855,413	219,202,564	
Federal Transit Cluster					
20.500	Federal Transit Capital Investment Grants		365,407	365,407	
20.507	Federal Transit Formula Grants		2,880,532	2,880,532	
Federal Transit Cluster Total			3,245,940	3,245,940	
Department of Transportation Total		5,434,797	241,246,975	246,681,772	
Department of The Treasury					
21.000	Treasury Forfeiture Fund		401,103	401,103	
Department of The Treasury Total			401,103	401,103	

Federal Agency CFDA#	Clusters and Program Titles	ARRA	Non-ARRA	CFDA Total
Equal Employment Opportunity Commission				
30.002	Employment Discrimination - State & Local Fair Employment Practices		171,541	171,541
Equal Employment Opportunity Commission Total			171,541	171,541
General Services Administration				
39.003	Donation of Federal Surplus Personal Property		929,890	929,890
General Services Administration Total			929,890	929,890
Institute of Museum And Library Services				
45.310	Grants to States		1,023,491	1,023,491
45.312	National Leadership Grants		25,363	25,363
Institute of Museum And Library Services Total			1,048,854	1,048,854
National Endowment For The Arts				
45.025	Promotion of the Arts Partnership Agreements		703,550	703,550
National Endowment For The Arts Total			703,550	703,550
Department of Veterans Affairs				
64.101	Burial Expenses Allowance for Veterans		82,485	82,485
64.203	State Cemetery Grants		370,527	370,527
Department of Veterans Affairs Total			453,012	453,012
Environmental Protection Agency				
66.032	State Indoor Radon Grants		189,793	189,793
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act		276,766	276,766
66.039	National Clean Diesel Emissions Reduction Program		332,863	332,863
66.040	State Clean Diesel Grant Program	(149)	250,705	250,556
66.202	Congressionally Mandated Projects		8,914	8,914
66.432	State Public Water System Supervision		968,349	968,349
66.454	Water Quality Management Planning		100,156	100,156
66.461	Regional Wetland Program Development Grants		95,546	95,546
66.468	Capitalization Grants for Drinking Water State Revolving Funds		1,298,282	1,298,282
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs		27,039	27,039
66.472	Beach Monitoring and Notification Program Implementation Grants		315,974	315,974
66.474	Water Protection Grants to the States		36,029	36,029
66.605	Performance Partnership Grants		6,325,885	6,325,885
66.608	Environmental Information Exchange Network Grant Program and Related Assistance		27,752	27,752
66.709	Multi-Media Capacity Building Grants for States and Tribes		132,301	132,301
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements		1,603,815	1,603,815
66.804	Underground Storage Tank Prevention, Detection and Compliance Program		384,200	384,200
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program		545,269	545,269
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements		192,814	192,814
66.817	State and Tribal Response Program Grants		1,010,724	1,010,724
66.818	Brownfields Assessment and Cleanup Cooperative Agreements	(71)	120,936	120,865
66.940	Environmental Policy and State Sustainability Grants		36,052	36,052
Environmental Protection Agency Total		(220)	14,280,164	14,279,944
Department of Energy				
81.041	State Energy Program	4,034,982	1,497,450	5,532,432 *
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	140,324	77,225	217,549
Department of Energy Total		4,175,306	1,574,675	5,749,981
Department of Education				
84.002	Adult Education - Basic Grants to States		1,807,786	1,807,786
84.011	Migrant Education State Grant Program		1,204,469	1,204,469
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth		186,224	186,224
84.048	Career and Technical Education -- Basic Grants to States		5,288,928	5,288,928
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States		17,205,747	17,205,747
84.133	National Institute on Disability and Rehabilitation Research		52,969	52,969
84.161	Rehabilitation Services Client Assistance Program		119,245	119,245
84.169	Independent Living State Grants		319,150	319,150
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind		251,892	251,892
84.181	Special Education-Grants for Infants and Families		2,173,956	2,173,956

Federal Agency CFDA#	Clusters and Program Titles	ARRA	Non-ARRA	CFDA Total
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities		371,238	371,238
84.196	Education for Homeless Children and Youth		248,187	248,187
84.213	Even Start State Educational Agencies		37,683	37,683
84.224	Assistive Technology		419,986	419,986
84.265	Rehabilitation Training State Vocational Rehabilitation Unit In-Service Training		53,201	53,201
84.287	Twenty-First Century Community Learning Centers		3,924,341	3,924,341
84.323	Special Education - State Personnel Development		757,601	757,601
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)		77,367	77,367
84.331	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals		6,873	6,873
84.357	Reading First State Grants		(338)	(338)
84.358	Rural Education		1,539,031	1,539,031
84.365	English Language Acquisition State Grants		559,979	559,979
84.366	Mathematics and Science Partnerships		855,386	855,386
84.367	Improving Teacher Quality State Grants		11,524,853	11,524,853 *
84.369	Grants for State Assessments and Related Activities		2,908,972	2,908,972
84.371	Striving Readers		73,470	73,470
84.391	Career and Technical Education -- Basic Grants to States	(31,759)		(31,759)
84.392	Special Education - Preschool Grants, Recovery Act	(156)		(156)
84.394	State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	(9,282)		(9,282)
84.410	Education Jobs Fund		8,655,102	8,655,102
Title I, Part A Cluster				
84.010	Title I Grants to Local Educational Agencies		51,008,273	51,008,273 *
84.389	Title I Grants to Local Educational Agencies, Recovery Act	457,594		457,594 *
Title I, Part A Cluster Total		457,594	51,008,273	51,465,867
Teacher Incentive Fund Cluster				
84.374	Teacher Incentive Fund		130,512	130,512
Teacher Incentive Fund Cluster Total			130,512	130,512
Statewide Data Systems Cluster				
84.384	Statewide Data Systems, Recovery Act	2,024,909		2,024,909 *
Statewide Data Systems Cluster Total		2,024,909		2,024,909
Special Education Cluster (IDEA)				
84.027	Special Education Grants to States		48,200,813	48,200,813 *
84.173	Special Education Preschool Grants		2,599,071	2,599,071 *
Special Education Cluster (IDEA) Total			50,799,885	50,799,885
School Improvement Grants Cluster				
84.377	School Improvement Grants		1,140,345	1,140,345 *
84.388	School Improvement Grants, Recovery Act	3,659,182		3,659,182 *
School Improvement Grants Cluster Total		3,659,182	1,140,345	4,799,528
Impact Aid Cluster				
84.041	Impact Aid	(55)		(55)
Impact Aid Cluster Total		(55)		(55)
Educational Technology State Grants Cluster				
84.318	Educational Technology State Grants		262,291	262,291
Educational Technology State Grants Cluster Total			262,291	262,291
Department of Education Total		6,100,434	163,964,603	170,065,038
National Archives And Records Administration				
89.005	Cooperative Agreements to Support the Programs of the National Archives and Records Administration (NARA)		39,044	39,044
National Archives And Records Administration Total			39,044	39,044
U.S. Election Assistance Commission				
90.401	Help America Vote Act Requirements Payments		1,124,270	1,124,270
U.S. Election Assistance Commission Total			1,124,270	1,124,270
Department of Health And Human Services				
93.041	Special Programs for the Aging Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation		36,768	36,768
93.042	Special Programs for the Aging Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals		76,936	76,936
93.043	Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services		102,491	102,491
93.048	Special Programs for the Aging Title IV and Title II Discretionary Projects		620,287	620,287
93.051	Alzheimer's Disease Demonstration Grants to States		321,423	321,423
93.052	National Family Caregiver Support, Title III, Part E		628,361	628,361
93.069	Public Health Emergency Preparedness		4,855,711	4,855,711
93.070	Environmental Public Health and Emergency Response		731,423	731,423
93.090	Guardianship Assistance		191,308	191,308
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program		244,715	244,715
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)		722,874	722,874
93.110	Maternal and Child Health Federal Consolidated Programs		653,921	653,921
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs		185,973	185,973

Federal Agency CFDA#	Clusters and Program Titles	ARRA	Non-ARRA	CFDA Total	
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices		191,649	191,649	
93.136	Injury Prevention and Control Research and State and Community Based Programs		241,942	241,942	
93.150	Projects for Assistance in Transition from Homelessness (PATH)		296,380	296,380	
93.236	Grants to States to Support Oral Health Workforce Activities		693	693	
93.241	State Rural Hospital Flexibility Program		357,173	357,173	
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance		2,504,250	2,504,250	
93.251	Universal Newborn Hearing Screening		196,093	196,093	
93.256	State Health Access Program		1,489,577	1,489,577	
93.268	Immunization Cooperative Agreements		15,435,028	15,435,028	*
93.270	Adult Viral Hepatitis Prevention and Control		77,779	77,779	
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance		6,412,925	6,412,925	
93.296	State Partnership Grant Program to Improve Minority Health		82,381	82,381	
93.301	Small Rural Hospital Improvement Grant Program		159,575	159,575	
93.414	ARRA - State Primary Care Offices	16,900		16,900	
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program		6,485,703	6,485,703	
93.506	ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers		121,336	121,336	
93.507	PPHF 2012 National Public Health Improvement Initiative		1,300,772	1,300,772	
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review		58,349	58,349	
93.512	Affordable Care Act (ACA) Personal and Home Care Aide State Training Program (PHCAST)		612,092	612,092	
93.517	Affordable Care Act – Aging and Disability Resource Center		100,566	100,566	
93.518	Affordable Care Act - Medicare Improvements for Patients and Providers		27,319	27,319	
93.519	Affordable Care Act (ACA) – Consumer Assistance Program Grants		25,583	25,583	
93.520	Centers for Disease Control and Prevention –Affordable Care Act (ACA) – Communities Putting Prevention to Work		131,663	131,663	
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements;PPHF		713,038	713,038	
93.531	PPHF 2012: Community Transfromation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Preventinon and Public Health Funds		1,396,075	1,396,075	
93.538	Affordable Care Act - National Environmental Public Health Tracking Program-Network Implementation		1,000,658	1,000,658	
93.539	PPHF 2012 - Prevention and Public Health Fund (Affordable Care Act) - Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds		477,207	477,207	
93.544	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease Prevention and Health Promotion Program		137,538	137,538	
93.556	Promoting Safe and Stable Families		1,809,631	1,809,631	
93.563	Child Support Enforcement		15,775,461	15,775,461	
93.566	Refugee and Entrant Assistance State Administered Programs		751,536	751,536	
93.569	Community Services Block Grant		3,482,442	3,482,442	
93.576	Refugee and Entrant Assistance Discretionary Grants		693,420	693,420	
93.586	State Court Improvement Program		233,809	233,809	
93.597	Grants to States for Access and Visitation Programs		97,146	97,146	
93.599	Chafee Education and Training Vouchers Program (ETV)		136,047	136,047	
93.600	Head Start		844	844	
93.603	Adoption Incentive Payments		76,446	76,446	
93.605	Family Connection Grants		488,597	488,597	
93.617	Voting Access for Individuals with Disabilities Grants to States		24,810	24,810	
93.624	ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance		14,936	14,936	
93.630	Developmental Disabilities Basic Support and Advocacy Grants		358,735	358,735	
93.643	Children's Justice Grants to States		26,201	26,201	
93.645	Stephanie Tubbs Jones Child Welfare Services Program		1,600,460	1,600,460	
93.647	Social Services Research and Demonstration		34,615	34,615	
93.658	Foster Care Title IV-E		14,175,897	14,175,897	*
93.659	Adoption Assistance		13,616,920	13,616,920	
93.667	Social Services Block Grant		6,135,434	6,135,434	
93.669	Child Abuse and Neglect State Grants		90,969	90,969	
93.670	Child Abuse and Neglect Discretionary Activities		380,416	380,416	
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters Grants to States and Indian Tribes		762,517	762,517	
93.674	Chafee Foster Care Independence Program		127,434	127,434	
93.708	ARRA - Head Start	165,796		165,796	
93.712	ARRA - Immunization	2,500		2,500	
93.715	Recovery Act – Comparative Effectiveness Research - AHRQ	137,704		137,704	
93.717	ARRA - Preventing Healthcare-Associated Infections	57,270		57,270	
93.719	ARRA - State Grants to Promote Health Information Technology	270,591		270,591	

Federal Agency CFDA#	Clusters and Program Titles	ARRA	Non-ARRA	CFDA Total	
93.724	ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	242,897		242,897	
93.735	State Public Health Approaches for Ensuring Quitline Capacity – Funded in part by 2012 Prevention and Public Health Funds (PPHF-2012)		42,454	42,454	
93.748	PPHF-2012 Cooperative Agreements for Prescription Drug Monitoring Program Electronic Health Record (EHR) Integration and Interoperability Expansion		66,239	66,239	
93.767	Children's Health Insurance Program		32,426,674	32,426,674	*
93.768	Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities		106,885	106,885	
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations		635,355	635,355	
93.791	Money Follows the Person Rebalancing Demonstration		522,579	522,579	
93.888	Specially Selected Health Projects		21,376	21,376	
93.889	National Bioterrorism Hospital Preparedness Program		1,968,582	1,968,582	
93.913	Grants to States for Operation of Offices of Rural Health		116,421	116,421	
93.917	HIV Care Formula Grants		1,755,844	1,755,844	
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems		362,541	362,541	
93.940	HIV Prevention Activities Health Department Based		1,234,527	1,234,527	
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance		108,798	108,798	
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs		129,893	129,893	
93.958	Block Grants for Community Mental Health Services		1,321,436	1,321,436	
93.959	Block Grants for Prevention and Treatment of Substance Abuse		6,021,482	6,021,482	
93.977	Preventive Health Services Sexually Transmitted Diseases Control Grants		227,983	227,983	
93.991	Preventive Health and Health Services Block Grant		317,850	317,850	
93.994	Maternal and Child Health Services Block Grant to the States		3,179,438	3,179,438	
93.999	DASIS Federal Agreement MIS Implement of Uniform Alcohol & Drug Abuse Data Collection System		103,345	103,345	
93.999	2010MEHRPC - Temporary High Risk Insurance Pool Program		2,020,699	2,020,699	
TANF Cluster					
93.558	Temporary Assistance for Needy Families		52,710,470	52,710,470	*
TANF Cluster Total			52,710,470	52,710,470	
Medicaid Cluster					
93.720	ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative	231		231	*
93.775	State Medicaid Fraud Control Units		564,253	564,253	*
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare		3,325,248	3,325,248	*
93.778	Medical Assistance Program	29,051,065	1,568,443,154	1,597,494,220	*
Medicaid Cluster Total		29,051,297	1,572,332,655	1,601,383,952	
CCDF Cluster					
93.575	Child Care and Development Block Grant		4,301,467	4,301,467	
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund		7,543,884	7,543,884	
CCDF Cluster Total			11,845,351	11,845,351	
Aging Cluster					
93.044	Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers		2,434,216	2,434,216	
93.045	Special Programs for the Aging Title III, Part C Nutrition Services		2,677,935	2,677,935	
93.053	Nutrition Services Incentive Program		734,611	734,611	
Aging Cluster Total			5,846,762	5,846,762	
Department of Health And Human Services Total		29,944,955	1,805,725,899	1,835,670,854	

Federal Agency CFDA#	Clusters and Program Titles	ARRA	Non-ARRA	CFDA Total
Corporation For National And Community Service				
94.003	State Commissions		3,835	3,835
94.006	AmeriCorps		1,285,946	1,285,946
94.007	Program Development and Innovation Grants		20,531	20,531
94.009	Training and Technical Assistance		15,279	15,279
94.013	Volunteers in Service to America		46,648	46,648
94.021	Volunteer Generation Fund		270,683	270,683
94.023	AmeriCorps VISTA Training & Logistics Support		10,881	10,881
Corporation For National And Community Service Total			1,653,803	1,653,803

Federal Agency CFDA#	Clusters and Program Titles	ARRA	Non-ARRA	CFDA Total
Executive Office of the President				
95.001	High Intensity Drug Trafficking Areas Program		5,702	5,702
Executive Office of the President Total			5,702	5,702

Federal Agency CFDA#	Clusters and Program Titles	ARRA	Non-ARRA	CFDA Total
Social Security Administration				
Disability Insurance/SSI Cluster				
96.001	Social Security Disability Insurance		8,215,590	8,215,590
Disability Insurance/SSI Cluster Total			8,215,590	8,215,590
Social Security Administration Total			8,215,590	8,215,590

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Agency CFDA#	Clusters and Program Titles	ARRA	Non-ARRA	CFDA Total
Department of Homeland Security				
97.001	Special Projects		75,862	75,862
97.012	Boating Safety Financial Assistance		1,368,098	1,368,098
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)		16,630	16,630
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)		3,373,668	3,373,668
97.039	Hazard Mitigation Grant		530,795	530,795
97.041	National Dam Safety Program		53,255	53,255
97.042	Emergency Management Performance Grants		2,728,858	2,728,858
97.044	Assistance to Firefighters Grant		42,327	42,327
97.045	Cooperating Technical Partners		157,566	157,566
97.047	Pre-Disaster Mitigation		67,990	67,990
97.052	Emergency Operations Center		14,232	14,232
97.055	Interoperable Emergency Communications		261,771	261,771
97.056	Port Security Grant Program		30,635	30,635
97.067	Homeland Security Grant Program		7,307,979	7,307,979
97.078	Buffer Zone Protection Program (BZPP)		37,697	37,697
97.082	Earthquake Consortium		38,186	38,186
97.089	Driver's License Security Grant Program		80,704	80,704
97.120	Border Interoperability Demonstration Project		676,201	676,201
Department of Homeland Security Total			16,862,454	16,862,454
Total State of Maine		**119,746,352**	**3,094,342,533**	**3,214,088,885**

The State spent pass-through funds received from:

[1] Gulf of Maine Lobster Foundation
[2] University of New Hampshire / Northeast Consortium
[3] York County
[4] Cumberland County

STATE OF MAINE
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

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 the 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, 2013, 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-cash federal assistance is included in federal financial assistance and, therefore, is reported on the Schedule of Expenditures of Federal Awards. Federal financial assistance does not include direct federal cash assistance to individuals.

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

3) ARRA Reporting Exception – The reported expenditures for benefits under the **Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551)** are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions and assets. This condition prevents the USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, the USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 7.79 percent of the USDA's total expenditures for SNAP benefits in the federal fiscal year ended September 30, 2013.

4) Type A and Type B Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 established the levels of expenditures to be used in defining Type A and Type B federal financial assistance programs. Type A programs for the State of Maine are those programs that equal or exceed $9.6 million in expenditures, distributions, or issuances for the year ended June 30, 2013. 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 cash basis of accounting, which is consistent with the other Federal grant reports. The fund level financial statements are reported on the modified accrual basis of accounting. Consequently, the schedule's data may not be directly traceable to the financial statements.

3. Unemployment Insurance Program

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

State Funds	$173,001,852
Federal Funds	109,717,349
Total	$282,719,201

4. Noncash Awards

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

CFDA Number	Program Title	Noncash Awards
10.551 SNAP Cluster	SNAP (Supplemental Nutrition Assistance Program)	370,531,765
10.555 Child Nutrition Cluster	National School Lunch Program	4,002,345
10.569 Food Distribution Cluster	Emergency Food Assistance Program	1,616,175
10.664	Cooperative Forestry Assistance	1,349,731
12.401	National Guard Military Operations & Maint. Proj.	780,760
12.401	Readiness Sustainment Maint. Center	6,099,488
39.003	Donation of Federal Surplus Personal Property	929,890
93.268	Immunization Grants	12,441,347

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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:

<u>Unqualified</u>
Child Nutrition Cluster
Children's Health Insurance Program (CHIP)
Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors
Forest Legacy Program
Foster Care – Title IV-E
Highway Planning and Construction Cluster
Immunization Cooperative Agreements
Improving Teacher Quality State Grants
Medicaid Cluster
Recovery Act of 2009: Wildland Fire Management
School Improvement Grants Cluster
SNAP Cluster
Special Education Cluster (IDEA)
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
State-Administered CDBG Cluster
State Energy Program
Supplemental Discretionary Grants for a National Surface Transportation System
TANF Cluster
Title I, Part A Cluster

<u>Qualified</u>
Statewide Data Systems Cluster
Unemployment Insurance

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

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Identification of Major Programs:

CFDA #	Name of Federal Program or Cluster
SNAP Cluster	
10.551	Supplemental Nutrition Assistance Program (SNAP)
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
Child Nutrition Cluster	
10.555	National School Lunch Program (NSLP)
10.559	Summer Food Service Program for Children (SFSPC)
State-Administered CDBG Cluster	
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Highway Planning and Construction Cluster	
20.205	Highway Planning and Construction (Federal-Aid Highway Program)
20.219	Recreational Trails Program
Title I, Part A Cluster	
84.010	Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)
84.389	Title I Grants to Local Educational Agencies, Recovery Act
Special Education Cluster (IDEA)	
84.027	Special Education – Grants to States (IDEA, Part B)
84.173	Special Education – Preschool Grants (IDEA Preschool)
Statewide Data Systems Cluster	
84.384	Statewide Data Systems, Recovery Act
School Improvement Grants Cluster	
84.377	School Improvement Grants (Section 1003(g) of the ESEA)
84.388	School Improvement Grants, Recovery Act
TANF Cluster	
93.558	Temporary Assistance for Needy Families (TANF)
Medicaid Cluster	
93.720	ARRA – State Survey and Certification Ambulatory Surgical Center Healthcare Associated Infection (ASC-HAI) Prevention Initiative
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
93.778	Medical Assistance Program (Medicaid; Title XIX)

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Other Programs

10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
10.676	Forest Legacy Program
10.688	Recovery Act of 2009: Wildland Fire Management
17.225	Unemployment Insurance (UI)
17.275	Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors
20.932	Supplemental Discretionary Grants for a National Surface Transportation System
81.041	State Energy Program
84.367	Improving Teacher Quality State Grants
93.268	Immunization Cooperative Agreements
93.658	Foster Care – Title IV-E
93.767	Children's Health Insurance Program (CHIP)

Dollar threshold used to distinguish between type A and type B programs: $9,642,267

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

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

Federal Agency	**Federal Program**	**Known Questioned Costs**	**Finding Number**
U.S. Department of Health and Human Services	Medicaid Cluster	Undeterminable $ 176,444 1,243,049 Undeterminable 1,277	13-1106-01 13-1106-08 13-1106-16 13-1106-17 13-1106-19
	Children's Health Insurance Program (CHIP)	16	13-1140-04
U.S. Department of Education	Statewide Data Systems Cluster	154,940	13-1213-05
U.S. Department of Labor	Unemployment Insurance	Undeterminable	13-1302-01

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Section II – Financial Statement Findings

Financial Statement Findings

(13-0308-01)

Title: Accounting for the employer-funded unemployment insurance program needs to be improved

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-0308-01						

State Department: Labor (DOL)
Administrative and Financial Services

State Bureau: Unemployment Compensation (BUC)
Security and Employment Service Center (SESC)
Office of the State Controller (OSC)

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: Generally Accepted Accounting Principles

Condition: The Department of Labor, Bureau of Unemployment Compensation and the Department of Administrative and Financial Services, Security and Employment Service Center did not have controls in place to ensure proper accounting and estimation procedures. For at least fourteen years, the same percentages and assumptions have been used to estimate the Allowance for Uncollectible Accounts without taking into account relevant collection experience and general economic conditions. In addition, the Restricted Deposits and Investments account was overstated by $1.5 million and $1.1 million for fiscal years ended June 30, 2013 and 2012, respectively.

Context: The Employment Security Enterprise Fund provides an accounting of assets and liabilities; and operating activity such as revenue from Maine's employers, State-funded payments to claimants, and interest income.

On June 30, 2013 and 2012, the U.S. Treasury held Maine's employer-funded unemployment contributions in the amount of $279.3 and $268.5 million, respectively. During fiscal year 2013 unemployment claims totaled $169.3 million. Fiscal year 2012 unemployment claims totaled $184.9 million. For fiscal year 2013 and 2012, the Allowance for Uncollectible Accounts of $20.8 and $19.2 million was calculated for receivables of $61.9 and $50.6 million.

Cause: Inadequate procedures to prevent, or detect and correct errors in the State's Employment Security accounting records and financial statements.

Effect: The financial statements for the Employment Security Enterprise Fund may not be accurate.

Recommendation: We recommend that personnel employed by the Bureau of Unemployment Compensation, the Security and Employment Service Center, and the Office of the State Controller combine their efforts to improve procedures and scrutiny of accounting estimates.

Management's Response/Corrective Action Plan: *OSC is responsible for making the accounting estimates included in the financial statements. Estimates are based on subjective as well as objective factors and, as a result, judgment is required to estimate an amount at the date of the financial statements. OSC has a process for estimating the amount to be reserved for uncollectible receivables using an aging method, which is a common, acceptable method within the industry. We believe that this method is not overly sensitive to variations, is consistent with historical patterns and is not overly subjective or susceptible to bias. Using this method, OSC and Labor accumulate relevant, sufficient, and reliable data on which to base the estimate. Additionally, we believe that the estimate is presented in conformity with applicable accounting principles and that disclosure is adequate.*

During the course of the 2012 audit, the Security and Employment Service Center (SESC) agreed with the audit finding regarding the overstatement of Restricted Deposits and Investments and altered its methodology for processing draws beginning in December 2012. Through an oversight, the errors for 2012 and the portion of 2013 that had been processed under the old methodology were not corrected. SESC has corrected that error by a journal processed December 23, 2013, and has added a step to the reconciliation process that includes comparing the General Ledger to the Advantage ME system.

Contact: *Heidi McDonald, Manager, Financial Reporting and Analysis, OSC, 626-8437*
Patricia K. O'Brien, Deputy Bureau Director, Labor, 621-5161

Auditor's Concluding Remarks: The reasonableness of the percentages applied to the aging of receivables in order to estimate the Allowance for Uncollectible Accounts is not based on fact or quantitative analysis. Subjectivity should not be the singular or overwhelmingly predominant factor that determines these percentages. We know that the Office of the State Controller, the Security and Employment Service Center, and the Department of Labor do not have relevant, sufficient, and reliable data to substantiate the percentages used. We also know that quantitative support is not available to support the conclusion that the collectability of unemployment receivables is not overly sensitive to variations.

We continue to recommend that OSC, the Security and Employment Service Center, and the DOL continue to improve their valuation method for financial statement purposes.

Our finding remains as stated.

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

Indexes to Federal Program Findings

INDEXES TO FEDERAL PROGRAM FINDINGS

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BY FEDERAL PROGRAM

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SNAP Cluster CFDA# 10.551, 10.561			
13-1108-01	Cash management procedures need improvement	DAFS	E-63
13-1111-01	Inadequate controls over required Income and Eligibility Verification System (IEVS) data exchanges	DAFS DHHS	E-67
13-1111-02	Income and Eligibility Verification System procedures need improvement	DHHS	E-70
Child Nutrition Cluster CFDA# 10.555,10.559			
13-1200-01	Internal Controls over subrecipient cash management need improvement	DOE	E-83
13-1203-01	FFATA reporting deficiency	DOE	E-88
Special Supplemental Nutrition Program for Women, Infants, and Children CFDA# 10.557			
13-1113-01	FFATA reporting deficiency	DAFS	E-75
13-1113-03	Internal controls over subrecipient cash management need improvement	DAFS	E-76
Community Development Block Grants – State-Administered CDBG Cluster CFDA# 14.228			
13-1505-01	Procedures to ensure compliance with suspension and debarment requirements overlooked	DECD	E-108
13-1505-02	Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency	DECD	E-109
Unemployment Insurance CFDA# 17.225			
13-1302-01	Procedures to determine continuing eligibility needs improvement	DOL DAFS	E-99
Highway Planning and Construction Cluster CFDA# 20.205			
13-1401-03	Internal controls are not sufficient to ensure that subrecipient contracts contain all information required by federal regulations	DOT	E-104
Surface Transportation – Discretionary Grants for Capital Investiment CFDA# 20.932			
13-1404-01	Procedures to ensure compliance with federal suspension and debarment requirements need improvement	DOT	E-106

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<u>State Energy Program</u> CFDA# 81.041			
13-1530-01	Subrecipient monitoring procedures need improvement	EXEC	E-111
<u>Title I, Part A Cluster</u> CFDA# 84.010, 84.389			
13-1200-01	Internal Controls over subrecipient cash management need improvement	DOE	E-83
13-1200-02	Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency	DAFS	E-84
13-1221-01	Inadequate procedures to ensure all subrecipient carryover reports have been submitted and balances liquidated	DOE	E-97
<u>Special Education Cluster (IDEA)</u> CFDA# 84.027, 84.173			
13-1200-01	Internal Controls over subrecipient cash management need improvement	DOE	E-83
13-1200-02	Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency	DAFS	E-84
13-1201-01	Controls over earmarking requirements need improvement	DOE	E-86
<u>Improving Teacher Quality State Grants</u> CFDA# 84.367			
13-1200-01	Internal Controls over subrecipient cash management need improvement	DOE	E-83
13-1200-02	Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency	DAFS	E-84
13-1221-01	Inadequate procedures to ensure all subrecipient carryover reports have been submitted and balances liquidated	DOE	E-97
<u>School Improvement Grant Cluster</u> CFDA# 84.377, 84.388			
13-1200-01	Internal Controls over subrecipient cash management need improvement	DOE	E-83
13-1200-02	Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency	DAFS	E-84

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Statewide Data Systems Cluster CFDA# 84.384			
13-1213-01	Payroll costs not properly documented	DOE	E-90
13-1213-02	Suspension and debarment requirements not met	DOE	E-91
13-1213-03	Procedures not adequate to ensure payments are made only for allowable costs	DOE	E-92
13-1213-04	Procedures to ensure compliance with matching requirements need improvement	DOE	E-94
13-1213-05	Charges for project director's salary exceeded allowed amounts	DOE	E-95
TANF Cluster CFDA# 93.558			
13-1111-01	Inadequate controls over required Income and Eligibility Verification System (IEVS) data exchanges	DAFS DHHS	E-67
13-1111-02	Income and Eligibility Verification System procedures need improvement	DHHS	E-70
13-1111-04	Controls over performance reporting need improvement	DHHS	E-73
Foster Care Title IV-E CFDA# 93.658			
13-1109-01	Payroll Costs not properly documented	DAFS	E-65
Children's Health Insurance Program CFDA 93.767			
13-0906-02	MaineCare fiscal agent did not submit an action plan to correct SSAE 16 internal control findings related to information technology	DHHS	E-29
13-1111-01	Inadequate controls over required Income and Eligibility Verification System (IEVS) data exchanges	DAFS DHHS	E-67
13-1111-02	Income and Eligibility Verification System procedures need improvement	DHHS	E-70
13-1106-03	The Decision Support System/Data Warehouse is not reconciled to the Statewide accounting system	DHHS	E-35
13-1106-05	Reversed pharmacy claims payments not recovered	DHHS	E-40
13-1106-06	Access controls over Maine Integrated Health Management Solutions (MIHMS) need improvement	DHHS	E-41
13-1106-11	Independent auditor's report on fiscal agent's internal control over information technology is inadequate	DHHS	E-49
Children's Health Insurance Program continued on next page			

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Program / Finding #	Brief Summary of Finding	State Dept	Page
Children's Health Insurance Program continued from previous page			
13-1106-16	Procedures to ensure accurate financial reporting need improvement	DAFS	E-56
13-1106-19	Controls in place to detect and correct known MIHMS payment processing errors do not ensure appropriate resolution	DHHS DAFS	E-59
13-1140-02	Federal cash management procedures need improvement	DAFS	E-78
13-1140-03	Controls over pharmacy claims processing system need improvement	DHHS	E-79
13-1140-04	Internal controls were not adequate to ensure the transfer of accurate client eligibility information from ACES to MIHMS	DHHS	E-80
Medicaid Cluster CFDA# 93.720, 93.775, 93.777, 93.778			
13-0906-02	MaineCare fiscal agent did not submit an action plan to correct SSAE 16 internal control findings related to information technology	DHHS	E-29
13-1106-01	Procedures to ensure that an individual client's "cost of care" is properly computed need improvement	DAFS DHHS	E-30
13-1106-02	Controls to ensure "cost of care" amounts are properly deducted from nursing home and private non-medical institution provider payments need improvement	DAFS DHHS	E-33
13-1106-03	The Decision Support System/Data Warehouse is not reconciled to the Statewide accounting system	DHHS	E-35
13-1106-04	Surveillance activities performed by the Program Integrity Unit to monitor MaineCare expenditures are inadequate	DHHS	E-37
13-1106-05	Reversed pharmacy claims payments not recovered	DHHS	E-40
13-1106-06	Access controls over Maine Integrated Health Management Solutions (MIHMS) need improvement	DHHS	E-41
13-1106-07	Federal Share of adjustments reported incorrectly	DAFS DHHS	E-43
13-1106-08	Procedures related to uncashed checks need improvement	DAFS	E-44
13-1106-09	Provider eligibility procedures need improvement	DHHS	E-46
13-1106-10	Automated Data Processing (ADP) risk analysis and system security reviews were not performed	DAFS DHHS	E-47
13-1106-11	Independent auditor's report on fiscal agent's internal control over information technology is inadequate	DHHS	E-49
13-1106-12	Controls are not adequate to ensure "cost of care" receivables due from private non-medical institutions (PNMI) are properly accounted for and recovered	DAFS DHHS	E-51
Medicaid Cluster continued on next page			

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Legend of State Agency Abbreviations:

DAFS Department of Administrative and Financial Services
DECD Department of Economic and Community Development
DHHS Department of Health and Human Services
DOE Department of Education
DOL Department of Labor
DOT Department of Transportation
EXEC Executive Department

INDEX TO FEDERAL FINDINGS
BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Administrative and Financial Services																
13-1106-01	Medicaid Cluster	✓	✓													E-30
13-1106-02	Medicaid Cluster	✓	✓													E-33
13-1106-07	Medicaid Cluster	✓	✓										✓			E-43
13-1106-08	Medicaid Cluster		✓													E-44
13-1106-10	Medicaid Cluster														✓	E-47
13-1106-12	Medicaid Cluster	✓	✓										✓			E-51
13-1106-16	Multiple Programs	✓	✓										✓			E-56
13-1106-17	Medicaid Cluster		✓													E-58
13-1106-19	Multiple Programs	✓	✓													E-59
13-1108-01	SNAP Cluster			✓												E-63
13-1109-01	Foster Care Title IV-E		✓													E-65
13-1111-01	Multiple Programs														✓	E-67
13-1113-01	Special Supplemental Nutrition Program for Women, Infants and Children												✓			E-75
13-1113-03	Special Supplemental Nutrition Program for Women, Infants and Children													✓		E-76
13-1140-02	Children's Health Insurance Program			✓												E-78
Department of Education																
13-1200-01	Multiple Programs			✓												E-83
13-1200-02	Multiple Programs												✓			E-84
13-1201-01	Special Education Cluster (IDEA)							✓								E-86
13-1203-01	Child Nutrition Cluster												✓			E-88

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Department of Education continued from previous page																
13-1213-01	Statewide Data Systems Cluster		✓													E-90
13-1213-02	Statewide Data Systems Cluster									✓						E-91
13-1213-03	Statewide Data Systems Cluster	✓	✓													E-92
13-1213-04	Statewide Data Systems Cluster							✓								E-94
13-1213-05	Statewide Data Systems Cluster	✓	✓													E-95
13-1221-01	Multiple Programs													✓		E-97
Department of Health and Human Services																
13-0906-02	Multiple Programs														✓	E-29
13-1106-01	Medicaid Cluster	✓	✓													E-30
13-1106-02	Medicaid Cluster	✓	✓													E-33
13-1106-03	Multiple Programs	✓	✓													E-35
13-1106-04	Medicaid Cluster														✓	E-37
13-1106-05	Multiple Programs	✓	✓													E-40
13-1106-06	Multiple Programs	✓	✓													E-41
13-1106-07	Medicaid Cluster	✓	✓										✓			E-43
13-1106-09	Medicaid Cluster														✓	E-46
13-1106-10	Medicaid Cluster														✓	E-47
13-1106-11	Multiple Programs														✓	E-49
13-1106-12	Medicaid Cluster	✓	✓										✓			E-51
13-1106-13	Medicaid Cluster														✓	E-53
13-1106-14	Medicaid Cluster														✓	E-54
13-1106-19	Multiple Programs	✓	✓													E-59
13-1111-01	Multiple Programs														✓	E-67
Department of Health and Human Services continued on next page																

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BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Health and Human Services continued from previous page																
13-1111-02	Multiple Programs														✓	E-70
13-1111-04	TANF Cluster												✓			E-73
13-1140-03	Multiple Programs	✓	✓													E-79
13-1140-04	Multiple Programs					✓										E-80
Department of Economic and Community Development																
13-1505-01	CDBG – State - Administered CDBG Cluster									✓						E-108
13-1505-02	CDBG – State - Administered CDBG Cluster												✓			E-109
Department of Labor																
13-1302-01	Unemployment Insurance					✓										E-99
Department of Transportation																
13-1401-03	Highway Planning and Construction Cluster													✓		E-104
13-1404-01	Surface Transportation – Discretionary Grants for Capital Investment									✓						E-106
Executive Department																
13-1530-01	State Energy Program													✓		E-111


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BY FINDING TYPE

Finding # *	Page	Compliance Area	Finding Type			
			Material Non-compliance	Internal Control		Known / Likely Questioned Costs
				Material Weakness	Significant Deficiency	
13-0906-02	E-29	Special Tests and Provisions			✓	
13-1106-01	E-30	Activities Allowed/Allowable Costs			✓	Undeterminable / Undeterminable
13-1106-02	E-33	Activities Allowed/Allowable Costs			✓	
13-1106-03	E-35	Activities Allowed/Allowable Costs			✓	
13-1106-04	E-37	Special Tests and Provisions			✓	
13-1106-05	E-40	Activities Allowed/Allowable Costs			✓	
13-1106-06	E-41	Activities Allowed/Allowable Costs			✓	
13-1106-07	E-43	Activities Allowed/Allowable Costs/ Reporting			✓	
13-1106-08	E-44	Allowable Costs			✓	$176,444 / $176,444
13-1106-09	E-46	Special Tests and Provisions			✓	
13-1106-10	E-47	Special Tests and Provisions			✓	
13-1106-11	E-49	Special Tests and Provisions			✓	
13-1106-12	E-51	Activities Allowed/Allowable Costs/ Reporting			✓	
13-1106-13	E-53	Special Tests and Provisions			✓	
13-1106-14	E-54	Special Tests and Provisions			✓	

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

INDEX TO FEDERAL FINDINGS IN FINDING NUMBER ORDER BY FINDING TYPE

Finding # *	Page	Compliance Area	Finding Type			
			Material Non-compliance	Internal Control		Questioned Costs
				Material Weakness	Significant Deficiency	
13-1106-16	E-56	Activities Allowed/Allowable Costs/ Reporting			✓	$1,243,049 / $1,243,049
13-1106-17	E-58	Allowable Costs			✓	Undeterminable / Undeterminable
13-1106-19	E-59	Activities Allowed/Allowable Costs			✓	$1,277 / $27,800,000
13-1108-01	E-63	Cash Management			✓	
13-1109-01	E-65	Allowable Costs			✓	
13-1111-01	E-67	Special Tests and Provisions			✓	
13-1111-02	E-70	Special Tests and Provisions			✓	
13-1111-04	E-73	Reporting			✓	
13-1113-01	E-75	Reporting			✓	
13-1113-03	E-76	Subrecipient Monitoring			✓	
13-1140-02	E-78	Cash Management			✓	
13-1140-03	E-79	Activities Allowed/Allowable Costs			✓	
13-1140-04	E-80	Eligibility			✓	$16 / $403,000
13-1200-01	E-83	Cash Management			✓	
13-1200-02	E-84	Reporting			✓	
13-1201-01	E-86	Matching, Level of Effort, Earmarking			✓	
13-1203-01	E-88	Reporting			✓	
13-1213-01	E-90	Allowable Costs			✓	
13-1213-02	E-91	Procurement, suspension, and debarment			✓	
13-1213-03	E-92	Activities Allowed/Allowable Costs			✓	

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

INDEX TO FEDERAL FINDINGS IN FINDING NUMBER ORDER BY FINDING TYPE

Finding # *	Page	Compliance Area	Finding Type			
			Material Non-compliance	Internal Control		Questioned Costs
				Material Weakness	Significant Deficiency	
13-1213-04	E-94	Matching, Level of Effort, Earmarking			✓	
13-1213-05	E-95	Allowable Costs	✓	✓		$154,940 / $154,940
13-1221-01	E-97	Subrecipient Monitoring			✓	
13-1302-01	E-99	Eligibility	✓	✓		Undeterminable / Undeterminable
13-1401-03	E-104	Subrecipient Monitoring			✓	
13-1404-01	E-106	Procurement, suspension, and debarment			✓	
13-1505-01	E-108	Procurement, suspension, and debarment			✓	
13-1505-02	E-109	Reporting			✓	
13-1530-01	E-111	Subrecipient Monitoring			✓	

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

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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


DIRIGO
MAINE

MEDICAID CLUSTER

(13-0906-02)

Title: MaineCare Fiscal agent did not submit an action plan to correct Statement on Standards for Attestation Engagements (SSAE) 16 internal control findings related to information technology.

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

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
Children's Health Insurance Program (CHIP)
CFDA #: 93.720, 93.775, 93.777, 93.778, 93.767
Federal Award #: 05-1205ME5MAP, 05-1305ME5MAP,
05-1205ME5021, 05-1305ME5021

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: Control Objectives for Information and Related Technology (COBIT) AP010.05 (Monitor supplier performance and compliance); Contract with MaineCare Fiscal Agent, Security Specification Document, p. 6

Condition: The Fiscal agent did not provide corrective action plans for the five internal control deviations identified in its SSAE 16 examination. An SSAE 16 report refers to Statements on Standards for Attestation Engagements (SSAE) No. 16 promulgated by the American Institute of Certified Public Accountants.

Context: Maine citizens receive approximately $2.5 billion per year in Medicaid and CHIP benefits. The State has contracted with a fiscal agent to process and manage the associated claims and to provide administrative services related to information technology. Included in the contract is the provision that the fiscal agent engage an independent auditor to perform a SSAE 16 engagement.

Cause: The Fiscal agent did not address the deficiencies identified by the independent auditor.

Effect: An inadequate system of checks and balances over information technology can potentially result in the breach of confidential information, corrupted or lost information, downtime, extended shutdowns, fraud and a shorter lifespan for the system overall.

Recommendation: We recommend that the Fiscal agent provide the Department a written annual corrective action plan, as appropriate, along with the SSAE 16 auditor's report.

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

The Department will require the Fiscal Agent to provide a copy of its independent SSAE 16 auditor's report by June 30, 2014. In addition, the Fiscal Agent will provide a written annual corrective action plan for all deficiencies identified in the report.

The Office of MaineCare Services will monitor the corrective action plan for implementation.

Contact: *Roger Bondeson, Director of Operations, OMS, 287-2705*

(13-1106-01)

Title: Procedures to ensure that an individual client's "cost of care" is properly computed need improvement

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Office of Information Technology
Office for Family Independence (OFI)
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA#: 93.778
Federal Award #: 05-1205ME5MAP, 05-1305ME5MAP

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles

Type of Finding: Significant deficiency
Questioned costs

MEDICAID CLUSTER

Questioned Costs:

Questioned Costs	Total	Federal	State
Known	Undeterminable		
Likely	Undeterminable		

Criteria: 2 CFR 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, Attachment A); Post-eligibility treatment of income of institutionalized individuals in Supplemental Security Income (SSI) states: application of patient income to the cost of care (42 CFR 435.725); MaineCare Eligibility Manual, Parts 12, 14; MaineCare Benefits Manual, chapter II, section 67, 96, 97 and chapter III, section 67, 96 and 97.

Condition: The Department's controls to ensure "cost of care" is properly computed need improvement. The Automated Client Eligibility System (ACES) incorrectly computed individual clients' "cost of care" because known system errors caused income/expense information to be incorrect or missing for twelve of the sixty random "cost of care" assessments tested, as follows:

- Ten instances – ACES failed to include State Supplement payments as income
- Two instances – ACES miscalculated spousal income allocation

Despite a 20% occurrence rate, no questioned costs are calculated because the dollar value of these errors offset each other.

Another system related problem was that ACES did not update annual Supplemental Security Income (SSI) income from the State Verification and Eligibility System (SVES) since 2009 for one of these twelve cases and to properly identify it on the SVES discrepancy report for resolution.

In response, the Department established manual workarounds or "fixes" as compensating controls to address these known system design problems in automatically assessing "cost of care" for client cases. Test results indicated that OFI staff did not correctly apply manual fixes to detect system errors for nine of the thirteen system errors, as follows:

- Three instances – did not correctly compute or apply manual fixes to add back State Supplement payments as income
- Six instances – did not detect system error and apply manual fix to client records

Context: Both Federal and State long term care (LTC) clients are responsible for paying a portion of the cost of their care. The client's share of the cost is known as "cost of care".

Cause:

- Known system errors which occur consistently as ACES computes these costs remain uncorrected. System issues observed in our testing included:
  - SSI recipients: failure to count State Supplement pay ($10 to $234 per month) as income
  - Nursing home (NH) residents: miscalculation of spousal income allocation
  - SSI recipients: not consistently updating all SSI income amounts from SVES

    - SSI recipients: failure to report all instances of SVES failure on the SVES discrepancy report
    - NH residents: Spousal income allocation is incorrect by $33 to $37
- OFI staff did not detect errors and/or correctly apply manual fixes to ACES records.

Effect: Potential provider overpayments that result in the loss of State and Federal resources.

Recommendation: We recommend that the Department:

- Increase efforts to remediate unresolved system problems that occur when ACES automatically computes "cost of care" amounts for clients living in NH and private non-medical institutions; and
- Improve the continuous review processes in place by providing additional training and guidance to OFI personnel who resolve improperly computed and recorded cost of care related records for LTC residents.

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

Instances of incorrect cost of care calculations due to ACES failing to count State Supplement payments and miscalculating spousal income allocations are known system errors.

- *Cost of care system errors have been identified and the Department is currently working with technology staff to correct the following issues:*
    - *ACES failing to include State Supplement payments for all individuals as income in the cost of care calculation.*
        - *An update to our ACES system was made on December 2, 2013 to address State Supplement income being incorrectly counted in cost of care calculations for individuals who only receive SSI income and reside in certain long term care facilities. This corrected a portion of the system errors related to State Supplement payments.*
    - *ACES incorrectly calculating the spousal income allocation.*
- *These projects are anticipated to be completed in August/September 2014.*

The instance of annual Supplement Security Income (SSI) not being updated has been confirmed to be an isolated case.

Due to recent high turnover in long term care eligibility units, additional training and guidance is warranted and will be provided to eligibility specialists and LTC supervisors.

- *Written guidance on how to identify cases where known system design problems may result in an incorrect cost of care determination will be provided to LTC supervisors for training purposes. This guidance, which will be created by the MaineCare Program Manager and provided by May 1, 2014 will include:*
    - *Key indicators.*
    - *Workaround steps for correcting the cost of care.*
    - *Workaround steps for correcting spousal income allocations.*
- *A monthly report will be generated by OFI-MIS for LTC cases with State supplement income and spousal income allocations. The report will be available in May 2014.*
    - *From this report a sample of 5-10 cases will be reviewed LTC supervisors to ensure accuracy.*

- *As a result of these case readings, additional training or guidance will be provided on an individual or group basis if warranted.*
- *Monthly results will be shared with the MaineCare program manager.*

- *These steps will be taken until system fixes are in place and there is a high level of confidence that computer generated cost of care and spousal income allocations are correct.*

Contact: *Lea Kendall, MaineCare Program Manager, OFI, 624-4106*

(13-1106-02)

Title: Controls to ensure "cost of care" amounts are properly deducted from nursing home and private non-medical institution provider payments need improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1106-12	11-1106-14	10-1106-10				

State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Health and Human Services Service Center
Office for MaineCare Services (OMS)
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.778
Federal Award #: 05-1205ME5MAP; 05-1305ME5MAP

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles

Type of Finding: Significant deficiency
Questioned costs

Questioned Costs:

Questioned Costs	Total	Federal	State
Known	Any Questioned Costs from this finding are included as part of a finding from FY2013 Paid Claims testing on 13-1106-19		
Likely			

Criteria: 2 CFR Part 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, Attachment A); Post-eligibility treatment of income of institutionalized individuals in Supplemental Security Income (SSI) states: application of patient income to the cost of care (42 CFR 435.725); MaineCare Eligibility Manual, Parts 12,14; MaineCare Benefits Manual, Part 12 and 14

Condition: Controls in place to ensure "cost of care" is properly deducted prior to paying nursing home (NH) and private non-medical institution (PNMI) claims need improvement. In a test of sixty claims paid to long term care (LTC) facility providers, "cost of care" was not properly deducted from twenty-nine payments (about 48%) of the claims tested.

- Five (8%) – were for NH claims
- Twenty-four (40%) – were for PNMI claims

Context: Both Federal and State long term care assistance recipients may be responsible for paying a portion of their "cost of care". Certain residents with assets or income over the limit allowed for Medicaid participation pay providers a specific agreed-upon amount toward their monthly stay in a LTC facility. LTC providers expect payments they receive from the State to have been reduced by the agreed-upon amount. Not deducting the entire amount results in the State's overpayment to these providers.

Cause: We found that key factors contributing to claim processing errors in the Maine Integrated Health Management Solution (MIHMS) system include:

- MIHMS system edits were not set to pend or deny claims when they are submitted by a NH or PNMI facility provider in a certain way that we are intentionally not disclosing to protect Department resources.
- Insufficient controls have been established by the Department to automatically detect and re-open claims for retroactive "cost of care" or other eligibility changes.

Also, the assignment of State personnel to regularly generate and review exception reports or to use other tools that can detect the need for retroactive eligibility or "cost of care" assessments or to force resolution of such claims previously paid in error was found to be inadequate.

Effect: The lack of edits in place to detect, deny, pend or re-open claims for manual review or adjustment increases the risk of error, overpayment or fraud and does not force resolution by the Department. In addition, potential improper crediting of the Federal share of "cost of care" recoupments may result in current and future disallowances.

Recommendation: We recommend that OMS make system corrections and continue to implement additional controls that would allow "cost of care" amounts to be properly deducted from monthly NH and PNMI payments. We further recommend that OMS direct the Fiscal agent to activate system edits that will cause claims to pend, deny or re-open for manual review prior to paying LTC providers. This will allow for more offsets against future claims. We also recommend that OMS assign more personnel to generate and review exception reports or use other tools to detect and track errors allow for error resolution.

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

Corrective Action:
<u>MIHMS system edits</u> have been tightened to reduce the possibility of claims being overpaid.
These include:
Requiring claims with an inpatient indicator to have an admission date (TR29179) was released into production on 12/11/13.
Requiring the claims system to deduct cost of care from all service lines on the claim (TR36287) was released into production on 1/29/14.
Requiring claims for a full month (based on patient status code) to have from/to dates that span the entire month: CR was generated in February 2014.

*Providers were informed of the change in the way cost of care would be deducted in a provider listserv on 1/31/14. They were given the options of contacting the Department to set up a payment plan for outstanding overpayments or having the Department offset the overpayments over the balance of the year. Many providers have contacted the Department to pay their outstanding overpayments. This change will also **reduce or eliminate** overpayments in the future.*
Status: Complete

<u>External review of claims</u> has been extended to PNMIs. This review, being done on 100% of nursing home visits by HMS, was extended to PNMIs effective for service dates on or after 2/1/14. HMS had reviewed both NFs and PNMIs prior to the conversion to the MIHMS system on 9/1/10.
Status: Complete

<u>Internal</u> <u>reconciliation of provider repayments:</u> The Department is currently holding weekly meetings with Department of Administrative and Financial Services (DAFS) staff to review and reconcile manual repayments. A formal system for reconciling these repayments will be put into place by 6/30/14.

***Contact:** Beth Ketch, Director of Customer Service, OMS, 287-4078*

(13-1106-03)

Title: The Decision Support System/Data Warehouse is not reconciled to the Statewide accounting system

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1106-11	11-1106-11					

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
Children's Health Insurance Program (CHIP)
CFDA #: 93.778, 93.767

MEDICAID CLUSTER

Federal Award #: 05-1205ME5MAP, 05-1305ME5MAP,
05-1205ME5021, 05-1305ME5021

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 2 CFR 225, Appendix A, Section C(1)(j) Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87) requiring that costs be adequately documented

Condition: The Department did not have procedures in place to routinely reconcile the Decision Support System/Data Warehouse (DSS/DW) to the Statewide accounting system. In addition, the DHHS Finance Unit was not able to provide the support necessary to reconcile the DSS/DW to the Statewide accounting system for fiscal year 2013. Paid claims stored in the DSS/DW are not readily reconcilable to the Statewide accounting system with the data elements currently available.

Context: The Maine Integrated Health Management Solution (MIHMS) system processes Medicaid and CHIP claims totaling approximately $2.5 billion per year. It is a high risk and complex information system that connects various commercial-off-the-shelf software. MIHMS claim payment data is stored in the DSS/DW.

Cause: State personnel have not developed an understanding regarding how to reconcile the DSS/DW to the Statewide accounting system.

Effect: Incomplete or inaccurate financial data in the DSS/DW could potentially lead to administrative inefficiencies, incorrect decision-making, incorrect financial reporting or budgeting, and posting of adjusting journals that are incorrect.

Recommendation: We recommend that the Department work with its fiscal agent to develop a method that will facilitate a reconciliation of claim payments to the Statewide accounting system as well as provide a readily accessible audit trail of claims.

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

We have done an analysis and found that we can quickly account for about 99.95% of the claims from AdvantageME in the DSS. We are tracking the difference and identifying the causes. Once we identify the differences, manually, we plan to automate the process. The plan will be for *monthly reconciliation to verify the data in the DSS matches the data in GQL. The reconciliations should be in place by October 2014.*

Contact: *Luke Lazure, MaineCare Financial Manager, OMS, 624-4027*

(13-1106-04)

Title: Surveillance activities performed by the Program Integrity Unit to monitor Medicaid expenditures are inadequate

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Health and Human Services
State Bureau: Division of Audit, Program Integrity Unit
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.778
Federal Award #: 05-1205ME5MAP, 05-1305ME5MAP

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: State policy and procedures; State Medicaid Manual (SMM), Part 11 - 11300 General Requirements, 11310 MMIS Functional Requirements (six core subsystems), 11335 Surveillance and Utilization Review Subsystem (SURS); Title 42 US Code 1396 (b)(2), Medicaid Management Information System (MMIS) functionality requirements for SURS; Certification Checklists used by the Centers for Medicare and Medicaid Services for approval of the MMIS (MIHMS)

Condition: Surveillance activities performed to monitor Medicaid expenditures are inadequate because the Program Integrity Unit rarely uses the Report Generator as part of the Federally approved J-SURS module. Other J-SURS tools and procedures are an inadequate substitute for frequent use of Report Generator, which was specifically designed to perform the most essential surveillance activities (large scale data mining, analytics and exception reporting) in accordance with Federal requirements.

The J-SURS Report Generator should be used continuously to detect anomalies and focus reviews on Medicaid provider and recipient claim profile data in aggregate with their peer groups. Instead, new cases are predominantly selected in a non-systematic manner to determine whether a problem can be identified. This lack of systematic analysis results in a narrow field of surveillance activity.

Context: In 2013, over thirty million claims totaling $2.5 billion were paid to providers. For this reason, CMS approved the Maine Integrated Health Management Solution (MIHMS) system contingent upon the Program Integrity Unit's utilization of J-SURS, including the use of the Report Generator tool.

Cause:
- Sole reliance on one individual for surveillance activities using J-SURS software
- Management has not assigned adequate time and resources for other program integrity staff to develop Report Generator expertise

Effect:
- Increased risk that unintentional errors, or fraud, waste and abuse will remain undetected
- Potential disallowance of Federal funds

Recommendation: We recommend that the Department take steps to ensure that the Program Integrity Unit personnel perform surveillance activities using all Report Generator functionality as part of their regular routine. This will more fully aid in the timely detection of potential fraud, waste, and abuse.

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

The Division of Audit's Program Integrity Unit (PI) agrees that in 2013 Report Generator (RG) was not used consistently or continuously to detect anomalies in the claims data. However, PI disagrees that RG is the only tool that could be used in 2013 to develop algorithms for the purpose of large scale data mining, analytics, and exception reporting.

PI acknowledges the limitations of the RG tool which includes the inability to export the results for further analysis. The other tools used in PI include TopN and Advanced Drilldown. The TopN and Advanced Drilldown tools offer exporting capabilities which allow for additional analyses to include peer-to-peer reviews, exception reporting and aggregation by codes, providers, members or services.

In October, 2013, the PI Data Team developed and implemented a Peer-to-Peer Analysis Tool to identify provider outlier activity based on scoring metrics that identify billing anomalies, over and under-utilization, and excessive payments. This tool imports <u>all claims data</u>, and is routinely updated with the latest claims data. It aggregates by provider specialty, performs many calculations based on the scoring metrics, reports the individual provider scores and ranks each provider. This tool has proven to be flexible in terms of setting the scoring metrics, selecting provider specialty and readily identifies billing activities that are suspicious of fraud, waste and abuse. Because it contains all claims data, it is designed to perform the most essential surveillance activities in accordance with Federal requirements with a better end result product *than the end product of the RG. PI believes the deficiency cited, along with any risk to the Department, has been eliminated.*

By the end of CY2014, the PI Data team will have reviewed all provider specialties for outlier activities, and have developed additional uses for the tool as it may pertain to member activity and provider/service/specialty trending.

We believe this tool, with all of its capabilities, meets the requirements of 42 CFR §456.3 and §456.23.

***Contact:** Eva Stewart, Comprehensive Health Planner II - Program Integrity, DOA, 287-6330*

Auditor's concluding remarks: During the fiscal year under audit DHHS fell short of making full use of the surveillance functions included in the $205 million computer system the agency uses to manage payments made for MaineCare, the State Medicaid program. The most valuable of the three tools, Report Generator, is not being utilized for the most essential surveillance activities (large scale data mining, data analysis; and continuous exception processing) on a regular basis, if at all. Adequate surveillance is important to ensure that State and Federal dollars for MaineCare are not being put at risk.

We found that the PI Unit is not using the Federally approved J-SURS surveillance module in MIHMS as intended and does not have adequate compensating procedures in place. While three separate tools exist within the module: Report Generator, Advanced DrillDown and Top-N, J-SURS was originally designed (and approved by CMS) with only two tools: Advanced DrillDown for quick ad-hoc reviews and Report Generator, which has dynamic capabilities that allow for continuous claim review at a broad, narrow, deep or on the surface level.

Report Generator is the power behind J-SURS. It was designed for continuous large scale data mining, analysis and exception processing of provider and recipient profile claim databases in aggregate with their peer groups. It also allows users to detect payment anomalies by running and building upon variations of data element groups, including Episodes of Care definitions that identify providers and recipients meeting certain sets of (time and trigger event) conditions that may have taken place among MaineCare payments.

We found use of the two other J-SURS tools, Advanced Drilldown and Top-N, in place of Report Generator functionality to be inadequate for many reasons, including:

- Neither tool was designed with the dynamic capabilities (pre-programmed/automated criteria can be easily changed) that are possible with Report Generator. Instead, query sets must be re-created with multiple passes of the data – every time (a process we found to be more prone to error, and resulting in unnecessary and excessive time lags), rather than being designed with "automated: set it and forget it" or "ad-hoc: easy to edit" features of Report Generator.
- Cutting and pasting of claim data results from J-SURS is restricted to 65,000 claims or rows of data at a time (J-SURS was never upgraded beyond Excel 2007 capabilities), rather than being able to capture all claims for review with Report Generator. This severely limits surveillance activities, for many reasons – mostly because it causes the focus of surveillance work to become more and more, narrow.

- Exporting *.csv claim data from J-SURS to another location (ACCESS or EXCEL) for review takes too long – we observed, about 32 minutes for 150,000 claim records.
- Unable to open or edit report query logic prior to running the data
- Unable to reschedule query logic prior to running the data
- Use of Top-N is particularly problematic because any and all users (including many Truven support staff) are only able to run one job at a time in the queue. Since they are becoming reliant on Top-N, we observed that this causes alarming delays for PI productivity.

Report Generator limitations: The learning curve required for personnel to attain the proper level of proficiency for comfortable use of Report Generator is somewhat lengthy and arduous. However, Department management plays a key role in making the use of this tool become more familiar to users and expected for surveillance activities.

Our finding remains as stated.

(13-1106-05)

Title: Reversed pharmacy claims payments not recovered

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-0909-01						

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
Children's Health Insurance Program (CHIP)
CFDA #: 93.778, 93.767
Federal Award #: 05-1205ME5MAP, 05-1305ME5MAP,
05-1205ME5021, 05-1305ME5021

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known	See condition section below		
Likely			

Criteria: 2 CFR Part 225, Appendix A, Section C(1)(j) Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87) requiring that costs be net of all applicable credits

Condition: Credits for a limited number of reversed pharmacy claims payments were not applied to claims payment cycles. To date, the Department has not recovered any of the amounts identified. We are not questioning costs as the total amount to be recovered has not changed and costs were questioned in the prior year.

Context: This issue is limited to reversed pharmacy claims where the associated original claims were paid via the Maine Point of Purchase System (MEPOPS) external interface feed to the State's accounting system prior to the implementation of the Maine Integrated Health Management Solution (MIHMS) in September 2010. The issue does not affect pharmacy claims and associated reversals for claims processed in MIHMS.

Cause: The MIHMS system was not capable of processing the reversed pharmacy claims without a reference to an original claim that exists in MIHMS.

Effect: Pharmacy providers were overpaid and subsequent payments were not reduced by the amount of the reversed claims.

Recommendation: We recommend that the Department continue efforts to recover the overpayments.

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

Goold Health Systems (GHS) has sent a reconciled list of claims that are affected by this finding to the DHHS Service Center Accounts Receivable group. In November 2013, Accounts Receivable created receivables in MIHMS for all of the claims sent by GHS; the vast majority (94.4%) of which have already been recouped.

Contact: *Natalie Bragan, Managing Staff Accountant, DHHSSC, 287-3161*
Donna Wheeler, Financial Analyst, DHHSSC, 287-1860

(13-1106-06)

Title: Access controls over Maine Integrated Health Management Solution (MIHMS) need improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1106-10	11-0906-02					

State Department: Health and Human Services
State Bureau: Office of MaineCare Services

MEDICAID CLUSTER

Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.778, 93.767
Federal Award #: 05-1205ME5MAP, 05-1305ME5MAP,
05-1205ME5021, 05-1305ME5021

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 45 CFR 164, Paragraph 308 HIPAA; State of Maine Information Technology Security Policy, Section 9

Condition: Access controls over MIHMS should be improved. We are not disclosing specific issues in this report as public disclosure would further compromise security. We have notified appropriate personnel regarding the specific security issues.

Context: The MIHMS system processes Medicaid and CHIP claims totaling approximately $2.5 billion per year. It is a high risk and complex information system which connects various commercial off-the-shelf software.

Cause: Competing priorities

Effect: Lack of proper control could potentially lead to fraud, abuse, disclosure of protected health information, or other unintentional errors.

Recommendation: We recommend that the Department continue to work with the Fiscal agent to improve access controls within the MIHMS system.

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

The Department has worked with the Fiscal Agent throughout the past calendar year to review access controls by job function and make the appropriate changes. We anticipate that this review will be complete and all updates made by March 31, 2014.

Contact: *Roger Bondeson, Director of Operations, MaineCare Services, 287-2705*

MEDICAID CLUSTER

(13-1106-07)

Title: Federal share of adjustments reported incorrectly

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1106-17	11-1106-02	10-1106-02				

State Department: Administration and Financial Services
Health and Human Services
State Bureau: Health and Human Services Service Center
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.778
Federal Award #: 05-1205ME5MAP, 05-1305ME5MAP

Compliance Area: Activities allowed or unallowed
Allowable costs/Cost principles
Reporting

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: State Medicaid Manual (Chapter 2, Section 2500.2(D)); 2 CFR Part 225, Appendix A, Section C(1) Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87) requiring that costs be necessary and reasonable.

Condition: The Department's claims adjustment methodology was not consistent with the Centers for Medicare and Medicaid Services' (CMS) interpretation of Federal regulations. Incorrect Federal Medical Assistance Percentages (FMAPs) were used in calculating the adjustments. The Medicaid claims system was not designed to process claims in accordance with Section 2500.2 of the State Medicaid Manual, resulting in inaccurate Federal reporting.

Context: On the State fiscal year 2013 CMS-64 reports, claims adjusted for a prior period were incorrectly reported at the current FMAP rate as current period expenditures, resulting in current period expenditures being over reported and prior period expenditures being under reported. For the quarter ending June 30, 2013 CMS-64 report, the Department attempted to report prior period claims adjustments back to the quarter ending December 31, 2010; however, CMS would not allow the Department to report any prior period adjustments that were earlier than the prior eight quarters.

Cause: Maine's Medicaid claims system was not designed to comply with CMS' interpretation of the Federal regulations related to claims adjustments.

Effect:
- Inaccurate Federal financial reports
- Noncompliance with Federal regulations

Recommendation: We recommend that the Department continue efforts to ensure claims transactions are processed and reported in compliance with CMS' interpretation of the Federal regulations.

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

The Department will continue to work with CMS, in an effort to establish an agreed upon process surrounding how best to correct and report these claims adjustments, with respect to the interpretation of Federal Regulations. The Department would prefer to process claims correction as one net transaction, without deference to time limitations. More specifically, if a claim needs to be reversed and reposted (to correct an erroneous FMAP split, for example), then both the reversal and the reposting should be viewed as one net, correcting transaction. It is the Department's position that the current interpretation/application of the Federal regulation, is inconsistent with the methodology established by the Office of the Inspector General's audit (A-01-12-00001).

Contact: *Jason Grundy, MaineCare Accounting Manager, DHHSSC, (207) 287-5917*

(13-1106-08)

Title: Procedures relating to uncashed checks need improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1106-07	11-1106-03	10-1106-12				

State Department: Administration and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.778
Federal Award #: 05-1205ME5MAP, 05-1305ME5MAP

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant deficiency
Questioned costs

Questioned Costs:

Questioned Costs	Total	Federal	State
Known	$176,444	$176,444	None
Likely	$176,444	$176,444	None

Criteria: 42 CFR 433.40(c) Treatment of uncashed or canceled (voided) Medicaid checks; 2 CFR 225, Appendix A, C (1) 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 checks uncashed beyond 180 days from issuance on the next quarterly Centers for Medicare and Medicaid Services (CMS) Quarterly Expense Report, CMS-64.

Context: The Department identifies checks that remain uncashed beyond 180 days from issuance on an annual basis. The related adjustment on the CMS-64 report may not be posted for another five quarters.

Cause: No process has been established that would provide the information needed to report on the quarterly CMS-64 report.

Effect:

- Potential current and future disallowances
- Inaccurate Federal financial reports
- Noncompliance with Federal regulations

Recommendation: We recommend that the Department establish procedures to enable crediting the Federal government on a quarterly basis for the proportionate share of checks uncashed beyond 180 days from issuance.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree that we are not in compliance with Federal regulations mandating that we return the Federal portion of uncashed checks within 180 days from issuance. However, we did establish a process by which to return these proceeds, each quarter.*

In collaboration with the Office of the State Treasurer and the Office of the State Controller, DHHS has established a process to identify uncashed checks on a quarterly basis and return the Federal portion of the uncashed amount, to the Federal Government. The Federal CMS financial contact has been notified of DHHS' plan to return funds related to uncashed checks on a quarterly basis. This process will commence during the 3/31/2014 Federal filing process.

Contact: *Jason Grundy, MaineCare Accounting Manager. DHHSSC, 287-5917*

MEDICAID CLUSTER

(13-1106-09)

Title: Provider eligibility procedures need improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1106-14	11-1106-12	10-1106-11	09-1106-08			

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 #: 93.777, 93.778
Federal Award #: 05-1205ME5MAP, 05-1305ME5MAP, 05-1205ME5000, 05-1305ME5000, 05-1205ME5001, 05-1305ME5001, 05-1305ME5002

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 42 CFR 431.107(b)(4) Advance Directives; 42 CFR 455.105(b) Business Transactions

Condition: The Office of MaineCare Services does not have controls in place to ensure that provider agreements contain all required provisions. Provider agreements do not include a provision that the provider agrees to comply with advance directive requirements. In addition, the agreements do not include provisions to ensure the disclosure of information related to certain types of business transactions.

Context: All providers were re-enrolled as part of the implementation of the Maine Integrated Health Management Solution (MIHMS) system on September 1, 2010 operated by a fiscal agent.

Cause: Competing priorities

Effect:
- Potentially ineligible providers being allowed to participate in the program
- Potential questioned costs and disallowances
- Noncompliance with required provider documentation requirements

Recommendation: We recommend that the Department modify provider enrollment forms and provider agreements to meet the advance directive and business transaction requirements.

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

The required changes to the provider enrollment documents were implemented in the Maine Integrated Health Management Solution (MIHMS) system on June 26, 2013 (CR28347). The forms are now being used by all new MaineCare providers. All currently enrolled providers will sign the new forms during the upcoming revalidation process. The current window for this revalidation period is March 2015 – March 2016.

Contact: *Beth Ketch, Director of Customer Service, Office of MaineCare Services, 287-4078*

(13-1106-10)

Title: Automated data processing (ADP) risk analysis and system security reviews were not performed.

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1106-04	ML11-1106-09					

State Department: Administration and Financial Services
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 #: 93.778
Federal Award #: 05-1205ME5MAP, 05-1305ME5MAP

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 45 CFR 95.621 Automated Data Processing (ADP) Reviews

Condition: The required ADP risk analysis of DHHS systems and biennial system security reviews were not performed.

Context: ADP systems process Medicaid claims totaling approximately $2.5 billion per year.

Cause:
- Lack of resources
- Misinterpretation of the ADP risk analysis and security review requirements

Effect:
- Noncompliance with Federal regulations
- Reliance on ADP systems with potential security risks

Recommendation: We recommend that the Department implement policies and procedures to ensure periodic ADP risk analysis of DHHS systems and the required biennial security reviews are performed by personnel who are organizationally independent.

Management's Response/Corrective Action Plan: *Responding for the DHHS applications that have MaineCare data, which include MIHMS, ACES, Data Hub, MACWIS, MAPSIS, EIS, & MECARE. The Office of Information Technology agrees with this finding.*

The Full Corrective Action Plan is as follows:

<u>In Progress:</u>

MIHMS:
- *Security reviews are prepared daily, monthly, quarterly and annually by Molina based on their Security Plan and Security Specification documents. Additional review is done by State Enterprise Security when clarification is needed.*
- *Molina has an annual external Type II audit in accordance with the State of Maine OIT Remote Hosting Policy. All security assessments involving the Maine MIHMS will be promptly shared with the State of Maine DHHS Agency Information Technology Director (AITD) and OIT Security Director.*
- *Molina contracts with Ernst & Young for* SSAE 16 reviews, *but periodically changes independent auditors to verify the efficacy of the reviews. The* SSAE 16 review *assesses the integrity and security of systems, operational processes, and controls. The annual review will include any instructions provided by the State's independent auditor.*
- *Molina will exercise the Disaster Recovery Plan*

For OIT hosted applications, routine infrastructure security testing is performed monthly by OIT to identify vulnerabilities. Application scans are requested at any point in time that the application security mechanism is changed. Security tests are evaluated by the Enterprise Security Office in addition to Applications support staff.

For the other eligibility systems that transmit data to the DataHub and MIHMS, including MAPSIS, MECARE and MACWIS, and EIS (which sends demographic data to use with the eligibility data), all system changes are subject to the change management policy and the deployment certification process and policy. This includes security tests *which check for vulnerabilities; these are remediated when identified. Deployment certification also includes restoration testing any time the architecture changes.*

The Maine Automated Child Welfare Information System (MACWIS) underwent a disaster recovery test on October 10, 2012. Regression testing continued through October 29, 2012. No issues were found. Security tests for MACWIS are performed quarterly for the MACWIS system.

Planned:
For ACES: OIT evaluated the hardware and operating systems supporting the DHHS-ACES application and has determined that applying patches will introduce significant risks to the application and to high profile projects. The ACES servers are 10 years old, past end-of-life, and are out of warranty. The State does maintain a hardware support contract, but due to the age of hardware, it is a "part availability" contract. Meaning, if parts can be found they will be shipped. The preferred risk mitigation strategy is to migrate the ACES application into the Enterprise Oracle 11g Fusion middleware. The joint OIT-DHHS team is currently planning this migration, and it will be completed by August 2014.

For Risk Management, DHHS and OIT are currently undertaking a joint review of all applications which contain PHI against a HIPAA risk assessment checklist, to identify any security risks and to check for compliance with OIT policies. All eligibility applications will be included in this review. The target for completion of the application risk assessment is September 2014.

Contact: *Cindy Hopkins, Information Technology for DHHS Applications, OIT, 592-2191*
Cathy Harrison, Information Technology Director for AdvantageME, OIT, 441 4632

(13-1106-11)

Title: Independent auditor's report on fiscal agent's internal control over information technology is inadequate

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
ML12-1106-06	ML11-0906-04					

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
Children's Health Insurance Program (CHIP)
CFDA #: 93.778, 93.767
Federal Award #: 05-1205ME5MAP, 05-1305ME5MAP,
05-1205ME5021, 05-1305ME5021

MEDICAID CLUSTER

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: Maine Integrated Health Management Solution (MIHMS) Project, Security Specification Document, Version 1.0, page 6 of 79

Condition: The description and testing of controls related to the MaineCare Fiscal agent's contingency plans and emergency preparedness were not included in the independent SSAE 16 report. An SSAE 16 report refers to Statements on Standards for Attestation Engagements (SSAE) No. 16 promulgated by the American Institute of Certified Public Accountants.

Context: The MIHMS system processes Medicaid and CHIP claims totaling approximately $2.5 billion per year. The State has contracted with a fiscal agent to process and manage the associated claims, and to provide administrative services related to information technology. It is the Fiscal agent's responsibility to annually engage a certified public accounting firm to evaluate and test controls that are critical to processing Medicaid and CHIP transactions.

Cause: The fiscal agent was not aware of the proper scope and importance of the examination.

Effect: An inadequate system of checks and balances over information technology can potentially result in the breach of confidential information, corrupted or lost information, down time, extended shutdowns, fraud, and a shorter lifespan for the system overall.

Recommendation: We recommend that the Department enforce provisions in the security specification document requiring that the fiscal agent be the subject of an annual internal control engagement performed by an independent auditor. Also, we believe that five of the forty responses to the independent auditor's findings did not appear to meet professional standards. The Department should review the responses carefully and bring this to the attention of the Fiscal agent.

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

The Fiscal Agent's SSAE-16 report does not appear to be complete. The Department will review deficiencies with the Fiscal Agent and will require that a more complete audit be performed by the independent auditor for FY2013. The report will be expected by 9/30/14.

Contact: *Roger Bondeson, Director of Operations, OMS, 287-2705*

MEDICAID CLUSTER

(13-1106-12)

Title: Controls are not adequate to ensure "cost of care" receivables due from private non-medical institutions (PNMI) are properly accounted for and recovered

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
ML12-1106-16						

State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Health and Human Services Service Center (HHSSC)
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.778
Federal Award #: 05-1205ME5MAP; 05-1305ME5MAP

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles
Reporting

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 2 CFR 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, Attachment A); Post-eligibility treatment of income of institutionalized individuals in Supplemental Security Income (SSI) states: application of patient income to the "cost of care" (42 CFR 435.725); MaineCare Eligibility Manual, Parts 12,14; MaineCare Benefits Manual, Part 12 and 14.

Condition: Procedures to ensure proper accounting and recovery of "cost of care" overpaid to private non-medical institutions (PNMIs) need to be improved. Only some amounts due to the State are recorded in the accounting system. The State's recoupment activities are limited by ineffective recordkeeping, and collection methods and the fact that not all providers cooperate with the State by reimbursing overpayments.

Context: The process used to account for overpayments is time-consuming and untimely. We observed a ten month time lag in computing the receivable balance of $27 million for December

2012. As of June 30, 2013, this receivable balance had increased to $36.4 million, according to the Office of the State Controller.

Causes:
- The Department relies on a single temporary employee to manage, collect and account for the significant balances owed.
- The Department continues to overpay long term care facilities.
- Incomplete recording of receivables.

Effect:
- Excessive time-lag of collection efforts
- Receivable, payment, and offset information provided to the HHSSC is not adequate to ensure that overpayments and collections are properly accounted for and reported on the Centers for Medicare and Medicaid Services (CMS) Quarterly Expense Report, CMS-64.
- Loss of general fund resources
- Possible loss of Federal funds (disallowances)

Recommendation: We recommend that the Department implement procedures that would allow the State to properly manage, collect and account for amounts due from PNMIs. These procedures include:
- Ensure that the efforts are adequately staffed and monitored by upper management
- Provide receivable, payment and offset information to the HHSSC to ensure proper accounting for amounts due from PNMIs

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

The Department has implemented a series of steps to correct the situation. These steps are designed to minimize or eliminate overpayments. Also, we have added two additional staff to work on these processes.

<u>MIHMS system edits</u> have been tightened to reduce the possibility of claims being overpaid.
These include:
Requiring claims with an inpatient indicator to have an admission date (TR29179) was released into production on 12/11/13.
Requiring the claims system to deduct cost of care from all service lines on the claim (TR36287) was released into production on 1/29/14.
Requiring claims for a full month (based on patient status code) to have from/to dates that span the entire month: CR was generated in February 2014.

Providers were informed of the change in the way cost of care would be deducted in a provider listserv on 1/31/14. They were given the options of contacting the Department to set up a payment plan for outstanding overpayments or having the Department offset the overpayments over the balance of the year. Many providers have contacted the Department to pay their outstanding overpayments. This change will also ***reduce or eliminate*** *overpayments in the future.*
Status: Complete

External review of claims has been extended to PNMIs. This review, being done on 100% of nursing home visits by HMS, was extended to PNMIs effective for service dates on or after 2/1/14. HMS had reviewed both NFs and PNMIs prior to the conversion to the MIHMS system on 9/1/10.
Status: Complete

Internal reconciliation of provider repayments: The Department is currently holding weekly meetings with Department of Administrative and Financial Services (DAFS) staff to review and reconcile manual repayments. A formal system for reconciling these repayments will be put into place by 6/30/14.

***Contact:** Beth Ketch, Director of Customer Service, OMS, 287-4078*

(13-1106-13)

Title: Procedures relating to hospital audits need to be improved

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1106-02	11-1106-06	10-1106-04				

State Department: Health and Human Services (DHHS)
State Bureau: Division of Audit
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.778
Award #: 05-1205ME5MAP, 05-1305ME5MAP

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: Chapter 101 MaineCare Benefits Manual (Ch. III, Sec. 45, subsection 45.02); 42 CFR 447.253(g), Payment for Inpatient Hospital and Long-Term Care Facility Services, Other Requirements, Audit Requirements, which states “ The Medicaid agency must provide for periodic audits of the financial and statistical records of participating providers.”

Condition: Controls are inadequate to ensure the timeliness of periodic audit and cost settlement of hospital cost reports by the Department. As of June 30, 2013, DHHS Division of Audit had a three-year backlog of hospital cost settlements that the Department had not yet paid to hospitals.

Context: Medicaid paid approximately $626 million to thirty-nine in-state hospitals during fiscal year 2013. On September 16, 2013, $490 million in cost settlements was paid to hospitals, substantially eliminating the three-year backlog of cost settlements.

Cause: The DHHS Division of Audit did not finalize the required cost settlements with the U.S. Department of Health and Human Services because of a lack of available funding.

Effect: Untimely cost settlements

Recommendation: We recommend that DHHS ensure that audits of hospital cost reports and resulting cost settlements are performed and paid on a timely basis.

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

The Division of Audit does comply with the requirement of periodic audits on hospitals. All cost reports submitted are reviewed for completeness and the estimated settlement is tracked. Once funding has been appropriated to pay for the settlements, the audits are completed and released. As the finding identifies, the Department released $490 million in hospital settlements in September 2013. This brought the hospital settlements current through 2012. The regulation does not define a time period for "periodic" audits. All hospital cost report years are audited when funding is available.

Contact: *Herb Downs, Director, Division of Audit, 287-2778*

Auditor's concluding remarks: It is the position of the Office of the State Auditor that the requirement for periodic audits anticipates the systematic and timely completion of audits, not the accumulation of multiple years of audits that are eventually issued in an untimely manner.

Our finding remains as stated.

(13-1106-14)

Title: Procedures related to nursing facility desk reviews need improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1106-01	11-1106-05	10-1106-03				

State Department: Health and Human Services
State Bureau: Division of Audit
Federal Agency: U.S. Department of Health and Human Services

MEDICAID CLUSTER

CFDA Title: Medicaid Cluster
CFDA #: 93.778
Federal Award #: 05-1205ME5MAP, 05-1305ME5MAP

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: Chapter 101 MaineCare Benefits Manual, Ch. III, Sec. 67, subsection 34.1.3, Review of Cost Reports by the Office of Audit, Uniform Desk Review which states “Uniform desk reviews shall be completed within one-hundred-eighty (180) days after receipt of an acceptable cost report filing, including financial statements and other information requested from the provider except in unusual situations, including but not limited to, delays in obtaining necessary information from a provider.”

Condition: Controls are inadequate to ensure the timely issuance of nursing facility desk reviews. A test of eighteen nursing facility desk reviews issued during fiscal year 2013 revealed that sixteen were not completed within the 180-day time frame after the acceptance of the cost report and/or a request for additional information. The untimeliness of the desk audits ranged from a low of 198 to a high of 643 days.

Context: Medicaid paid $206 million to nursing facilities during fiscal year 2013.

Cause: Lack of staff

Effect: Noncompliance with cost report review requirements included in the principles of reimbursement.

Recommendation: We recommend that the Division of Audit consistently apply established monitoring controls over the nursing facility desk review process in order to provide reasonable assurance that they are completed within the required 180-day time frame.

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

The Division of Audit utilizes status reports to track the 180 day time frame. The Division is assigning Nursing Facility cost reports for desk review and monitors these status reports at our monthly staff meetings. The Division of Audit is making every effort to comply with the 180 day time frame. However, staffing shortages have made compliance difficult. During State fiscal year 2013, the Division trained some newly hired staff to do Nursing Facility cost report desk reviews. However, beginning in September 2013, the Division had to divert some staff from

Nursing Facility desk reviews in order to eliminate audit backlog in the Day Habilitation program.

In addition, there are other factors that cause delays in the issuance of desk reviews, such as delays in obtaining necessary information from a provider, and audit findings that are under appeal and affect the subsequent period desk review.

Contact: *David Hellmuth, MaineCare Audit Manager, 287-2809*

(13-1106-16)

Title: Procedures to ensure accurate financial reporting need improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
ML12-1106-13	11-1106-07 ML11-1106-18	10-1106-15				

State Department: Administration and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.778, 93.767
Federal Award #: 05-1205ME5MAP, 05-1305ME5MAP,
05-1205ME5021, 05-1305ME5021

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles
Reporting

Type of Finding: Significant deficiency/questioned costs

Questioned Costs:

Questioned Costs	Total	Federal	State
Known	$1,243,049 (Medicaid)	$1,243,049 (Medicaid)	None
Likely	$1,243,049 (Medicaid)	$1,243,049 (Medicaid)	None

Criteria: CHIP State Plan (Section 4.1.7); 42 CFR 435.4 Definitions and use of terms: *Optional targeted low-income child(2)*; State Medicaid Manual (Chapter 2, 2500.2(D)); 2 CFR Part 225, Appendix A, Section C(1) Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87) requiring that costs be necessary, reasonable and adequately documented.

Condition: The Children's Health Insurance Program is divided into two programs: Medicaid Expansion and Cub Care. For payments made for clients deemed eligible for Medicaid Expansion who have other third party insurance, the Department claimed the payments on the Centers for Medicare and Medicaid Services (CMS) Quarterly Expense Report, CMS-64, when the clients were not eligible for regular Medicaid coverage. For payments made for clients deemed eligible for Cub Care who have other third party insurance, the Department claimed the payments on the CMS-64 report when they were not eligible for Medicaid coverage. Correspondingly, funds were incorrectly drawn from the Medicaid program.

Context: Medicaid and CHIP are Federal/State-funded programs totaling $2.5 billion in fiscal year 2013.

Cause: Misunderstanding of Federal regulations

Effect:

- Inaccurate financial reports
- Costs were overcharged to Medicaid
- Possible future questioned costs
- Noncompliance with Federal regulations

Recommendation: We recommend that the Department ensure only allowable expenditures are reported and drawn from the Medicaid program.

Management's Response/Corrective Action Plan: *The Department agrees, in part, with this finding. We agree with the portion of the finding pertaining to Cub Care members with TPL, and the questioned costs associated with that component of the finding. We disagree with the Medicaid expansion portion of this finding, and therefore, we also disagree with the questioned costs associated with the Medicaid expansion component.*

Corrective Action Plan:

With respect to Cub Care members with TPL, the Department will need to thoroughly vet the new eligibility requirements associated with the Affordable Care Act. According to a CMS FAQ site, there are numerous changes to eligibility, as a result of the ACA individual mandate.

With respect to the Medicaid Expansion members with TPL, we will continue to work with CMS, in an effort to gain greater clarity on the best funding source for these members (Title XXI or Title XIX), both retroactively to address this finding, but also with respect to the change in requirements mandated by the ACA. Based upon correspondence already undertaken with CMS to date, we believe these members are eligible for coverage. Subsequently, from the Department's perspective, that means that the only outstanding question that remains is, where do we report them, and from which grant should the funds be drawn (Title XIX or XXI). Based on a review of the State Plan, we feel that our current process of using the base FMAP rate (Title XIX) is correct. The only alternative approach that the Department sees as viable, is to report and draw these members at the enhanced CHIP-FMAP (Title XXI) rate, which would result in net questioned costs in the State's favor, per this finding.

Contact: *Jason Grundy, MaineCare Accounting Manager, DHHSSC, (207) 287-5917*

Auditor's concluding remarks: With respect to the Medicaid Expansion members with TPL, the Office of the State Auditor agrees with the Department's approach of continuing to work with CMS to resolve this issue. We did not take issue with the level of coverage claimed, we only take issue with the utilization of the funding source.

Our finding remains as stated.

(13-1106-17)

Title: Procedures for the allocation and timely refunding of the Federal share of Medicaid overpayments need improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1106-12; ML 12-1106-16						

State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.778
Federal Award #: 05-1205ME5MAP

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant deficiency
Questioned Costs

Questioned Costs:

Questioned Costs	Total	Federal	State
Known	Undeterminable		
Likely	Undeterminable		

Criteria: 42 CFR 433 Refunding of Federal Share of Medicaid Overpayments to Providers; 2 CFR 225 Cost Principles for State, Local, and Indian Tribal Governments; OMB Circular A-87

Condition: Procedures and controls are inadequate to ensure that the Federal government has been refunded its share of "cost of care" and audit cost settlement overpayments on a timely basis. Of the forty-two "cost of care" and audit cost settlement overpayments tested, twenty-two overpayments (eighteen "cost of care" and four audit cost settlement) totaling $1.26 million were not refunded to the Federal government within the one year required timeframe. Additionally, "cost of care" recoupments were not properly allocated between the General and Federal funds. A disproportionate share of these recoupments was credited to the General Fund.

Context: "Cost of care" and audit cost settlement overpayments to providers totaled $18.16 million in State fiscal year 2012. "Cost of care" refers to deductions that should be taken from long term care provider payments for residents with income and assets that exceed certain limits because these clients have already paid their share to the providers.

Cause:
- Inadequate accounting procedures as it relates to "cost of care" overpayments and recoupments
- Lack of supporting documentation
- Backlog of overpayments due to the implementation of Flexi Financials

Effect:
- Noncompliance with Federal regulations
- Potential current and future disallowances

Recommendation: We recommend that the Department improve its process to ensure the Federal share of Medicaid overpayments is refunded on a timely basis. We further recommend that the Department credit the Federal program accounts for "cost of care" recoupments.

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

As of January 2013, the Department implemented a new process for recording accounts receivable. This new process complies with Federal regulations that mandate that the Federal share of overpayments is returned within one year. In addition, as of February 2014, the MIHMS system issue regarding cost of care and LTC facilities (PNMI) has been corrected and cost of care is being deducted from all applicable lines of the claim (CR36287). This will reduce the amount of overpayments related to cost of care.

***Contact:** Natalie Bragan, Managing Staff Accountant, DHHSSC, 287-3161*

(13-1106-19)

Title: Controls in place to detect and correct known Maine Integrated Health Management System (MIHMS) payment processing errors do not ensure appropriate resolution

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Health and Human Services
Administrative and Financial Services
State Bureau: Office of Maine Care Services (OMS)
Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services (DHHS)

MEDICAID CLUSTER

CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.778, 93.767
Federal Award #: 05-1305ME5MAP, 05-1205ME5MAP, 05-1105ME5MAP, 05-1005ME5MAP, 05-1305ME5021, 05-1205ME5021, 05-1105ME5021, 05-1005ME5021

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles

Type of Finding: Significant deficiency
Questioned Costs

Questioned Costs:

Questioned Costs	Total	Federal	State
Known	$2,038 Medicaid ($285) CHIP	$1,277 Medicaid ($211) CHIP	$761 Medicaid ($74) CHIP
Likely	$44.2 million Medicaid ($92,806) CHIP	$27.8 million Medicaid ($58,231) CHIP	$16.4 million Medicaid ($34,575) CHIP

Criteria: 2 CFR Part 225 Cost Principles for State, Local, and Indian Tribal Governments; MaineCare Benefits Manual 67 and 101

Condition: Methods established by DHHS to compensate for known claim processing errors are not adequate to ensure that the errors are appropriately resolved. In our test of 120 Medicaid (sixty medical and sixty pharmacy) program claim payments, we found the following seven unresolved instances of two known types of claim processing errors:

Claims charged to the incorrect Federal program.

- Two of 120 claims were paid in error. One pharmacy claim and one medical claim were paid for CHIP clients, but charged to the Medicaid program. Since CHIP reimburses the State at a higher Federal financial participation rate, the State paid more than the correct amount for these costs.

Long term care (LTC) payment deductions were not properly applied.

- Five of sixty medical claims were paid in error. The agreed-upon amount, previously paid by residents toward their monthly stay, was not deducted in full or at all from five LTC facility payments we tested. In such instances, the provider retained the difference, thus creating an overpayment.

Context:

- The program eligibility status of Medicaid and CHIP participants is identifiable by Recipient Aid Category (RAC) code in the Automated Client Eligibility System (ACES) and by Rate Code in MIHMS. This information changes over time to provide assurance that payments are made only for eligible individuals. However, testing indicates that referential integrity checks or other types of automated controls to ensure consistency of this information are either not in place or not functioning properly. As an example, referential integrity in a relational database environment ensures that information remains consistent from one system to another.

- To be eligible, certain residents with assets or income over limits allowed for Medicaid participation pay providers a specific agreed-upon amount toward their monthly stay in a LTC facility. In turn, these LTC providers expect payments they receive from the State for the balance of the monthly stay to be reduced by these same amounts. Failure to deduct the complete amount results in an overpayment by the State to these providers.

Cause:

- Inadequate referential integrity control-type activity between MIHMS, Maine Point of Purchase Pharmacy System (MEPOPS), and FLEXI financial that would verify RAC and Rate Code eligibility information for claims to prevent payment errors
- Inadequate use of automated methods or exception reporting to detect and re-open claims for review that appear to be potentially paid in error

Effect:

- Noncompliance with Federal regulations
- Potential current and future disallowances
- Overpayments to providers

Recommendation: We recommend that OMS continue to implement additional controls and system corrections to more adequately detect and resolve MIHMS claim processing errors, as well as referential integrity activity with MIHMS and MEPOPS. We further recommend that OMS direct the Fiscal agent to activate system edits to cause claims to pend, deny or re-open for manual review for known system errors. We also recommend that OMS assign more personnel to review exception reports or use other tools to detect and track potential errors; to resolve actual errors, and prevent future payment errors from occurring.

Management's Response/Corrective Action Plan: *The Department disagrees with the finding related to "referential integrity."*

MIHMS, MEPOPS and Flexi are applications, not relational databases. In the instance of the claims that paid incorrectly, the issue was a mapping problem between tables in two applications, which was corrected in July 2013. Existing reconciliation processes ensure that data files are transferred accurately and completely among the systems.

The Department agrees with the finding related to potential overpayments, but disagrees strongly with both the known and likely costs which have been assigned. These costs do not reflect the ongoing recoupment and collection activities which Department employees undertake with these providers. In addition, a number of system changes have been implemented. These steps, which are designed to minimize or eliminate overpayments, are listed in detail in response to finding 13-1106-02. The Department has also added two additional staff to work on the recoupment processes.

MIHMS system edits have been tightened to reduce the possibility of claims being overpaid. Status: Complete
External review of claims has been extended to PNMIs. Status: Complete

Internal reconciliation of provider repayments: The Department is currently holding weekly meetings with Department of Administrative and Financial Services (DAFS) staff to review and reconcile manual repayments. A formal system for reconciling these repayments will be put into place by 6/30/14.

***Contact:** Beth Ketch, Director of Customer Service, OMS, 287-4078*

Auditor's concluding remarks: The Office of the State Auditor uses the term referential integrity in this finding as an example of the different types of automated controls to detect inconsistent client eligibility information among individual claims. Perhaps a better example would be automated cross-match reports that are generated when inconsistent records are detected for the same fields among different applications.

During our testing in February and March 2014 for the twelve month period ending June 30, 2013, none of the seven overpayments detected in our sample had been recovered during the ordinary course of business, as a result of typical recovery efforts.

Methods currently used by the Department to identify and collect overpayments from all facility types are very time-consuming. In addition, OMS records clearly indicate that recoupment is not guaranteed; and the likelihood of recovery by the State decreases over time.

The test sample of 120 was a random selection and was stratified to ensure that it was proportionally representative of the overall test population. The reason that samples are selected in this manner is so that we may have confidence in projecting likely dollar error based upon testing results.

Our finding remains as stated.

SNAP CLUSTER

(13-1108-01)

Title: Cash management procedures need improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1108-01						

State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center (HHSSC)
Federal Agency: U.S. Department of Agriculture
CFDA Title: SNAP Cluster
CFDA #: 10.561
Federal Award #: 4ME400401, 4ME420408, 4ME430421

Compliance Area: Cash management

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement 31 CFR 205 (Subpart B). These rules require that the timing of the transfer of funds must be as close as is administratively feasible to the State's actual cash outlay.

Condition: The Department did not minimize the time between the drawdown and disbursement of Federal funds for the administrative portion of the SNAP Cluster (CFDA # 10.561). Federal regulations require that the time between drawdown of Federal funds be as close as administratively feasible to the date of disbursement. The administrative portion of the SNAP Cluster maintained an average of seventeen days of cash on hand throughout the fiscal year.

Context: The Department drew approximately $12.1 million in SNAP Cluster administrative funds during the fiscal year.

Cause: Inadequate procedures to minimize the number of days of cash on hand.

Effect:
- The Federal government may require the use of a more stringent cash drawdown method for the program.
- Potential interest liability

Recommendation: We recommend that the HHSSC improve its procedures to control and monitor cash on hand for the SNAP program.

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

The Service Center has implemented a reconciliation between draws and expenditures that also factors in returns for offsets. This increased control will continue to decrease the number of days cash on hand to get to the acceptable level by State fiscal year 2014.

Contact: *Sarah Gove, Senior Managing Accountant, 287-6390*

(13-1109-01)

Title: Payroll costs not properly documented

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1109-01						

State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care Title IV-E
CFDA #: 93.658
Federal Award #: 1301-ME-1401

Compliance Area: Allowable cost/cost principles

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 2 CFR 225 Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87) Attachment B - Support for salaries and wages

Condition: The Department did not have adequate procedures in place to ensure that salaries and wages were supported in accordance with Federal cost principles. These cost principles require that when employees are expected to work solely on a single Federal award, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification.

Context: The Department did not require periodic certifications for twelve of thirteen employees whose compensation costs were charged 100% to the program. However, the Department did obtain certifications beginning in April 2013.

Cause: Payroll system task codes were not available for program employees to properly document and certify their time for the first three quarters of fiscal year 2013. Task codes were set up and utilized by employees in the payroll system beginning in April 2013.

Effect: Salaries and wages charged to the program may not be allowable.

Recommendation: We recommend that the Department continue to utilize the task codes in the payroll system going forward to ensure that payroll costs are properly documented in accordance with Federal cost principles.

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

This finding was corrected in April 2013. The Office of Child and Family Services worked with DHHS Financial Services to add additional task codes in the Time and Attendance Management System for the identified eligibility workers. This ensures proper documentation of payroll costs in accordance with Federal cost principals.

Contact: *Robert Blanchard, Associate Director, OCFS, 624-7955*

(13-1111-01)

Title: Inadequate controls over required Income and Eligibility Verification System (IEVS) data exchanges

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1111-01						

State Department: Administrative and Financial Services (DAFS)
Health and Human Services (DHHS)
State Bureau: Office of Information Technology (OIT)
Office for Family Independence (OFI)
Federal Agency: U.S. Department of Health and Human Services (HHS)
CFDA Title: TANF Cluster
Medicaid Cluster
Children's Health Insurance Program (CHIP)
SNAP Cluster
CFDA #: 93.558, 10.551, 93.778, 93.767
Federal Award #: Various Medicaid, TANF, CHIP and SNAP awards

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 42 USC 1320b-7 Income and Eligibility Verification System; 42 CFR 431.625 Coordination of Medicaid with Medicare Part B; US Department of HHS, State Buy-In Manual (various sections); 45 CFR 92.20 Standards for Financial Management Systems; 2 CFR 225 (Attachment A, paragraph C) Cost Principles for State, Local, and Indian Tribal Governments; HHS pub. ASMB, C-10; State Information Technology Security Policies, Procedures and Guidelines

Condition: Office of Information Technology internal controls over Federally required Income and Eligibility Verification System data exchanges are inadequate. We noted:

- A lack of institutional knowledge within OIT regarding IEVS data exchanges.
- Outdated and inaccurate documentation at OIT describing methods used to process IEVS data exchanges.
- Inadequate monitoring and feedback controls present a risk that some exchanges may be performed needlessly or in an insecure manner.

These problems were originally identified as root causes of deficiencies identified during prior year audit testing of thirty-seven data exchanges, and of a separate prior year test which indicated that there is no control to guarantee that the State will receive all information sent to it from the Social Security Administration (SSA).

Although OIT management stated that corrective actions to resolve these control deficiencies are in progress, we were unable to perform current year testing for one of the two IEVS exchange selected for testing: the inbound State Data Exchange (SDX) known as the "Buy-In Pickle." We selected this exchange for review because the Automated Client Eligibility System (ACES) indicates that client information has not been uploaded into ACES since March 2012. OIT was unable to provide us with the electronic records received by the State through this data exchange.

This year, we found OIT management of the Medicare Part A and B exchanges for Buy-In to be problematic as well. Due to the very large size of the file, OIT was able to identify which monthly SDX file supported the Medicare Part B invoice that the State pays each month. However, we were responsible for converting the file to a usable format and for obtaining the record layout for the data from the Centers for Medicare and Medicaid Services (CMS) ourselves. OIT personnel were unable to determine which SDX file pertained to Medicare Part A.

Context: OIT did not have controls in place over these exchanges to provide assurance that the State is in compliance with Federal-State IEVS exchange agreements established to comply with Medicaid, TANF and SNAP program rules and regulations. The risk to the State is financial penalties of up to two percent of these Federal assistance grants**.**

Cause:

- Ineffective communication between DHHS and OIT to ensure compliance with State and Federal requirements.
- The current DAFS-OIT-DHHS technology servicing structure does not hold any person or group accountable for these processes. We found no in-house project manager accountable for this activity.
- An insufficient number of OIT personnel assigned to this effort.
- Data exchanges are not tested periodically to ensure continued compliance with Federal regulations.
- System batch jobs relevant to IEVS were designed more than twenty years ago and are not being reviewed to ensure ongoing reliability and compliance.
- Institutional knowledge at OIT has been lost due to the retirement of one technical person. There has not been adequate training of replacement personnel.
- Lack of management and oversight by OIT.

Effect:

- Potential sanctions from the Federal oversight entity
- Potential disallowed Federal expenditures resulting from ineligible clients
- Exchanges may be performed needlessly or in an insecure manner
- Failure by OIT to adequately meet DHHS business needs
- Potential overspending in the General Fund associated with the State share of payments for ineligible clients

Recommendations: We recommend that the OIT:

- Actively design and document procedures relevant to these daily, weekly, bi-weekly, monthly and annual IEVS exchanges to ensure appropriate action is being taken by staff to update and maintain DHHS systems.
- Actively manage and periodically monitor the reasonableness of current incoming and outgoing IEVS exchanges to ensure compliance with Federal requirements.
- Establish a feedback exchange method to provide assurance that all eligibility records sent from the SSA or CMS were received by the State; and that all eligibility records sent from the State were received by the SSA or CMS.
- Increase the number of OIT personnel assigned to this effort.

Management's Response/Corrective Action Plan: *The Office of Information Technology agrees with this finding.*

This is an executive summary of the Corrective Action Plan for State Audit Finding 13-1111-01. This finding stems from an audit of the knowledge, process, controls and communications for data which is part of the Income and Expense Verification System (IEVS). A number of deficiencies were identified in the finding from March of 2013. A Corrective Action Plan to address these deficiencies was developed and action was undertaken.

Areas

Team Knowledge/Accountability

The finding noted deficiencies in accountability for system oversight and management. This was due to the departure of the most senior, skilled resource and an incomplete transfer of knowledge to multiple team members.

Documentation

The finding also noted that a number of jobs in the IEVS group are not well documented or have out of date documentation. The document library is not consistently maintained and does not have an assigned resource.

Process/Job Controls

Another item in the finding was the lack of an ability to confirm job record counts. Team members could not confirm if some jobs were even necessary any longer and in some cases could not confirm the status of completed jobs i.e. if the file had been sent and received.

Communication

Team members could not confirm a number of Federal or State contacts for information exchange and a number of contacts could not be reached or were no longer in the jobs once occupied. Confirmation of file exchanges was weak and in some cases non-existent.

Risk/Mitigation

Team Knowledge/Accountability

The team has transferred a majority of the knowledge of most of the IEVS jobs to on team resources. This was underway prior to and during the audit. There are current three team members who are dividing the Knowledge/Accountability area. This is approximately 75% complete. An additional 40 to 60 hours of training will complete this area. The designation of a single responsible individual will also address one of the finding completely.

Documentation
An effort to identify and update existing documentation was already underway at the time of the audit. A number of deficiencies had already been identified and work was started. This area is approximately 45% complete. Another 120 to 140 hours of effort should address this deficiency. The assignment of a responsible individual/librarian will also address this area.

Process/Job Controls
Again, some job update and automation was already underway at the time of the audit. A record counting scripts was developed immediately after the audit in response to one of the findings. The modernization effort of the interface batch process is approximately 20% complete. Another 320 to 360 hours is needed to completely address this area.

Communication
This is the most difficult area to address. An effort has already been made to re-establish Federal and State contacts for some jobs. In most cases, the original contact is no longer available and there is no information on a replacement (if any). A handful of jobs have well known contacts and communication is frequent and ongoing. This area is approximately 20% complete. Another 60 to 80 hours of effort should see this area completely addressed.

As described above, progress has been made in each area of the finding. A total of 3 to 4 months additional effort will see all audit deficiencies addressed.

Contact: *Cindy Hopkins, Director of Applications, DHHS, OIT, 592-2191*

The Office for Family Independence agrees with this finding.

DHHS-OFI will establish a monthly meeting with OIT representation to remain engaged and informed of progress on the corrective action plan OIT has implemented. This meeting will also serve as a forum for OIT and DHHS-OFI to collaborate on appropriate business prioritization for effective resourcing and to provide any guidance necessary to resolve business and policy related questions.

Contact: *Anthony Pelotte, Division Director, Business Technology, DHHS-OFI, 624-4104*

(13-1111-02)

Title: Income Eligibility and Verification System (IEVS) procedures need improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1111-02	11-1111-01	10-1111-01	09-1111-01	08-05		

State Department: Health and Human Services
State Bureau: Office for Family Independence
Federal Agency: U.S. Department of Health and Human Services

TANF CLUSTER

CFDA Title: TANF Cluster
Medicaid Cluster
Children's Health Insurance Program (CHIP)
SNAP Cluster
CFDA #: 93.558, 10.551, 93.778, 93.767
Federal Award #: Various Medicaid, CHIP, TANF and SNAP awards

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 42 USC 1320b-7 Income Eligibility and Verification System; 45 CFR 205.56 Requirements Governing the Use of Income and Eligibility Information; Maine Public Assistance Manual; MaineCare Benefits Manual; Food Supplement Program

Condition: Policies and procedures in place to ensure that IEVS information is utilized in determining eligibility and level of benefits or in maintaining case records in the Automated Client and Eligibility System (ACES) are not always followed.

Our testing indicated that the Department did not document any follow-up for thirteen of the sixty client cases examined:

- Quarterly Earnings Discrepancy report
  Seven of forty wage discrepancy alerts were not addressed
- (Buy-In) Supplement Security Income (SSI) Status report
  Four of ten alerts that indicated "SSI ending" were not addressed
- Buy-In Discrepancy report
  One of nine alerts that indicated "CMS close – client moved out of state (1728)" was not addressed
- Buy-In Discrepancy report
- One of nine alerts that indicated "CMS close – client deceased (16)" was not addressed

Context: The State is required to comply with Federal IEVS exchange rules and regulations in accordance with State Medicaid, TANF and SNAP agreements. Many of these data exchanges involve "Buy-In". Buy-in refers to the payment of Medicare premiums by the Medicaid program for certain individuals eligible for Medicare.

Cause:

- Lack of follow-up or documentation of follow-up on available IEVS alerts.
- Additional training undertaken by the Department for staff use of IEVS match

reports was implemented late in fiscal year 2013 and continued into fiscal year 2014. The benefit of this training would not be reflected within the current audit period.

Effect:

- The Federal government may penalize a State for up to two percent of the State family assistance grant for noncompliance
- Potential disallowed costs resulting from ineligible clients
- Potential overspending in the General Fund associated with the State share of payments for ineligible clients

Recommendation: While we recognize that improvements have been made concerning the use of IVES data exchanges, we recommend that the Department continue with IEVS training efforts that outline the methods to be used to document case action taken in response to IEVS alert information presented in match reports.

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

The Department has taken the following steps to improve its performance in meeting its compliance obligation.

In January of 2013, IEVS compliance training material was developed by Maine's TANF Program Manager and sent to the Program Administrators (PA) who oversees eligibility operations in the 16 Regional DHHS offices. The training material was provided to Eligibility Supervisors who would instruct eligibility workers on proper IEVS compliance procedures. In an effort to follow up on that initial effort to bring staff up to date on proper IEVS policy and procedure, it was decided that a more comprehensive training program should be developed.

In October 2013 we submitted a new IEVS Compliance Proposal to ACF. In our Compliance Proposal we required that each regional office, once again, have each Eligibility Supervisor and Eligibility Specialist attend a formal training to review the training material. At the completion of the training each participant would be required to sign an acknowledgement of IEVS training. This training will reoccur on a yearly basis and all new eligibility staff will receive the training as well. In an effort to make sure each regional office properly addressed our IEVS compliance obligation, DHHS Central Office Administration required that each individual regional office develop a system to assure us that the reports were given the necessary attention regarding completion deadlines, documentation, and all other compliance requirements. Some regional offices have dedicated a single eligibility specialist to work on these reports full time while others have dedicated teams of workers to complete the reports. These systems were developed by each regional Program Administrator based on what worked best in their particular regions. In December 2013 we rolled out an IEVS compliance tracking database which required all DHHS Program Administrators to document on a monthly basis the dates that the IEVS reports were completed and that a quality assurance review was done to make sure the work was not only done timely, but also correctly documented in ACES case notes. This tracking database lists all the individual IEVS reports. There is a tab for each month and each PA's must list the date of completion of each IEVS report over the course of the year. The PA must also sign off that they conducted a Quality Assurance (QA) review of the work to make sure the reports are being done correctly. Since the end of December 2013 this IEVS compliance tracking database has been *monitored and all Regional Program Administrators are using it and signing off that the IEVS reports are being completed and that QA reviews are taking place to monitor the correctness of the work.*

Contact: *Dave Maclean, General Assistance Program Manager, OFI, 624-4138*

(13-1111-04)

Title: Controls over performance reporting need improvement

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Health and Human Services
State Bureau: Office for Family Independence
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: TANF Cluster
CFDA #: 93.558
Federal Award #: 1202METANF, 1302METANF

Compliance Area: Reporting

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: Performance reports are submitted to the Administration for Children and Families (ACF) via electronic transmissions of the required information. There are potentially three lines of data per entry (M1, M2, and M3 for the ACF-209). Not all lines appear for each entry. These reports are submitted quarterly. The State is required to submit an accurate, complete, and timely report each quarter within forty-five days of the end of the quarter.

42 USC 407 sets the mandatory work requirements for families receiving assistance under a State program funded with qualified State expenditures. The ACF administers the reporting for the performance reports (ACF-199 and ACF-209).

Condition: Out of our test sample of forty randomly selected cases reported on the Federal fiscal year 2013 first quarter ACF-209 report, we found ten entries that were miscoded as to the "Type of Family for Work Participation." One indicated there was no work-eligible parent and nine had a "1" indicator (does not meet the definition of a two parent family). Each of these is incorrectly coded when compared to the criteria that a parent who is a non-recipient is to be counted if living with their child who is receiving assistance.

Context:

- We tested forty entries (out of 64,981) of "M1" data strings which populated the Federal fiscal year 2013 first quarter ACF-209 report submission.
- The State Family Assistance Grant expenditures for the corresponding quarter were $19,962,175.

Cause:

- Relatively new State program (Worker Supplemental Benefits)
- Misunderstanding of reporting requirements

Effect: Failure to submit an accurate, complete, and timely report may result in a four percent penalty of the adjusted State Family Assistance Grant for each quarter (45 USC 262.1(a)(3)).

Recommendation: We recommend that procedures be developed to ensure compliance with reporting requirements.

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

Identification, analysis, compilation and submission of TANF data is a back-and-forth process involving staff from three areas, the program, Management Information System (MIS) analysts and programmers from the Office of Technology.

The Department has taken the following steps to ensure the TANF Data Report submitted to the Administration for Children and Families (ACF) contains complete and accurate data.

- *Reviewed the TANF Data Reporting requirements and guidance with program, MIS and OIT staff responsible for the compilation and submission of the report;*
- *Isolated the code used for this specific audit finding and began the process of correction;*
- *Instituted weekly meetings with staff responsible for the data report to review data, identify areas for ongoing testing and make adjustments as needed;*
- *Assigned a resource to create a formal process for User Acceptance Testing;*
- *Initiated a process for random sampling of data included in the TANF data report.*

These steps will ensure compliance with reporting requirements.

Contact: *Dawn Mulcahey, TANF Program Manager, OFI, 624-4109*

SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)

(13-1113-01)

Title: Federal Financial Accountability and Transparency Act (FFATA) reporting deficiency

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1113-01						

State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center (HHSSC)
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: Reporting

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 2 CFR 170 - Appendix A Award Term. Paragraph 2.ii “For subaward information, report no later than the end of the month following the month in which the obligation was made.” (For example, if the obligation was made on November 7, 2010, the obligation must be reported no later than December 31, 2010).

Condition: During Federal fiscal year 2013, a total of six FFATA reports were filed on behalf of the WIC program. Three of the subawards were not reported on a timely basis. The subawards were reported a month later than required.

Context: WIC local agency expenditures totaling $3,851,999 were subject to FFATA reporting requirements.

Cause: HHSSC personnel explained that the FFATA reports were late because the local agencies did not get the contracts back in a timely manner. Additionally, HHSSC personnel do not report the agreement in the Federal Sub Award Reporting System (FSRS) until after the encumbrance has been included in the State’s accounting system.

Effect: Possible Federal sanctions for noncompliance with Transparency Act reporting requirements.

Recommendation: We recommend that HHSSC personnel responsible for FFATA reporting track contracts in-process and encourage the local agencies to approve and submit their contracts on a timely basis.

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

Starting no later than May 2014, FFATA sub award information will be reported by the end of the month following the month of the contract start date, rather than the encumbrance date.

Contact: *Lisa Thibodeau, Financial Analyst, DPFC, 287-1894*

(13-1113-03)

Title: Internal controls over subrecipient cash management need improvement

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
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: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Agencies (7 CFR 3016.37 - Subgrants) requires that States conform any advances of grant funds to substantially the same standards of timing and amounts that apply to cash advances of Federal agencies.

SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)

Condition:

- Payments to subgrantees were made monthly, as contracted, without consideration of cash on hand.
- The timing of monthly payments to subgrantees was not consistent.
- Required quarterly cash reports were prepared inconsistently, were incomplete, or were not submitted.
- Of the four subgrantees tested, two had excess cash on hand.
- Two subgrantees had to return funds in excess of $25,000.

Context: The four subgrantees tested drew approximately $2.5 million in grant funds during fiscal year 2013. There were eight subgrantees in total that drew $4.3 million during the Federal fiscal year.

Cause:

- Lack of communication between the Department and the subgrantees
- Inadequate performance of established internal control procedures

Effect: Potential Federal interest liability

Recommendation: We recommend the Department:

- Pay subgrantees at the end of the month.
- Require subgrantees to submit timely and complete quarterly reports.
- Make no additional payments to subgrantees until reports are submitted.
- Require consistency in the way reports are completed by subgrantees.
- Reduce or increase the subsequent month's payment to subgrantees based on quarterly report balances.

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

During the time period this audit reviewed, the process for managing Cost Settled agreements was inconsistent; particularly as it relates to monthly payments and quarterly reports.

Effective February of 2014, the Division of Contract Management reviewed its processes for cost settled agreements, and implemented changes that took into account consistency, accountability, and avoiding sending dollars to providers that had not been earned. The recommendations of this finding were addressed with this change.

Contact: *Jim Lopatosky, Deputy Director of Contract Management, DHHS, 287-5072*

CHILDREN'S HEALTH INSURANCE PROGRAM (CHIP)

(13-1140-02)

Title: Federal cash management procedures need improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1140-01						

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: Children's Health Insurance Program (CHIP)
CFDA #: 93.767
Federal Award #: 1Z0C30541A

Compliance Area: Cash management

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 31 CFR A 205 Rules applicable to Federal assistance programs included in a Treasury-State Agreement (TSA)

Condition: The Department did not follow requirements outlined in the TSA on cash management. Federal program cash drawdowns were not made in a manner consistent with the methodology prescribed by the TSA. Seven of ten Children's Health Insurance Program Reauthorization Act's (CHIPRA) quality demonstration grant drawdowns tested were not in compliance with the prescribed methodology.

Context: In March 2013, the Department established a new process which enabled them to comply with the requirements of the TSA. The three drawdowns tested, initiated after March 2013, were found to be compliant with provisions of the TSA.

Cause:
- Inadequate procedures
- Insufficient cash in account to comply with TSA requirements

Effect:
- Potential interest liability to the Federal government
- The possibility that the Federal government could impose more stringent cash management requirements on the State for programs in noncompliance.

Recommendation: No recommendation is necessary as corrective action was taken during fiscal year 2013.

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

The Department has worked with the State Controller's Office to place the CHIPRA Account on Estimated Revenue in order to assure compliance with the TSA's requirements. This corrective action was completed QE03/31/2013.

Contact: *Natalie Bragan, Managing Staff Accountant, DHHSSC, 287-3161*

(13-1140-03)

Title: Controls over pharmacy claims processing system need improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1106-09	11-1106-04	10-1106-09	09-1106-09			

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
Children's Health Insurance Program (CHIP)
CFDA #: 93.778, 93.767
Federal Award #: 05-1205ME5MAP, 05-1305ME5MAP,
05-1205ME5021, 05-1305ME5021

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: MaineCare Benefits Manual 80; 2 CFR Part 225, Appendix A, Section C(1) Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87) requiring that costs be authorized or not prohibited under State or local laws or regulations

Condition: Pharmacy claims processing system controls are not adequate to ensure compliance with program requirements. Wholesale Acquisition Cost (WAC) prices are ignored when considering the lowest reimbursement rate for drugs. In a test of sixty CHIP paid claims, the lowest (WAC) price was not considered for five of the claims.

Context: The pharmacy claims processing system processed Medicaid and CHIP claims totaling approximately $213 million in fiscal year 2013.

Cause: The Department's intention was to remove mention of WAC pricing from the MaineCare reimbursement policy; however, this was not done in fiscal year 2013.

Effect:
- Drugs may be paid at a higher rate than necessary
- Noncompliance with State and Federal rules and regulations
- Potential current and future disallowances

Recommendation: We recommend that the Department ensure drug pricing complies with State and Federal rules and regulations.

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

The Department will remove mention of the Wholesale Acquisition Cost (WAC) from MaineCare payment policy. Changes to the pharmacy section of the MaineCare Manual are being drafted. Removal of the Wholesale Acquisition Cost will be included with those changes.

Changes to MaineCare policy require a lengthy process to create draft language, provide time for public notice and hearings, and obtain executive approvals. The Department anticipates that this language will be removed by December, 2014.

***Contact:** Roger Bondeson, Director of Operations, OMS, 287-2705*

(13-1140-04)

Title: Internal controls were not adequate to ensure the transfer of accurate client eligibility information from the Automated Client Eligibility System (ACES) to the Maine Integrated Health Management Solution (MIHMS)

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1140-03	11-1106-16	10-1106-16	09-1106-14	08-57	07-69	06-66

CHILDREN'S HEALTH INSURANCE PROGRAM (CHIP)

State Department: Health and Human Services (DHHS)
State Bureau: Office for Family Independence (OFI)
Office of MaineCare Services (OMS)
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Children's Health Insurance Program (CHIP)
Medicaid Cluster
CFDA #: 93.767, 93.720, 93.775, 93.777, 93.778
Federal Award #: 05-1205ME5021, 05-1305ME5021,
05-1205ME5MAP, 05-1305ME5MAP

Compliance Area: Eligibility

Type of Finding: Significant Deficiency/Questioned Costs

Questioned Costs:

Questioned Costs	Total	Federal	State
Known	$22 CHIP ($19) Medicaid	$16 CHIP ($14) Medicaid	$6 CHIP ($5) Medicaid
Likely	$545,000 CHIP ($463,000) Medicaid	$403,000 CHIP ($342,000) Medicaid	$142,000 CHIP ($121,000) Medicaid

Criteria: MaineCare Eligibility Manual; State Plan for Medicaid; State Plan for CHIP

Condition: Eligibility determinations made in ACES do not always get transferred correctly to the MIHMS system, resulting in payments being charged to the incorrect program.

In our random sample of sixty CHIP claims, we noted that one claim was incorrectly charged to the CHIP program. The associated client was eligible for Medicaid, not CHIP. Medicaid reimburses the State at a lower Federal financial participation rate than CHIP.

Context: ACES determines eligibility for Federal financial assistance. ACES eligibility information is interfaced to the Data Hub, and then to MHIMS for the payment of medical claims.

Cause:
- Complex methods and criteria used to determine eligibility for Medicaid and CHIP.
- Electronic logic designed many years ago for use in legacy systems was not updated or designed correctly in ACES. Design features to accommodate the CHIP program were added later and were not tested sufficiently.

Effect:
- Costs are charged to an incorrect State or Federal program
- Potential disallowance of Federal funds

Recommendation: We recommend that the Department:

- Provide the resources necessary to review and resolve logical errors and interface issues related to CHIP and Medicaid.
- Monitor eligibility requirements for CHIP and Medicaid to prevent future errors.

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

The Department has identified the RAP (RAC Assignment Process) as a possible contributing cause of the problem associated with this claim. The reason it may only be a contributing cause is that the issue identified in this finding is one that involves multiple offices and applications – it is not specific to OFI or one particular process. As a first step in the Department's corrective action plan, a meeting with all interested parties from OFI, OMS and the Data Hub team will be held on April 1 to designate a business owner of the RAP (this process creates a RAC for each individual based on an information feed from ACES). Once the business owner has been identified, it will be their responsibility to resolve the known issue associated with this claim, as well as any other known issues. It will also be their responsibility to work with the owners of other systems and processes further downstream to identify and correct issues that may also contribute to findings such as this. At this time, it is anticipated that this work will be completed by December 31, 2014.

Contact: *Ron Bansmer, Senior MaineCare Program Manager, OFI, 624-4105*

Auditor's concluding remarks: The Office of the State Auditor agrees that the Department should determine which entity should be held accountable for the correction of any existing or future inaccuracies in the RAP (RAC Assignment) Process coding errors, and that remediation of this matter take place as soon as possible.

Our finding remains as stated.

DEPARTMENT OF EDUCATION – CROSS CUTTING

(13-1200-01)

Title: Internal controls over subrecipient cash management need improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1200-01	11-1200-01	10-1200-01	9-1200-01			

State Department: Education
State Bureau: General Government Service Center
Federal Agency: U.S. Department of Education
CFDA Title: Title I Cluster; Special Education Cluster; Child Nutrition Cluster; School Improvement Grant Cluster; Improving Teacher Quality
CFDA #: 84.010, 84.389, 84.027, 84.173, 10.555, 10.559, 84.388, 84.377, 84.367
Federal Award #: S010A100019, S10A110019, S10A120019, S389A090019, H027A100109, H027A110109, H027A120109, H173A100115, H173A110115, H173A120115, 13134ME301N1097, 13134ME301N1098, S377A090020A, S388A090020A, S377A100020, S377A110020, S367B1200044A, S367A110018A

Compliance Area: Cash management

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 34 CFR 80 - Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments

Condition: During fiscal year 2012 the Department transitioned to a reimbursement system to process and disburse funds to subrecipients. The reimbursement requests obtained from subrecipients contained only summary level expenditure data in support of the reimbursement request and the Department did not have adequate procedures in place to ensure the reimbursement requests were supported by actual expenditures.

Context: Approximately 180 subrecipients expended $181.4 million in fiscal year 2013.

Cause: Inadequately designed procedures

Effect: Potential Federal interest liability

Recommendation: We had previously recommended that the Department modify procedures to ensure compliance with subrecipient cash management requirements. In response to our prior year finding, the Department noted their intent to implement corrective action effective July 1, 2013.

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

Corrective action was implemented in the electronic grant management system on July 1, 2013 and fully functional on September 1, 2013. No further findings are expected.

Contact: *Heather Neal, Supervisor, DOE's Fiscal Review & Compliance Supervisor 624-6863*

(13-1200-02)

Title: Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Administrative and Financial Services
State Bureau: General Government Service Center
Federal Agency: U.S. Department of Education
CFDA Title: Title I, Part A Cluster
Special Education Cluster (IDEA)
School Improvement Grant Cluster
Improving Teacher Quality State Grants
CFDA #: 84.010, 84.027, 84.377, 84.367
Federal Award #: S010A110019, S010A120019, H027A110109, H027A120109, S377A110020, S377A120020, S367A110018, S367A120018

Compliance Area: Reporting

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 2 CFR 170 Reporting subaward and executive compensation information

Condition: FFATA requires that recipients report information about first tier subawards that result in an obligation of $25,000 or more in Federal funds. The Department's FFATA reporting template did not always properly upload award information to the Federal website. This remained undetected due to the fact that reconciliations were not always completed.

C**ontext:**

- One of a sample of twenty-one subrecipients of Special Education Cluster funds was not reported
- One of a sample of fifteen subrecipients of Improving Teacher Quality Grant funds was not reported
- Four of a sample of twenty-three subrecipients of Title I Grant Cluster funds were not reported
- Two of a sample of two subrecipients of School Improvement Grant Cluster funds were not reported

Cause: Reconciliations were not always completed.

Effect: Possible Federal sanctions for noncompliance with FFATA reporting requirements.

Recommendation: We recommend that the Department develop procedures to ensure compliance with FFATA reporting requirements.

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

The Department will immediately address corrective action. A reconciliation process will be added to the current procedures to ensure that all reports submitted, are successfully imported to the FFATA Subaward Reporting System (FSRS). Additionally, the Department will use the reconciliation process to identify any past reports that were submitted, but were not successfully imported (due to FSRS importing glitches).

***Contact:** Elaine Babb, Financial Analyst, 624-7413*

SPECIAL EDUCATION CLUSTER

(13-1201-01)

Title: Controls over earmarking requirements need improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1201-04	11-1201-01					

State Department: Education
State Bureau: Special Education Cluster
Federal Agency: U.S. Department of Education (ED)
CFDA Title: Special Education Cluster
CFDA #: 84.173
Federal Award #: H173A110115

Compliance Area: Matching, Level of Effort, Earmarking

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: Allocation of Formula Subgrants to Local Education Agencies (34 CFR 300.816)

Condition: Internal controls to ensure compliance with earmarking requirements related to the allocation of Special Education Preschool Grants need improvement. Incorrect data was used in determining amounts to be allocated to local education agencies.

Context: The Department was awarded $2.5 million for preschool special education programs during fiscal year 2013. State Educational Agencies are required to allocate a base amount of $1,793,129 to Local Education Agencies (LEAs) based on the child count conducted on December 1, 1996; instead the Department utilized child count data from December 1, 1998.

Cause: Misinterpretation of requirements

Effect: LEAs may have received disproportionate shares of the Special Education Preschool Grant funds.

Recommendation: We recommend that the Department implement procedures to ensure compliance with earmarking requirements.

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

This error was repeated for FY 2013 due to an oversight during our Federal review process. Corrective action was fully implemented on July 1, 2013. Corrective action included obtaining the correct baseline year (1996) calculation from UNIX System aka "Legacy System". No further findings are expected as the correction was hard coded into the "workbook" and will be properly carried forward each year.

Contact: *Janice E. Breton, Director of Special Services, Maine Department of Education, 624-6676*

CHILD NUTRITION CLUSTER

(13-1203-01)

Title: Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1203-01	11-1203-04					

State Department: Education
State Bureau: Child Nutrition Services
Federal Agency: U.S. Department of Agriculture
CFDA Title: Child Nutrition Cluster
CFDA #: 10.555, 10.559
Federal Award #: 13134ME301N1098

Compliance Area: Reporting

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 2 CFR 170 Required reporting under the Federal Financial Accountability and Transparency Act

Condition: The Department did not report information required under the FFATA. FFATA requires that recipients periodically report information about first tier subawards or subaward amendments that result in an obligation of $25,000 or more of Federal funds.

Context: Child Nutrition Cluster payments to school food authorities totaled approximately $45 million.

Cause: The Department had not established procedures to comply with FFATA reporting requirements for the Child Nutrition Program.

Effect: Possible Federal sanctions

Recommendation: We recommend that the Department implement procedures to ensure compliance with FFATA reporting requirements.

Management's Response/Corrective Action Plan: *The Department agrees with the finding. The repeated audit finding was expected after receipt of the FY 12 finding and late implementation of corrective action in FY 13. The following corrective action plan has been implemented:*

Federal Financial Accountability and Transparency Act ***(Summer Program):***

1. *Determine which sponsors need to be reported by using the manifest during months of reimbursement. Normally July, August and September.*
2. *Gather all pertinent information*
3. *Report online amounts as required*
4. *All actions completed by Planning and Research Assistant*

Federal Financial Accountability and Transparency Act ***(School Meals & Fresh Fruit & Vegetable Program):***

1. *Obtain manifest for the month being reported*
2. *Put data into required spreadsheet format*
3. *Upload spreadsheet (to the FFATA Subaward Reporting System (FSRS)) in a timely fashion*
4. *All actions completed by Planning and Research Assistant or delegate*

Contact: *Walter Beesley, Child Nutrition Programs Coordinator, 624-6875*

STATEWIDE DATA SYSTEMS

(13-1213-01)

Title: Payroll costs not properly documented

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Education
State Bureau: School Finance and Operations
Federal Agency: U.S. Department of Education
CFDA Title: Statewide Data Systems
CFDA #: 84.384
Federal Award #: R384A100049

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 2 CFR 225 Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87) Appendix B, Support of salaries and wages.

Condition: The Department did not have adequate procedures in place to ensure that salaries and wages were supported in accordance with Federal cost principles. These cost principles require that when employees are expected to work solely on a single Federal award, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification.

Context: Salaries and wages for two employees who worked solely on the Statewide Data Systems Cluster were not supported by periodic certifications as required. The Department included the use of the task codes in the employee payroll system beginning with the final pay period in fiscal year 2013.

Cause: Payroll system task codes were not available for program employees to properly document and certify their time for the majority of fiscal year 2013.

Effect: Potential disallowance of expenditures by the Federal government.

Recommendation: We recommend that the Department continue to utilize the task codes in the employee payroll system to ensure compliance with payroll certification requirements.

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

The task codes were put in place in the employee payroll system at the end of fiscal year 2013 in order to ensure compliance with this requirement. The only State employee assigned to the grant project has been in compliance with the payroll certification requirements since the task codes were added to the system.

Contact: *William Hurwitch, Director, Statewide Longitudinal Data System, 624-6816*

(13-1213-02)

Title: Suspension and debarment requirements not met

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Education
State Bureau: School Finance and Operations
Federal Agency: U.S. Department of Education
CFDA Title: Statewide Data Systems
CFDA #: 84.384
Federal Award #: R384A100049

Compliance Area: Procurement, suspension and debarment

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 2 CFR 180.300 Cost Principles for State, Local and Indian Tribal Governments (Subpart C).

Condition: The Department did not have policies and procedures in place to ensure that awards were made only to parties who were not suspended or debarred from participation in Federal assistance programs. Verification procedures to ensure that a contractor receiving significant grant funds was not suspended or debarred were not consistently performed.

Context: Of the twenty-one contracts reviewed, the required suspension and debarment verification procedures were not performed in three instances in which the original contract was greater than $25,000 and four instances in which the original, plus amendments was greater than $25,000.

Cause: Insufficient monitoring of contractual provisions.

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

Recommendation: We recommend that the Department implement procedures to ensure that all contracts exceeding $25,000 are verified to ensure that contractors are not suspended or debarred.

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

The Department is working with procurement and the ART (Agreement Review Team) contract review process to determine the best corrective action. The Fiscal Review and Compliance Team is assisting with developing more adequate procedures to ensure compliance with debarred and suspension requirements. The Department expects to determine the best course of action and implement the action by May 1, 2014.

Contact: *William Hurwitch, Director, Statewide Longitudinal Data System, 624-6816*

(13-1213-03)

Title: Procedures not adequate to ensure payments are made only for allowable costs

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Education
State Bureau: School Finance and Operations
Federal Agency: U.S. Department of Education
CFDA Title: Statewide Data Systems
CFDA #: 84.384
Federal Award #: R384A100049

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: OMB Circular A-133, __.300(b), Auditee responsibilities; 2 CFR 200.303 Cost Principles for State, Local and Indian Tribal Governments, which requires that the Department maintain a system of internal control over Federal programs that provides reasonable assurance that the Department is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Condition: Not all non-payroll charges are approved by a knowledgeable individual within the Department. Two of thirty charges reviewed were not properly approved. In addition, invoices generated by the Office of Information Technology were paid without the approval of a knowledgeable individual for two of the twelve months of the fiscal year.

Context: Non-payroll charges totaled $1.8 million in fiscal year 2013.

Cause: Procedures were not in place to ensure that a knowledgeable individual within the program approved invoices prior to payment.

Effect: Potential current or future disallowances.

Recommendation: We recommend that the Department implement procedures to ensure that a knowledgeable individual within the program approve all program expenditures prior to payment.

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

Procedures have been established effective March 21, 2014 between DAFS and DOE. A DAFS accountant will electronically send all non-payroll invoices to the SLDS Project Director and School Finance and Operations Team Leader for review and approval. The School Finance and Operations Team Leader will send a hard copy of each invoice with approval signature back to the DAFS accountant for further processing.

Contact: *William Hurwitch, Director, Statewide Longitudinal Data System, 624-6816*

STATEWIDE DATA SYSTEMS

(13-1213-04)

Title: Procedures to ensure compliance with matching requirements need improvement

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Education
State Bureau: School Finance and Operations
Federal Agency: U.S. Department of Education
CFDA Title: Statewide Data Systems
CFDA #: 84.384
Federal Award #: R384A100049

Compliance Area: Matching, level of effort, earmarking

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: U.S. DOE Handbook for the Discretionary Grant Process – 4.3.2 Grantee Cost-Sharing or Matching (Non-Federal Share) requires that any applicant selected for a grant who volunteers additional cost-sharing above that required by statute or regulation, or cost-sharing where there is no requirement for it, is required to provide that level of volunteered cost-sharing as a condition of award.

Condition: The Department committed $3,800,000 of non-Federal funds to the Statewide Longitudinal Data Systems program. As of June 30, 2013, the State has reported expenditures of $2,525,000 in non-Federal funds. The Department has a further obligation totaling $1,275,000 of non-Federal matching funds. According to the project Director, these funds were eliminated from the budget, and no plan exists to meet this commitment.

Context: The grant funds were originally awarded for the period July 1, 2010 through June 30, 2013. As a result of a recent extension, there is one year remaining on the grant.

Cause: Inadequate funding in the State's General Fund

Effect: $1,275,000 in unbudgeted, State expenditures in the final year of the grant (fiscal year 2014) will be necessary to meet the cost sharing requirement.

Recommendation: We recommend that the Department implement procedures to ensure compliance with the cost sharing requirement.

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

The Department is currently working with USDOE in order to amend the grant award to reflect the reduced budget of the original grant application. A resolution is expected by April 30, 2014.

Contact: *Bill Hurwitch, Director, Statewide Longitudinal Data System, 624-6816*

(13-1213-05)

Title: Charges for project director's salary exceeded allowed amounts

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Education
State Bureau: School Finance and Operations
Federal Agency: U.S. Department of Education (ED)
CFDA Title: Statewide Data Systems
CFDA #: 84.384
Federal Award #: R384A100049

Compliance Area: Allowable costs/cost principles

Type of Finding: Material weakness
Material noncompliance

Questioned Costs:

Questioned Costs	Total	Federal	State
Known	$154,940	$154,940	
Likely	$154,940	$154,940	

Criteria: 2 CFR 200.408 Cost Principles for State, Local and Indian Tribal Governments (Subpart E); Grant Award Notification (Box 5 – Key Personnel) which states that the project director's level of effort for the program should be no more than 25 percent.

Condition: During the current fiscal year the project director dedicated 100 percent of his time to the program. Therefore, 100 percent of his salary was charged to the program rather than the 25 percent allowed according to the grant award notification.

Context: A total of $206,587 was charged to the program for the project Director's services during the current fiscal year.

Cause: The grant award was not amended to allow for 100% of contract costs associated with the project director's services to be charged to the grant. According to the project director, the U.S. Department of Education gave verbal approval for this change.

Effect: Potential disallowance of expenditures for the difference between the level of effort per the grant award notification and the amount actually charged to the program.

Recommendation: We recommend that the Department resolve the differences between the grant award notification and what is actually allowed by ED.

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

The Department is currently working with USDOE in order to amend the grant award to allow for 100% of contract costs associated with the project director's services. A resolution is expected by April 30, 2014 which should eliminate the questioned costs identified in this finding.

Contact: *Bill Hurwitch, Director, Statewide Longitudinal Data System, 624-6816*

IMPROVING TEACHER QUALITY STATE GRANTS

(13-1221-01)

Title: Inadequate procedures to ensure all subrecipient carryover reports have been submitted and balances liquidated.

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Education
State Bureau: Learning Systems Team – ESEA/No Child Left Behind
Federal Agency: U.S. Department of Education
CFDA Title: Title I, Part A Cluster
Improving Teacher Quality State Grants
CFDA #: 84.010, 84.367
Federal Award #: S010A110019, S367A110018

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (34 CFR 80.23(b), 34 CFR 80.40(a)); OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations ___.400(d)(3).

Condition: The Department did not consistently monitor the submission of carryover reports for subrecipients that carried over grant dollars from fiscal year 2012 into fiscal year 2013. In addition, the Department did not monitor the liquidation of unspent funds by subrecipients who reported a balance due the Department.

Context: We found eleven instances of subrecipients with carryover funds of $110,957 out of 158 total subrecipients where the subrecipient did not submit a final carryover report to the Department by the due date of June 30, 2013. We found two instances out of 158 subrecipients totaling $9,180 where the subrecipient did submit a final carryover report but did not pay the balance due to the Department. In February 2014, the Department contacted all subrecipients who had not submitted a report and had them submit a final report. The Department also contacted the two subrecipients who had not liquidated the grants and requested payment.

Cause: Lack of procedures regarding carryover reports and balances due the Department.

Effect: The Department does not have the necessary information to properly report and reimburse the unspent grant funds to the U.S. Department of Education.

Recommendation: We recommend that the Department establish a system whereby the annual No Child Left Behind grant applications are not approved until all required carryover reports from the previous year have been submitted, approved, and all balances liquidated.

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

Each NCLB program currently employs a checklist for ensuring that all critical components are reviewed and approved for each subrecipient as part of the annual NCLB Consolidated Application process. Corrective action includes all of the programs under NCLB currently checking carryover documents from FY12 previous years to ensure completeness. In addition, beginning July 1, 2014 with the 2014 NCLB Consolidated Application process, an additional line items for carryover review will be added to the individual program checklists to ensure that subrecipient carryover reporting from previous years is up to date and complete and review of the reimbursement system to ensure appropriate reconciliation of funds and payments due to the Department.

Contact: *Rachelle Tome, Chief Academic Officer, 624-6708*

UNEMPLOYMENT INSURANCE

(13-1302-01)

Title: Procedures to determine continuing eligibility needs improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1302-01	11-1302-06					

State Department: Labor
Administrative and Financial Services
State Bureau: Unemployment Compensation
Office of Information Technology
Federal Agency: U.S. Department of Labor
CFDA Title: Unemployment Insurance
CFDA #: 17.225
Federal Award #: Not applicable

Compliance Area: Eligibility

Type of Finding: Material weakness
Material noncompliance
Questioned costs

Questioned Costs:

Questioned Costs	Total	Federal	State
Known	Undeterminable		
Likely	Undeterminable		

Criteria: 26 MRSA 1192 Eligibility Conditions; 26 MRSA 1194 Claims for Benefits; Pub. L No. 112-96; SSA Sec. 303(12)[16]; 20 CFR 603.2 and 20 CFR 615.8

Condition: Procedures to determine continuing eligibility need to be improved. We reviewed a random sample of sixty-five weekly benefit payments that were funded either by Maine's employers or the Federal government. No work search log was ever submitted to the Bureau of Unemployment Compensation for thirty of the sixty-five cases. This represents an error rate of 46%.

This error rate for the Federally funded portion of the sixty-five count sample was 56% (fourteen of the twenty-five cases).

Context: $263 million in benefits were paid in fiscal year 2013. This includes $173 million of employer funded benefit payments and $90 million in Federally funded benefit payments.

Cause: Inadequate internal control procedures relating to continuing eligibility.

Effect: Approximately $50 million in Federally funded unemployment claims and $69 million in claims funded by Maine's employers were paid to persons who might not have been actively searching for a job and obtaining timely re-employment. The potential effect would be to improperly reduce Maine's Unemployment Fund held by the U.S. Treasury and to cause an unemployment tax rate increase in order to replenish the fund.

Recommendation: We recommend that the Department continue to implement procedures and system improvements to ensure that requirements for continuing eligibility are met and are adequately supported.

While the Department did implement a new work search audit process during the fourth quarter of fiscal year 2013, we contend that it does not adequately ensure work search eligibility requirements are met. During our audit we reviewed one week of the work search audit procedures employed by the Department noting that the results appear to be indicative of a significant work search eligibility problem among claimants receiving benefits.

Management's Response/Corrective Action Plan: *We believe that the Department is fully compliant with State and Federal continued eligibility requirements. The Department improved internal procedures for assessing continued eligibility during FY 2013. It was our understanding however that the sampling results in this finding reflect whether claimants provided work search documentation for the week reviewed regardless whether the claimant was instructed by the department to submit work search documentation for that week. Under the new work search audit procedures, claimants are instructed to maintain weekly records of the work search efforts but specifically instructed not to submit their documentation to the Department unless they are selected for audit and instructed to do so. Therefore, the fact that a percentage of the claimants reviewed in the sample of the audit program's key week did not have work search logs on file is not an error if the claimant had not been selected for a work search audit.*

As it was explained to us in the audit exit interview, it is the position of the State Audit Office that this is a requirement for receiving benefits each week and therefore, proof of work search must be provided every week. We agree that actively seeking work each week is a requirement for receiving benefits and claimants are required to attest to whether or not they did so each week in which they file a claim. However, requiring the submission and validation of work search evidence each week for every claimant is neither a requirement of State or Federal law.

If submitting and validating work search evidence for every claimant for every week were a statutory requirement, the department would not have the staffing or funding resources to make this level of review viable and still address all of the other potential eligibility and or benefit fraud issues that must be investigated and addressed. Work search is an important eligibility requirement but it is not the only statutory requirement that the agency must investigate for claimant compliance.

The audit review sample involved two sets of claimants, Emergency Unemployment program claimants and regular State Unemployment Insurance claimants; the work search requirements for these two claimant populations are distinctly different.

<u>Emergency Unemployment Program (EUC) Work Search Requirements</u>: EUC work search requirements in Unemployment Insurance Program Letter (UIPL) 04-10, Changes 9 and 10 interpret and explain the Federal statutory changes under Title II, Subtitle A of the Middle Class

Tax Relief and Job Creation Act of 2012, Public Law 112-96. P.L. 112-96 amended Section 4001(b) of the EUC Act by adding a new Subsection (4) that conditions EUC eligibility upon a claimant being "able to work, available to work, and actively seeking work." New Section 4001(h) (1) defines "actively seeking work" to mean that an individual must:

- *Register for Employment Services as prescribed by the State agency;*
- *Engage in an active search for work that is appropriate in light of the labor market and the individual's skills and capabilities, and includes an appropriate number of employer contacts as determined/prescribed by the State;*
- *Maintain a record of his/her work search, including employers contacted, method of contact, and date of contact; and*
- *When requested, provide the work search record to the State agency (italics added).*

Section 4001(h)(2) was also added requiring the Secretary of Labor to establish a minimum number of claims for which work search records must be randomly selected for audit in any given week. For Maine, this number was established at 50 audits per week. States must conduct these random audits to ensure that claimants receiving EUC are meeting the State's work search requirements. This UIPL provided guidance to states for these audits and the Department implemented this requirement in November 2012. Maine has adhered to these requirements.

<u>Regular State Unemployment Insurance Program Work Search Requirements</u>: For Regular State Unemployment Insurance Programs, neither Federal regulation nor Maine law requires the collection of evidence of work search for every weekly claim filed. P.L. 112-96 that made changes to the EUC program above, also added a provision under Section 2101 that adds paragraph 12 to Section 303(a) of the Social Security Act, which requires states to have as part of their statutes governing the State Regular Unemployment Insurance Program a provision stating, "as a condition of eligibility for regular compensation for any week, a claimant must be able to work, available to work, and actively seeking work." The U.S. Department of Labor issued UIPL 05-13 on January 10, 2013 to provide states guidance on this change, and in this, acknowledged that all states currently have this provision in their state statutes.

The UIPL goes on to say that "all States should maintain this requirement in their laws and have rules, regulations and procedures that ensure they substantially comply with this requirement." Neither the statute nor the UIPL mandates or even recommends that a State collect and validate work search documentation for every claimant every week. Maine chose to adopt and implement the Federal work search audit procedures for the regular State unemployment insurance program that are mandated to check claimant compliance under EUC's work search provisions. However, we increased the number of weekly audits to 150 as opposed to the 50 performed weekly under EUC.

The Department also proposed and the Maine Legislature enacted, a specific work search statute addressing the requirement that claimants actively seek work each week. Title 26 Chapter 13, section 1192.2 became effective on August 30, 2012, and states:

"The individual must actively seek work each week in which a claim for benefits is filed unless the individual is participating in approved training under subsection 6 or work search has been waived in accordance with rules adopted by the commission and provide evidence of work search efforts in a manner and form as prescribed by the Department of Labor (italics added). Failure to provide required work search documentation results in a denial of benefits in

accordance with section 1194, subsection 2 for the week or weeks for which no documentation (italics added) was provided unless the Department determines there is good cause for the individual's failure to comply with this requirement."

The 'form' currently prescribed by the Department is a work search log that the Department provides the claimant and the 'manner' is the work search audit process in which the claimant is notified in writing to provide their work search log along with verifiable contacts. The review and verification process is detailed and done to ensure understanding of and compliance with Maine's work search requirements. Unless claimants have work search waivers, claimants who fail to seek work or submit a work search record are advised that this will likely result in a denial of benefits as well as the requirement to repay benefits already received.

The Department recognizes that a complicating factor in this audit review was that in the year audited, the Department's internal policy for the submission of work search documentation changed part way through the year. During the first 9 months; the agency's previous policy of requiring every claimant in the regular state unemployment program to submit work search logs every 5 weeks was eliminated and replaced by the work search audit process. The Department made this change because we did not – nor would we likely ever – have the funding or staffing resources required to follow up on every work search log. As such, our prior policy requiring them to be sent every 5 weeks without the capacity to follow up on all of them sent the wrong message to the claimant population – that nothing would happen if they failed to comply. It was ineffective in gaining compliance and actually worked as a deterrent. Changing to a process where a sample of claimants are fully audited every week (different claimants each week) with benefits denied for failure to provide the log or for inadequate work search, sends a very different message to the claimant community; first that work search is a requirement for receiving benefits, and second, that benefits will be denied if the claimant fails to comply.

We believe that this policy change is having substantive results in improving claimant compliance with the work search provisions set forth in Maine statute. Since the audit program was instituted in April 2013, claimants selected for random audit have steadily shown an increase in numbers of individuals providing proof of work search activity. Additionally, the quality of the work search documents being submitted are improving in regards to meeting the criteria for a valid work search. This trend is shown in the statistics listed in the last page of the response to this finding.

Work search audits are a primary tool for assessing compliance along with the review of work search efforts in the mandatory reemployment eligibility assessment sessions in weeks 6 and 11 of one's benefit series. We also do extensive messaging through various media including the claimant handbook, messages included on benefit payment advice of deposits, IVR and website messaging and posters in all CareerCenters.

Work is also underway to further strengthen public education on this important eligibility requirement. The Department is developing a series of educational videos for claimants with a local production company to increase awareness and understanding of a wide array of eligibility requirements. Additionally, the Department plans to establish a work search unit that will focus exclusively on work search verification. The Department has a bill in this session to receive additional adjudicator positions and funding through a Federal Reed Act distribution that will provide us with an increased capacity to follow up on this and other potential eligibility issues in an effective and timely manner. Having this function in a single, centrally located unit will not *only increase attention to this eligibility area but better monitor and ensure consistent application of the law and conduct of the audit procedures by the bureau staff assigned to the work search audit unit.*

The included statistical chart shows the work search audit process results from its inception through January 2014.

REVIEW OF WORK SEARCH AUDIT PROCESS

	Apr 2013	May 2013	June 2013	July 2013	Aug 2013	Sept 2013	Oct 2013	Nov 2013	Dec 2013	Jan 2014
Fact Findings scheduled	800	800	800	800	1000	800	800	800	1000	800
W.S. logs received	440	441	487	473	560	476	457	511	619	548
Failed to provide logs/denied	360 (45%)	359 (45%)	313 (39%)	327 (41%)	440 (44%)	324 (41%)	343 (43%)	289 (36%)	381 (38%)	252 (32%)
Inadequate W.S./denied	51 (6%)	94 (12%)	97 (12%)	62 (8%)	63 (6%)	49 (6%)	54 (7%)	63 (7%)	52 (8%)	16 (2%)

Contact: *Laura L. Boyett, Director, Bureau of Unemployment Compensation, 621-5156*

Auditor's concluding remarks: State and Federal Law governing the State Unemployment Program and the Emergency Unemployment Program list work search as a condition of continuing eligibility to be complied with for each week a claim is paid. As mentioned in the Management Response, internal control systems and processes employed by the State of Maine Bureau of Unemployment Compensation (BUC) changed during fiscal year 2013. The changes were made as the BUC sought improvements in determining claimant eligibility with work search requirements.

Our audit finding and opinion on this matter is to communicate that, given the circumstances within the claimant population, a material weakness in internal control exists in the area of claimant continuing eligibility and work search requirements. We noted in our finding that we reviewed the results of BUC's internal work search audit process. In our review we noted comparable results to the data provided in the Management Response from the BUC. We believe these results substantiate the cause for our concern.

Our finding remains as stated.

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER

(13-1401-03)

Title: Internal controls are not sufficient to ensure that subrecipient contracts contain all information required by Federal regulations

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1401-02						

State Department: Transportation (MDOT)
State Bureau: Finance and Administration
Federal Agency: U.S. Department of Transportation (DOT)
CFDA Title: Highway Planning and Construction Cluster
CFDA #: 20.205
Federal Award #: Various

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: OMB Circular A-133, __.400 (d) Pass-through entity responsibilities

Condition: MDOT did not identify the CFDA title and number when awarding funds to subrecipients for locally administered projects.

Context: Federal regulations require that a pass-through entity identify Federal awards to each subrecipient by CFDA title and number, award name and number, award year, Federal agency and whether the award is Research and Development. MDOT passed-through $7 million to subrecipients for locally administered projects during fiscal year 2013.

Cause: Inadequately designed procedures

Effect: Without this information, subrecipients may not be aware of compliance requirements related to grants and may not know how to properly report Federal expenditures on the Schedule of Expenditures for Federal Awards.

Recommendation: We recommend that the Department notify its subrecipients of the information required by Federal regulations.

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

The Department has addressed this issue by making changes to our Locally Administered Project Agreement template. The revised template includes fields for the CFDA, DUNS, and Federal Project numbers which will prevent this oversight from happening in the future.

Contact: *Michael Laberge, Local Project Coordinator, 624-3508*

SURFACE TRANSPORTATION – DISCRETIONARY GRANTS FOR CAPITAL INVESTMENT

(13-1404-01)

Title: Procedures to ensure compliance with Federal suspension and debarment requirements need improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1404-01						

State Department: Transportation
State Bureau: Freight and Business Services Office
Federal Agency: U.S Department of Transportation
CFDA Title: Surface Transportation- Discretionary Grants for Capital Investment
CFDA #: 20.932
Federal Award #: DTMA1G10006

Compliance Area: Procurement, suspension and debarment

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 49 CFR 18.35 Subawards to debarred and suspended parties

Condition: The Department did not have policies and procedures in place to ensure that awards were made only to parties who were not suspended or debarred from participation in Federal assistance programs. No verification was performed to ensure that contractors receiving significant grant funds were not suspended or debarred parties.

Context: The Department expended $1.5 million during fiscal year 2013 without verifying whether or not contractors were suspended or debarred from Federal participation.

Cause: Insufficient monitoring of contractual provisions

Effect: Potential payments to suspended or debarred parties that could result in disallowances

Recommendation: We recommend that the Department implement procedures to ensure all procurement contracts exceeding $25,000, including contracts procured through the Division of Purchases, are verified to ensure that contractors are not suspended or debarred from Federal participation.

Management's Response/Corrective Action Plan: *Maine Department of Transportation is in agreement with the finding.*

We will work with the Division of Purchases to include debarment language in their RFQ, RQS, and contract templates.

Contact: *Debora B. Farrell, Director, Contract Procurement Office, 624-3324*

CDBG – STATE ADMINISTERED CDBG CLUSTER

(13-1505-01)

Title: Procedures to ensure compliance with suspension and debarment requirements need improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1505-01						

State Department: Economic and Community Development (DECD)
State Bureau: Office of Community Development
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Title: Community Development Block Grant (CDBG) – State Administered CDBG Cluster
CFDA #: 14.228
Federal Award #: B-08-DN-0001

Compliance Area: Procurement, suspension and debarment

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 2 CFR 180 "Responsibilities of Participants Regarding Transactions Doing Business with Other Persons" states that when entering into a transaction, the participant must verify that the person or entity with whom they intend to do business is not excluded or disqualified by checking the System for Award Management (SAM) excluded party list, collecting a certification, or adding a clause or condition to the covered transaction.

Condition: The Department did not have sufficient procedures in place to ensure that awards were made only to parties who were not suspended or debarred from participation in Federal assistance programs. No verification procedures were performed for seven vendors who had expenditures during fiscal year 2013 under this grant award.

Context: During the State fiscal year 2013, $7,381,799 was expended for nine contracts funded from this Federal award.

Cause: The standard procedures related to awarding contracts were not performed, because the Federal government selected the municipalities to whom grants were awarded.

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

Recommendation: We recommend that the DECD ensure suspension and debarment requirements are satisfied for all contracts funded through this award. Furthermore, we recommend that for future contracts, regardless of methods used for awarding, suspension and debarment requirements are satisfied.

Management's Response/Corrective Action Plan: *The management of the Office of Community Development acknowledges the finding.*

The Office of Community Development currently has procedures in place to ensure that suspension and debarment requirements are satisfied. The Neighborhood Stabilization Program funds were a special Community Development Block Grant allocation as a result of the Housing and Economic Recovery Act of 2008. For this allocation, U.S. Department of Housing and Urban Development (HUD) specifically approved which municipalities would receive funding; these municipalities also have an existing contractual relationship with HUD as entitlements. The Office of Community Development has verified that the municipalities were not listed on the System for Award Management (SAM) excluded party list as of January 29, 2014.

Contact: *Deborah Johnson, Project Development Officer, Office of Community Development, DECD, 624-9817*

(13-1505-02)

Title: Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1505-02						

State Department: Economic and Community Development (DECD)
State Bureau: Office of Community Development
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Title: Community Development Block Grant (CDBG) – State Administered CDBG Cluster
CFDA #: 14.228

Federal Award #: B-12-DC-23-0001

Compliance Area: Reporting

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: 2 CFR 70 Reporting subaward and executive compensation information

Condition: The Department did not consistently comply with (FFATA) reporting requirements. FFATA requires that recipients report information about first tier subawards that result in an obligation of $25,000 or more in Federal funds. We noted the following:

- Two of a sample of eight contracts tested were not reported in a timely manner.
- Seven of forty-four subrecipients were not reported at all.

Context: Forty-four contracts totaling $10,962,972 required FFATA reporting during the fiscal year 2013.

Cause: Implementation challenges with the FFATA reporting process.

Effect: Potential Federal sanctions for noncompliance with FFATA reporting requirements.

Recommendation: We recommend that DECD continue to utilize the FFATA training materials available at the Federal Subaward Reporting System (FSRS) to comply with transparency requirements. Furthermore, we recommend that the DECD go back to any contracts encumbered under prior year grants and enter those into FSRS.

Management's Response/Corrective Action Plan: *The management of the Office of Community Development acknowledges the finding.*

The Office of Community Development has already entered the seven encumbered contracts that were missed during that first year of implementation of FFATA into the FSRS system for the 2011 award. There are now controls in place. Staff is familiar with the systems, and awards are being entered appropriately for the other CDBG Program awards.

Contact: *Deborah Johnson, Department of Economic and Community Development, Office of Community Development, Project Development Officer, 624-9817*

STATE ENERGY PROGRAM

(13-1530-01)

Title: Subrecipient monitoring procedures need improvement

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Executive
State Bureau: Governor's Energy Office
Federal Agency: U.S. Department of Energy
CFDA Title: State Energy Program
CFDA #: 81.041
Federal Award #: DE-EE0000368, DE-EE0004439, DE-FG26-06R130272

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Questioned Costs: None

Questioned Costs	Total	Federal	State
Known			
Likely			

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations __.400 (d)(3) Pass-through entity responsibilities; OMB Circular A-133 Compliance Supplement

Condition: The Department did not adequately monitor its single subrecipient to ensure compliance with all Federal requirements. The Department's subrecipient monitoring site visits did not include a review of detailed expenditure documentation.

Context: The program has only one subrecipient that received $5.26 million.

Cause: The Department did not have procedures requiring the review of detailed expenditure documentation.

Effect: Possible disallowed costs

Recommendation: We recommend that the Department include the review of individual expenditures during on-site visits to ensure compliance with grant requirements.

Management's Response/Corrective Action Plan: *The Governor's Energy Office agrees with the finding. The Governor's Energy Office has initiated a series of site visits to review the expenditures of its single subrecipient.*

Contact: *Lisa Smith, Senior Planner, Governor's Energy Office, 624-7445*

STATE OF MAINE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2013

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY13 Status (Refer to auditee's complete corrective action plan)	FY13 Finding
10-1151-05	93.069	Health and Human Services	Payroll costs not supported in accordance with Federal regulations	Not determinable	Corrective action completed in FY12	Finding was not repeated
10-1106-14	93.775 93.777 93.778	Health and Human Services & Administrative and Financial Services	Controls over prompt payment requirements need improvement	Not determinable	Finding no longer applies	ARRA audit requirement not applicable in FY13
10-1106-02	93.775 93.777 93.778	Health and Human Services & Administrative and Financial Services	Federal share of paid claims overstated	Not determinable	Corrective action not completed in FY13	13-1106-07
10-1106-15	93.775 93.777 93.778 93.767	Health and Human Services & Administrative and Financial Services	Controls to ensure payments are made from the correct Federal program need improvement	223,171	Corrective action not completed in FY13	13-1106-16
10-1106-03	93.775 93.777 93.778	Health and Human Services	Inconsistent application of controls over the Medicaid provider desk review process	None	Corrective action not completed in FY13	13-1106-14
10-1106-04	93.775 93.777 93.778	Health and Human Services	Procedures relating to the hospital cost reporting process need to be improved	None	Corrective action not completed in FY13	13-1106-13

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2013

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY13 Status (Refer to auditee's complete corrective action plan)	FY13 Finding
10-1106-12	93.775 93.777 93.778	Administrative and Financial Services	Procedures to ensure checks that remain uncashed beyond 180 days from issuance are credited to the Federal government on a timely basis	55,512	Corrective action not completed in FY13	13-1106-08
10-1106-01	93.775 93.777 93.778	Health and Human Services	Internal control over Medicare Part B eligibility needs improvement	None	Corrective action not completed in FY13	Management Letter comment issued for FY13
10-1106-09	93.775 93.777 93.778 93.767	Health and Human Services	Controls over pharmacy claims processing system need improvement	Not determinable	Corrective action not completed in FY13	13-1140-03
10-1106-10	93.775 93.777 93.778 93.767	Health and Human Services	Reimbursement rates not adequately supported / incorrect reimbursement rates paid to providers	30,000	Corrective action not completed in FY13	13-1106-02
10-1106-11	93.775 93.777 93.778	Health and Human Services	Provider eligibility procedures need improvement	None	Corrective action not completed in FY13	13-1106-11
10-1111-01	93.558 93.714 93.775 93.777 93.778 10.551 10.561	Health and Human Services	Income Eligibility and Verification System procedures need improvement	None	Corrective action not completed in FY13	13-1111-02

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2013

Finding Number	**CFDA Number**	**State Agency**	**Description**	**Questioned Costs**	**FY13 Status (Refer to auditee's complete corrective action plan)**	**FY13 Finding**
10-1140-02	93.775 93.777 93.778 93.767	Health and Human Services	Maine Claims Management System (MECMS) procedures to ensure local match (certified seed) is met need improvement	None	Corrective action completed in FY13	Finding was not repeated
10-1106-16	93.775 93.777 93.778 93.767	Health and Human Services	Incorrect client eligibility determinations	None (Medicaid) / Not determinable (CHIP)	Corrective action not completed in FY13	13-1140-04
10-1200-01	84.010 84.389 84.027 84.173 84.391 84.392 84.367 84.394 84.397	Administrative and Financial Services	Noncompliance with subrecipient cash management requirements	None	Corrective action not completed in FY13	Finding was not repeated
10-1200-03	84.010 84.027	Administrative and Financial Services	Federal cash management procedures not followed	None	Corrective action completed in FY13	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2013

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY13 Status (Refer to auditee's complete corrective action plan)	FY13 Finding
10-1200-04	10.553 10.556 10.559 84.389 84.173 84.391 84.392 84.367 84.394 84.397	Administrative and Financial Services	Federal cash management procedures inadequate	None	Corrective action completed in FY13	Finding was not repeated
10-1201-01	84.027 84.173 84.391 84.392	Education	Inadequate during-the-award monitoring procedures	None	Corrective action not completed in FY13	Finding was not repeated
10-1315-01	17.258 17.259 17.260	Administrative and Financial Services	Cash management procedures need to be improved	None	Corrective action completed in FY13	Finding was not repeated
11-1103-01	10.551 10.561	Administrative and Financial Services	Cost allocation plan error	$21,815	Corrective action completed in FY13	Finding was not repeated
11-1106-01	93.775 93.777 93.778	Health and Human Services	Controls over prompt payment requirements need improvement	Not determinable	Finding no longer applies	ARRA audit requirement not applicable in FY13
11-1106-02	93.775 93.777 93.778	Health and Human Services & Administrative and Financial Services	Federal share of paid claims overstated	Not determinable	Corrective action not completed in FY13	13-1106-07

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2013

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY13 Status (Refer to auditee's complete corrective action plan)	FY13 Finding
11-1106-07	93.775 93.777 93.778 93.767	Health and Human Services & Administrative and Financial Services	Procedures to ensure payments are made from the correct Federal program need improvement	223,793	Corrective action not completed in FY13	13-1106-16
11-1128-02	93.563	Health and Human Services	Case records not established within required time frame	None	Corrective action completed in FY13	Finding was not repeated
11-1128-03	93.563	Health and Human Services	Cases not referred to other States within required time frame	None	Corrective action completed in FY13	Finding was not repeated
11-1128-04	93.563	Health and Human Services	Interstate cases not responded to within required time frame	None	Corrective action completed in FY13	Finding was not repeated
11-1302-08	17.225	Labor	Procedures to write-off Unemployment Insurance benefit overpayments need to be reassessed	Not determinable	Corrective action completed in FY13	Finding was not repeated
11-1403-01	20.500 20.507 20.509	Transportation	Procedures related to subrecipient monitoring requirements need improvement	None	Corrective action not completed in FY13	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2013

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY13 Status (Refer to auditee's complete corrective action plan)	FY13 Finding
11-1302-02	17.225	Labor	Significant improvements are needed to prevent, detect, remediate and recover improper Unemployment Insurance benefit payments	None	Corrective action not completed in FY13	13-1302-01
11-1106-05	93.775 93.777 93.778	Health and Human Services	Inconsistent application of controls over the Medicaid provider desk review process	None	Corrective action not completed in FY13	13-1106-14
11-1106-06	93.775 93.777 93.778	Health and Human Services	Procedures relating to the hospital cost reporting process need to be improved	None	Corrective action not completed in FY13	13-1106-13
11-1106-13	93.775 93.777 93.778 93.767	Health and Human Services	Procedures need to be implemented to ensure that the MaineCare Fiscal Agent complies with provisions relating to information technology risk assessment and system security reviews	None	Corrective action completed in FY13	Finding was not repeated
11-1106-03	93.775 93.777 93.778	Administrative and Financial Services	Procedures relating to uncashed checks need improvement	Not determinable	Corrective action not completed in FY13	13-1106-08

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2013

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY13 Status (Refer to auditee's complete corrective action plan)	FY13 Finding
11-1106-08	93.775 93.777 93.778	Health and Human Services	Medicare Part B eligibility verification procedures need improvement	None	Corrective action not completed in FY13	Management Letter comment issued for FY13
11-1106-04	93.775 93.777 93.778 93.767	Health and Human Services	Controls over pharmacy claims processing system need improvement	Not determinable	Corrective action not completed in FY13	13-1140-03
11-1106-11	93.775 93.777 93.778 93.767	Health and Human Services	The Decision Support System/Data Warehouse is not reconciled to the Statewide accounting system	None	Corrective action not completed in FY13	13-1106-03
11-1106-14	93.767 93.775 93.777 93.778	Health and Human Services & Administrative and Financial Services	Procedures need to be implemented to ensure correct reimbursement rates are paid to providers and cost of care is properly deducted	Not determinable	Corrective action not completed in FY13	13-1106-02
11-1106-12	93.767 93.775 93.777 93.778	Health and Human Services	Provider eligibility procedures need improvement	None	Corrective action not completed in FY13	13-1106-09
11-1111-01	93.558 93.714 93.775 93.777 93.778 10.551 10.561	Health and Human Services	Income Eligibility and Verification System (IEVS) procedures need improvement	None	Corrective action not completed in FY13	13-1111-02

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Finding Number	**CFDA Number**	**State Agency**	**Description**	**Questioned Costs**	**FY13 Status (Refer to auditee's complete corrective action plan)**	**FY13 Finding**
11-1140-02	93.775 93.777 93.778 93.767	Health and Human Services	Claims processing procedures to ensure local match (certified seed) is met need improvement	None	Corrective action completed in FY13	Finding was not repeated
11-1106-16	93.775 93.777 93.778 93.767	Health and Human Services	Incorrect client eligibility determinations	None (Medicaid) / Not determinable (CHIP)	Corrective action not completed in FY13	13-1140-04
11-1200-01	84.010 84.389 84.027 84.173 84.391 84.392 84.367	Administrative and Financial Services	Noncompliance with subrecipient cash management requirements	None	Corrective action not completed in FY13	Finding was not repeated
11-1200-03	84.010 84.027 84.394	Administrative and Financial Services	Procedures to comply with Treasury State Agreement on cash management need to be improved	None	Corrective action completed in FY13	Finding was not repeated
11-1200-04	84.389 84.173 84.391 84.392	Administrative and Financial Services	Federal cash management procedures inadequate	None	Corrective action completed in FY13	Finding was not repeated
11-1201-02	84.027 84.173 84.391 84.392	Education	During-the-award monitoring procedures need improvement	None	Corrective action not completed in FY13	Finding was not repeated

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY13 Status (Refer to auditee's complete corrective action plan)	FY13 Finding
11-1201-01	84.173 84.392	Education	Noncompliance with Earmarking Requirements	None	Corrective action not completed in FY13	13-1201-01
11-1203-04	10.553 10.555 10.556 10.559	Education	Reports required under the Federal Funding Accountability and Transparency Act (FFATA) were not filed	None	Corrective action not completed in FY13	13-1203-01
11-1302-06	17.225	Labor & Administrative and Financial Services	Procedures to determine eligibility need to be improved	6,532	Corrective action not completed in FY13	13-1302-01
11-1315-01	17.258 17.259 17.278 17.260 17.277	Administrative and Financial Services	Cash management procedures need to be improved	None	Corrective action completed in FY13	Finding was not repeated
12-1302-01	17.225	Labor & Administrative and Financial Services	Procedures to determine continuing eligibility needs improvement	Not determinable	Corrective action not completed in FY13	13-1302-01
12-0308-01	Not applicable	Labor & Administrative and Financial Services	Accounting for the employer-funded unemployment insurance program needs to be improved	Not applicable	Corrective action not completed in FY13	13-0308-01
12-0703-01	11.452	Marine Resources	Pre-billing of board members' payments not allowed for reimbursement by Federal program	10,234	Corrective action completed in FY13	Finding was not repeated

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY13 Status (Refer to auditee's complete corrective action plan)	FY13 Finding
12-0909-01	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Reversed pharmacy claims payments not recovered	662,000	Corrective action not completed in FY13	13-1106-05
12-1103-02	10.580	Administrative and Financial Services	Costs not allocated in accordance with plans	30,582	Corrective action completed in FY13	Finding was not repeated
12-1106-01	93.720 93.775 93.777 93.778	Health and Human Services	Inconsistent application of controls over the Medicaid provider desk review process	None	Corrective action not completed in FY13	13-1106-14
12-1106-02	93.720 93.775 93.777 93.778	Health and Human Services	Procedures relating to the hospital cost reporting process need to be improved	None	Corrective action not completed in FY13	13-1106-13
12-1106-04	93.720 93.775 93.777 93.778	Health and Human Services & Administrative and Financial Services	Automated Data Processing (ADP) risk analysis and security reviews were not performed	None	Corrective action not completed in FY13	13-1106-10
12-1106-05	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Procedures to ensure that the MaineCare Fiscal Agent complies with provisions relating to information technology risk assessment and system security reviews need to be improved	None	Corrective action completed in FY13	Finding was not repeated

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY13 Status (Refer to auditee's complete corrective action plan)	FY13 Finding
12-1106-07	93.720 93.775 93.777 93.778	Administrative and Financial Services	Procedures relating to uncashed checks need improvement	40,061	Corrective action not completed in FY13	13-1106-08
12-1106-08	93.720 93.775 93.777 93.778	Health and Human Services	Medicare Parts A and B eligibility verification procedures need improvement	Not determinable	Corrective action not completed in FY13	Management Letter comment issued for FY13
12-1106-09	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Controls over pharmacy claims processing system need improvement	None	Corrective action not completed in FY13	13-1140-03
12-1106-10	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Access controls over Maine Integrated Health Management Solution (MIHMS) need improvement	None	Corrective action not completed in FY13	13-1106-06
12-1106-11	93.720 93.775 93.777 93.778 93.767	Health and Human Services	The Decision Support System/Data Warehouse is not reconciled to the Statewide accounting system	None	Corrective action not completed in FY13	13-1106-03

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Finding Number	**CFDA Number**	**State Agency**	**Description**	**Questioned Costs**	**FY13 Status (Refer to auditee's complete corrective action plan)**	**FY13 Finding**
12-1106-12	93.720 93.775 93.777 93.778	Health and Human Services & Administrative and Financial Services	Procedures to ensure proper crediting of Federal share of “cost of care” recoupments and procedures to ensure “cost of care” is properly deducted need improvement	803	Corrective action not completed in FY13	13-1106-02
12-1106-14	93.720 93.775 93.777 93.778	Health and Human Services	Provider eligibility procedures need improvement	None	Corrective action not completed in FY13	13-1106-09
12-1108-01	10.561	Administrative and Financial Services	Cash management procedures need improvement	None	Corrective action not completed in FY13	13-1108-01
12-1109-01	93.658	Administrative and Financial Services	Payroll costs not properly documented	None	Corrective action completed in FY13	13-1109-01
12-1109-02	93.658	Administrative and Financial Services	Procedures not adequate to ensure payments are made only for allowable costs	90,069	Corrective action completed in FY13	Finding was not repeated
12-1111-01	93.558 93.775 93.777 93.778 10.551 10.561	Administrative and Financial Services	Inadequate controls over required Income and Eligibility Verification System (IEVS) data exchanges	None	Corrective action not completed in FY13	13-1111-01

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Finding Number	**CFDA Number**	**State Agency**	**Description**	**Questioned Costs**	**FY13 Status (Refer to auditee's complete corrective action plan)**	**FY13 Finding**
12-1111-02	93.558 93.775 93.777 93.778 10.551 10.561	Health and Human Services	Income Eligibility and Verification System (IEVS) procedures need improvement	None	Corrective action not completed in FY13	13-1111-02
12-1113-01	10.557	Administrative and Financial Services	Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency	None	Corrective action completed in FY13	13-1113-01
12-1118-03	93.268 93.712	Health and Human Services	Hours worked for the program not adequately documented.	None	Corrective action not completed in FY13	13-1118-01
12-1140-01	93.767	Administrative and Financial Services	Federal cash management procedures need improvement	None	Corrective action completed in FY13	13-1140-02
12-1140-02	93.720 93.775 93.777 93.778 93.767	Health and Human Services	Procedures to ensure that local matching funds (certified seed) are met need improvement	None	Corrective action completed in FY13	Finding was not repeated
12-1140-03	93.767	Health and Human Services	Incorrect client eligibility determinations	1,321 (CHIP) / -1,124 (Medicaid)	Corrective action not completed in FY13	13-1140-04

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY13 Status (Refer to auditee's complete corrective action plan)	FY13 Finding
12-1200-01	84.010 84.389 84.027 84.173 84.391 84.392 84.287 84.367	Education	Noncompliance with subrecipient cash management requirements	None	Corrective action not completed in FY13	Finding was not repeated
12-1200-02	84.010	Administrative and Financial Services	Noncompliance with period of availability requirements	13,564	Corrective action completed in FY13	Finding was not repeated
12-1200-03	84.010 84.389 84.027 84.391 10.555 84.394	Administrative and Financial Services	Procedures to ensure compliance with Treasury-State Agreement for cash management need to be improved	None	Corrective action completed in FY13	Finding was not repeated
12-1200-04	84.367 84.410	Administrative and Financial Services	Federal cash management procedures need improvement	None	Corrective action completed in FY13	Finding was not repeated
12-1200-05	84.027 84.173 84.391 84.392 84.394	Education	Control procedures related to period of availability requirements need improvement	Not determinable	Corrective action not completed in FY13	Finding was not repeated
12-1201-01	84.027 84.391	Education	Noncompliance with earmarking requirements	65,846	Corrective action completed in FY13	Finding was not repeated
12-1201-02	84.027 84.173 84.391 84.392	Education	During-the-award monitoring procedures need improvement	None	Corrective action not completed in FY13	Finding was not repeated

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY13 Status (Refer to auditee's complete corrective action plan)	FY13 Finding
12-1201-03	84.027 84.173 84.391 84.392	Education	Noncompliance with reporting requirements	None	Corrective action not completed in FY13	13-1201-02
12-1201-04	84.173	Education	Noncompliance with Earmarking Requirements	None	Corrective action not completed in FY13	13-1201-01
12-1203-01	10.553 10.555 10.556 10.559	Education	Agency did not file reports required under the Federal Funding Accountability and Transparency Act	None	Corrective action not completed in FY13	13-1203-01
12-1205-01	84.287	Education	During-the-award monitoring procedures need improvement	None	Corrective action completed in FY13	Finding was not repeated
12-1302-01	17.225	Labor & Administrative and Financial Services	Procedures to determine continuing eligibility needs improvement	Not determinable	Corrective action not completed in FY13	13-1302-01
12-1315-01	17.258 17.259 17.278	Administrative and Financial Services	Cash management procedures need to be improved	None	Corrective action completed in FY13	Finding was not repeated
12-1401-02	20.205 20.219	Transportation	Subrecipient contracts do not contain all information required by Federal regulations	None	Corrective action not completed in FY13	13-1401-03

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12-1404-01	20.932	Transportation	Procedures to ensure compliance with Federal suspension and debarment	None	Corrective action completed in FY13	13-1404-01
12-1505-01	14.228	Economic and Community Development	Suspension and debarment requirements overlooked	None	Corrective action not completed in FY13	03-1505-01
12-1505-02	14.228	Economic and Community Development	Federal Funding Accountability and Transparency Act (FFATA) reporting deficiency	None	Corrective action not completed in FY 2013	13-1505-02

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