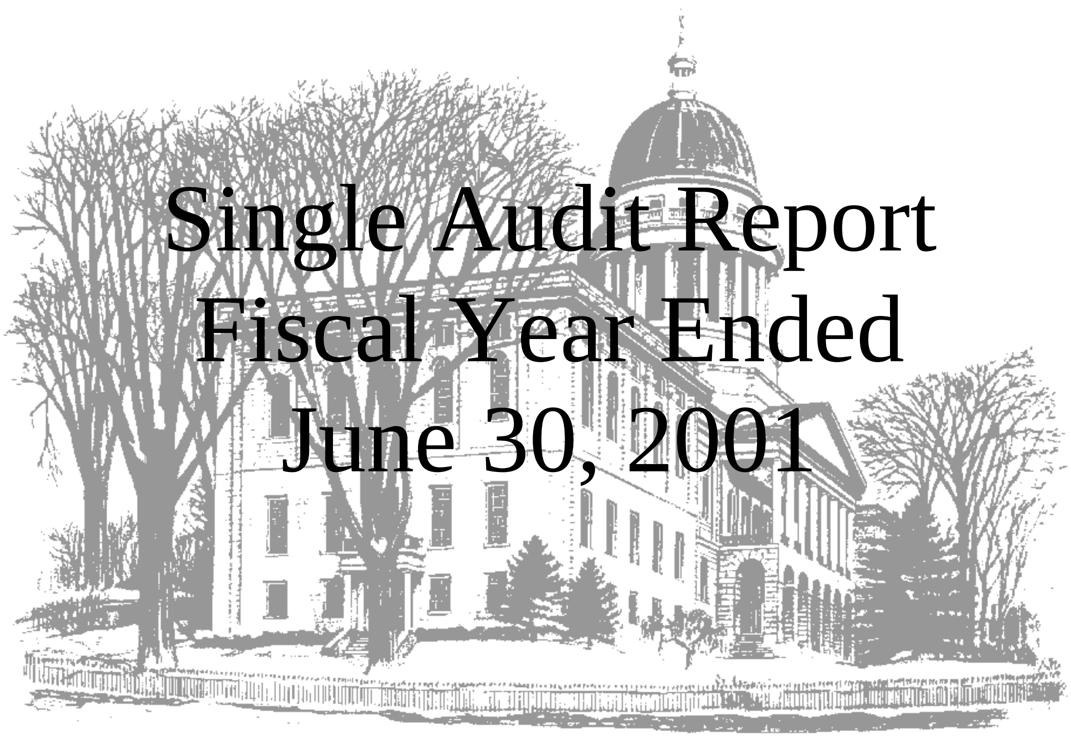
6-28-2002

Single Audit Report Fiscal Year Ended June 30, 2001

Maine State Auditor's Office

State of Maine



Single Audit Report
Fiscal Year Ended
June 30, 2001

Prepared by
State Department of Audit
Gail M. Chase, CIA, State Auditor

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STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2001

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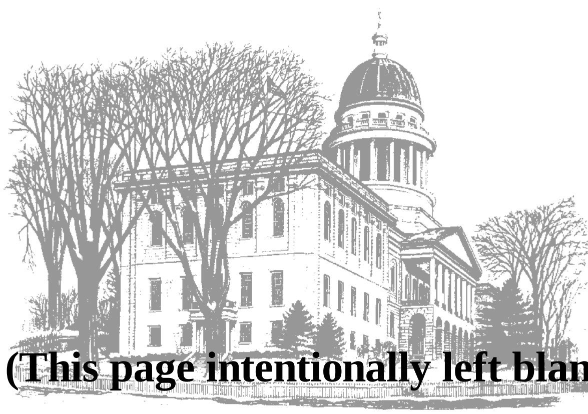

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Letter of Transmittal

Senator Richard A. Bennett
President of the Senate

Senator Michael H. Michaud
President Pro Tempore

Representative Michael V. Saxl
Speaker of the House of Representatives

The Honorable Angus S. King, Jr.
Governor of Maine

We are pleased to submit the Single Audit of the State of Maine for the fiscal year ended June 30, 2001. This report complies with the State's audit requirements, including those placed upon the State as a condition for the receipt of over $1.7 billion in federal funds. The audit was conducted in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States; the requirements of the Single Audit Act Amendments of 1996; and the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

This document contains the following reports and schedules:

* Independent Auditor's Report

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

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

* Schedule of Expenditures of Federal Awards

* Schedule of Findings and Questioned Costs

* Corrective Action Plan

* Summary Schedule of Prior Audit Findings

On behalf of the Department of Audit, I would like to express my gratitude to employees throughout State government who have assisted us during the conduct of our audit and in the issuance of this report. We continue our mutual effort to improve financial reporting and accountability to the citizens of our State.

We would be pleased to respond to any questions or comments about the 2001 Single Audit of the State of Maine.

Respectfully submitted,

Gail M. Chase, CIA
State Auditor

June 28, 2002

EXECUTIVE SUMMARY

Introduction:

The *Single Audit of the State of Maine for the Year Ended June 30, 2001* is a financial and compliance audit that fulfills State and federal requirements. To satisfy the needs of report users, and to be in compliance with federal regulation, the *Single Audit* is presented in three individual reports: the *Independent Auditor's Report*; the *Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*; and the *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.* There is also a separately issued management letter.

Scope and Results:

The audit is of the general purpose financial statements of the State of Maine. These statements include all funds, organizations, institutions, agencies, departments and offices of the State, as well as thirteen entities that meet the criteria for component units due to the significance of their operational or financial relationships with the State. Our audit resulted in a qualified opinion on the financial statements, as described below. There were no instances of noncompliance with laws, rules or regulations that were material to the financial statements.

We also audited 22 individual federal programs, as well as 16 programs that were audited as six program "clusters." Our opinion on the compliance of each with federal laws, rules or regulations was unqualified. All identified instances of noncompliance were not material to a major federal program. For certain federal programs, we found that controls were insufficient to ensure compliance with program rules and regulations.

We found no instances of fraud, illegal acts or other irregularities.

Opinion:

Our opinion on the financial statements of the State of Maine was qualified because of the following departures from generally accepted accounting principles:

* inadequate systems to report capital leases
* inadequate disclosure of pension information

It should be noted that an issue previously resulting in a qualification, the omission from the financial statements of the General Fixed Assets Account Group, has been resolved.

Our opinion on the Schedule of Expenditures of Federal Awards was unqualified.

Our opinion on each major program's compliance with federal requirements was unqualified.

Financial Statement Controls and Compliance:

We identified three reportable conditions relating to deficiencies in internal controls that could adversely affect the State's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These conditions are described in detail in the accompanying Schedule of Findings and Questioned Costs as items 01-01 through 01-03 and are as follows:

* inadequate internal control over identification, classification and reporting of lease transactions
* inadequate controls to ensure complete and accurate recording of general fixed assets
* assets of the Department of Transportation not recorded on State records

We found no noncompliance with laws and regulations that could have a direct and material effect on the financial statements.

Federal Funds Controls and Compliance:

We identified 45 reportable conditions relating to significant deficiencies in the design or operation of controls over compliance that could adversely impact the State's ability to administer a major federal program in accordance with the requirements of laws, regulations, contracts and grants. We consider two of the reportable conditions to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The reportable conditions and material weaknesses relate to the following areas:

* Allowable costs and cost principles
* Cash management
* Eligibility
* Matching, level of effort, and earmarking requirements
* Expenditure of funds within the period of availability
* Procurement, and suspension and debarment
* Accounting for and reporting of federal funds
* Subrecipient monitoring
* Compliance with the Davis-Bacon Act

* Program income
* Other special tests and provisions

There were also ten instances of noncompliance that are not included among the reportable conditions that are required to be reported in compliance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* The reportable conditions and instances of noncompliance are identified as items 01-04 through 01-59 in the accompanying Schedule of Findings and Questioned Costs.

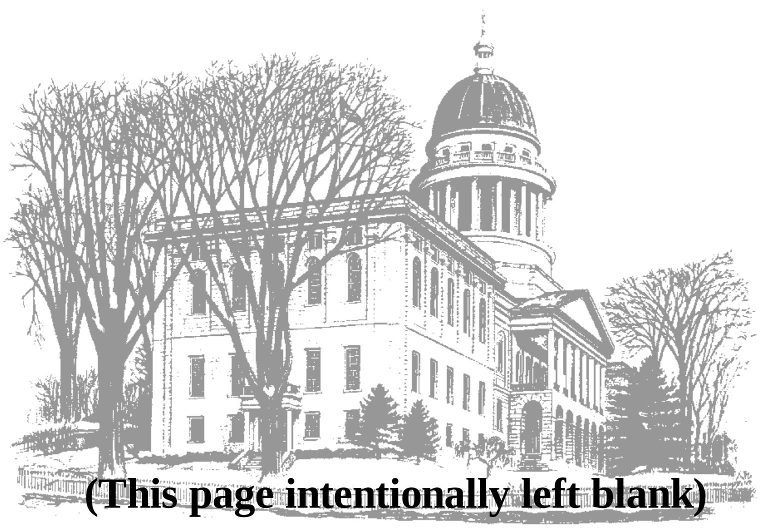
Eighteen of the deficiencies resulted in questioned costs that totaled $6,022,051. It should be noted that this compares unfavorably with the results of the fiscal year2000 audit, in which twelve deficiencies resulted in questioned costs of $1,595,885. It should also be noted, however, that some questioned costs are matters of incorrect reporting, or erroneous entries, that occurred during the period under audit but may have been subsequently corrected. Questioned costs represent the amount of federal financial assistance that we believe was not spent in compliance with program rules or regulations or that was insufficiently documented for us to determine compliance. The federal government may, or may not, disallow these costs and require reimbursement from the State.

Other:

Other less significant instances of noncompliance, as well as comments that may improve internal controls, are reported in the separately issued management letter.

Conclusion:

Our audit resulted in a qualified opinion and identified serious weaknesses in systems of internal control, as well as various instances of noncompliance. However, we recognize that financial managers of the State of Maine have initiated action that should resolve many of these issues. While the nature of any audit report is inherently critical, we believe that the State of Maine has improved both its financial reporting and its systems to ensure accountability.



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Independent Auditor's Report

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

We have audited the accompanying general purpose financial statements of the State of Maine, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the State of Maine's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the discretely presented component units listed in Note 1, which represent 100 percent of the total assets and 100 percent of the total revenues of the component unit column, 100 percent of the changes in pension plan net assets and 100 percent of the assets and 100 percent of the revenues of the college and university component unit funds. We did not audit the financial statements of the Maine Governmental Facilities Authority, which represents 5.08 percent of the assets and .24 percent of the total revenues of the Special Revenue Fund Type. Those financial statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the discretely presented component units and for the Maine Governmental Facilities Authority, is based solely on the reports of the other auditors.

Except as discussed in the first succeeding paragraph, 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 general purpose financial statements are free of material misstatement. The financial statements of the Maine Educational Loan Authority, the Maine Governmental Facilities Authority, and the Maine Health and Higher Education Facilities Authority were not audited in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

Because the State of Maine does not maintain adequate systems to identify, classify and report capital leases in conformity with generally accepted accounting principles, we were unable to satisfy ourselves regarding the amounts at which fixed assets (stated at $76.9 million), and obligations under capital leases (stated at $26.7 million) are recorded in the Internal Service Fund and disclosed in the operating and capital lease portions of Note 11 to the financial statements.

The State's financial statements include pension information as audited by other auditors. The Statement of Changes in Pension Plan Net Assets is presented as if the Maine State Retirement System were the administrator of a single plan. Also, Notes 1 and 9 to the financial statements state that the System is the administrator of an agent, multiple-employer system. Further, Note 9 states that Maine State Retirement System management's

interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries, and that the System is therefore regarded as administering a single plan for reporting purposes. The State's legal counsel does not agree with the accumulated assets representation. In our opinion, there is more than one pension plan and additional disclosure is required to conform with generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, except for the effect on the financial statements of the omission and representation described in the first preceding paragraph, and the effect of such adjustments, if any, as might have been determined to be necessary had records concerning capital leases been adequate (discussed in the second preceding paragraph), the general purpose financial statements referred to in the first paragraph (as included in the table of contents) present fairly, in all material respects, the financial position of the State of Maine, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types, nonexpendable trust funds and discretely presented component units, the changes in pension plan net assets, and the changes in fund balances and current funds revenues, expenditures, and other changes of the college and university funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2002 on our consideration of the State of Maine's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Notes 1 and 3 to the financial statements, the State of Maine reporting entity changed to include the Child Development Services System.

As discussed in Note 3 to the financial statements, the fund balance of the Expendable Trust Fund and the retained earnings and contributed capital of the Enterprise Fund have been restated.

The schedules of funding progress and employer contributions for the State retirement plan and the Participating Local District plan are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the general purpose financial statements of the State of Maine. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects, in relation to the general purpose financial statements taken as a whole.

Gail M. Chase, CIA
State Auditor

May 24, 2002

GENERAL PURPOSE FINANCIAL STATEMENTS

STATE OF MAINE
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUP AND DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2001
(Expressed in Thousands)

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Assets and Other Debits			
Cash and Short-Term Investments	$ 88,209	$ 217,172	$ 64,852
Cash with Fiscal Agent	13,704	3,389	-
Investments	58,789	163,957	6,684
Restricted Deposits and Investments	9,068	36,818	-
Assets Held in Trust	-	-	-
Unemployment Deposits with US Treasury	-	-	-
Receivables, Net of Allowance for Uncollectibles:			
Taxes Receivable	348,503	39,490	-
Due from Other Governments	-	184,238	-
Loans Receivable	1	1,093	-
Notes Receivable	-	-	-
Other Receivable	48,431	48,884	-
Due from Other Funds	5,734	12,553	-
Due from Primary Government	-	-	-
Inventories	2	20,766	-
Fixed Assets - Net of Depreciation Where Applicable	-	-	-
Working Capital Advances Receivable	1,386	1,117	-
Other Assets	8,428	1	-
Amount to be Provided for Retirement of General Long-Term Obligations	-	-	-
Total Assets and Other Debits	$ 582,255	$ 729,478	$ 71,536
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	$ 92,680	$ 170,560	$ 1,364
Accrued Payroll	15,970	18,706	-
Compensated Absences	1,641	1,877	-
Tax Refunds Payable	108,018	-	-
Due to Other Governments	-	60,917	-
Due to Other Funds	11,897	13,850	-
Due to Component Units	1,938	7,080	576
Agency Liabilities	-	-	-
Claims Payable	-	-	-
Interest Payable	-	-	-
Other Accrued Liabilities	8,517	1,191	-
Certificates of Participation and Other Financing Arrangements	-	-	-
Obligations under Capital Leases	-	-	-
Pension Obligation	-	-	-
Amounts Held under State Loan Programs	-	-	-
Deferred Revenue	29,475	28,477	-
Undisbursed Grant and Administrative Funds	-	-	-
Bonds and Notes Payable	448	11	-
Working Capital Advances Payable	100	175	-
Total Liabilities	270,684	302,844	1,940
Fund Equity and Other Credits:			
Investment in Fixed Assets			
Contributed Capital	-	-	-
Retained Earnings:			
Reserved	-	-	-
Unreserved	-	-	-
Fund Balances (Deficits):			
Reserved for Continuing Appropriations	143,404	450,647	-
Reserved for Unemployment Benefits	-	-	-
Reserved for Nonexpendable Trusts	-	-	-
Reserved for Rainy Day Fund	143,713	-	-
Reserved for Pension Benefits	-	-	-
Reserved for Debt Service	14,830	8,413	-
Reserved for Capital Projects	-	26,928	69,596
Other Reservations	36,887	2,265	-
Net Investment in Plant	-	-	-
Unreserved	(27,263)	(61,619)	-
Total Fund Equity and Other Credits	311,571	426,634	69,596
Total Liabilities, Fund Equity and Other Credits	$ 582,255	$ 729,478	$ 71,536

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

	Primary Government							
	Proprietary Fund Types		Fiduciary Fund Types	Account Groups				
	Enterprise	**Internal Service**	**Trust and Agency**	**General Long-Term Obligations**	**General Fixed Assets**	**Total Primary Government (Memorandum Only)**	**Component Units**	**Total Reporting Entity (Memorandum Only)**
	$ 4,857	$ 41,284	$ 4,899	$ -	$ -	$ 421,273	$ 293,754	$ 715,027
	-	309	2	-	-	17,404	36,773	54,177
	2,995	30,215	128,997	-	-	391,637	8,028,984	8,420,621
	-	-	-	-	-	45,886	6,971	52,857
	-	-	606,012	-	-	606,012	-	606,012
	-	-	369,978	-	-	369,978	-	369,978
	-	-	41,055	-	-	429,048	-	429,048
	-	-	-	-	-	184,238	1,004,978	1,189,216
	7,927	-	-	-	-	9,021	2,298,042	2,307,063
	-	-	-	-	-	-	72,340	72,340
	11,729	596	-	-	-	109,640	93,925	203,565
	15	12,408	7	-	-	30,717	-	30,717
	-	-	-	-	-	-	9,931	9,931
	3,729	4,917	-	-	-	29,414	5,217	34,631
	54,022	76,936	-	-	415,224	546,182	414,970	961,152
	-	-	-	-	-	2,503	-	2,503
	168	1,074	22	-	-	9,693	62,093	71,786
	-	-	-	672,680	-	672,680	-	672,680
	$ 85,442	$ 167,739	$ 1,150,972	$ 672,680	$ 415,224	$ 3,875,326	$ 12,327,978	$ 16,203,304
	$ 6,163	$ 9,888	$ 2,711	$ -	$ -	$ 283,366	$ 48,940	$ 332,306
	498	1,526	-	-	-	36,700	414	37,114
	516	1,174	-	30,979	-	36,187	286	36,473
	-	-	-	-	-	108,018	-	108,018
	-	-	-	-	-	60,917	16,896	77,813
	2,507	1,614	849	-	-	30,717	-	30,717
	337	-	-	-	-	9,931	-	9,931
	-	-	606,911	-	-	606,911	-	606,911
	-	78,946	-	-	-	78,946	-	78,946
	-	85	-	-	-	85	45,056	45,141
	6,402	78	1,912	-	-	18,100	134,657	152,757
	-	17,662	-	159,870	-	177,532	-	177,532
	-	26,695	-	-	-	26,695	5,280	31,975
	-	-	-	75,341	-	75,341	-	75,341
	-	-	-	-	-	-	86,662	86,662
	367	4,749	1,637	-	-	64,705	39,693	104,398
	-	-	-	-	-	-	6,352	6,352
	-	-	-	406,490	-	406,949	3,605,571	4,012,520
	1,000	1,228	-	-	-	2,503	-	2,503
	17,790	143,645	614,020	672,680	-	2,023,603	3,989,807	6,013,410
			-	-	415,224	415,224	-	415,224
	56,632	26,824	-	-	-	83,456	-	83,456
	-	-	-	-	-	-	289,628	289,628
	11,020	(2,730)	-	-	-	8,290	283,752	292,042
	-	-	-	-	-	594,051	-	594,051
	-	-	405,834	-	-	405,834	-	405,834
	-	-	20,557	-	-	20,557	-	20,557
	-	-	-	-	-	143,713	-	143,713
	-	-	-	-	-	-	7,028,779	7,028,779
	-	-	-	-	-	23,243	50,475	73,718
	-	-	-	-	-	96,524	113,363	209,887
	-	-	-	-	-	39,152	172,048	211,200
	-	-	-	-	-	-	328,203	328,203
	-	-	110,561	-	-	21,679	71,923	93,602
	67,652	24,094	536,952	-	415,224	1,851,723	8,338,171	10,189,894
	$ 85,442	$ 167,739	$ 1,150,972	$ 672,680	$ 415,224	$ 3,875,326	$ 12,327,978	$ 16,203,304

STATE OF MAINE
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	Primary Government						
	Governmental Fund Types			Fiduciary Fund Type			
	General	Special Revenue	Capital Projects	Expendable Trust	Total Primary Government (Memorandum Only)	Component Units	Total Reporting Entity (Memorandum Only)
Revenues:							
Taxes	$ 2,282,090	$ 240,041	$ -	$ 150,973	$ 2,673,104	$ -	$ 2,673,104
Assessments and Other Revenues	61,636	147,268	-	-	208,904	-	208,904
Federal Grants and Reimbursements	503	1,609,706	-	-	1,610,209	12,445	1,622,654
Service Charges	24,921	44,429	-	-	69,350	7,374	76,724
Received and Receivable from Institutions	-	-	-	-	-	90,018	90,018
Income from Investments	21,491	25,762	3,116	27,370	77,739	14,470	92,209
Net Increase (Decrease) in the Fair Value of Investments	-	-	-	(3,693)	(3,693)	(7)	(3,700)
Miscellaneous Revenues	5,250	104,932	-	7,272	117,454	1,145	118,599
Total Revenues	2,395,891	2,172,138	3,116	181,922	4,753,067	125,445	4,878,512
Expenditures:							
General Government	271,503	282,500	1,261	633	555,897	155,786	711,683
Economic Development	43,709	66,595	-	-	110,304	-	110,304
Education and Culture	870,352	122,261	1,379	-	993,992	19,856	1,013,848
Human Services	835,249	1,242,648	94	-	2,077,991	-	2,077,991
Labor	11,942	64,447	-	90,917	167,306	-	167,306
Natural Resources	51,116	71,844	9,081	-	132,041	-	132,041
Public Protection	24,492	68,105	350	-	92,947	-	92,947
Transportation	3,212	363,450	30,926	-	397,588	22,958	420,546
Debt Service:							
Principal Payments	65,940	25,055	-	-	90,995	38,700	129,695
Interest Payments	18,122	14,290	-	-	32,412	54,882	87,294
Total Expenditures	2,195,637	2,321,195	43,091	91,550	4,651,473	292,182	4,943,655
Revenues over (under) Expenditures	200,254	(149,057)	(39,975)	90,372	101,594	(166,737)	(65,143)
Other Financing Sources (Uses):							
Operating Transfers In	115,222	176,737	-	51,062	343,021	-	343,021
Operating Transfers Out	(221,867)	(56,305)	(2,452)	(5,319)	(285,943)	(6,198)	(292,141)
Bond Proceeds	-	58,850	40,574	-	99,424	128,740	228,164
Operating Transfers from Component Units	-	-	-	-	-	-	-
Operating Transfers to Component Units	(304,952)	(36,027)	(9,412)	-	(350,391)	-	(350,391)
Operating Transfers from Primary Government	-	-	-	-	-	21,055	21,055
Net Other Financing Sources (Uses)	(411,597)	143,255	28,710	45,743	(193,889)	143,597	(50,292)
Excess (Deficiency) of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(211,343)	(5,802)	(11,265)	136,115	(92,295)	(23,140)	(115,435)
Fund Balances at Beginning of Year (As Restated)	522,914	432,436	80,861	380,280	1,416,491	159,925	1,576,416
Fund Balances at End of Year	$ 311,571	$ 426,634	$ 69,596	$ 516,395	$ 1,324,196	$ 136,785	$ 1,460,981

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

STATE OF MAINE
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGETARY BASIS - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUND TYPES

Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	General Fund			Special Revenue Fund		
	Actual	Budget	Variance Favorable/ (Unfavorable)	Actual	Budget	Variance Favorable/ (Unfavorable)
Revenues:						
Taxes	$ 2,291,573	$ 2,264,217	$ 27,356	$ 239,816	$ 232,570	$ 7,246
Assessments and Other Revenues	61,636	59,026	2,610	147,035	153,949	(6,914)
Federal Grants and Reimbursements	16,522	17,065	(543)	1,515,901	1,901,360	(385,459)
Service Charges	37,550	35,532	2,018	59,639	108,922	(49,283)
Miscellaneous Revenues	17,435	19,239	(1,804)	226,498	172,277	54,221
Total Revenues	2,424,716	2,395,079	29,637	2,188,889	2,569,078	(380,189)
Expenditures:						
General Government	365,084	390,538	25,454	206,760	252,305	45,545
Economic Development	56,027	74,945	18,918	68,857	101,486	32,629
Education and Culture	1,203,913	1,207,416	3,503	122,096	135,185	13,089
Human Services	852,892	901,771	48,879	1,302,573	1,517,028	214,455
Labor	12,412	17,149	4,737	65,234	96,507	31,273
Natural Resources	50,840	57,958	7,118	71,443	111,437	39,994
Public Protection	24,461	26,156	1,695	67,551	86,533	18,982
Transportation	2,982	16,586	13,604	392,516	531,410	138,894
Total Expenditures	2,568,611	2,692,519	123,908	2,297,030	2,831,891	534,861
Excess Revenues over (under) Expenditures	(143,895)	(297,440)	153,545	(108,141)	(262,813)	154,672
Other Financing Sources (Uses):						
Operating Transfers In	111,843	110,675	1,168	135,037	163,083	(28,046)
Operating Transfers Out	(160,768)	(151,423)	(9,345)	(37,363)	(42,234)	4,871
Net Other Financing Sources (Uses)	(48,925)	(40,748)	(8,177)	97,674	120,849	(23,175)
Excess Revenues and Other Sources over (under) Expenditures and Other Uses	(192,820)	$ (338,188)	$ 145,368	(10,467)	$ (141,964)	$ 131,497
Beginning Fund Balances - As Restated	558,382			426,077		
Ending Fund Balances	$ 365,562			$ 415,610		

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

STATE OF MAINE
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES AND CONTRIBUTED CAPITAL
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	Primary Government					
	Proprietary Fund Types		Fiduciary Fund Types			
	Enterprise	Internal Service	Nonexpendable Trusts	Total Primary Government (Memorandum Only)	Component Units	Total Reporting Entity (Memorandum Only)
Operating Revenues:						
Charges for Services	$ 231,299	$ 170,708	$ -	$ 402,007	$ -	$ 402,007
Interest on Loans Receivable from Governmental Units	-	-	-	-	48,032	48,032
Income from Investments	-	-	6,561	6,561	41,602	48,163
Fair Value Increases (Decreases)	-	-	(7,017)	(7,017)	15,453	8,436
Interest Income from Mortgages and Notes	-	-	-	-	87,365	87,365
Grant Revenue from Other Governments	-	-	-	-	62,203	62,203
Federal Rent Subsidy Income	-	-	-	-	52,294	52,294
Miscellaneous Revenues	186	39	-	225	22,747	22,972
Total Operating Revenues	231,485	170,747	(456)	401,776	329,696	731,472
Operating Expenses:						
General Operations	173,088	130,628	-	303,716	26,016	329,732
Depreciation	3,238	12,989	-	16,227	42	16,269
Interest Expense	22	3,912	-	3,934	141,547	145,481
Grant Related Expenses	-	-	-	-	53,213	53,213
Federal Rent Subsidy Expense	-	-	-	-	52,294	52,294
Claims / Fees Expense	-	4,431	-	4,431	-	4,431
Miscellaneous Expenses	-	13	-	13	21,619	21,632
Total Operating Expenses	176,348	151,973	-	328,321	294,731	623,052
Operating Income (Loss)	55,137	18,774	(456)	73,455	34,965	108,420
Nonoperating Revenue (Expenses):	4,303	4,037	-	8,340	(655)	7,685
Income (Loss) before Operating Transfers	59,440	22,811	(456)	81,795	34,310	116,105
Transfers In (Out):						
Operating Transfers In	2,821	2,000	-	4,821	-	4,821
Operating Transfers Out	(61,899)	-	-	(61,899)	-	(61,899)
Operating Transfers from Primary Government	-	-	-	-	55,275	55,275
Operating Transfers to Primary Government	-	-	-		(2,000)	(2,000)
Total Operating Transfers	(59,078)	2,000	-	(57,078)	53,275	(3,803)
Income (Loss) before Extraordinary Item	362	24,811	(456)	24,717	87,585	112,302
Income (Loss) from Extraordinary Item:						
Loss on Bond Redemption	-	-	-	-	(578)	(578)
Net Income (Loss)	362	24,811	(456)	24,717	87,007	111,724
Add: Depreciation of Fixed Assets Acquired from Contributed Capital	2,659	-	-	2,659	-	2,659
Increase (Decrease) in Retained Earnings/Fund Balances	3,021	24,811	(456)	27,376	87,007	114,383
Retained Earnings (Deficits)/Fund Balances at July 1, 2000 (As Restated)	7,999	(27,541)	21,013	1,471	486,373	487,844
Retained Earnings (Deficits)/Fund Balances at June 30, 2001	$ 11,020	$ (2,730)	$ 20,557	$ 28,847	$ 573,380	$ 602,227
Contributed Capital at July 1, 2000 (As Restated)	59,004	27,393		86,397		86,397
Add (Deduct): Capital Contributions	287	(569)		(282)		(282)
Less: Depreciation of Fixed Assets Acquired from Contributed Capital	(2,659)	-		(2,659)		(2,659)
Contributed Capital at June 30, 2001	$ 56,632	$ 26,824		$ 83,456		$ 83,456

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

STATE OF MAINE
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	Primary Government					
	Proprietary Fund Types		Fiduciary Fund Type	Total		Total
	Enterprise	Internal Service	Nonexpend-able Trusts	Primary Government (Memorandum Only)	Component Units	Reporting Entity (Memorandum Only)
Cash Flows from Operating Activities:						
Net Income (Loss)	$ 362	$ 24,811	$ (456)	$ 24,717	$ 87,007	$ 111,724
Adjustments to Reconcile Net Income (Loss) to						
Net Cash Provided by Operating Activities:						
Investments and Other Income	-	-	6,561	6,561	(33,192)	(26,631)
Depreciation/Amortization	3,238	12,989	-	16,227	2,072	18,299
Amortization	-	-	-	-	389	389
Accretion on Capital Appreciation of Bonds	-	-	-	-	309	309
Net Increase (Decrease) in Fair Value of Investments	-	-	(13,043)	(13,043)	(11,910)	(24,953)
Interest on Bonds and Other Investments	-	-	-	-	139,991	139,991
Interest Income on Mortgages, Notes and Loans	-	-	-	-	(437)	(437)
Grants from Federal Government and Primary Government	-	-	-	-	(56,637)	(56,637)
Provision for Losses on Insured Commercial and Student Loans	-	-	-	-	3,190	3,190
Changes in Assets and Liabilities:						
Accounts Receivable	-	-	-	-	2,188	2,188
Other Receivable	(1,262)	(392)	-	(1,654)	(838)	(2,492)
Loans Receivable	(323)	-	-	(323)	(33,824)	(34,147)
Receivable Reserves	83	-	-	83	-	83
Due from Other Funds	2	(1,630)	-	(1,628)	-	(1,628)
Inventories	(392)	588	-	196	-	196
Other Assets	26	(136)	-	(110)	4,113	4,003
Accounts Payable	787	1,923	-	2,710	(992)	1,718
Accrued Payroll	21	339	-	360	-	360
Compensated Absences	183	52	-	235	-	235
Due to Other Funds	1,029	1,381	-	2,410	-	2,410
Due to Component Unit	(308)	-	-	(308)	-	(308)
Deferred Revenue	15	(36)	-	(21)	(547)	(568)
Working Capital Payable	-	1,048	-	1,048	-	1,048
Claims and Judgments	-	(4,645)	-	(4,645)	-	(4,645)
Other Accrued Liabilities	57	15	-	72	(4,832)	(4,760)
Default Payments (Net of Recoveries) on Commercial and Student Loans	-	-	-	-	(583)	(583)
Investment in Mortgage and Other Notes	-	-	-	-	(139,432)	(139,432)
Principal Payments Received on Notes Receivable	-	-	-	-	90,045	90,045
Disbursements for New Notes Receivable	-	-	-	-	(9,461)	(9,461)
Educational Loans Originated	-	-	-	-	(6,526)	(6,526)
Increase in Amounts Held in State Revolving Loan Programs	-	-	-	-	6,172	6,172
Grant Program Funds Received (Disbursed)	-	-	-	-	(715)	(715)
Net Cash Provided (Used) by Operating Activities	$ 3,518	$ 36,307	$ (6,938)	$ 32,887	$ 35,550	$ 68,437

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

STATE OF MAINE
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

Fiscal Year Ended June 30, 2001
(Expressed in Thousands)
(continued)

	Primary Government					
	Proprietary Fund Types		Fiduciary Fund Type	Total		Total
	Enterprise	Internal Service	Nonexpend-able Trusts	Primary Government (Memorandum Only)	Component Units	Reporting Entity (Memorandum Only)
Cash Flows from Noncapital Financing Activities:						
Proceeds from Bonds & Notes Payable	$ -	$ -	$ -	$ -	$ 254,462	$ 254,462
Principal Paid on Bonds & Notes Payable	-	-	-	-	(168,302)	(168,302)
Interest Paid on Bonds & Notes Payable	-	-	-	-	(135,688)	(135,688)
Grant Receipts from Other Governments	-	-	-	-	47,991	47,991
Capital Contributions	-	(569)	-	(569)	-	(569)
Miscellaneous Noncapital Financing Activities	-	-	-	-	(310)	(310)
Net Cash Provided (Used) by Noncapital Financing Activities	-	(569)	-	(569)	(1,847)	(2,416)
Cash Flows from Capital and Related Financing Activities:						
Proceeds from Bonds & Notes Payable	-	8,384	-	8,384	-	8,384
Additions to Land, Buildings and Equipment	(633)	(5,142)	-	(5,775)	(194)	(5,969)
Principal Payments on Bonds and Notes	-	(10,017)	-	(10,017)	-	(10,017)
Obligations under Capital Leases	-	(12,698)	-	(12,698)	-	(12,698)
Capital Contributions	287	-	-	287	-	287
Net Cash Provided (Used) by Capital and Related Financing Activities	(346)	(19,473)	-	(19,819)	(194)	(20,013)
Cash Flows from Investing Activities:						
Proceeds from Sales and Maturities of Investments	-	6,169	873	7,042	688,813	695,855
Purchase of Investments	(2,288)	(3,224)	(418)	(5,930)	(782,044)	(787,974)
Income Received from Investments	1,917	-	6,561	8,478	41,238	49,716
Miscellaneous Activities	-	-	-	-	9,014	9,014
Net Cash Provided (Used) by Investing Activities	(371)	2,945	7,016	9,590	(42,979)	(33,389)
Increase (Decrease) in Cash and Cash Equivalents	2,801	19,210	78	22,089	(9,470)	12,619
Cash and Cash Equivalents at Beginning of Year (as restated)	2,056	22,383	96	24,535	42,118	66,653
Cash and Cash Equivalents at End of Year	4,857	41,593	174	46,624	32,648	79,272
Reconciliation to the Combined Balance Sheet:						
Add: Agency Funds	-	-	3,665	3,665	-	3,665
Expendable Trust Funds	-	-	1,062	1,062	-	1,062
Component Unit Amounts Other Than Proprietary Funds	-	-	-	-	297,879	297,879
Cash and Cash Equivalents at End of Year	$ 4,857	$ 41,593	$ 4,901	$ 51,351	$ 330,527	$ 381,878

Supplemental disclosure of non-cash information
Real estate acquired through foreclosure 10,995

STATE OF MAINE
STATEMENT OF CHANGES IN PLAN NET ASSETS
DISCRETELY PRESENTED COMPONENT UNIT - PENSION PLAN

Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

Additions:	
Investment Income:	
Interest	$ 95,026
Dividends	19,142
Net Depreciation in the Fair Value of Investments	(694,624)
Less: Investment Expenses	(10,781)
Net Investment Income (Loss)	(591,237)
Contributions:	
Members	123,248
State and Local Agencies	272,598
Total Contributions	395,846
Total Additions	(195,391)
Deductions:	
Benefits Paid	368,816
Refunds and Withdrawals	17,468
Administrative Expenses	8,026
Total Deductions	394,310
Net Increase (Decrease)	(589,701)
Net Assets Held in Trust for Pension Benefits:	
Beginning of Year	7,618,480
End of Year	$ 7,028,779

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

STATE OF MAINE
COMBINED STATEMENT OF CHANGES IN FUND BALANCES
DISCRETELY PRESENTED COMPONENT UNITS - COLLEGE AND UNIVERSITY FUNDS

For the Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	Current Funds					
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Plant Funds	Total (Memorandum Only)
Revenues and Other Additions:						
Unrestricted Current Fund Revenues	$ 213,762	$ -	$ -	$ -	$ -	$ 213,762
Education and General	20,585	8,533	-	-	-	29,118
Government Grants and Contracts - Restricted	-	66,444	569	-	49	67,062
Private Gifts, Grants and Contracts - Restricted	-	24,938	266	1,086	10,107	36,397
Endowment Income - Restricted	-	4,710	16	3,057	-	7,783
Investment Income - Restricted	-	1,273	1,265	-	3,364	5,902
Interest Income on Loans Receivable	-	-	82	-	-	82
Unrealized Gains (losses) on Investments	-	(74)	-	(9,726)	32	(9,768)
Expended for Plant Facilities	-	-	(96)	(1,370)	16,985	15,519
Other Additions	5,154	215	2	7	4,440	9,818
Total Revenues and Other Additions	239,501	106,039	2,104	(6,946)	34,977	375,675
Expenditures and Other Deductions:						
Educational and General Expenditures	378,186	129,213	1,729	3,648	-	512,776
Auxiliary Enterprise Expenditures	61,198	123	-	-	-	61,321
Administrative and Collection Costs	-	-	23	-	4	27
Interest on Indebtedness	-	-	-	-	498	498
Disposal of Plant Assets	-	-	-	-	476	476
Expended for Plant Facilities	-	-	-	-	14,568	14,568
Depreciation and Write Down of Asset Values	-	-	35	-	27,902	27,937
Total Expenditures and Other Deductions	439,384	129,336	1,787	3,648	43,448	617,603
Transfers Among Funds - Additions (Deductions):						
Mandatory:						
Principal and Interest	(825)	-	-	-	825	-
Loan Fund Transfers	(20)	-	20	-	-	-
Restricted Resources Allocated	(128)	197	-	(155)	86	-
Nonmandatory Transfers from Plant	(524)	(476)	-	(20)	1,020	-
Nonmandatory Transfers to Endowment	-	-	-	-	-	-
Transfers from Primary Government	217,582	27,191	59	2,000	29,229	276,061
Other Deductions	(13,315)	(2,028)	(61)	(54)	15,458	-
Total Transfers	202,770	24,884	18	1,771	46,618	276,061
Net Increase (Decrease) for the Year before Cumulative effect of Change in Accounting Principle	2,887	1,587	335	(8,823)	38,147	34,133
Cumulative effect of Change in Accounting Principle	-	47	-	81	-	128
Net Increase (Decrease) for the Year	2,887	1,634	335	(8,742)	38,147	34,261
Fund Balance June 30, 2000 (as restated)	48,183	26,777	40,288	113,613	336,105	564,966
Fund Balance June 30, 2001	$ 51,070	$ 28,411	$ 40,623	$ 104,871	$ 374,252	$ 599,227

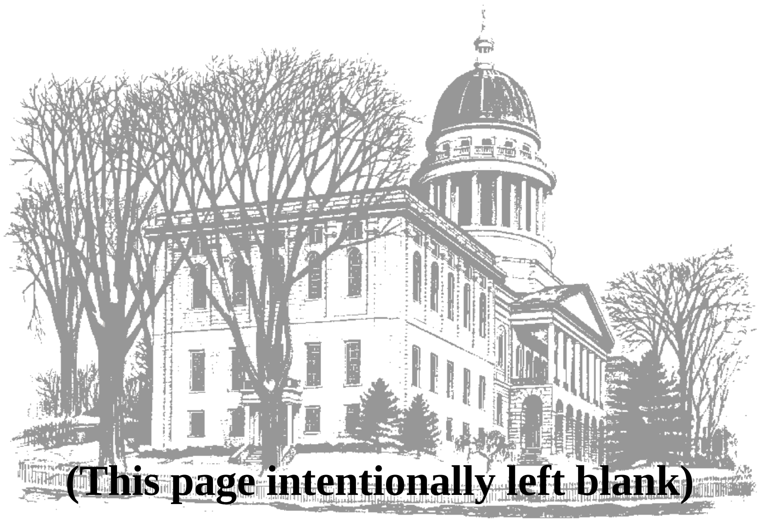
The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
COMBINED STATEMENT OF CURRENT FUNDS
REVENUES, EXPENDITURES AND OTHER CHANGES
DISCRETELY PRESENTED COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS

For the Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	Unrestricted	Restricted	Total
Revenues:			
Tuition and Fees	$ 128,735	$ 225	$ 128,960
Federal Appropriations	1,138	12,716	13,854
State Appropriations and Grants	-	6,240	6,240
Federal Grants and Contracts	32	55,095	55,127
Private Gifts, Grants and Contracts	2,884	25,480	28,364
Endowment Income	528	4,710	5,238
Sales and Services of Auxiliary Enterprise	64,862	-	64,862
Other Income	41,322	1,388	42,710
Total Current Fund Revenues	239,501	105,854	345,355
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	148,943	14,713	163,656
Research	20,743	34,881	55,624
Public Service	18,811	21,808	40,619
Academic Support	52,382	5,564	57,946
Student Services	40,552	2,588	43,140
Institutional Support	48,353	320	48,673
Operational and Maintenance of Plant	37,961	318	38,279
Scholarships and Fellowships	10,441	48,935	59,376
Total Expenditures	378,186	129,127	507,313
Mandatory Transfers:			
Principal and Interest	825	-	825
Loan Fund	20	-	20
Total Mandatory Transfers	845	-	845
Total Educational and General	379,031	129,127	508,158
Auxiliary Enterprises:			
Expenditures	61,198	123	61,321
Total Auxiliary Enterprises	61,198	123	61,321
Total Expenditures and Mandatory Transfers	440,229	129,250	569,479
Other Transfers and Additions (Deductions):			
Excess of Restricted Receipts over Transfers to Revenues	-	187	187
Net Allocation of Resources (to) from Other Funds	(13,903)	(2,259)	(16,162)
Transfer from Primary Government	217,582	27,191	244,773
Other Deductions	(64)	(89)	(153)
Total Transfers and Additions	203,615	25,030	228,645
Net Increase in Fund Balance	$ 2,887	$ 1,634	$ 4,521

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



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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

INDEX TO THE NOTES TO THE FINANCIAL STATEMENTS

Notes to the General Purpose Financial Statements
For The Fiscal Year Ended June 30, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. REPORTING ENTITY

For financial reporting purposes, the State includes all funds, account groups, organizations, agencies, boards, commissions and authorities that make up the State's legal entity. It includes as component units those legally separate organizations for which the State is financially accountable or for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete.

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

The State has included thirteen entities as component units in the reporting entity due to the significance of their operational and/or financial relationships with the State. Those agencies that meet the criteria for component units and have been included are: the Maine Governmental Facilities Authority (MGFA), the Maine Health and Higher Education Facilities Authority (MHHEFA), the Northern New England Passenger Rail Authority (NNEPRA), the Child Development Services System (CDS), the Finance Authority of Maine (FAME), the Loring Development Authority (LDA), the Maine Municipal Bond Bank (MMBB), the Maine Educational Loan Authority (MELA), the Maine State Housing Authority (MSHA), the Maine State Retirement System (MSRS), the Maine Maritime Academy (MMA), the Maine Technical College System (MTCS), and the University of Maine System (UMS). The financial information for these entities is blended within the State's financial statements or discretely presented in a separate column or in separate statements.

Blended Component Units - Blended component units are entities that are legally separate organizations that provide services entirely, or almost entirely, to the State or otherwise exclusively, or almost exclusively, benefit the State. Therefore, the State reports these organizations' balances and transactions as though they were part of the primary government. The MGFA has been blended within the financial statements of the primary government.

The MGFA was created in 1997, as a successor to the Maine Court Facilities Authority, for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as a court facility, State office or State activity space. The MGFA is included in the Special Revenue Fund type.

Discrete Component Units - Discrete component units are entities that are legally separate from the State but are either accountable to the State or related so closely to the State that exclusion would cause the State's financial statements to be misleading or incomplete. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government. It includes the financial data of the following entities:

Governmental Types

The Maine Health and Higher Education Facilities Authority assists Maine health care institutions and institutions of higher education in undertaking projects involving the acquisition, construction, improvement, reconstruction, and equipping of health care and educational facilities and the refinancing of existing indebtedness. The Authority consists of 12 members, one of whom must be the Superintendent of Banking, *ex officio*; one of whom must be the Commissioner of Human Services, *ex officio*; one of whom must be the Commissioner of Education, *ex officio*; one of whom must be the Treasurer of State, *ex officio*; and eight of whom must be residents of the State appointed by the Governor. The Authority, pursuant to the Student Loan Corporations Act of 1983, may finance student loan programs of institutions of higher education.

The Northern New England Passenger Rail Authority, established on June 29, 1995 by the State of Maine Legislature, initiates, establishes and maintains regularly scheduled passenger rail service between points within Maine to points within and outside of Maine. The Governor appoints the five voting members of the Authority.

The Child Development Services System was established for the purpose of maintaining a coordinated service delivery system for the provision of Childfind activities, early intervention services, and free, appropriate public education services for eligible children with disabilities. CDS as a reporting entity includes a State-level intermediate educational unit and 16 regional intermediate educational units.

Proprietary Types

The Finance Authority of Maine, created in 1983, provides commercial financing and loan guarantees to Maine businesses and educational financing to Maine students and their parents. The Authority also provides financial and other services for the Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Agricultural Marketing Loan Fund Board, the Occupational Safety Program Fund Board, and the Small Business Enterprise Growth Fund Board. Additionally, the Authority administers the Maine College Savings Program Fund. The NextGen College Investing Plan is the primary program of the Maine College Savings Program Fund. The Governor appoints the 15 voting members of the Authority.

The Loring Development Authority, created in 1993 after the President of the United States accepted the recommendation of the Base Closure and Realignment Commission to close Loring Air Force Base, is entrusted with investigating the acquisition, development and management of the properties within the geographical boundaries of the old Loring Air Force Base. The Governor nominates the 13 members of the Board of Trustees of which the Maine Senate confirms 12.

The Maine Municipal Bond Bank is authorized to issue bonds providing funds to counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations within the State. The Governor appoints three residents of the State to the five-member Board of Commissioners.

The Maine Educational Loan Authority was created in 1988 to grant educational loans primarily using funds acquired through issuance of long-term bonds payable. The Governor appoints five of the Authority's seven commissioners. The Authority's fiscal year ends on December 31.

The Maine State Housing Authority is authorized to issue bonds for the purchase of notes and mortgages on single-family and multifamily residential units for the purpose of providing housing for persons and families of low income in the State. The Authority also acts as agent for the State in administering federal weatherization, energy conservation, fuel assistance and homeless grant programs and collecting and disbursing federal rent subsidies for low income housing. The Governor appoints five of the Authority's seven commissioners. The Authority's fiscal year ends on December 31.

The Maine State Retirement System is the administrator of an agent multiple-employer public employee retirement system. It provides pension, death, and disability benefits to its members, including State employees, some public school employees, and employees of approximately 250 local municipalities and other public entities in Maine. The Governor appoints four of the Board's seven voting members.

Colleges and Universities

Maine Maritime Academy is a college specializing in ocean and marine programs at the undergraduate and graduate levels. The operation of the Academy is subject to review by the federal government. State appropriations, student fees, and a subsidy from the Maritime Administration support the Academy.

The Maine Technical College System is Maine's primary provider of post-secondary technical education leading to a certificate, diploma, or associate degree. The combined financial statements of the system include the activity of seven colleges, the central administrative office, and the Maine Career Advantage.

The University of Maine System is the State University. In 1968 all existing units of the State college system (Orono, Portland, Augusta, and the Law School) were merged by the 103rd Legislature. The result was the creation of the consolidated University of Maine System with a single Board of Trustees. The System now consists of seven campuses and a central administrative office..

The State of Maine provides significant financial resources to these educational institutions.

The component unit financial information included in the reporting entity has been reformatted to conform to the accounting classifications used by the State. Condensed financial statement information for each component unit included in the component units column in the general purpose financial statements is presented in Note 13, Segment Information. Complete financial statements of the individual component units can be obtained directly from their respective administrative offices by writing to:

Maine Governmental Facilities Authority
PO Box 2268
Augusta, ME 04338-2268

Maine Health and Higher Education Facilities Authority
PO Box 2268
Augusta, ME 04338-2268

Northern New England Passenger
Rail Authority
5 Industry Road
South Portland, ME 04106-6154

Child Development Services System
146 State House Station
Augusta, ME 04333-0146

Finance Authority of Maine
5 Community Dr., PO Box 949
Augusta, ME 04332-0949

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

Maine Municipal Bond Bank
PO Box 2268
Augusta, ME 04338-2268

Maine Educational Loan Authority
One City Center 11th Floor
Portland, ME 04101

Maine State Housing Authority
89 State House Station, 353 Water Street
Augusta, ME 04330-4633

Maine State Retirement System
46 State House Station
Augusta, ME 04333-0046

Maine Maritime Academy
Castine, ME 04420

Maine Technical College System
131 State House Station, 323 State Street
Augusta, ME 04333-0131

University of Maine System
107 Maine Avenue
Bangor, ME 04401

Related Organizations

Officials of the State's primary government appoint a voting majority of the governing boards of the Maine Port Authority, the Maine Public Utilities Financing Bank, the Maine School of Science and Mathematics, the Maine Science and Technology Foundation, the Maine Sludge and Residuals Utilization Research Foundation, the Maine Technology Institute, the Maine Turnpike Authority, and the Maine Veterans' Home. However, the primary government has no material accountability for these organizations beyond making the board appointments.

B. FUND ACCOUNTING

The State reports its financial position and results of operations in funds and account groups. Cash and other financial resources, all related liabilities and residual equities or balances, and changes therein, are recorded and segregated. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Transactions between funds, if any, have not been eliminated.

The presentation of component units is not meant to be a consolidation, since transactions within the State entity have not been eliminated. However, appropriations and most grants to the component units are recorded as operating transfers to component units out of the applicable fund and as operating transfers from primary government into the component unit organization.

An account group is used to provide accounting control and accountability for the State's general long-term obligations. It is not considered a fund because it does not report expendable, available financial resources and related liabilities.

The financial activities of the State of Maine are classified in three fund categories, two account groups, and component units, as described below. The fund categories include Governmental Funds, Proprietary Funds, and Fiduciary Funds. The account groups are the General Long-Term Obligations Account Group and the General Fixed Assets Account Group.

Fund Types

Governmental Funds are used to account for the State's general activities.

The General Fund is the primary operating fund of the State. It is used to account for all governmental transactions that are not accounted for in other funds.

Special Revenue Funds account for specific revenue sources and the related current liabilities, other than Expendable Trusts, and include major capital projects that are legally restricted to expenditures for specified purposes.

Capital Projects Funds account for financial resources used to acquire or construct major capital assets other than those financed by Proprietary Funds or Special Revenue Funds. These resources are derived primarily from proceeds of general obligation bonds. The State also includes in this fund type proceeds from bond issues for uses other than construction of major capital facilities.

Proprietary Funds are used to account for ongoing activities similar to those in the private sector.

Enterprise Funds account for transactions related to resources received and used to finance self-supporting activities of the State. These activities offer products and services on a user-charge basis to the general public.

Internal Service Funds account for transactions related to the financing and sale of goods or services between State agencies. The costs associated with these goods or services are billed to the recipient agency as user charges.

Fiduciary Funds are used to account for assets held by the State, acting as either a trustee or an agent for individuals, organizations, or other funds.

Expendable Trust Funds account for those assets held in a trustee capacity where the principal and income may be expended in the course of the funds' designated operations.

Nonexpendable Trust Funds account for those assets held in a trustee capacity by the State for which only income derived from the trust principal may be expended for designated operations. The principal must be preserved intact.

Agency Funds account for assets the State holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

Account Groups

General Long-Term Obligations Account Group is used to establish control and accountability for long-term obligations of the State not accounted for in Proprietary Funds or Nonexpendable Trust Funds. This includes outstanding, long-term obligations related to general obligation bonds; Certificates of Participation and other financing arrangements; compensated employee absences; net pension obligation and other long-term obligations.

General Fixed Assets Account Group is used to establish control and accountability for all fixed assets of the State not accounted for in Proprietary Funds.

Component Units

Component units include three College and University Funds and other organizations that are legally separate from the State but are considered part of the reporting entity.

Current Funds account for unrestricted funds, over which the governing Boards retain full control in achieving the Institutions' purposes, and for restricted funds, which may be used only in accordance with externally restricted purposes. The funds do not show the results of operations or the net income or loss for the period.

Loan Funds, Endowment and Similar Funds account for assets for which the Institutions act in a fiduciary capacity.

Plant Funds account for institutional property acquisition, renewal, replacement, and debt service.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Governmental Funds and Expendable Trust Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized 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 (within 12 months for individual income taxes or within 60 days for all other revenues) to be used to pay liabilities of the current period. 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 Territories of Maine and on telecommunications personal properties statewide by April 1 of each year. Property taxes levied during the current fiscal year for the subsequent period are recorded as deferred revenue during the current year. Telecommunications taxes are due on August 15, and all other property taxes are due on October 1. Formal collection procedures begin on November 1. Unpaid property taxes become a lien on March 15 of the fiscal year for which they are levied.

Significant revenues susceptible to accrual include: income, sales and use, unemployment compensation, and other taxes; federal grants; federal reimbursements; and other reimbursements for use of materials and services. Revenues from other sources are recognized when received. Expenditures are recorded at the time fund liabilities are incurred. Principal and interest on long-term obligations are recorded as fund liabilities when due.

Proprietary Fund Types and Nonexpendable Trust Funds are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of net income. For Proprietary Funds, the State follows all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Agency Fund assets and liabilities are reported using the modified accrual basis of accounting. They are custodial in nature and neither measure results of operations nor have a measurement focus.

The component units' College and University Funds aggregate the Institutions' separate financial statements and are accounted for on the accrual basis of accounting, with one exception. The Maine Maritime Academy does not record depreciation expense on physical plant and equipment, which is allowed by governmental accounting standards.

The Maine State Retirement System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investment purchases and sales are recorded as of their trade date.

D. CASH AND CASH EQUIVALENTS, AND INVESTMENTS

The State follows the practice of pooling cash and cash equivalents for a variety of State agencies and public sector entities. Cash equivalents consist of short-term, highly liquid investments that are both readily convertible to known amounts of cash and are near maturity. The balances pooled are reported at cost, which approximates fair value. Interest earned on pooled cash is allocated to the various funds, generally based on their average equity balances. Cash with Fiscal Agent in Governmental Funds represents cash that will be used for debt service on bonds. Cash with Fiscal Agent in Proprietary Funds represents proceeds of Certificates of Participation and other financing arrangements that have not been spent.

Short-term investments reported as Cash and Cash Equivalents on the balance sheet are comprised primarily of prime commercial paper, repurchase agreements, U.S. Treasury Bills, U.S. Treasury Notes, and other U.S. Agency Obligations with maturities of three months or less when purchased. Other investments of the State are carried at fair value. Donated investments are stated at fair value at the date of donation.

Certain component units participate in the cash pool and record their balances as cash and investments. Component units' funds have been removed from cash and investments of the primary government and shown as component unit cash and investments for purposes of note disclosure. Component units' investments are shown at fair value.

E. ASSETS HELD IN TRUST

These assets are held by the State in a fiduciary capacity, acting as either a trustee or an agent for individuals, organizations or other funds. The State also holds $106 million of Workers' Compensation and Employment Security surety bonds which are not reflected on the Balance Sheet.

F. UNEMPLOYMENT DEPOSITS WITH UNITED STATES TREASURY

These deposits represent unemployment tax receipts deposited with the United States Treasury that are drawn down to pay unemployment benefits.

G. RESTRICTED DEPOSITS AND INVESTMENTS

Restricted deposits and investments represent funds that have been invested in Certificates of Deposit and other investments at various financial institutions within the State. The financial institutions lend these deposits and investments to local commercial and agricultural enterprises to foster economic growth in Maine. Also included in this category are cash and investments of the Maine Government Facilities Authority, a blended component unit that has been independently audited.

H. RECEIVABLES

Receivables consist primarily of amounts due to the State from taxpayers and service providers. Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. Loans receivable for the primary government represent low interest financing arrangements for the construction and modernization of agricultural storage facilities and local commercial enterprises, as well as Department of Transportation loans to local governments. The receivables in the component units column are amounts that have arisen in the normal course of business. Receivables are stated net of estimated allowances for uncollectible amounts that are determined based upon past collection experience and aging of the accounts.

I. INTERFUND TRANSACTIONS

Numerous transactions are made between funds to finance operations, provide services, and acquire or construct assets. To the extent that certain transactions between funds were not completed as of June 30, 2001, interfund receivables or payables have been recorded. Receivables and payables resulting from transactions between funds are classified as “Due from Other Funds” or “Due to Other Funds” on the balance sheet.

The Bureau of Alcoholic Beverages and Lottery Operations is statutorily required to transfer all net earnings to the General Fund. For fiscal year 2001, these transfers totaled $61.9 million.

Advances to and from other funds are long-term loans made by one fund to another. Receivables and payables resulting from these transactions between funds are classified as “Working Capital Advances Receivable” or “Working Capital Advances Payable” on the balance sheet. The advances are offset by reservations of fund balance indicating that the reserves do not constitute expendable financial resources.

Receivables and payables between the component units and the primary government are classified as “Due to/from Primary Government” or “Due to/from Component Units.”

J. INVENTORIES

The costs of materials and supplies of the Governmental Funds are reported as expenditures when purchased. Unexpended balances of food stamps (stated at coupon value) and vaccines at fiscal year end are reported as inventory and deferred revenue in the Special Revenue Fund. Revenues and corresponding expenditures are recognized when the food stamps and vaccines 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, except for those of the Bureau of Alcoholic Beverages, which are maintained on a current replacement cost basis. Although this basis is not in conformity with GAAP, it does not result in a material misstatement.

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

K. Fixed Assets

For Governmental Funds, fixed asset acquisitions are recorded as expenditures in the acquiring fund. Buildings valued at $1 million or more, equipment valued at $3 thousand or more, and all land, regardless of value, are capitalized in the General Fixed Assets Account Group. They are capitalized at cost or, if not purchased, at fair value as of the date of acquisition. In assembling the GFAAG for the first time in 2001, fixed asset costs for buildings were not available; historical costs of these assets, valued at $117 million, have been estimated using current replacement cost appraisals adjusted back to estimated dates of construction using consumer price index tables. Depreciation is not recorded on general fixed assets. Infrastructure assets, such as highway curbs, bridges, and lighting systems, are not capitalized. Fixed asset acquisitions of Proprietary Funds are accounted for in the acquiring fund and stated net of accumulated depreciation. Depreciation is recorded on a straight-line basis over the assets' estimated useful lives, which are 10-40 years for buildings and improvements, and 2-25 years for equipment. No interest has been capitalized on self-constructed assets, since non-capitalization of interest does not materially affect the financial statements.

Fixed assets of component units are capitalized upon purchase and depreciated over the estimated useful lives of the assets. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are 5–60 years for structures and improvements and 3–15 years for equipment, furniture, fixtures and vehicles. The Maine Maritime Academy does not record depreciation, which is allowed by governmental accounting standards.

L. Tax Refunds Payable

Tax refunds payable primarily represent amounts owed to taxpayers because of overpayments of their 2000 calendar year tax liabilities. Tax refunds are accrued based on payments and estimates.

M. Claims Payable

Claims payable represent workers' compensation and other claims payable at June 30, 2001. These include actual claims submitted, as well as actuarially determined claims incurred but not reported. The actuarially determined claims liability is discounted and presented at net present value.

N. Deferred Revenue

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. In subsequent periods, when the revenue recognition criterion is met or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Deferred revenue reported in the General Fund is comprised of sales and income taxes. Deferred revenue in the Special Revenue Fund is primarily for food stamps and vaccines not yet issued, and for taxes assessed on public utilities in the State.

O. Due from/to Other Governments

At June 30, 2001, amounts Due from/to Other Governments represent amounts receivable from or payable to municipalities or the federal government. Due to Other Governments are primarily amounts owed to municipalities for Municipal Revenue Sharing and the federal government for Medicaid cost recoveries from providers. Municipal Revenue Sharing and Medicaid cost recoveries are recorded in the Special Revenue Fund. Due from Other Governments represents primarily federal grants receivable for Medicaid claims, other Human Services Programs, and federal grants receivable for transportation-related expenditures. Due from Other Governments in the component units column represents money due from other governments for grants, bond repayment and retirement benefits.

P. Compensated Employee Absences

Under the terms of collective bargaining agreements and personnel administrative policies, employees are granted limited amounts of vacation, sick, and personal days, as well as compensatory time. Upon separation from State service, employees are eligible for compensation for accrued vacation, personal days, compensatory time, and (in some cases) sick leave. For Governmental Funds, vested or accumulated leave expected to be liquidated with current available financial resources is reported as an expenditure and fund liability. Other leave is reported in the General Long-Term Obligations Account Group. Compensated employee absence benefits in the Proprietary Funds are recorded as expenses and liabilities as they accrue.

In the discretely presented component units, employees' accumulated compensated absences are recorded as an expense and liability as the benefits accrue.

Q. Other Accrued Liabilities

Other liabilities in the Enterprise Fund consist primarily of lottery prizes payable.

R. Long-Term Obligations

Primary Government

The State records Governmental Fund long-term obligations in the General Long-Term Obligations Account Group. This includes the State's general obligation bonds, Certificates of Participation and other financing arrangements, long-term liabilities for compensated employee absences, and the net pension obligation. Also included in the General Long-Term Obligations Account Group are bonds and notes issued by the Maine Governmental Facilities Authority, a blended component unit.

Long-term debt and other obligations of the Proprietary Funds, as well as the related interest payments, are recorded as liabilities in the appropriate funds.

Component Units

Loans, notes, and bonds payable for component units are for commercial financing, educational loans, and loans to counties, cities, towns, school administrative districts, other quasi-municipal corporations, multifamily low income residential units, and the construction or capital improvement of school facilities and health care facilities.

S. Fund Balances

The State reports fund balances as reserved where legally restricted for a specific future use. Otherwise, these balances are considered unreserved. The State has the following reservations:

> Reserved for Continuing Appropriations - identifies appropriations and encumbrances that the Legislature has specifically authorized to be carried into the next fiscal year if unexpended. The State's use of encumbrance accounting is more fully described in Note 2 – Budgetary Process.
>
> Reserved for Unemployment Benefits - identifies amounts reserved for payment of unemployment compensation.
>
> Reserved for Nonexpendable Trusts - identifies the nonexpendable amount of the trust principal.
>
> Reserved for Rainy Day Fund – identifies amounts reserved for potential operating deficits or other emergencies. The maximum amount this fund may carry, by law, is six percent of the total General Fund revenues received in the immediately preceding year.
>
> Reserved for Pension Benefits – identifies amounts reserved by the Maine State Retirement System for the payment of pension benefits.

Reserved for Debt Service - identifies amounts reserved for payment of future debt service obligations.

Reserved for Capital Projects - identifies a legally segregated portion of funds available to finance the construction of major capital facilities.

Other Reservations - identifies fund balance reserved for other specified purposes including amounts for working capital needs, long-term loans to other funds, transfers to other funds, and contingency funds from which the Governor may allocate sums for various purposes.

Contributed Capital - identifies equity acquired through contributions from other funds.

T. TOTAL COLUMN - MEMORANDUM ONLY

Total columns included in certain statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented for information only.

U. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.* In June 2001, GASB issued Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38 *Certain Financial Statement Note Disclosures.* These statements establish new financial reporting requirements for State and local governments. They mandate that the basic financial statements and required supplementary information (RSI) for general purpose financial statements consist of Management's Discussion and Analysis, Basic Financial Statements and Required Supplementary Information. The provisions are effective for financial statements for periods beginning after June 15, 2001. The State will implement GASB 34, 37 and 38 for the year ending June 30, 2002.

In November 1999, GASB issued Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. An amendment to GASB Statement No. 34, this statement establishes new financial reporting requirements for public colleges and universities that are consistent with the requirements of GASB Statement No. 34. Because the University of Maine System, the Maine Technical College System and the Maine Maritime Academy are component units of the State of Maine, the provisions of this statement are effective no later than the year in which the State implements GASB Statement No. 34.

NOTE 2 - BUDGETARY PROCESS

In accordance with statute, the Governor presents a biennial budget for the General Fund and the 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 deallotment 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. In 1995, the Revenue Forecasting Committee was established.

In fiscal year 1998, a law was passed that requires the State Budget Officer to use the revenue projections of the Revenue Forecasting Committee in preparing the General Fund and Highway Fund budgets.

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. In order to provide sufficient funding for several programs during the year ended June 30, 2001, supplemental appropriations of $403.8 million were required for the General Fund.

Encumbrance accounting, which requires that purchase orders, contracts, and other commitments be recorded to reserve a portion of an appropriation or allocation for expenditure, is employed as an extension of formal budgetary control. Appropriated and allocated balances are available for subsequent expenditure to the extent that encumbrances have been approved by the end of a fiscal year. Encumbrances outstanding at year end are reported as reservations of fund balances representing those portions of fund balances that are not available for allocation or expenditure or that are legally segregated for specific future uses. Unencumbered appropriations in the General Fund and in the Highway Fund lapse at year end unless, by law, they are carried forward to a subsequent year.

The State's budget is prepared primarily on a cash basis. Significant exceptions include sales, income, corporate and fuel taxes for which 60-day accruals are recorded at year end. A reconciliation of the General Fund and the Special Revenue Fund to the GAAP basis is presented in the following table.

Budget to GAAP Reconciliation
June 30, 2001
(Dollars in Thousands)

	General Fund	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 365,562	$ 415,610
Basis Differences		
Revenue Accruals/Adjustments:		
Taxes Receivable	175,594	19,677
Intergovernmental Receivables	-	41,832
Other Receivables	13,997	(14,000)
Due from Other Funds	1,444	539
Other Assets	10,995	(7,349)
Deferred Revenues	(29,475)	(1,560)
Total Revenue Accruals/Adjustments	172,555	39,139
Expenditure Accruals/Adjustments:		
Accounts Payable	(87,512)	(34,836)
Due to Component Units	(1,938)	(6,385)
Accrued Liabilities	(17,611)	(13,554)
Due to Other Funds	(11,467)	(5,604)
Tax Refunds Payable	(108,018)	-
Total Expenditure Accruals/Adjustments	(226,546)	(60,379)
Entity Differences		
Blended Component Unit included in the Special Revenue Fund on the GAAP basis but not on the budgetary basis	-	32,264
Fund Balances - GAAP Basis	$ 311,571	$ 426,634

NOTE 3 - FUND BALANCE AND RETAINED EARNINGS RESTATEMENTS

Fund balances/retained earnings as of June 30, 2000, have been restated:

Restatement of Fund Balances/Retained Earnings
(Dollars in Thousands)

Fund	Fund Balance/Retained Earnings as Previously Reported, June 30, 2000	Increase (Decrease) for Restatement	Fund Balance/Retained Earnings as Restated, July 1, 2000
Capital Projects Fund	$ 74,312	$ 6,549	$ 80,861
Enterprise Fund	(5,108)	13,107	7,999
Expendable Trust	587,596	(207,316)	380,280
Component Unit – Gov'tal	159,052	873	159,925

The Capital Projects Fund has been restated to adjust amounts accrued as due to component units in the prior period. The Enterprise Fund has been restated to record prior year depreciation of fixed assets acquired from Contributed Capital. Contributed Capital for the Enterprise Fund has been reduced to record that depreciation, and to record a $16.8 million asset, contributed in a prior period, which was not previously reported. The Expendable Trust fund balance has been restated because the Deferred Compensation Program is no longer reflected on the financial statements of the State of Maine due to a change in the interpretation of Governmental Accounting Standards Board Statement Number 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The Component Unit (governmental type) fund balance has been restated to include the Child Development Services System as a discretely presented component unit.

NOTE 4 - DEFICIT FUND BALANCES/RETAINED EARNINGS

Two Internal Service Funds showed deficit Retained Earnings for the fiscal year ended June 30, 2001. The Workers' Compensation Fund was at a deficit of $71.5 million, which reflects accruals for actuarially determined claims payable. The Property Lease Fund was at a deficit of $523 thousand, which reflects the recording of capital lease depreciation.

NOTE 5 - DEPOSITS AND INVESTMENTS

The deposit and investment policies of the State of Maine Office of the Treasurer are governed by Title 5 of the Maine Revised Statutes Annotated (M.R.S.A.). Per 5 M.R.S.A. § 135, the Treasurer of State may deposit State funds, including trust funds of the State, in any of the banking institutions (including trust companies, State or federal savings and loan associations, and mutual savings banks) organized under the laws of this State and any national bank or federal savings and loan association located in the State.

The Treasurer of State 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 24 months from the date of investment; repurchase agreements secured by obligations of the United States that mature within the succeeding 24 months; prime commercial paper; tax-exempt obligations; banker's acceptances; and shares of an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the United States Security Act of 1933, only if the investments of the company are limited to obligations of the United States or repurchase agreements secured by obligations of the United States. The Treasurer is authorized to participate in the securities loan market by

lending State-owned bonds, notes or certificates of indebtedness of the federal government when the loans are fully collateralized by treasury bills or cash. The State does not participate in the securities loan market. The State's investment types are more fully described in Notes 1D, E, F and G.

Investment policies of the permanent trust funds are governed by 5 M.R.S.A. § 138. The Treasurer of State, with the approval of the Commissioner of Administrative and Financial Services, the Superintendent of Financial Institutions and the Attorney General, shall invest the funds in securities that are legal investments in accordance with Title 9-B, M.R.S.A. The investments need not be segregated to the separate trust funds, but the identity of each separate trust fund must be maintained. The State may enter into custodial care and servicing contracts or agreements negotiated in accordance with the laws of this State for the handling of funds held in trust.

With assistance from the Finance Authority of Maine, the State Treasurer participates in a restricted deposit program to encourage banks to provide loans at two percent below market rates. The Treasurer may invest up to eight million dollars in lending institutions at a two percent lower-than-market rate provided the lenders pass the rate reduction on to the borrowers. Four million dollars of this program are earmarked for loans to agricultural enterprises, and the other four million dollars are designated for commercial entities.

No amounts exceeding 25% of the capital, surplus, and undivided profits of any trust company or national bank, or 25% of the reserve fund and undivided profits of a mutual savings bank or State or federal savings and loan association, shall be on deposit in any one institution at any one time. This restriction does not apply to deposits subject to immediate withdrawal to meet the payment of any bonded debt or interest or to pay current bills or expenses of the State. Also exempt are deposits secured by the pledge of certain securities as collateral or fully covered by insurance.

DEPOSITS

Deposits with financial institutions are classified by collateral risk into three categories. Category 1 is the amount of State deposits that are fully insured or collateralized with securities held by the State or its agent in the State's name. Category 2 is the amount of deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. Category 3 is the amount of deposits that are neither collateralized nor insured.

Deposits of the Reporting Entity at June 30, 2001 are:

Primary Government - Deposits
June 30, 2001
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$ 182,746	$ 10,956	$ 6,100	$ 199,802	$ 123,120
Cash with Fiscal Agent	-	17,093	311	17,404	17,404
Restricted Deposits	5,564	-	3,504	9,068	9,068
Total	$ 188,310	$ 28,049	$ 9,915	$ 226,274	$ 149,592

Deposits of the discretely presented component units are:

Component Unit - Deposits
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$ 103,160	$ 103,106	$ 42,889	$ 249,155	$ 241,075
Cash with Fiscal Agent	-	-	36,773	36,773	36,773
Restricted Deposits	6,971	-	-	6,971	6,971
Total	$ 110,131	$ 103,106	$ 79,662	$ 292,899	$ 284,819

INVESTMENTS

Investments are classified to indicate the level of risk assumed by the State. Category 1 consists of investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 are those investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or its trust department or agent, but not in the State's name.

Investments of the Primary Government at June 30, 2001 are:

Primary Government - Investments
June 30, 2001
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Fair Value
Cash & Cash Equivalents	$ 215,847	$ 1,037	$ -	$ 216,884
U.S. Government and Agency Obligations	270,851	2,599	11,311	284,761
Repurchase Agreements	-	-	3,886	3,886
Commercial Paper	72,589	-	-	72,589
Corporate Bonds and Notes	-	4,381	4,768	9,149
Equity Securities	-	12,306	35,352	47,658
Other Restricted Investments	89,545	-	2,136	91,681
Totals	$ 648,832	$ 20,323	$ 57,453	726,608
Deposits with U.S. Treasury				369,978
Assets Held in Trust				606,012
Total Investments – Primary Government				$ 1,702,598

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.

The Maine Educational Loan Authority (MELA) had entered into an interest rate exchange agreement to manage its interest rate exposure on its variable rate education loans. The agreement calls for MELA to receive fixed rate interest payments in exchange for variable market-indexed interest payments. The amounts potentially subject to credit risk are the streams of payments under the agreement and not the notional amount of the contracts. This agreement involves not only the risk of default by the other party, but also the interest rate risk if positions are not matched. MELA does not obtain collateral from the counterparty to secure the amounts subject to credit risks. The notional principal amount of the interest rate swap agreement outstanding at December 31, 2000 was $4.8 million. The termination date of the agreement is December 1, 2006.

Maine State Retirement System (The System) makes investments in a combination of equities, fixed income securities, mutual funds, commingled mutual and index funds, derivative financial instruments, and other investment securities established by the Trustee's investment policy. The System prohibits its investment managers from using leverage in its derivative financial instruments or from investing in speculative positions. The System has also entered into agreements for securities lending transactions, which are collateralized in an amount at least equal to 102 percent (105 percent for international securities) of the market value of the securities loaned.

Investments of the discretely presented component units are:

Component Units - Investments
(Dollars in thousands)

	Category 1	Category 2	Category 3	Fair Value
Cash and Cash Equivalents	$ 32,078	$ 27,961	$ 1,001	$ 61,040
U.S. Government and Agency Obligations	547,368	206,195	-	753,563
Repurchase Agreements	221,431	29,440	13,187	264,058
Commercial Paper	43,986	-	-	43,986
Corporate Bonds and Notes	545,173	-	22,080	567,253
Equity Securities	1,220,765	-	61,682	1,282,447
Common and Collective Trusts	4,880,564	211,681	6,489	5,098,734
Other	6,506	-	4,076	10,582
Totals	$ 7,497,871	$ 475,277	$ 108,515	$8,081,663

The State's internal investment pool consists primarily of commercial paper with maturities of up to 90 days and U.S. Government and Agency obligations with maturities of up to two years. Certain component units also invest in the pool; their participation comprises approximately ten percent of pool assets. The component units reported their participation as Cash and Cash Equivalents on their financial statements. The State has reclassified $71 million of the component units' participation as investments on the State's financials.

NOTE 6 - RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the various funds as:

Primary Government - Receivables
June 30, 2001
(Dollars in Thousands)

	Taxes	Due from Other Governments	Loans	Other Receivables	Allowance for Uncollectibles	Net Receivables
General Fund	$ 464,503	$ -	$ 1	$ 55,082	$ (122,651)	$ 396,935
Special Revenue Funds	44,006	184,238	1,093	52,092	(7,724)	273,705
Trust and Agency Funds	41,055	-	-	-	-	41,055
Internal Service Funds	-	-	-	596	-	596
Enterprise Funds	-	-	9,002	12,046	(1,392)	19,656
Subtotal	549,564	184,238	10,096	119,816	(131,767)	731,947
Less: Allowance for uncollectibles	(120,516)	-	(1,075)	(10,176)	(131,767)	
Net Receivables	$ 429,048	$ 184,238	$ 9,021	$ 109,640		$ 731,947

Component Units - Receivables
(Dollars in Thousands)

	Other Governments	Loans and Notes	Other Types	Allowance for Uncollectibles	Net Receivables
Maine Health & Higher Education Facilities Authority	$ -	$ 969,351	$ 7,896	$ (1,646)	$ 975,601
No. NE Passenger Rail Authority	2,445	-	-	-	2,445
Child Development Services System	-	-	997	-	997
Finance Authority of Maine	-	38,167	3,023	(179)	41,011
Loring Development Authority	909	1,280	155	-	2,344
Maine Municipal Bond Bank	982,060	-	2,429	-	984,489
Maine Education Loan Authority	-	46,691	608	(595)	46,704
Maine State Housing Authority	952	1,291,415	17,210	(11,987)	1,297,590
Maine State Retirement System	9,476	-	33,561	-	43,037
Maine Maritime Academy	-	3,374	3,093	(371)	6,096
Maine Technical College System	-	-	2,149	(282)	1,867
University of Maine System	9,136	37,390	26,792	(6,214)	67,104
Subtotal	1,004,978	2,387,668	97,913	(21,274)	3,469,285
Less: Allowance for Uncollectibles	-	(17,286)	(3,988)		-
Net Receivables	$ 1,004,978	$ 2,370,382	$ 93,925		$ 3,469,285

NOTE 7 - INTERFUND TRANSACTIONS

Due from/Due to Other Funds and Component Units

Due from Other Funds are amounts owed to one State fund by another for goods sold or services received. Similarly, Due from Component Units are amounts owed to the State by a component unit.

A summary of amounts due from and due to other funds and component units is presented as:

Primary Government - Due to/Due from Other Funds
June 30, 2001
(Dollars in Thousands)

Fund Type	Due From	Due To	Working Capital Receivable	Working Capital Payable
General Fund	$ 5,734	$ 11,897	$ 1,386	$ 100
Special Revenue Fund	12,553	13,850	1,117	175
Capital Projects Fund	-	-	-	-
Enterprise Fund	15	2,507	-	1,000
Internal Service Fund	12,408	1,614	-	1,228
Trust and Agency Funds	7	849	-	-
Total	$ 30,717	$ 30,717	$ 2,503	$ 2,503

Component Units - Due From/Due To
June 30, 2001
(Dollars in Thousands)

	Due From Primary Government	Due To Component Units
Primary Government		
General Fund		
Child Development Services System	$ -	$ 641
Loring Development Authority	-	326
University of Maine System	-	971
Special Revenue Fund		
Child Development Services System	-	215
Loring Development Authority	-	26
Maine Municipal Bond Bank	-	5
University of Maine System	-	6,834
Capital Projects Fund		
Maine Technical College System	-	576
Enterprise Fund		
Finance Authority of Maine	-	337
Component Units		
Child Development Services System		
General Fund	641	-
Special Revenue Fund	215	-
Finance Authority of Maine		
Enterprise Fund	337	-
Loring Development Authority		
General Fund	326	-
Special Revenue Fund	26	-
Maine Municipal Bond Bank		
Special Revenue Fund	5	-
Maine Technical College System		
Capital Projects Fund	576	-
University of Maine System		
General Fund	971	-
Special Revenue Fund	6,834	-
Total	$9,931	$9,931

NOTE 8 - FIXED ASSETS

The following schedules detail fixed assets that are recorded in the General Fixed Assets Account Group, Proprietary Funds and discretely presented component units:

Primary Government - Fixed Assets
June 30, 2001
(Dollars in Thousands)

	General Fixed Assets Account Group	Enterprise Funds	Internal Service Funds
Land	$ 165,986	$ 5,605	$ 243
Buildings	117,092	11,810	39,647
Equipment	64,635	17,080	136,446
Improvement other than buildings	2,772	40,185	11
Construction in progress	64,739	6,291	-
Less: Accumulated depreciation	-	(26,949)	(99,411)
Total fixed assets	$ 415,224	$ 54,022	$ 76,936

Component Units - Fixed Assets
(Dollars in Thousands)

	Totals
Land and Buildings	$ 435,940
Equipment	150,811
Improvements Other Than Buildings	41,956
Library Books	3,987
Construction in Process	42,014
Less: Accumulated Depreciation	(259,738)
Total Fixed Assets	$ 414,970

NOTE 9 - MAINE STATE RETIREMENT SYSTEM

PLAN DESCRIPTION

The Maine State Retirement System is the administrator of an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Maine State Retirement System Laws, Title 5 M.R.S.A., C. 421, 423, and 425. The System is a component unit of the State. Financial information for the System is included in the discretely presented component unit column on the Combined Balance Sheet and in the Statement of Changes in Net Assets Available for Pension Benefits. Condensed financial statement information is presented in Note 13 Segment Information for Enterprise Funds and Component Units. The Maine State Retirement System issues a stand-alone financial report.

The System provides pension, death, and disability benefits to its members, which include employees of the State, public school employees who are defined by Maine law as teachers for whom the State is the employer for retirement contribution purposes, and employees of approximately 250 local municipalities and other public entities in Maine, each of which contracts for participation in the System under provisions of relevant statutes.

At June 30, 2001, the membership consisted of:

Active vested and nonvested members	51,908
Terminated vested participants	2,291
Retirees and benefit recipients	29,566
Total	83,765

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. Vesting occurs upon the earning of ten years of service credit or the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age is age 60 or 62, determined by whether the member had at least 10 years of creditable service on June 30, 1993 (effective October 1, 1999, the ten-year requirement was reduced to five years by legislative action). The monthly benefit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The system also provides death and disability benefits, which are established by statute for State and public school employees, and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits. The annual rate of interest credited to terminated members' accounts is set by the System's Board of Trustees and is currently 6.0 percent.

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

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

The total funds managed by the System are constitutionally restricted as held in trust for the payment of pension and related benefits to its members. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs separate actuarial valuations for each participating entity's respective plan. The Maine State Retirement System management's interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries. The System is therefore regarded as administering a single plan for reporting purposes. The State's legal counsel does not concur with the accumulated assets representation. Additional disclosures would be necessary to report this as more than one plan in conformity with generally accepted accounting principles.

The System also provides group life insurance under a plan that is administered by a third party insurance company. Premiums paid by or on behalf of those covered are set and collected by the System. The insurance company makes benefit payments. The System remits payments to the insurance company in the amount of benefits paid out and additional payments representing administrative fees.

FUNDING POLICY

The Maine Constitution, Maine Statutes and the System's funding policy provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a closed 25-year period from June 30, 1998. For participating local districts, either the level percentage of payroll method or the level dollar method is used, depending on plan structure, status of the participating local district, nature of the unfunded liability (i.e., separate or pooled) and the amount of the unfunded liability. Amortization periods range from 2 years to 28 years.

The State of Maine is required to remit 25% of its budgetary surplus at the end of its fiscal year to the System, in order to reduce any unfunded pension liability for State employees and teachers. During the fiscal year ended June 30, 2001, however, the law was amended in a manner that resulted in no additional contribution from the State budgetary surplus.

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 2001 for participating entities are:

State:	
Employees[1]	7.65-8.65%
Employer	14.81-43.90%
Teachers:	
Employees	7.65%
Employer	18.34%
Participating Local Entities:	
Employees	6.5-8.0%
Employer[1]	1.5-6.5%

[1] Contribution rates vary depending on specific terms of plan benefits for certain classes of employees or benefit plan options selected by a particular participating local entity. Withdrawn entities' contributions are set in dollar amounts, not as rates.

ANNUAL PENSION COST AND NET PENSION OBLIGATION

The employer's annual pension cost and net pension obligation to the System for the current year were:

Net Pension Obligation
(Dollars in thousands)

Annual required contribution	$253,880
Interest on net pension obligation	5,939
Adjustment to annual required contribution	(4,841)
Annual pension cost	254,978
Contributions made	253,880
Increase (decrease) in net pension obligation	1,098
Net pension obligation beginning of year	74,243
Net pension obligation end of year	$ 75,341

Analysis of Funding Progress
(Dollars in thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
2001	$ 254,978	99.57%	$ 75,341
2000	241,189	100.85%	74,243
1999	255,451	107.54%	76,295

The annual required contribution for the current year was determined as part of the June 30, 2001 actuarial valuation using the entry age normal cost method based on a level percentage of covered payrolls. The actuarial assumptions included (a) 8% return on investments and (b) projected salary increases of 5.5% to 9.5% per year, including inflation of 5.5%. The assumptions include post retirement benefit increases of 4% per annum. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a closed 19-year period from June 30, 2000. For participating local districts, either the level percentage of payroll method or the level dollar method is used, depending on plan structure, status of the participating local district, nature of the unfunded liability, (i.e., separate or pooled) and the amount of the unfunded liability. Amortization periods range from 4 to 16 years.

COMPONENT UNIT PENSION DESCRIPTION

The Maine Municipal Bond Bank, Maine Maritime Academy, Maine State Retirement System, and University of Maine have defined benefit pension plans. All except the University of Maine System are participants in plans administered by the Maine State Retirement System. Employees of the Maine Technical College System and the Northern New England Passenger Rail Authority are considered to be State employees for retirement benefit purposes and are included in the pension disclosures of the State.

Employer contributions met actuarially determined contribution requirements.

OTHER PLANS

MTCS also has an optional program with the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), which is a defined contribution plan, to which the MTCS contributes 12.88 percent of total salaries for participating employees or 6.04 percent for MEA employees.

UMS also has a defined contribution program with TIAA-CREF. The University contributes approximately 10 percent of base salary of participants. All full time employees are eligible, and part-time employees are eligible once they have achieved the equivalent of five years of continuous, full-time service. All eligible employees are required to participate in this Plan when they reach thirty years of age.

LDA, FAME and CDS have Simplified Employee Pension Plans. MSHA has a defined contribution plan created under the provisions of the Internal Revenue Code Section 401(a). MHHEFA has a discretionary contributory profit sharing plan and a defined contribution plan created under the provisions of the Internal Revenue Code Section 401(k).

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

POST RETIREMENT HEALTH CARE BENEFITS

The State of Maine funds postretirement health care benefits for most retired State employees and legislators, as authorized by 5 M.R.S.A. § 285, and for a portion of the premiums for teachers, as authorized by 20-A M.R.S.A. § 13451. Pursuant to 5 M.R.S.A., § 285, most retired employees of the Maine Turnpike Authority, the Maine Technical College System, the Maine Maritime Academy, and the Maine State Retirement System are eligible to participate in the health plan but are not funded by the State. Specifically excluded (5 M.R.S.A., § 285 1-B) are members of the Maine Municipal Association, the Maine Teachers Association and employees of counties and municipalities and their instrumentalities.

The State pays 100 percent of post retirement health insurance premiums for retirees who were first employed before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than five years participation to 100 percent for retirees with ten or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Retirees eligible for Medicare are covered under supplemental insurance policies. The retiree must pay for Medicare Part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees who are not eligible for Medicare includes basic hospitalization;

supplemental major medical and prescription drugs; and costs for treatment of mental health, alcoholism, and substance abuse.

Retiree health care benefits have been funded on a pay-as-you go basis. For retired State employees, the State estimated the total amount necessary to pay health insurance premiums. This amount is generated using a contribution rate (5.47 percent for July 1, 2000, through April 24, 2001, and 7.39 percent for April 25, 2001, through June 30, 2001), authorized by 5 MRSA § 286-A, multiplied by the value of the current employee payroll. The amounts contributed were reported as expenditures/expense in each of the various funds. For retired teachers, the State estimates the total annual amount necessary to pay its 30 percent share of health insurance premiums. This amount, less any accumulated funds remaining from prior years' estimates, is appropriated and reported as expenditures in the General Fund. Contributions resulting from both sources are accumulated in and reported as revenue of the Retiree Health Insurance Internal Service Fund. The State's share of the premium expense is paid from that fund when retiree payrolls are processed. The State's management proposed funding retiree healthcare benefits using rates, which have been developed actuarially, beginning in fiscal year 2001.

As of July 1, 2001, there were 7,039 retired eligible State employees and 6,027 retired teachers. In the 2001 fiscal year, the State paid into the Retiree Health Insurance Fund $27.4 million for retired employees and $4.3 million for retired teachers. Premium charges paid were $20.5 million and $5.0 million, respectively. Overall fund equity increased by $11.7 million to $36.2 million at June 30, 2001. The most recently available, State sponsored, actuarial study was issued for fiscal year 2000. The study estimated the amount of the liability for current and future retirees, as of July 1, 2000, was $725.3 million. This includes benefits for 13,424 current retirees as well as 41,601 currently active employees expected to retire in the future. The report does not consider employees not yet hired as of July 1, 2000.

POST RETIREMENT LIFE INSURANCE BENEFITS

The Maine State Retirement System (MSRS) provides certain life insurance benefits for retirees who, as active employees, participated in the Group Life Insurance Program for a minimum of ten years. Payments of claims are made by the MSRS from a fund containing the life insurance premiums of active State employees and teachers, plus earnings on the investments of the fund. In addition to the cost of claims, the State pays a monthly retention fee to a life insurance company. For the fiscal year ended June 30, 2001, claims totaled $1.7 million for retired State employees and $1.1 million for retired teachers. The number of participants eligible to receive benefits at fiscal year end was 6,027 retired State employees and 4,451 retired teachers.

NOTE 11 - LONG-TERM OBLIGATIONS

Primary Government

The State records its liability for bonds in the General Long-Term Obligations Account Group (GLTOAG). The State has also included in the GLTOAG $159.3 million in other financing arrangements to reflect revenue bonds issued by the Maine Governmental Facilities Authority, a blended component unit. Payment of the bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature. Debt issued by the Authority is not debt of the State or any political subdivision within the State; and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. Other general long-term obligations recognized by the State are its compensated employee absences and its obligations under Certificates of Participation and other financing arrangements. Payments for these liabilities will be made from the Governmental Funds.

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 during the fiscal year are:

Primary Government - Changes in General Obligation Bonds
June 30, 2001
(Dollars in Thousands)

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
General Obligation Debt:				
General Fund	$ 341,205	$ 22,050	$ 65,850	$ 297,405
Special Revenue Fund	111,230	19,225	21,820	108,635
Self Liquidating	540	-	90	450
Total	$ 452,975	$ 41,275	$ 87,760	$ 406,490

The future debt service requirements for the bonds are as follows:

Future Debt Service on General Obligation Bonds
June 30, 2001
(Dollars in Thousands)

Fiscal Year	Principal	Interest	Total
2002	$ 87,605	$ 20,775	$ 108,380
2003	82,400	15,910	98,310
2004	59,845	11,996	71,841
2005	47,090	8,915	56,005
2006	45,005	6,441	51,446
Thereafter	84,545	9,260	93,805
Total	$ 406,490	$ 73,297	$ 479,787

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, 2001, general obligations bonds authorized and unissued totaled $93.3 million. The Maine Governmental Facilities Authority, a blended component unit, may not issue securities in excess of $211 million outstanding at any one time except for the issuance of certain revenue refunding securities. The Legislature may increase this limit as necessary to meet the Authority's needs.

CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS

The State uses financing companies, Certificates of Participation (COP's), and lease/purchase agreements to finance the construction of certain State buildings and to purchase equipment and vehicles. Certificates of Participation are issued through a trustee, and the State is responsible for payments to the trustee that approximate the interest and principal payments made to the certificate holders. The State maintains custody and use of the assets; however, the trustee holds a lien as security until such time as the certificates are fully paid. Neither Certificates of Participation nor the other financing arrangements constitute a legal debt, liability, or contractual obligation in excess of amounts appropriated. The State's obligation to make minimum payments or any other obligation under agreements is subject to, and dependent upon, appropriations being made by the Legislature. The Legislature has no obligation to appropriate the money for future minimum payments or other obligations under any agreement.

Changes in liabilities reported in the General Long-Term Obligations Account Group are:

Changes in General Long-Term Obligations
June 30, 2001
(Dollars in Thousands)

	Bonds	COP's and other Financing Arrangements	GFA Revenue Bonds	Compensated Absences	Net Pension Obligation	Total
Balance, July 1, 2000	$ 452,975	$ 2,408	$ 103,563	$ 28,600	$ 74,243	$ 661,789
Issuances	41,275	-	58,850	-	-	100,125
Payments	(87,760)	(1,858)	(3,235)	-	-	(92,853)
Other Increase (Decrease)	-	-	142	2,379	1,098	3,619
Balance, June 30, 2001	$ 406,490	$ 550	$ 159,320	$ 30,979	$ 75,341	$ 672,680

Changes in COP's and Other Financing Arrangements reported in Proprietary Fund Types are:

Certificates of Participation and Other Financing Arrangements
June 30, 2001
(Dollars in Thousands)

Outstanding July 1, 2000	**Additions**	**Retirements**	**Outstanding June 30, 2001**
$19,369	$4,000	$5,707	$17,662

Debt service on COP's and other financing arrangements are presented as:

Debt Service on Certificates of Participation and Other Financing Arrangements
June 30, 2001
(Dollars in Thousands)

		Minimum Payments	
Fiscal Year Ending June 30,	Governmental Funds	Government Facilities Authority	Internal Service Funds
2002	$ 216	$ 12,710	$ 7,023
2003	182	12,557	5,099
2004	181	17,294	3,313
2005	22	16,895	2,388
2006	-	16,493	1,184
Thereafter	-	169,964	598
Total Minimum Payments	601	245,913	19,605
Less: Amount Representing Interest	51	86,593	1,943
Present Value of Future Minimum Payments	$ 550	$ 159,320	$ 17,662

OBLIGATIONS UNDER CAPITAL LEASES

The State of Maine has entered into long-term capital leases to buy certain fixed assets. Leases, which are in substance purchases, are classified as capital leases and the resulting assets and liabilities are recorded at lease inception. Assets acquired through capital leases are valued at the lower of fair market value or the present value of the minimum lease payments at the inception of the lease. The State accounts for lease commitments in the proprietary funds.

Leases that exist between the State and the Maine Governmental Facilities Authority (MGFA), a blended component unit, are not recorded as leases for financial reporting purposes. These leases are eliminated and the liabilities of the MGFA are included in the Special Revenue Fund. Capital lease commitments of the University of Maine System (UMS) are reported in the UMS Plant Funds. At June 30, 2001, property acquired under capital leases totaled $34.1 million in the Internal Service Fund, with related accumulated depreciation of $8.1 million.

The future minimum lease payments for capital leases reported in the Internal Service Fund are:

Future Minimum Lease Payments
Proprietary Fund Capital Leases
June 30, 2001
(Dollars in Thousands)

Fiscal Year Ending June 30,	
2002	$ 3,986
2003	3,764
2004	3,598
2005	3,190
2006	3,118
Thereafter	16,333
Total Minimum Payments	33,989
Less: Amount Representing Interest	7,294
Present Value of Future Minimum Payments	$ 26,695

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 the results of the lease agreements are not reflected in the State's financial statements.

The following is a schedule by years of future minimum rental required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2001:

Future Minimum Lease Payments
Proprietary Fund Operating Leases
June 30, 2001
(Dollars in Thousands)

Fiscal Year Ending June 30,	
2002	$ 7,697
2003	7,364
2004	6,338
2005	4,718
2006	4,126
Thereafter	22,548
Total Future Minimum Payments	$ 52,791

Component Units - Bonds outstanding for the component units are:

Component Unit Bonds Outstanding
(Dollars in Thousands)

Component Unit	Purpose	Interest Rates	Amount	Maturity Dates
Maine Health and Higher Education Facilities Authority	General Bond Resolution	3.90 - 7.55%	$ 80,640	1986 - 2029
	Reserve Fund Resolution	2.5 - 6.50%	893,909	1992 - 2030
	Medium Term Financing Reserve Fund Resolution	4.0 - 8.25%	3,240	1993 - 2003
	Taxable Reserve Fund Resolution	7.03 - 9.35%	87,895	1993 - 2016
Subtotal			1,065,684	
Finance Authority of Maine	Construction Bonds	1.0 %	1,344	1999 - 2025
Maine Municipal Bond Bank	General Tax-Exempt Fund Group	3.00 - 9.75%	883,842	1990 - 2028
	Sewer and Water Fund Group	2.75 - 7.20%	67,252	1991 - 2028
	Special Obligation Taxable Fund Group	6.10 - 10.25%	1,635	1991 - 2009
Subtotal			952,729	
Maine Educational Loan Authority	Educational Loan Revenue Bonds	3.60 - 7.75%	67,378	1997 - 2029
Maine State Housing Authority	Mortgage Purchase Program	2.75 - 9.25%	1,386,969	2000 - 2038
	Housing Finance Revenue Program	4.25 - 6.30%	40,247	2000 - 2030
Subtotal			1,427,216	
Maine Maritime Academy	Revenue Bonds and Other Long-Term Obligations	2.6 - 10.00%	2,849	2000 - 2023
Maine Technical College System	Building Construction Bonds	8.16%	315	2005
University of Maine System	1993 Series A Revenue Bonds	2.30 - 5.20%	8,390	1994 - 2008
	1993 Series B Refunding Bonds	3.15 - 5.50%	13,120	1995 - 2020
	1998 Series A Revenue Bonds	3.95 - 5.00%	27,262	2000 - 2024
	2000 Series A Revenue Bonds	4.5 - 5.75%	39,284	2001 - 2030
Subtotal			88,056	
Total			$3,605,571	

Maturities of principal for component units are:

Component Units Principal Maturities
(Dollars in Thousands)

Fiscal Year Ending	MHHEFA	FAME	MMBB	MELA	MSHA	MMA	MTCS	UMS	Totals
2001	$ -	$ -	$ -	$ 1,745	$ 42,715	$ -	$ -	$ -	$ 44,460
2002	32,845	50	84,931	1,920	22,250	80	85	3,700	145,861
2003	36,660	51	80,606	1,855	29,770	79	85	3,755	152,861
2004	36,555	51	77,156	2,030	34,165	84	85	3,830	153,956
2005	37,220	52	74,721	2,025	38,485	85	60	3,900	156,548
2006	37,695	52	72,365			90	-	4,100	114,302
Thereafter	884,709	1,088	580,435	58,284	1,274,918	2,570	-	69,980	2,871,984
Less amounts deferred or unamortized	-	-	(17,485)	(481)	(15,087)	(139)	-	(1,209)	(34,401)
Total Principal Payments	$1,065,684	$1,344	$952,729	$67,378	$1,427,216	$2,849	$315	$88,056	$3,605,571

NOTE 12 - SELF-INSURANCE

A. RISK MANAGEMENT

The State maintains several types of insurance plans and accounts for them in two funds. The Self-Insurance Internal Service Fund provides insurance advice and services to State governmental agencies, and the State-Administered Fund offers similar services to quasi-governmental entities. Statute requires the Self-Insurance Fund to be replenished by appropriation if the fund balance drops below $1 million. The State-Administered Fund balance has no similar provision; however, statutes prevent it from being used for any purpose other than providing insurance services.

Insurance plans offered include property, vehicle, boat and aircraft, tort, civil rights, employee bonds, police professional, and a variety of other insurance products. Not all departments elect to insure through the Risk Management Division. Specifically, the Department of Human Services and the Department of Transportation have elected not to purchase general liability insurance.

In many cases the State purchases excess insurance to limit the State's liability for insured events. For example, coverage for property damage is $2.5 billion per occurrence. The State retains $1 million of this risk per occurrence, with the remainder being covered by a private insurance carrier (excess insurance). Coverage, risk retention, and excess insurance amounts for major types of insurance are listed below:

Type of Insurance	Coverage Per Occurrence	Risk Retention Per Occurrence	Excess Insurance Per Occurrence
Property	$2.5 billion	$1 million	$2.5 billion
Employee Bond - Food Stamps	16.5 million	.5 million	16 million
Ocean Marine Boat Liability	10 million	10,000	10 million
Loss of Software and Data	8 million	25,000	8 million
Boiler and Machinery	2 million	5,000	2 million
General Liability including Employment Practices	400,000	400,000	none
Police Professionals	400,000	400,000	none

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

All risk-financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims liabilities represent the estimated cost of claims as of June 30, 2001. This cost of claims includes case reserves, the development of known claims and incurred-but-not-reported claims, and the direct administrative expenses for settling specific claims.

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

At June 30, 2000, $3.2 million was reported as the present value of the estimated claims payable for the State's self-insurance plan. The actuary calculated this based on a 5.5 percent yield on investments. The non-discounted amount was $3.6 million. At June 30, 2001, the State has estimated the range of loss between $3.0 and $3.5 million.

Risk Management Fund Changes in Claims Payable
June 30, 2001
(Dollars in Thousands)

	2001	2000
Liability at beginning of year	$3,219	$3,519
Current year claims and changes in estimate	1,570	1,019
Claims payments	1,570	1,319
Liability at end of year	$3,219	$3,219

As of June 30, 2001, fund assets of $15.4 million exceeded fund liabilities of $4 million by $11.4 million. The portion of this amount that may be reserved for catastrophic losses has not been determined.

In the past, general liability insurance coverage excluded lawsuits brought by employees. Therefore, the loss history used by the actuary to project claims did not include the effects of any such lawsuits. Effective July 1, 1999, the State added $50,000 coverage per occurrence for the cost of defending the State in any such lawsuits. Effective July 1, 2000, the State increased coverage to include both defense and indemnification costs up to $400,000. The effect of this change has not been incorporated into the estimate used to determine claims payable as of June 30, 2001.

The State, through the Risk Management Division, purchased insurance for four State Correctional facilities in an Owner Controlled Insurance Program (OCIP). The State, as owner, gets favorable premium rates compared with the contractors who typically purchase the coverage and include associated costs in their contract prices. Workers' compensation, tort, and property coverage for the projects will cost approximately $1.6 million, which represents $200,000 in savings over the lives of the projects. The entire premiums billed by OCIP insurers are paid by the State Risk Management Fund and billed to Maine's Department of Corrections.

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 $563,000 for the fiscal year ended June 30, 2001.

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.

Changes in the balance of claims and judgments liabilities during fiscal 2001 were:

Workers' Compensation Fund Changes in Claims Payable
June 30, 2001
(Dollars in Thousands)

	2001	**2000**
Liability at Beginning of Year	$ 80,371	$ 82,668
Current Year Claims and Changes in Estimates	2,861	10,252
Claims Payments	7,506	12,549
Liability at End of Year	$ 75,726	$ 80,371

Based on actuarial calculations as of June 30, 2001, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $92.3 million. The discounted amount is $75.7 million and was calculated based on a 4.25 percent yield on investments.

D. DISABILITY

State law allows confidential employees who become temporarily disabled to receive 66.67 percent of their salary for up to 335 calendar days. There were a total of 1,013 confidential employees at June 30, 2001. The expenditure amount for this benefit cannot be determined.

NOTE 13 - SEGMENT INFORMATION-ENTERPRISE FUNDS AND COMPONENT UNITS

PRIMARY GOVERNMENT

The State has nine enterprise funds that have been created to provide various services to the general public. The purpose of each enterprise fund is described below:

The *Alcoholic Beverages Fund* was established to license and regulate the sale of alcoholic beverages. The net profit from the fund is transferred to the State's General Fund and is used for general government purposes.

The *Lottery Fund* was established to account for all operations of the Maine State Lottery. This includes the Tri-State Lotto Commission, established in 1985, and is a joint venture between 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 the price or prices of tickets, the number and size of prizes for winning tickets, and the licensing of agents.

The *Potato Marketing Improvement Fund* provides low interest loans to potato growers for the modernization of storage facilities and improvements in the handling of the product.

The *Seed Potato Board Fund* accounts for the growing of nuclear seed for sale to potato growers, for research in disease control, and for the development of new product varieties.

The *State Airport Fund* accounts for all operations and maintenance of the Maine State Airport. The State, through the Department of Transportation, entered into a lease/purchase agreement with the City of Augusta to operate and eventually own the airport.

The *Marine Ports Fund* is used to account for the operation and maintenance of port facilities within the jurisdiction of the Department of Transportation.

The *State Ferry Service Fund* accounts for the operation of ferry services between the mainland and various islands for the purpose of transporting vehicles, freight, and passengers to and from those islands.

The *Prison Industries Fund* accounts for a self-supporting program of job training through the employment of inmates in manufacturing and selling products.

The *Community Industrial Building Fund* is used to assist a local development corporation to construct a community industrial building by lending money when the project can reasonably be expected to create new employment. Preference is given to projects in economically deprived areas.

Segment Information
June 30, 2001
(Dollars in Thousands)

	Bureau of Alcoholic Beverages	State Lottery Bureau	Agriculture Related	Transportation Related	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues	$ 80,215	$ 147,013	$ 382	$ 2,686	$ 1,189	$ 231,485
Depreciation Expense	459	1	14	2,754	10	3,238
Operating Income (Loss)	24,456	36,938	(399)	(5,929)	71	55,137
Net Nonoperating Revenues	-	510	591	3,185	17	4,303
Net Income (Loss)	(11)	16	441	(172)	88	362
Operating Transfers in (out)	(24,467)	(37,432)	249	2,572	-	(59,078)
Additions (Deletions) to Property, Plant and Equipment	-	19	(37)	651	-	633
Total Assets	6,798	10,156	10,404	57,435	649	85,442
Total Long-Term Liabilities	1,000	-	-	-	-	1,000
Total Liabilities	6,798	10,156	501	272	63	17,790
Total Equity	-	-	9,903	57,163	586	67,652
Net Working Capital	959	(19)	1,257	3,929	577	6,703
Current Capital Contributions	-	-	-	287	-	287

COMPONENT UNITS

The following tables present condensed financial statements for each of the discretely presented component units. Complete financial statements of the individual component units can be obtained from their respective administrative offices as described in Note 1.

Component Units Condensed Balance Sheet

(Dollars in Thousands)

	MHHEFA	FAME	MMBB	MSHA	MSRS	U of ME	Other	Total
Assets:								
Cash	$ 85,348	$ 27,817	$ 344	$ 860	$ 96,460	$ 112,341	$ 7,357	$ 330,527
Investments	162,696	56,805	283,141	405,209	6,945,152	118,445	64,507	8,035,955
Due from primary government	-	337	5	-	-	7,805	1,784	9,931
Due from other governments	-	-	982,060	952	9,476	9,136	3,354	1,004,978
Loans and notes receivable	969,351	37,988	-	1,279,428	-	33,072	50,543	2,370,382
Other receivables	6,250	3,023	2,429	17,210	33,561	24,896	6,556	93,925
Fixed assets	4,606	2,236	1,009	459	386	302,938	103,336	414,970
Other assets	6,833	2,458	42,733	3,861	-	4,155	7,270	67,310
Total assets	$ 1,235,084	$ 130,664	$ 1,311,721	$ 1,707,979	$ 7,085,035	$ 612,788	$ 244,707	$ 12,327,978
Liabilities:								
Accounts payable	$ 504	$ 3,593	$ 687	$ 18,358	$ 9,931	$ 8,363	$ 7,504	$ 48,940
Due to other governments	-	6,707	3,531	5,277	-	-	1,381	16,896
Deferred revenues	1,175	6,352	-	26,933	-	9,508	2,077	46,045
Amounts held under state loan programs	-	74,087	12,575	-	-	-	-	86,662
Bonds and notes payable	1,065,684	1,344	952,729	1,427,216	-	88,056	70,542	3,605,571
Other accrued liabilities	35,320	16,201	8,863	16,667	46,325	45,164	17,153	185,693
Total Liabilities	1,102,683	108,284	978,385	1,494,451	56,256	151,091	98,657	3,989,807
Equity:								
Retained Earnings:								
Reserved	-	-	289,628	-	-	-	-	289,628
Unreserved	-	22,380	43,708	213,528	-	-	4,136	283,752
Reserved for debt service	49,317	-	-	-	-	1,158	-	50,475
Net investment in plant	-	-	-	-	-	229,100	99,103	328,203
Reserved for pension benefits	-	-	-	-	7,028,779		-	7,028,779
Other reservations	72,083	-	-	-	-	190,601	22,727	285,411
Unrestricted/unreserved	11,001	-	-	-	-	40,838	20,084	71,923
Total Equity	132,401	22,380	333,336	213,528	7,028,779	461,697	146,050	8,338,171
Total Liabilities and Equity	$ 1,235,084	$ 130,664	$ 1,311,721	$ 1,707,979	$ 7,085,035	$ 612,788	$ 244,707	$ 12,327,978

Component Unit Condensed Statement of Revenues, Expenditures and Changes in Fund Balances
(Dollars in Thousands)

	MHHEFA	NNEPRA	CDS	Total
Revenues	$ 112,385	$ 12,816	$ 244	$ 125,445
Current Expenditures	28,197	22,958	19,856	71,011
Capital Outlay Expenditures	127,589	-	-	127,589
Debt Service Expenditures	93,582	-	-	93,582
Transfers from Primary Government	-	-	21,055	21,055
Excess (Deficiency) of Revenues over (under) Expenditures	(136,983)	(10,142)	(19,612)	(166,737)

Component Unit Condensed Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances
(Dollars in Thousands)

	FAME	LDA	MMBB	MELA	MSHA	Total
Operating Revenues	$ 14,044	$ 6,808	$ 88,580	$ 4,999	$ 215,265	$ 329,696
Operating Expenses	22,888	6,687	65,959	4,505	194,692	294,731
Operating Income (Loss)	(8,844)	121	22,621	494	20,573	34,965
Non-Operating Revenues (expenses)	(655)	-	-	-	-	(655)
Extraordinary Loss	-	-	-	-	(578)	(578)
Transfers from Primary Government	13,287	1,447	32,149	-	8,392	55,275
Transfers to Primary Government	(2,000)	-	-	-	-	(2,000)
Net Income (Loss)	1,788	1,568	54,770	494	28,387	87,007
Retained Earnings, July 1, 2000 (as restated)	20,592	1,200	278,566	874	185,141	486,373
Retained Earnings, June 30, 2001	$ 22,380	$ 2,768	$ 333,336	$ 1,368	$ 213,528	$ 573,380

NOTE 14 - JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose. The only material joint venture in which the State participates is the Tri-State Lotto Commission (Commission).

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

The Commission is composed of one member from each of the participating states. Each member State's commission appoints one of its members to serve on the Commission and each member holds office at the pleasure of his or her appointing authority. The Commission annually elects a chairman from among its members.

The Commission has designated that 50 percent of its operating revenue be aggregated in a common prize pool. A prize award liability is established when the winning ticket number is selected. If no winning ticket is selected, the available jackpot is carried over to the following drawing. The Tri-State Lotto Compact requires that prizes

not claimed within one year from the date of the drawing be forfeited. All expired unclaimed prizes are credited to future prize pools. The Commission funds its jackpots through annuity contracts purchased from insurance companies and zero-coupon U.S. Government Treasury Strips.

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

The financial statements of the Tri-State Lotto Commission may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008.

As of and for the fiscal year ended June 30, 2001, selected financial information was reported in the audited financial statements of the Tri-State Lotto Commission:

Tri-State Lotto Commission
June 30, 2001
(Dollars in Thousands)

Current Assets	$ 47,149
Noncurrent Assets	199,304
Total Assets	$ 246,453
Current Liabilities	$ 41,306
Long-term Liabilities	184,636
Total Liabilities	225,942
Designated Prize Reserves	4,996
Unrealized Gain on Investments Held for Installment Prize Obligations	15,515
Total Retained Earnings	20,511
Total Liabilities and Retained Earnings	$ 246,453
Total Revenue	$ 80,673
Total Expenses	$ 54,593
Allocation of Funds to Member States	$ 26,828
Increase in Retained Earnings	$ 4,684

NOTE 15 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

Title 20 M.R.S.A. §11473 establishes the Maine College Savings Program Fund (the Fund), administered by the Finance Authority of Maine (FAME). The Fund holds all monies associated with the Maine College Savings Program doing business as the NextGen College Investing Plan (NextGen). NextGen is the primary program of the Fund and was established to encourage the investment of funds to be used for qualified higher education expenses at institutions of higher education. The program has been designed to comply with the requirements for treatment as a "Qualified State Tuition Program" under Section 529 of the Internal Revenue Code. By statute, the program assets and liabilities are held by the Treasurer of the State of Maine. FAME and the Treasurer of the State of Maine have entered into a management agreement for the Treasurer to act as a fiduciary of the Fund. The Treasurer is responsible for investment of the Fund and determining, with the advice of the Advisory Committee on College Savings, the proper allocation of the investments of the Fund. The NextGen College

Investing Plan had approximately $544 million in net assets at June 30, 2001, which have been recorded in an Agency Fund on the financial statements of the State.

In 1999, the Legislature established the Maine Learning Technology Endowment to enable the full integration of appropriate learning technologies into teaching and learning for the State's elementary and secondary students. During fiscal year 2001, the State of Maine invested $50 million with the Maine State Retirement System, a discretely presented component unit. At June 30, 2001, the value of this fund was approximately $52.7 million. The investment and related liability, recorded in the MSRS financial statements, have been eliminated for purposes of including MSRS as a component unit of the State of Maine, as the State has recorded the assets in an Expendable Trust Fund in its financial statements.

General Obligation Bonds of the State include $450,000 of self-liquidating bonds of the Maine Veterans' Home. The State issues the bonds, and the Maine Veterans' Home remits to the State the debt service as it comes due.

The State of Maine has entered into memoranda of understanding with the Wells National Estuarine Research Reserve Management Authority, a jointly governed organization, through the Bureau of Public Lands and the Bureau of Parks and Recreation. These agreements outline each entity's responsibilities in relation to the operation of the Reserve and the management of the property included within the boundaries of the Reserve. The Authority's responsibilities are generally to manage the Reserve consistent with the Wells National Estuarine Research Reserve Management Plan dated May 1991.

RELATED ORGANIZATIONS

The State provided appropriations to three related organizations. The Maine Science and Technology Foundation received an appropriation of $1.8 million, the Maine School of Science and Mathematics received an appropriation of $1.5 million, and the Maine Technology Institute received an appropriation of $6.3 million.

The State receives transfers in the amount of the annual operating surplus from the Maine Turnpike Authority under the Sensible Transportation Act of 1991. The Legislature has defined operating surplus within the Maine Turnpike Authority statute to be the total operating revenues of the Authority after money has been set aside to pay reasonable operating expenses and to meet the requirements of any resolution authorizing bonds. The Authority, with the concurrence of the Maine Department of Transportation, has established the operating surplus at $4.7 million annually. The payment of debt service costs in connection with the issuance of the Series 1996 Special Obligation Bonds is considered to constitute payment of the operating surplus for the year 2001.

COMPONENT UNITS

The University of Maine Foundation (Foundation) is an independent non-profit organization and, accordingly, its financial statements are not consolidated with those of the University. Total gifts and income received by the University from the Foundation during fiscal years ending June 30, 2001 and 2000 were approximately $4.2 million and $4.2 million, respectively. The reported fair market value of the Foundation's assets at June 30, 2001 and 2000 were approximately $114.7 million and $117.1 million, respectively.

The Finance Authority of Maine (FAME) administers several revolving loan funds on behalf of the State of Maine. During fiscal year 2001, the State expended approximately $6 million to FAME for State revolving loan funds. FAME recorded these funds as a liability in Amounts Held Under State Revolving Loan Programs in their financial statements

Title 20-A M.R.S.A. Chapter 419-A establishes the Maine State Grant Program as a fund under the jurisdiction of the Finance Authority of Maine (FAME). 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 2001, FAME paid approximately $6.2 million in grants to the University of Maine System (UMS) on behalf of eligible students. The UMS reflected these grants as grant revenues from the State of Maine in its financial statements.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

FEDERAL GRANTS

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

MUNICIPAL SOLID WASTE LANDFILLS

Title 38 M.R.S.A., §1310-F, establishes within the Department of Environmental Protection (DEP) a cost-sharing program for the closure and remediation of municipal solid waste landfills that pose an actual or potential hazard to the environment and public health. The State's obligation to provide cost sharing to municipalities is subject to the availability of funds approved for that purpose. State expenditures for both municipal landfill closure and remediation projects totaled $1.2 million for fiscal year 2001.

During the 2001 fiscal year, $1.1 million of State general funds were expended for municipal solid waste landfill closure projects, which completed work before January 1, 2000. After January 1, 2000, the State is no longer liable for the costs relating to the closure of municipal solid waste landfills. The Commissioner may make grants or payments up to 30% if they are incurred pursuant to an alternative closure schedule approved by DEP prior to January 1, 2000, and if they are specifically identified in a department order or license, schedule of compliance or consent agreement. No reimbursement applications for past closure costs are on file. No additional cost share eligible closures have been approved by DEP. Consequently, the DEP expects no further expenditures related to municipal landfill closures.

The State expended $83 thousand of State general funds and $18 thousand of general obligation bond funds for municipal solid waste landfill remediation projects during fiscal year 2001. Remediation funding, subject to the availability of funds, will continue for 90% of the cost of remediation for threats posed by a municipal landfill to wells or other structures constructed on or before December 31, 1999. The maximum reimbursement for remediation funding is 50% for structures constructed after that date. The DEP recognizes that, in the future, post closure investigation and remediation activities may be necessary at landfills that will require State funds. The DEP has estimated the amount of these potential costs to be approximately $1.6 million, based on current site knowledge.

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 $12-14 million through the year 2005. This consists of approximately $7-9 million for State-owned facilities and approximately $5 million for the State's share, under a cost sharing arrangement, for municipal facilities.

POLLUTION ABATEMENT PROGRAM

Title 38 M.R.S.A. §411 establishes within DEP a cost-sharing program for pollution abatement projects. Subject to funding by the Legislature and the approval of the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. During the 2001 fiscal year, $10.4 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2001, amounts encumbered for pollution abatement projects totaled $1.8 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $4.1 million. At June 30, 2001, DEP estimated the total cost (federal, State, and local) of future projects to be $320 million.

DESIGNATION AS A POTENTIALLY RESPONSIBLE PARTY BY THE ENVIRONMENTAL PROTECTION AGENCY

The State has been identified as a potentially responsible party at three hazardous waste clean-up sites in Maine. These sites are located in Plymouth, Casco and Ellsworth. The amount or range of potential liability has not been determined.

GROUND WATER OIL CLEAN-UP FUND

The Ground Water Oil Clean-up Fund is established in Title 38 MRSA §569-A. Fund activities include, but are not limited to, providing insurance to public and private entities for clean up of oil spills. The program is funded by a per barrel assessment on petroleum products imported into the State. Coverage is up to $1 million per occurrence for both aboveground and underground storage tanks. Third party injury coverage may not exceed $200,000 per claimant.

A report to the legislature dated December 15, 2000, submitted by the Maine Department of Environmental Protection (DEP), identified 356 long-term remediation sites as of August 2000 that are covered by the insurance program. The number of sites increased to 397 by December 2001. 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.

NURSING HOME LOANS

The Maine Health and Higher Education Facilities Authority (MHHEFA) has advanced approximately $2.9 million from the operating fund as of June 30, 2001, to certain financially troubled institutions. The outstanding loans owed to the Authority total approximately $39.9 million. These advances were made to assist these institutions in meeting debt service requirements. The Authority established a $1.6 million reserve in its operating fund related to amounts that have been advanced or are expected to require an advance to troubled institutions.

CONSTRUCTION COMMITMENTS

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. This portion represents the subsidy for debt service resulting from local outstanding indebtedness for school construction projects. As of June 30, 2001, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $739.9 million.

At June 30, 2001, the Department of Transportation had contractual commitments of approximately $87.9 million for construction of various highway projects. The State's share of that amount is expected to be approximately $16.8 million. Of these amounts, $15.1 million has already been reported as accruals, with the State's share at $4.9 million. Federal and State funds plus bond proceeds are expected to provide funding for these future expenditures.

At June 30, 2001, the State of Maine had contractual and guaranteed maximum price agreement commitments for construction projects of:

Northern Maine Juvenile Facility	$7.7 million
Southern Maine Juvenile Facility	$5.3 million
Maine State Prisons	$15.8 million
State House	$7.0 million

TOBACCO SETTLEMENTS

On November 23, 1998, Maine along with 45 other states and five jurisdictions agreed to an out-of-court settlement with certain Participating Tobacco Manufacturers (PM's) to recover smoking-related Medicaid costs. The PM's agreed to pay $206 billion to the states and jurisdictions. In return, the states have agreed to relinquish claims to further damages resulting from Medicaid costs. Maine's percentage of the total settlement payment is 0.7693505%, which equals $1.58 billion. Annual payments (2000 and thereafter) will fluctuate subject to various adjustments and litigation offsets and are contingent on the passage and enforcement of a State statute imposing economic conditions on the PM's. This settlement will result in an ongoing revenue stream to the State, which will continue into perpetuity.

As compensation, the PM's have also agreed to pay $8.6 billion to certain states and jurisdictions for their contribution to the overall settlement. These payments are subject to the adjustments referred to above. Maine's share equals approximately $114 million and will be received in ten annual payments beginning in 2008.

The State received $47.8 million dollars from PM's during fiscal year 2001.

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 a resident Maine veteran. The aggregate of these obligations, at any one time, may not exceed $90 million, $1 million, and $4 million, respectively. At June 30, 2001, loans outstanding pursuant to these authorizations are $20 million, less than $1 million, and $1.3 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, 2001.

Article 8, § 2, of the Maine State Constitution provides that the State may secure funds, through the issuance of bonds authorized by the Governor, for loans to Maine students attending institutions of higher education. The amount of bonds issued and outstanding shall not at any one time exceed $4 million in the aggregate. The State has not paid, nor does it expect to pay, any amount as a result of this authorization as of June 30, 2001.

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
(Dollars in Thousands)

Issuer	Bonds Outstanding	Required Debt Reserve	Obligation Debt Limit	Legal Citation
Maine Health and Higher Education Facilities Authority	$ 985,040	$ 85,902	$ -	22 MRSA § 2075
Finance Authority of Maine	201,820	36,441	760,425	10 MRSA § 1032, 1053
Loring Development Authority	-	-	100,000	5 MRSA § 13080-N
Maine Municipal Bond Bank	970,215	114,599	-	30-A MRSA § 6006
Maine Educational Loan Authority	46,145	2,211	50,000	20-A MRSA § 11424
Maine State Housing Authority	1,442,303	129,035	1,650,000	30-A MRSA § 4906
Total	$ 3,645,523	$ 368,188		

NOTE 17 - LITIGATION

The State of Maine, its units and its employees are parties to numerous legal proceedings, many of which normally occur in governmental operations. In the opinion of the Attorney General and other legal counsel representing the State, in all of the cases listed, the State or its agencies or employees have valid defenses. The following cases have the potential for liability in excess of $1 million. The Attorney General cannot predict in which of the cases there is a higher or lower probability of paying out the full amounts sought. 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.

Central Maine Medical Center v. DHS. Central Maine Medical Center has appealed its audit decisions for FY 1993 through 1997. The case is currently at the DHS administrative hearings unit level. Hearings have been held for FY 1993 and 1994, and the FY 1995 hearing is scheduled for June 2002. The Department claims CMMC owes the Department $2 million; CMMC claims the Department owes it $8-10 million, for all of the issues, for all of the fiscal years. The other hospitals, including Eastern Maine Medical, have also filed appeals for FY 1998 through FY 2000. Those appeals have not yet been set for hearing. The Attorney General considers this to be a serious matter.

Profit Recovery Group USA v. Janet Waldron. The damages in this case could potentially be in excess of $1 million. In this lawsuit, which is pending in Kennebec County Superior Court, Plaintiff alleges breach of contract and quantum meruit claims. The lawsuit arises out of a contract between the Plaintiff and the State under which the Plaintiff was to audit the State's payments to vendors and look for overpayments. Plaintiff was to be paid a contingency fee based on overpayments if recovered. Plaintiff alleges that it identified two large overpayments for which it is owed a fee of $597,000. Plaintiff also alleges that the State prevented Plaintiff from doing further work under the contract, which would have resulted in the identification of additional payments. The case is currently on a July trial list.

Marr v. DHS. This suit is brought in federal court on behalf of the estate of Logan Marr, who was in the custody of the State when she died in a foster home. The foster mother is currently awaiting trial for murder. The suit seeks substantial damages. No schedule has been set by the court. The Attorney General considers this to be a serious matter.

Berube v. AMHI. This suit, brought in State court, is on behalf of the estate of an AMHI patient who committed suicide. Presently, motions to dismiss are pending.

Tucker v. Department of Corrections. Mr. Tucker has brought suit against 14 employees for alleged transgressions at the Maine Youth Center.

In various lawsuits, Plaintiffs seek damages in excess of $1 million against the State or against State officials, and various notices of claim also specify damages in excess of $1 million where no lawsuit has been filed. In none of these lawsuits, in the view of the Attorney General, is there any reasonable possibility that the State's liability could reach or exceed $1 million.

Numerous workers' compensation claims are now pending against various State agencies. Since most claims involve the possibility for significant long-term damages and since the test for demonstrating a causal relationship between the employment and the illness or injury is not as rigorous as in ordinary civil cases, these cases involve the possibility of significant liability for the State. Since possible damages include future medical costs and wage replacements for the employee (and in some cases spouse), it is difficult to estimate the total potential liability to the State.

In addition to the foregoing, various other suits are pending against the State, State agencies and State officials involving damages or other potential costs. Since the amounts sought are less than $1 million, these suits have not been individually identified.

All other legal proceedings are not, in the opinion of management after consultation with the Attorney General, likely to have a material adverse effect on the financial position of the State.

NOTE 18 - SUBSEQUENT EVENTS

PRIMARY GOVERNMENT

On October 11, 2001, December 27, 2001, and April 2, 2002, the State issued $500 thousand, $10.1 million, and $17 million respectively of Bond Anticipation Notes, with interest rates ranging from 2.25% to 4.00%. The BAN's will mature on June 26, 2002.

On May 1, 2002, the State entered into a $3.9 million lease purchase agreement with GE Capital to purchase vehicles through its Central Fleet Management Internal Service Fund.

COMPONENT UNITS

On February 20, 2001 and March 20, 2001 the Maine State Housing Authority (MSHA) issued $40 million of its 2001 Series A bonds and $30 million of its 2001 Series B bonds respectively. The bonds carry interest rates ranging from 3.3% to 5.5% and maturities from 2011 – 2032. On April 17, 2001 and May 15, 2001 MSHA also redeemed, at par and at a premium, approximately $15.1 million and $33.9 million, respectively, of its Mortgage Purchase Program bonds with interest rates between 5.7% - 7.5% and maturities from 2001 – 2028.

As a result of legislation, members of the Maine Educational Loan Authority (MELA) conducted a study, performed by an independent third party, concerning whether changes to the structure and governance of MELA should be made. The final report, issued early in 2001, recommends that MELA continue to operate as a separate agency, continue the supplemental education loan program funded through tax-exempt bonds, and solicit proposals for an administrative services contract. Members of MELA do not expect the results of the study and any recommendations to significantly impact the loan program or the operations of MELA in the foreseeable future.

On July 6, 2001, the Maine Health and Higher Education Facilities Authority (MHHEFA) issued $27.6 million of 2001 C Series Revenue Bonds from the Reserve Fund. The bonds mature in 2002 - 2031 and carry interest rates ranging from 3.25% - 5.125%. The bonds are secured by loans made to institutions within the State of Maine.

On August 23, 2001, the Maine Governmental Facilities Authority, a blended component unit of the State, issued $36.5 million Bonds for the purpose of improvements to State facilities. The bonds mature from 2001 - 2022 and carry interest rates ranging from 3.75% to 5.375%.

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REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information – State Retirement Plan

Schedule of Funding Progress

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	**Actuarial Value Of Assets**	**Actuarial Accrued Liability (AAL) – Entry Age**	**Unfunded AAL (UAAL)**	**Funded Ratio**	**Annual Covered Payroll**	**UAAL (as a percentage of covered payroll)**
June 30, 2001	5,844,838,370	7,997,931,582	2,153,093,212	73.1%	1,326,375,573	162.3%
June 30, 2000	5,528,795,711	7,491,075,545	1,962,279,834	73.8%	1,271,009,158	154.4%
June 30, 1999	4,881,389,092	7,053,934,465	2,172,545,373	69.2%	1,209,804,594	179.6%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
2001	253,880,256	253,880,256	100.0%
2000	239,240,887	243,240,887	101.7%
1999	252,856,506	274,702,404	108.6%

Required Supplementary Information – Participating Local District Plan

Schedule of Funding Progress

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	**Actuarial Value Of Assets**	**Actuarial Accrued liability (AAL) – Entry Age**	**Unfunded AAL (UAAL)**	**Funded Ratio**	**Annual Covered Payroll**	**UAAL (as a percentage of covered payroll)**
June 30, 2001	1,544,720,492	1,427,090,054	(117,630,438)	108.2%	254,155,180	-46.3%
June 30, 2000	1,498,729,722	1,351,640,782	(147,088,940)	110.9%	244,163,272	-60.2%
June 30, 1999	1,354,840,239	1,278,819,201	(76,021,038)	105.9%	233,507,942	-32.6%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
2001	18,717,646	18,717,646	100.0%
2000	15,020,203	15,020,203	100.0%
1999	24,991,863	24,991,863	100.0%

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Basis of Presentation

For financial statement reporting purposes, the information provided on the required supplementary information schedules includes amounts for employees of participating local districts as well as combined amounts for State employees, teachers, judicial and legislative employees.

Actuarial Assumptions and Methods:

The information in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, June 30, 2001, is as follows:

Funding Method

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

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

Asset Valuation Method

For actuarial purposes, assets are valued by determining the total yield on the investments of the System using the full investment return (including capital gains), which is measured by the difference in the actuarial value of the assets at the beginning of the fiscal year and the market value of the assets at the end of the fiscal year. Prior year's unrecognized gains and losses are added to this amount to develop expected actuarial value. One third of the excess of the yield (using the full investment return) is added to the expected actuarial value to determine the actuarial valuation of assets.

Amortization

The unfunded actuarial liability is amortized on a level percentage of payroll over a 19 year closed period from June 30, 2000.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2001 are as follows:

Investment Return – 8% per annum, compounded annually

Salary Increases – 5.5% to 9.5% per year (included inflation of 5.5%)

Mortality Rates – Active State employee members and active participating local entity members – UP 1994 Tables; Active teacher members – 85% of UP 1994 Tables; Non-disabled State employee retirees and non-disabled participating local entity retirees – GAM 1971 Tables; Non-disabled teacher retirees – GAM 1971 Tables set back two years; All current recipients of disability benefits – 1964 Commissioners Disability Table; All disability benefit recipients who begin to receive benefits in 2000 and thereafter – RPA 1994 Table for pre-1995 Disabilities.

Post Retirement Benefit Increases – 4% per annum

Group Life Plan:

The Group Life Insurance Program administered by the System provides for a life insurance benefit for active members equal to a member's annual base compensation as defined by statute. Upon retirement, life insurance coverage in the amount of the member's average final compensation is provided with a reduction of 15% per year until the greater of 40% of the average final compensation or $2,500 is reached. To be covered in retirement, retirees must have participated in the Group Life Program for a minimum of ten years. Premiums are remitted to the System by the employer. The State pays a premium rate of $0.30 per $1,000 of coverage per month for state employees. Teachers and employees of participating local districts pay a premium rate of $0.22 and $0.46 per $1,000 of coverage per month, respectively, some or all of which may be deducted from employees' compensation as per individual agreements with employees. Assumptions used to determine the actuarial liability are the same as for the pension plan. At June 30, 2001 and 2000, the net assets held in trust for group life insurance benefits were $35.2 million and $31.6 million, respectively. At June 30, 2001 and 2000, the plan had the following actuarially determined liabilities:

	(In millions)	
	2001	**2000**
Actuarial Liabilities:		
Active Members	$ 36.4	$ 52.7
Retired Members	43.1	30.5
Total	$ 79.5	$ 83.2

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the State of Maine, as of and for the year ended June 30, 2001, and have issued our qualified report thereon dated May 24, 2002. The report was qualified because of the following departures from generally accepted accounting principles: systems were not adequate to support amounts recorded in the Internal Service Fund for capital leases and additional pension information disclosure was needed. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Maine Educational Loan Authority, the Maine Governmental Facilities Authority, and the Maine Health and Higher Education Facilities Authority were not audited in accordance with *Government Auditing Standards.*

Compliance

As part of obtaining reasonable assurance about whether the State of Maine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.* However, we noted certain immaterial instances of noncompliance, which we have reported to management of the State of Maine in a separate letter dated May 24, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Maine's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over

financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Maine's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 01-01 through 01-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 01-02 to be a material weakness. We also noted other matters involving the internal control over financial reporting which we have reported to management of the State of Maine in a separate letter dated May 24, 2002.

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

Gail M. Chase, CIA
State Auditor

May 24, 2002

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

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

Compliance

We have audited the compliance of the State of Maine with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The State of Maine's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Maine's management. Our responsibility is to express an opinion on the State of Maine's compliance based on our audit.

The State of Maine's general purpose financial statements include the operations of the following component units: the Maine State Retirement System, the Maine Technical College System, the University of Maine System, the Maine Maritime Academy, the Finance Authority of Maine, the Maine State Housing Authority, the Maine Educational Loan Authority, the Loring Development Authority, the Maine Governmental Facilities Authority, the Maine Health and Higher Education Facilities Authority, the Maine Municipal Bond Bank, the Northern New England Passenger Rail Authority, and the Child Development Services System. The federal awards that these component units received are not included in the supplementary Schedule of Expenditures of Federal Awards for the year ended June 30, 2001. Our audit, described below, did not include the operations of these component units because the component units engaged other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Maine's

compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Maine's compliance with those requirements.

In our opinion, the State of Maine complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures also disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 01-04 through 01-06, 01-14, 01-21, 01-24, 01-26, 01-29, 01-30, 01-32 through 01-35, 01-37, 01-39, and 01-48.

Internal Control Over Compliance

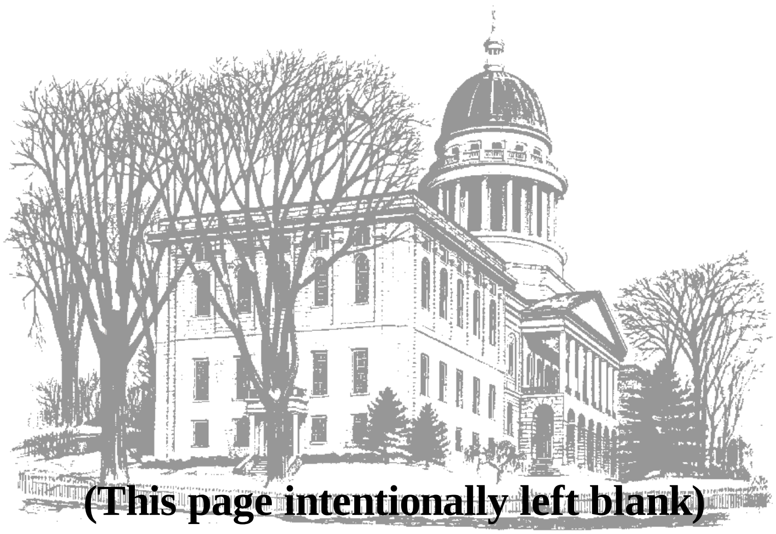
The management of the State of Maine is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Maine's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Maine's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 01-07 through 01-13, 01-15 through 01-20, 01-22 through 01-28, 01-30 through 01-32, 01-36, 01-38, and 01-40 through 01-59.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 01-28 and 01-30 to be material weaknesses.

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

Gail M. Chase, CIA
State Auditor
May 24, 2002



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STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2001

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2001
U.S. Department of Agriculture				
Direct Federal Programs				
Animal & Plant Health Inspection Service	10.025	Plant & Animal Disease, Pest Control & Animal Care	Agriculture	8,500
Animal & Plant Health Inspection Service	10.025	Plant & Animal Disease, Pest Control & Animal Care	Conservation	7,610
Agricultural Marketing Service	10.162	Inspection Grading & Standardization	Agriculture	562,956
Food & Nutrition Service	10.550	Food Distribution Program (Commodities)	Education	3,235,145
Food & Nutrition Service	10.550	Food Distribution	Corrections	45,790
Food & Nutrition Service	10.557	Special Supplemental Nutrition Program for W.I.C.	Human Services	10,285,710
Food & Nutrition Service	10.558	Child and Adult Care Food Program	Human Services	8,790,403
Food & Nutrition Service	10.560	State Administrative Expenses for Child Nutrition	Human Services	250,627
Food & Nutrition Service	10.560	State Administrative Expenses for Child Nutrition	Education	591,194
Food & Nutrition Service	10.570	Nutrition Program for the Elderly (Commodities)	Agriculture	731,700
Food & Nutrition Service	10.570	Nutrition Program for the Elderly (Commodities)	Human Services	614,225
Food & Nutrition Service	10.572	WIC Farmer's Market Nutrition Program (FMNP)	Human Services	105,628
Food & Nutrition Service	10.574	Team Nutrition Grants	Education	2,930
Forest Service	10.652	Forestry Research	Conservation	247,148
Forest Service	10.664	Cooperative Forestry Assistance	Conservation	5,880,151
Forest Service	10.913	Farmland Protection Program	Agriculture	115,000
Food & Nutrition Service	10.999	School Breakfast, Lunch and Milk Programs	Education	21,787
Agriculture, Food Stamp Cluster				
Food & Nutrition Service	10.551	Food Stamps	Human Services	84,604,577
Food & Nutrition Service	10.561	State Administrative Matching Grants for Food Stamp Program	Human Services	8,393,680
Agriculture, Child Nutrition Cluster				
Food & Nutrition Service	10.553	School Breakfast Program	Education	3,664,302
Food & Nutrition Service	10.555	National School Lunch Program	Education	16,574,013
Food & Nutrition Service	10.556	Special Milk Program for Children	Education	105,393
Food & Nutrition Service	10.559	Summer Food Service Program for Children	Education	771,568
Agriculture, Emergency Food Assistance Cluster				
Food & Nutrition Service	10.568	Emergency Food Assistance Program (Administrative Costs)	Agriculture	188,800
Food & Nutrition Service	10.569	Emergency Food Assistance Program (Commodities)	Agriculture	1,620,007
Total U.S. Department of Agriculture Federal Programs				147,418,844
U.S. Department of Commerce				
Direct Federal Programs				
Economic Development Administration	11.302	Economic Development: Support for Planning Organizations	Econ & Comm Devel	60,000
Economic Development Administration	11.307	Economic Adjustment Assistance	Marine Resource	76,548
National Oceanic & Atmospheric Administration	11.400	Geodetic Surveys and Services	Admin & Financial	17,200
National Oceanic & Atmospheric Administration	11.405	Anadromous Fish Conservation Act Program	Marine Resource	69,876
U.S. Fish & Wildlife Service	11.405	Anadromous Fish Conservation Act Program	Salmon Comm.	148,960
National Oceanic & Atmospheric Administration	11.407	Interjurisdictional Fisheries Act of 1986	Marine Resource	139,956
National Oceanic & Atmospheric Administration	11.417	Sea Grant Support	Marine Resource	15,000
National Oceanic & Atmospheric Administration	11.419	Coastal Zone Management Administration Awards	State Planning	1,863,410
National Oceanic & Atmospheric Administration	11.419	Coastal Zone Management Administration Awards	Marine Resources	291,421
National Oceanic & Atmospheric Administration	11.419	Coastal Zone Management Administration Awards	Environmental Prot.	568,394
National Oceanic & Atmospheric Administration	11.420	Coastal Zone Management Estuarine Research Reserves	Conservation	17,215
National Oceanic & Atmospheric Administration	11.463	Habitat Conservation	Atlantic Salmon	75,000
National Oceanic & Atmospheric Administration	11.472	Unallied Science Program	Salmon Comm.	291,737
National Oceanic & Atmospheric Administration	11.472	Unallied Science Program	Marine Resource	278,877
National Oceanic & Atmospheric Administration	11.999	Testing Bycatch in an Observer-based Experimental Shrimp Fishery	Marine Resource	119,486
National Oceanic & Atmospheric Administration	11.999	Developing a Whiting Fishery in the Gulf of Maine	Marine Resource	987
National Oceanic & Atmospheric Administration	11.999	Gulf of Maine Inshore Trawl Survey	Marine Resource	8,438
National Oceanic & Atmospheric Administration	11.999	Assess the Status of the Shortnose Sturgeon in the Kennebec River	Marine Resource	27,221
National Oceanic & Atmospheric Administration	11.999	Study the Role of Seals in the Escapement of Atlantic Salmon	Marine Resource	15,527
Total U.S. Department of Commerce Federal Programs				4,085,254
U.S. Department of Defense				
Direct Federal Programs				
Office of the Chief Engineers	12.113	State Memo of Agree Prog for the Reimb of Tech Services	Environmental Prot.	427,378
National Guard Bureau	12.401	National Guard Military Operations & Maintenance Projects	Defense	8,177,985
National Guard Bureau	12.999	Loring Rebuild Facility	Defense	8,021,831
Total U.S. Department of Defense Federal Programs				16,627,195

Federal Department Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2001
U.S. Department of Housing & Urban Development				
Direct Federal Programs				
Community Planning & Development	14.174	Housing Development Grants	Transportation	55,470
Community Planning & Development	14.228	Community Development Block Grants / State's Program	Econ & Comm Devel	18,034,048
Community Planning & Development	14.235	Supportive Housing Program	Behavioral & Develop.	316,188
Community Planning & Development	14.238	Shelter Plus Care	Behavioral & Develop.	1,283,055
Total U.S. Department of Housing & Urban Development Federal Programs				19,688,761
U.S. Department of the Interior				
Direct Federal Programs				
U.S. Fish & Wildlife Service	15.612	Rare & Endangered Species Conservation	Inland Fisheries	209,022
U.S. Fish & Wildlife Service	15.615	Cooperative Endangered Species Conservation Fund	Conservation	14,405
U.S. Fish & Wildlife Service	15.616	Clean Vessel Act	State Planning	149,723
U.S. Fish & Wildlife Service	15.623	North American Wetlands Conservation Act	Inland Fisheries	773,000
Geological Survey	15.808	U. S. Geological Survey: Research and Data Acquisition	Marine Resource	33,898
Geological Survey	15.810	Nat'l Cooperative Geologic Mapping Program	Conservation	80,444
National Park Service	15.904	Historic Preservation Fund Grants-in-Aid	Historic Preserve	585,048
National Park Service	15.916	Outdoor Recreation: Acquisition, Development, & Planning	Conservation	25,462
National Park Service	15.925	National Maritime Heritage Grants	Historic Preserve	5,379
U.S. Fish & Wildlife Service	15.999	Cooperative Agreement	Salmon Comm.	254,945
U.S. Fish & Wildlife Service	15.999	Atlantic Salmon Management Project	Salmon Comm.	117,237
Fish and Wildlife Cluster				
U.S. Fish & Wildlife Service	15.605	Sport Fish Restoration	Marine Resource	337,308
U.S. Fish & Wildlife Service	15.605	Sport Fish Restoration	Inland Fisheries	2,026,532
U.S. Fish & Wildlife Service	15.605	Sport Fish Restoration	Atlanic Salmon	82,175
U.S. Fish & Wildlife Service	15.611	Wildlife Restoration	Inland Fisheries	2,285,378
Total U.S. Department of the Interior Federal Programs				6,979,956
U.S. Department of Justice				
Direct Federal Programs				
Drug Enforcement Administration	16.005	Public Education on Drug Abuse: Information	Public Safety	74,057
Office of Justice Programs	16.510	Bureau of Justice Statistics, Maine Statistical Analysis Center	Corrections	167,931
Office of Juvenile Justice & Delinquency Prevention	16.523	Juvenile Accountability Incentive Block Grants	Corrections	1,937,553
Office of Juvenile Justice & Delinquency Prevention	16.523	Juvenile Accountability Incentive Block Grants	Judicial Branch	445,871
Office of Juvenile Justice & Delinquency Prevention	16.541	Juvenile Justice & Delinquency Prevention: Special Emphasis	Correction	402,841
Bureau of Justice Statistics	16.554	National Criminal History Improvement Program	Correction	22,448
Bureau of Justice Statistics	16.554	National Criminal History Improvement Program	Public Safety	448,177
Office of Justice Programs	16.554	National Criminal History Improvement Program	Judicial Branch	54,223
National Institute of Justice	16.560	Nat'l Inst of Justice Research Evaluation and Development Project Grants	Public Safety	21,477
Bureau of Justice Assistance	16.575	Crime Victim Assistance	Human Services	1,979,169
Bureau of Justice Assistance	16.576	Crime Victim Compensation	Attorney General	58,855
Bureau of Justice Assistance	16.579	Byrne Formula Grant Program	Public Safety	1,718,408
Bureau of Justice Assistance	16.579	Byrne Formula Grant Program	Judicial Branch	3,714
Office of Justice Programs	16.579	Byrne Formula Grant Program	Attorney General	548,162
Office of Justice Programs	16.579	Byrne Formula Grant Program	Corrections	449,172
Corrections Program Office	16.586	Violent Offender Incarcation & Truth in Sentencing Incentive Grants	Corrections	599,900
Bureau of Justice Assistance	16.588	Violence Against Women Formula Grants	Public Safety	943,013
Office of Justice Programs	16.588	Violence Against Women Formula Grant	Attorney General	95,664
Bureau of Justice Assistance	16.592	Local Law Enforcement Block Grants Program	Public Safety	693,071
Bureau of Justice Assistance	16.593	Residential Substance Abuse Treatment for State Prisoners	Public Safety	3,027
Office of Justice Programs	16.593	Residential Substance Abuse Treatment for State Prisoners	Corrections	476,137
Office of Justice Programs	16.598	State Identification Systems Grant Program	Public Safety	122,321
Bureau of Justice assistance	16.606	State Criminal Alien Assistance Program	Correction	231,031
Bureau of Justice assistance	16.607	Bulletproof Vest Partnership Program	Public Safety	933
Bureau of Justice assistance	16.607	Bulletproof Vest Partnership Program	Admin & Financial	72,285
Office of Juvenile Justice & Delinquency Prevention	16.727	Enforcing Underage Drinking Laws Program	Behavioral & Develop.	386,241
Bureau of Justice Assistance	16.730	Reduction and Prevention of Children's Exposure to Violence	Human Services	237,584
US Customs	16.999	Solid Waste Disposal Act	Public Safety	1,258
Pass Through Federal Programs				
Office of Justice Programs (through Cumberland County, Maine)	16.579	Byrne Formula Grant Program	Attorney General	29,467
Office of Justice Programs (through Cumberland County, Maine)	16.579	Byrne Formula Grant Program	Corrections	47,915
Office of Justice Programs (through the Androscoggin, Franklin, Oxford Cty., Maine)	16.588	Violence Against Women Formula Grant	Attorney General	2,447
Office of Justice Programs (through the Hancock County, Maine)	16.588	Violence Against Women Formula Grant	Attorney General	2,334
Office of Justice Programs (through the York County, Maine)	16.588	Violence Against Women Formula Grant	Attorney General	51,389

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2001
Total U.S. Department of Justice Federal Programs				12,328,074
U.S. Department of Labor				
Direct Federal Programs				
Bureau of Labor Statistics	17.002	Labor Force Statistics	Labor	1,100,750
Bureau of Labor Statistics	17.005	Compensation and Working Conditions	Labor	95,840
Employment & Training Administration	17.202	Certification of Foreign Workers for Temporary Agricultural Employment	Labor	313,134
Employment & Training Administration	17.225	Unemployment Insurance	Labor	106,209,802
Employment & Training Administration	17.235	Senior Community Service Employment Program	Human Services	373,860
Employment & Training Administration	17.245	Trade Adjustment Assistance: Workers	Labor	3,314,379
Employment & Training Administration	17.249	Employment Services & Job Training - Pilot Programs	Education	100,000
Employment & Training Administration	17.249	Employment Services & Job Training - Pilot Programs	Labor	36,944
Employment & Training Administration	17.253	Welfare-to-Work Grants to States & Localities	Labor	1,642,281
Employment & Training Administration	17.258	WIA Audit Program	Labor	2,912,904
Employment & Training Administration	17.259	WIA Youth Activities	Labor	2,350,668
Employment & Training Administration	17.260	WIA Dislocated Workers	Labor	3,067,629
Occupational Safety & Health Administration	17.504	Consultation Agreements	Labor	397,526
Mine Health & Safety Administration	17.600	Mine Health and Safety Grants	Labor	42,118
Office of the Asst Sec for Veterans' Emplmnt & Trng	17.802	Veterans' Employment Program	Labor	578,676
Employment Services Cluster				
Employment & Training Administration	17.207	Employment Service	Labor	5,607,988
Office of the Asst Sec for Veterans' Emplmnt & Trng	17.801	Disabled Veterans' Outreach Program	Labor	532,434
Office of the Asst Sec for Veterans' Emplmnt & Trng	17.804	Local Veterans' Employment Representative Programs	Labor	492,681
JTPA Cluster				
Employment & Training Administration	17.246	Employment & Training Assistance Dislocated Workers	Labor	1,937,552
Employment & Training Administration	17.250	Job Training Partnership Act	Labor	500,923
Total U.S. Department of Labor Federal Programs				131,608,089
U.S. Department of Transportation				
Direct Federal Programs				
United States Coast Guard	20.005	Boating Safety Financial Assistance	Inland Fisheries	638,254
Federal Highway Administration	20.218	National Motor Carrier Safety	State	8,749
Federal Motor Carrier Safety Administration	20.218	National Motor Carrier Safety	Admin & Financial	7,453
Federal Highway Administration	20.219	Recreational Trails Program	Conservation	449,136
Federal Transit Administration	20.505	Federal Transit: Metropolitan Planning Grants	Transportation	272,161
Federal Transit Administration	20.509	Formula Grants for Other Than Urbanized Areas	Transportation	1,729,983
Federal Transit Administration	20.513	Capital Assistance Program for Elderly Persons & Disabled Persons	Transportation	610,320
Federal Transit Administration	20.514	Transit Planning and Research	Transportation	110,220
Highway Planning and Construction Cluster				
Federal Highway Administration	20.205	Highway Planning and Construction	Transportation	137,738,328
Federal Transit Cluster				
Federal Transit Administration	20.500	Federal Transit: Capital Investment Grants	Transportation	39,968
Federal Transit Administration	20.507	Federal Transit: Formula Grants	Transportation	905,058
Highway Safety Cluster				
National Highway Traffic Safety Administration	20.600	State and Community Highway Safety	Public Utilities	32,300
National Highway Traffic Safety Administration	20.600	State and Community Highway Safety	Public Safety	1,045,715
National Highway Traffic Safety Administration	20.600	State and Community Highway Safety	Human Services	90,090
Total U.S. Department of Transportation Federal Programs				143,677,735
Equal Employment Opportunity Commission				
Direct Federal Programs				
Equal Employment Opportunity Commission	30.002	Empl Discr - St & Loc - Fair Empl Pract Agcy Contracts	Human Rights	232,502
Total Equal Employment Opportunity Commission Federal Programs				232,502
General Service Administration				
Direct Federal Programs				
Office of the Secretary	39.003	Donation of Federal Surplus Property	Admin & Financial	2,327,571

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2001

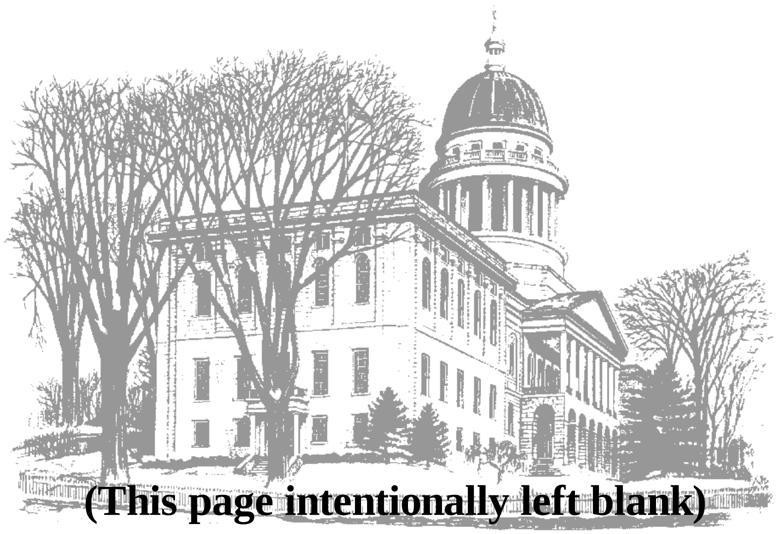
Federal Department Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2001
Total General Service Administration Federal Programs				2,327,571
National Foundation on the Arts & the Humanities				
Direct Federal Programs				
National Endowment for the Arts	45.025	Promotion of the Arts: Partnership Agreements	ME Arts & Human	435,751
National Endowment for the Arts	45.026	Promotion of the Arts: Leadership Initiatives	ME Arts & Human	10,000
National Endowment for the Humanities	45.149	Promotion of the Humanities: Division of Preservation & Access	State Museum	56,318
National Endowment for the Humanities	45.149	Promotion of the Humanities: Division of Preservation & Access	State Library	27,706
National Endowment for the Humanities	45.164	Promotion of the Humanities: Public Programs	State Museum	18,134
Institute of Museum & Library Services	45.301	Institute of Museum and Library Services	State Museum	66,154
Total National Foundation on the Arts & the Humanities Federal Programs				614,062
U.S. Department of Veterans Affairs				
Direct Federal Programs				
Veterans Benefit Administration	64.101	Burial Expenses Allowance for Veterans	Defense	44,272
Veterans Benefit Administration	64.203	State Cemetary Grants	Defense	3,772,191
Total U.S. Department of Veterans Affairs Federal Programs				3,816,462
U.S. Environmental Protection Agency				
Direct Federal Programs				
Office of Air & Radiation	66.032	State Indoor Radon Grants	Human Services	217,295
Office of Water	66.420	Water Pollution Control: State and Local Manpower Development	Environmental Prot.	60,564
Office of Water	66.432	State Public Water System Supervision	Human Services	652,137
Office of Water	66.433	State Underground Water Source Protection	Environmental Prot.	(33)
Office of Water	66.454	Water Quality Management Planning	Environmental Prot.	63,828
Office of Water	66.458	Capitalization Grants for State Revolving Funds	Environmental Prot.	302,436
Office of Water	66.460	Nonpoint Source Implementation Grants	Environmental Prot.	21,741
Office of Water	66.461	Wetlands Grants	State Planning	143,769
Office of Administration	66.461	Wetlands Grants	Conservation	26,582
Office of Water	66.463	Water Quality Cooperative Agreements	Environmental Prot.	163,771
Office of Ground Water & Drinking	66.468	Capitalization Grants For Drinking Water State Revolving Fund	Human Services	749,390
Office of Administration	66.468	Capitalization Grants For Drinking Water State Revolving Fund	Conservation	35,837
Office of Research & Development	66.501	Air Pollution Control Research	State Planning	8,594
Office of Administration	66.605	Performance Partnership Grants	Environmental Prot.	5,491,119
Office of Administration	66.605	Performance Partnership Grants	Agriculture	454,627
Office of Administration	66.606	Surveys, Studies, Investigations and Special Purpose Grants	Environmental Prot.	506,896
Office of Administration	66.606	Surveys, Studies, Investigations and Special Purpose Grants	State Planning	17,869
Office of Prevention, Pesticides, Toxic Substances	66.707	TSCA Title IV State Lead Grants: Cert of Lead-Based Paint Professionals	Environmental Prot.	43,252
Office of Enforcement & Compliance Assurance	66.708	Pollution Prevention Grants Program	Environmental Prot.	(874)
Office of Solid Waste & Emergency Response	66.802	Superfund State Site: Specific Cooperative Agreements	Environmental Prot.	340,689
Office of Solid Waste & Emergency Response	66.804	State and Tribal Underground Storage Tanks Program	Environmental Prot.	3,895
Office of Solid Waste & Emergency Response	66.805	Leaking Underground Storage Tank Trust Fund Program	Environmental Prot.	521,113
Office of Solid Waste & Emergency Response	66.809	Superfund State Core Program Cooperative Agreements	Environmental Prot.	368,726
Office of Solid Waste & Emergency Response	66.810	CEPP Technical Assistance Grants Program	Environmental Prot.	60,498
Office of Solid Waste & Emergency Response	66.810	CEPP Technical Assistance Grants Program	State Planning	20,816
Office of Solid Waste & Emergency Response	66.925	State Data Management Program	Environmental Prot.	19,119
Office of Administration	66.999	Solid Waste Disposal Act	Environmental Prot.	1,374
Total U.S. Environmental Protection Agency Federal Programs				10,295,031
Nuclear Regulatory Commission				
Direct Federal Programs				
Nuclear Regulatory Commission	77.001	Radiation Control: Training Assistance and Advis Counseling	Human Services	12,772
Total Nuclear Regulatory Commission Federal Programs				12,772
U.S. Department of Energy				
Direct Federal Programs				
Energy Information Administration	81.039	National Energy Information Center	State Planning	4,026
Office of Energy Efficiency & Renewable Energy	81.041	State Energy Program	Econ & Comm Devel	562,188
Total U.S. Department of Energy Federal Programs				566,214

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2001
Federal Emergency Management Agency				
Direct Federal Programs				
Mitigation Directorate	83.105	Community Assistance Program: State Support Services Element (CAP-SSSE)	State Planning	183,902
Mitigation Directorate	83.536	Flood Mitigation Assistance	Defense	73,945
Response & Recovery Directorate	83.543	Individual and Family Grants	Defense	1,183
Response & Recovery Directorate	83.544	Public Assistance Grants	Defense	2,311,128
Response & Recovery Directorate	83.544	Public Assistance Grants	Transportation	868,439
Federal Emergency Management Agency	83.544	Public Assistance Grants	Admin & Financial	52,429
Response & Recovery Directorate	83.544	Public Assistance Grants	Corrections	953
Mitigation Directorate	83.548	Hazard Mitigation Grant	Defense	2,070,240
Mitigation Directorate	83.550	National Dam Safety Program	Defense	20,799
Mitigation Directorate	83.551	Project Impact: Building Disaster Resistant Communities	Defense	37,598
Office of Financial Management	83.552	Emergency Management Performance Grants	Defense	1,555,740
Total Federal Emergency Management Agency Federal Programs				7,176,354
U.S. Department of Education				
Direct Federal Programs				
Office of Vocational & Adult Education	84.002	Adult Education: State Grant Program	Education	1,876,545
Office of Vocational & Adult Education	84.002	Adult Education: State Grant Program	Corrections	33,597
Office of Vocational & Adult Education	84.002	Adult Education: State Grant Program	Behavioral & Develop.	14,339
Office of Elementary & Secondary Education	84.010	Title I Grants to Local Educational Agencies	Education	31,927,731
Office of Elementary & Secondary Education	84.011	Migrant Education: Basic State Grant Program	Education	4,701,939
Office of Elementary & Secondary Education	84.011	Migrant Education: Basic State Grant Program	Corrections	4,132
Office of Elementary & Secondary Education	84.013	Title I Program for Neglected and Delinquent Children	Corrections	142,041
U.S. Department of Education	84.034	Public Library Services	State Library	915,634
Office of Assistant Secretary for Vocational & Adult Education	84.048	Vocational Education: Basic Grants to States	Education	5,396,855
Office of Assistant Secretary for Vocational & Adult Education	84.048	Vocational Education: Basic Grants to States	Corrections	50,575
Office of Vocational & Adult Education	84.051	National Vocational Education Research	State Library	8,962
Office of Special Education & Rehabilitative Services	84.126	Rehabilitation Services: Vocational Rehabilitation Grants to States	Labor	13,140,605
Office of Special Education & Rehabilitative Services	84.161	Rehabilitation Services: Client Assistance Program	Labor	86,861
Office of Bilingual Education & Minority Languages Affairs	84.162	Immigrant Education	Education	101,159
Office of Special Education & Rehabilitative Services	84.169	Independent Living: State Grants	Labor	383,550
Office of Special Education & Rehabilitative Services	84.177	Rehab Services: Independent Living Serv for Older Individuals Who are Blind	Labor	253,700
Office of Special Education & Rehabilitative Services	84.181	Special Educuation: Grants for Infants and Families with Disabilities	Education	1,756,061
Office of the Assistant Secretary for Postsecondary Education	84.185	Byrd Honors Scholarships	Education	187,500
Office of Elementary & Secondary Education	84.186	Safe and Drug-Free Schools and Community: State Grants	Education	55,203
Office of Elementary & Secondary Education	84.186	Safe and Drug-Free Schools and Community: State Grants	Behavioral & Develop.	2,117,255
Office of Elementary & Secondary Education	84.186	Safe and Drug-Free Schools and Community: State Grants	Corrections	12,940
Office of Special Education & Rehabilitative Services	84.187	Supported Employment Services for Individuals with Severe Disabilities	Labor	229,867
Office of Bilingual Education & Minority Languages Affairs	84.194	Bilingual Education Support Services	Education	106,387
Office of Elementary & Secondary Education	84.196	Education for Homeless Children and Youth	Education	110,844
Office of Elementary & Secondary Education	84.213	Even Start: State Educational Agencies	Education	721,290
Office of Elementary & Secondary Education	84.214	Even Start: Migrant Education	Education	233,874
Office of Elementary & Secondary Education	84.215	Fund for the Improvement of Education	Education	328,321
Office of Special Education & Rehabilitative Services	84.224	Assistive Technology	Education	216,159
Office of Vocational & Adult Education	84.243	Tech-Prep Education	Education	577,870
Office of Special Education & Rehabilitative Services	84.264	Rehabilitation Training: Continuing Education	Labor	36,885
Office of Elementary & Secondary Education	84.276	Goals 2000: State and Local Education Systemic Improvement Grants	Education	2,140,750
Office of Elementary & Secondary Education	84.276	Goals 2000: State and Local Education Systemic Improvement Grants	Corrections	13,242
Office of Elementary & Secondary Education	84.278	Vocational Education: Cooperative Demonstration	Labor	37,580
Office of Elementary & Secondary Education	84.281	Eisenhower Professional Development State Grants	Education	1,857,767
Office of Elementary & Secondary Education	84.281	Eisenhower Professional Development State Grants	Corrections	1,955
Office of Elementary & Secondary Education	84.298	Innovative Education Program Strategies	Education	1,845,117
Office of Elementary & Secondary Education	84.298	Innovative Education Program Strategies	Corrections	2,924
Office of Elementary & Secondary Education	84.314	Even Start: Statewide Family Literacy Program	Education	69,213
Office of Elementary & Secondary Education	84.318	Technology Literacy Challenge Fund Grants	Education	2,253,186
Office of Elementary & Secondary Education	84.318	Technology Literacy Challenge Fund Grants	Corrections	29,543
Office of Elementary & Secondary Education	84.330	Advanced Placement Incentive Program	Education	295,962
Office of Vocational & Adult Education	84.331	Grants to States for Incarcerated Youth Offenders	Corrections	42,153
Office of Elementary & Secondary Education	84.332	Comprehensive School Reform Demonstration	Education	599,767
Office of the Asst Sec for Postsecondary Education, Higher Education Programs	84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	Education	2,373,261
Office of the Asst Sec for Postsecondary Education, Higher Education Programs	84.336	Teacher Quality Enhancement Grants	Education	51,977
Office of Elementary & Secondary Education	84.338	Reading Excellence	Education	2,103,810
Office of Elementary & Secondary Education	84.340	Class Size Reduction	Education	6,031,320
Office of Elementary & Secondary Education	84.340	Class Size Reduction	Corrections	10,885
U.S. Department of Education	84.999	Deed Grant	Environmental Prot.	(249)
U.S. Department of Education	84.999	Nat'l Occupational Information Coordinating Committee	Labor	90,112
Special Education Cluster				
Office of Special Education & Rehabilitative Services	84.027	Special Education: Grants to States	Education	24,515,428
Office of Special Education & Rehabilitative Services	84.027	Special Education: Grants to States	Corrections	10,525
Office of Special Education & Rehabilitative Services	84.173	Special Education: Preschool Grants	Education	2,554,816

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2001
Total U.S. Department of Education Federal Programs				112,659,722
National Archives & Records Administration				
National Archives & Records Administration	89.001	National Archives Reference Service: Historical Research	Hist. Rec. Adv. Bd.	14,485
Total National Archives & Records Administration				14,485
U.S. Department of Health & Human Services				
Direct Federal Programs				
Administration on Aging	93.041	Spc Prg/Agng-Ttl VII, Ch 3-Pro /Prev of Eld Abu, Neg & Expl	Human Services	33,309
Administration on Aging	93.042	Spc Prg/Agng-Ttl VII, Ch 2-Long Term Ombudsman	Human Services	47,232
Administration on Aging	93.043	Spc Prg/Agng-Ttl III, Part F-Disease Prev & Hlth Prom Ser	Human Services	82,810
Administration on Aging	93.046	Spc Prg/Agng-Ttl III, Part D-In-Home Service for Frail Oldr Ind	Human Services	17,213
Administration on Aging	93.048	Spc Prg /Agng-Ttl IV,Trng, Res & Discreet Proj & Prog	Human Services	238,667
Administration on Aging	93.051	New Demonstration Grants to State with Respect to Alheimer's Disease	Human Services	255,088
Substance Abuse & Mental Health Service Adm	93.103	Food and Drug Administration: Research	Human Services	71,677
Health Resources & Services Adm	93.110	Maternal and Child Health Federal Consolidated Programs	Human Services	555,633
Health Resources & Services Adm	93.110	Maternal and Child Health Federal Consolidated Programs	Me Hlth Data Orgn	12,339
Centers for Disease Control & Prevention	93.116	Project Grants and Coopperative Agreements for Tuberculosis Control Program	Human Services	204,732
Centers for Disease Control & Prevention	93.119	Maine System Reform Grant Project	Behavioral & Develop.	5,515
Administration for Children & Families	93.127	Emergency Medical Services for Children	Human Services	85,000
Administration for Children & Families	93.127	Emergency Medical Services for Children	Public Safety	152,147
Health Resources & Services Adm	93.130	Primary Care Services: Resource Coord & Dev: Primary Care Offices	Human Services	150,839
Centers for Disease Control & Prevention	93.136	Injury Prevention and Control Research and State and Comm Based Progs	Human Services	120,371
Substance Abuse & Mental Health Service Adm	93.150	Projects for Assistance in Transition from Homelessness	Behavioral & Develop.	291,090
Health Resources & Services Adm	93.165	Grants for State Loan Repayment	Human Services	140,723
Centers for Disease Control & Prevention	93.197	Childhood Lead Poisoning Prevention Projects	Human Services	267,945
Substance Abuse & Mental Health Service Adm	93.230	Consolidated Knowledge Development and Application Program	Corrections	8,059
Substance Abuse & Mental Health Service Adm	93.230	Consolidated Knowledge Development and Application Program	Behavioral & Develop.	181,579
Substance Abuse & Mental Health Service Adm	93.230	Consolidated Knowledge Development and Application Program	Behavioral & Develop.	261,696
Health Resources & Services Administration	93.235	Abstinence Education	Human Services	173,496
Substance Abuse & Mental Health Service Adm	93.238	Coop. Agreements for State Treatment Outcomes & Perf. Pilot Studies Enhance	Human Services	7,974
Office of the Secretary	93.239	Policy Research and Evaluation Grants	Human Services	16,213
Office of the Administrator	93.241	State Rural Hospital Flexibility Program	Human Services	286
Centers for Disease Control & Prevention	93.268	Immunization Grants	Human Services	1,836,419
Centers for Disease Control	93.268	Immunization Grants	Human Services	5,555,882
National Institutes of Health	93.279	Drug Abuse Research Programs	Behavioral & Develop.	104,545
Centers for Disease Control & Prevention	93.283	Centers for Disease Control and Prevention: Investigations and Tech Assistance	Human Services	1,974,274
Centers for Disease Control & Prevention	93.283	Centers for Disease Control and Prevention: Investigations and Tech Assistance	Conservation	8,052
Centers for Disease Control & Prevention	93.283	Centers for Disease Control and Prevention: Investigations and Tech Assistance	Labor	16,455
Centers for Disease Control & Prevention	93.293	Addressing Asthma From a Public Health Perspective	Human Services	75,625
National Institutes of Health	93.393	Cancer Cause and Prevention Research	Human Services	2,026
National Institutes of Health	93.399	Cancer Control	Human Services	255
Administration for Children & Families	93.556	Promoting Safe and Stable Families	Human Services	1,076,763
Administration for Children & Families	93.558	Temporary Assistance for Needy Families	Human Services	52,360,701
Administration for Children & Families	93.560	Family Support Payments to States: Assistance Payments (AFDC)	Attorney General	91,005
Administration for Children & Families	93.563	Child Support Enforcement (CSE)	Human Services	12,419,688
Administration for Children & Families	93.563	Child Support Enforcement (CSE)	Attorney General	639,387
Administration for Children & Families	93.563	Child Support Enforcement (CSE)	Judicial	1,362,831
Administration for Children & Families	93.566	Refugee and Entrant Asstistance: State Administered Programs	Human Services	817,861
Administration for Children & Families	93.569	Community Services Block Grant	Human Services	3,672,858
Administration for Children & Families	93.571	Community Services Block Grant Discretionary Awards	Human Services	14,313
Administration for Children & Families	93.576	Refugee and Entrant Assistance: Discretionary Grants	Education	108,500
Administration for Children & Families	93.576	Refugee and Entrant Assistance: Discretionary Grants	Human Services	39,282
Administration for Children & Families	93.586	State Court Improvement Program	Off. of the Courts	103,953
Administration for Children & Families	93.597	Grants to States for Access and Visitation Programs	Human Services	129,498
Administration for Children & Families	93.597	Grants to States for Access and Visitation Programs	Judicial Branch	132,004
Administration for Children & Families	93.600	Head Start	Human Services	70,861
Administration for Children & Families	93.601	Child Support Enforcement Demonstrations and Special Projects	Human Services	68,050
Administration for Children & Families	93.603	Adoption Incentive Payments	Human Services	372,615
Administration for Children & Families	93.630	Development Disabilities Basic Support and Advocacy Grants	Behavioral & Develop.	480,153
Administration for Children & Families	93.631	Developmental Disabilities Projects of National Significance	Behavioral & Develop.	117,583
Administration for Children & Families	93.643	Children's Justice Grants to States	Human Services	46,651
Administration for Children & Families	93.645	Child Welfare Services: State Grants	Human Services	1,356,036
Administration for Children & Families	93.658	Foster Care: Title IV-E	Human Services	34,734,943
Administration for Children & Families	93.659	Adoption Assistance	Human Services	8,281,170
Administration for Children & Families	93.667	Social Services Block Grant	Human Services	7,014,107
Administration for Children & Families	93.667	Social Services Block Grant	Behavioral & Develop.	1,172,411
Administration for Children & Families	93.667	Social Services Block Grant	Attorney General	581,211
Administration for Children & Families	93.669	Child Abuse and Neglect State Grants	Human Services	78,571
Administration for Children & Families	93.669	Child Abuse and Neglect State Grants	Behavioral & Develop.	16,517
Administration for Children & Families	93.671	Family Violence Prev & Service: Grants to St & Indian Tribes	Human Services	398,564
Administration for Children & Families	93.674	Independent Living	Human Services	702,126
Health Care Financing Administration	93.767	State Children's Insurance Program	Human Services	14,282,275

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2001

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2001
Health Care Financing Administration	93.779	Health Care Financing Research, Demonstrations and Evaluations	Human Services	119,419
Health Resources & Services Adm	93.913	Grants to States for Operation of Offices of Rural Health	Human Services	31,755
Health Resources & Services Adm	93.917	HIV Care Formula Grants	Human Services	1,297,440
Centers for Disease Control & Prevention	93.919	Coop Agrmt/St-Based Comp Brst & Cerv Cancer Cont Prog	Human Services	1,630,414
Centers for Disease Control & Prevention	93.938	Coop Ag-Sch Hlth Prg/Pvt the Spd of HIV & Oth Imp Hlth Prb	Education	560,006
Centers for Disease Control & Prevention	93.940	HIV Prevention Activities: Health Department Based	Human Services	1,416,989
Centers for Disease Control & Prevention	93.944	HIV/AIDS Surveillance	Human Services	123,667
Centers for Disease Control & Prevention	93.945	Assistance Programs for Chronic Diseace Prevention and Control	Human Services	718,752
Substance Abuse & Mental Health Service Adm	93.958	Block Grants for Community Mental Health Services	Behavioral & Develop.	1,448,019
Substance Abuse & Mental Health Service Adm	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Behavioral & Develop.	5,923,780
Centers for Disease Control & Prevention	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Human Services	63,958
Centers for Disease Control & Prevention	93.977	Prevention Health Services: Sexually Transmitted Diseases Control Grant	Human Services	274,421
Centers for Disease Control & Prevention	93.988	Coop Agrmnt for St Based Diabetes Control Programs	Human Services	337,168
Centers for Disease Control & Prevention	93.991	Preventive Health and Health Services Block Grant	Human Services	1,345,710
Centers for Disease Control & Prevention	93.991	Preventive Health and Health Services Block Grant	Education	35,000
Centers for Disease Control & Prevention	93.991	Preventive Health and Health Services Block Grant	Public Safety	83,811
Health Resources & Services Adm	93.994	Maternal and Child Health Services Block Grant to the States	Human Services	3,717,397
Health Resources & Services Adm	93.994	Maternal and Child Health Services Block Grant to the States	Education	120,785
Health & Human Services	93.999	MIS: Implementation of Uniform Alcohol & Drug Abuse Data Collection System	Behavioral & Develop.	58,646
Health & Human Services	93.999	State Demands & Needs Assessment Studies: Alcohol & Other Drugs	Behavioral & Develop.	15,943
Health & Human Services	93.999	State Treatment Needs Assessment Studies: Alcohol & Other Drugs	Behavioral & Develop.	179,692
Health & Human Services	93.999	Drinking Water Program	Environmental Prot.	46,033
Health & Human Services	93.999	Statistics Project	Human Services	415,961
Unknown	93.999	Tax & Match	Behavioral & Develop.	15,000
Aging Cluster				
Administration on Aging	93.044	Spc Prg/Agng-Ttl III, Part B-Grnt for Supt Service & Sen Ctrs	Human Services	1,898,935
Administration on Aging	93.045	Spc Prg/Agng-Ttl III, Part C-Nutrition Services	Human Services	2,678,109
Administration on Aging	93.045	Special Programs for the Aging: Title III, Part C: Nutrition Service	Attorney General	60,968
Child Care Cluster				
Administration for Children & Families	93.575	Child Care & Development Block Grant	Human Services	10,126,329
Administration for Children & Families	93.596	Child Care Mandatory & Matching Funds of Child Care/Dev	Human Services	7,106,911
Medicaid Cluster				
Office of the Secretary	93.775	State Medicaid Fraud Control Units	Attorney General	354,658
Health Care Financing Administration (HCFA)	93.777	State Survey and Certification of Health Care Providers and Suppliers	Human Services	2,301,085
Health Care Financing Administration (HCFA)	93.778	Medical Assistance Program (Medicaid)	Human Services	884,835,832
Health Care Financing Administration (HCFA)	93.778	Medical Assistance Program (Medicaid)	Behavioral & Develop.	1,655,784
Total U.S. Department of Health & Human Services Federal Programs				1,086,696,031
Corporation for National & Community Service				
Direct Federal Programs				
Corporation for National & Community Service	94.003	State Commissions	State Planning	134,157
Corporation for National & Community Service	94.004	Learn and Serve America: School and Community Based Programs	Education	96,007
Corporation for National & Community Service	94.006	AmeriCorps	State Planning	800,439
Corporation for National & Community Service	94.006	AmeriCorps	Labor	489,348
Corporation for National & Community Service	94.007	Planning and Program Development Grants	State Planning	150,985
Corporation for National & Community Service	94.007	Planning and Program Development Grants	Human Services	121,102
Corporation for National & Community Service	94.013	Volunteers in Service to America (VISTA)	State Planning	281,117
Corporation for National & Community Service	94.013	Volunteers in Service to America (VISTA)	Corrections	1,375
Corporation for National & Community Service	94.013	Volunteers in Service to America (VISTA)	Human Services	257,093
Total Corporation for National & Community Service Federal Programs				2,331,623
Social Security Administration				
Disability Insurance/SSI Cluster				
Social Security	96.001	Social Security: Disability Insurance	Human Services	6,139,655
Total Social Security Administration Federal Programs				6,139,655
Total State Expenditures of Federal Awards				1,715,296,392



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STATE OF MAINE
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2001

1. Purpose of the Schedule

The accompanying Schedule of Expenditures of Federal Awards (Schedule) is a supplementary schedule to the State's general-purpose financial statements (GPFS) and is presented for purposes of additional analysis. Total expenditures for each Federal financial assistance program as identified in the Catalog of Federal Domestic Assistance (CFDA) are shown. Federal financial assistance programs, which have not been assigned a CFDA number, have been identified using the two-digit federal agency number and the suffix *999*. Federal award amounts are aggregated by federal agency; direct and pass-through amounts are reported by primary recipient to prevent overstatement of expenditures of federal awards.

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 State's general purpose financial statements (GPFS). The accompanying Schedule includes all federal financial assistance programs of the State of Maine reporting entity for the fiscal year ended June 30, 2001, with the exception of the component units identified in Note 1 to the GPFS. The component units engaged other auditors.

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

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

2) Type A and Type B Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 established the levels of expenditures to be used in defining Type A and Type B federal financial assistance programs. Type A programs for the State of Maine are those programs that equal or exceed $5.1 million in expenditures, distributions, or issuances for the year ended June 30, 2001. Programs audited as major programs are in bold print in the accompanying schedule.

C. *Basis of Accounting* - The information presented in the Schedule of Expenditures of Federal Awards is presented primarily on the modified accrual basis of accounting, which is consistent with the General Purpose Financial Statements. Under this basis, expenditures of federal awards are recorded in the accounting period in which the fund liability is incurred.

3. Program Information

A. Department of Education - Food Distribution Program (CFDA 10.550): The reported total of federal financial assistance represents the value of food commodities distributed to various schools, institutions, and other qualifying entities. The value of inventory as of June 30, 2001 was $51,739.

B. Department of Human Services - Food Stamps (CFDA 10.551): The reported total of federal financial assistance represents the value of food coupons issued. The value of inventory as of June 30, 2001 was $18,973,685.

C. Department of Human Services - Nutrition Program for the Elderly (CFDA 10.570): The amount reported of $614,225 represents cash in lieu of commodities expended in the Elderly Feeding Program.

D. Department of Human Services – Childhood Immunization Grant (CFDA 93.268): The reported total of federal financial assistance represents $1,836,419 for administrative costs and $5,574,482 for the value of vaccines disbursed. The value of inventory as of June 30, 2001 was $1,045,055.

E. Department of Agriculture - Emergency Food Assistance Cluster - The reported total of federal financial assistance includes administrative costs of $188,800 (CFDA 10.568) and commodities of $1,620,007 (CFDA 10.569). The value of inventory at June 30, 2001 was $745,282.

F. Department of Conservation - Federal Excess Personal Property (no CFDA number): During fiscal year 2001 the state received property with an original acquisition cost of $4.1 million from the U.S. Department of Agriculture. The title has not transferred to the state and the amount is not recorded on the Schedule of Expenditures of Federal Awards.

G. Department of Defense, Veterans and Emergency Management - National Guard Military Operations & Maintenance Projects (CFDA 12.401): The amount recorded as expenditures includes $1,944,385 of in-kind expenditures.

4. Unemployment Insurance Program

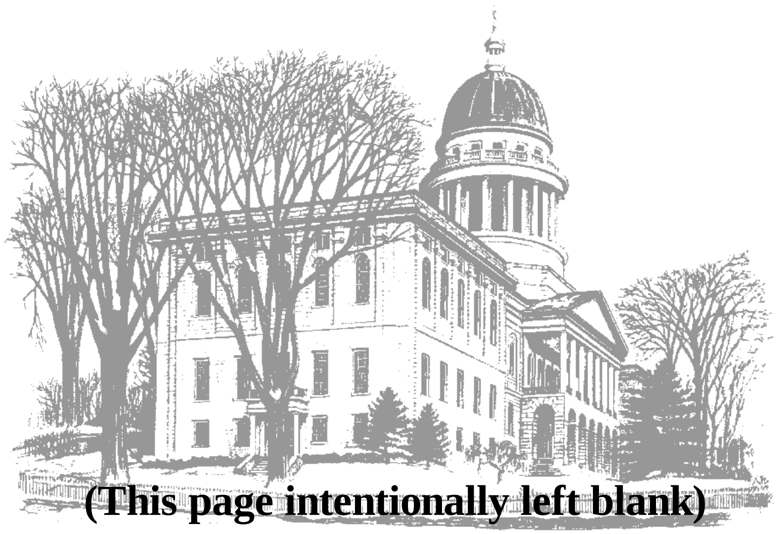
The expenditures reported on the Schedule for Unemployment Insurance, CFDA Program No. 17.225, include:

State Funds	$87,482,542
Federal Funds	18,727,260
Total	$106,209,802

State of Maine
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2001

Legend of State Agency Abbreviations

Abbreviation	State Agency Name
Agriculture	Department of Agriculture
Arts Commission	Maine Arts Commission
Attorney General	Department of the Attorney General
Behavioral Services (previously Mental Health)	Department of Behavioral and Developmental Services (previously Department of Mental Health, Mental Retardation and Substance Abuse Services)
Conservation	Department of Conservation
Corrections	Department of Correction
Defense	Department of Defense, Veterans and Emergency Management
Economic Dev	Department of Economic and Community Development
Education	Department of Education
Environment	Department of Environmental Protection
Financial Serv	Department of Administrative and Financial Services
Health Data	Maine Health Data Organization
Historic Preserve	Maine Historic Preservation Commission
Historical Records	Maine Historical Records Advisory Council
Human Rights	Maine Human Rights Commission
Human Services	Department of Human Services
Inland Fisheries	Department of Inland Fisheries and Wildlife
Judicial Branch	Judicial Department
Labor	Department of Labor
Marine Resource	Department of Marine Resources
Off of the Courts	Administrative Office of the Courts
Public Safety	Department of Public Safety
Public Utilities	Maine Public Utilities Commission
Salmon Comm	Atlantic Sea Run Salmon Commission
State	Department of the Secretary of State
State Library	Maine State Library
State Museum	Maine State Museum
State Planning	Executive Department - State Planning Office
Transportation	Department of Transportation



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STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Qualified	
Internal control over financial reporting:		
✍ Material weaknesses identified?	YES **X**	NO
✍ Reportable conditions identified that were not considered to be material weaknesses?	YES **X**	NO
✍ Noncompliance material to financial statements noted?	YES	NO **X**

Federal Awards:

Internal control over major programs:		
✍ Material weaknesses identified?	YES **X**	NO
✍ Reportable conditions identified that were not considered to be material weaknesses?	YES **X**	NO
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	YES **X**	NO

Identification of Major Programs:

CFDA #	**Name of Federal Program or Cluster**
Food Stamp Cluster	
10.551	Food Stamps
10.561	State Administrative Matching Grants for Food Stamp Program
Child Nutrition Cluster	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Identification of Major Programs (continued):

Employment Services Cluster

17.207	Employment Service
17.801	Disabled Veterans' Outreach Program
17.804	Local Veterans' Employment Representative Program

Special Education Cluster

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

Child Care Cluster

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

Medicaid Cluster

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

Other Programs

10.557	Special Supplemental Nutrition Program for Women Infants and Children
10.558	Child and Adult Care Food Program
10.664	Cooperative Forestry Assistance
12.401	National Guard Military Operations Maintenance (O&M) Projects
12.999	Loring Rebuild
16.575	Crime Victim Assistance
17.225	Unemployment Insurance
20.205	Highway Planning and Construction
64.203	State Cemetery Grants
66.605	Performance Partnership Grants
84.011	Migrant Education – Basic State Grant Program
84.048	Vocational Education-Basic Grants to States
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
93.268	Immunization Grants
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	State Children's Insurance Program
93.959	Block Grants for Prevention and Treatment of Substance Abuse
96.001	Social Security Disability Insurance

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Identification of Major Programs (continued):

Dollar threshold used to distinguish between type A and type B programs	**$5,145,889**	
Does the auditee qualify as low risk?	YES	NO **X**

Summary of Questioned Costs:

Federal Grantor/ State Agency	CFDA No.	Federal Program	Questioned Costs	Finding No.
U.S. Department of Agriculture				
* Bureau of Family Independence	10.561	State Administrative Matching Grants for the Food Stamp Program	$164,026	01-34
* Department of Human Services, Division of Financial Services	10.561	State Administrative Matching Grants for the Food Stamp Program	$496,063	01-48
* Maine Forest Service	10.664	Cooperative Forestry Assistance	$29,784	01-06
U.S. Department of Transportation	20.205	Highway Planning and Construction	$13,119	01-57
U.S. Department of Education				
* Special Services Team	84.027	Special Education – Grants to States	$165,080	01-14

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Summary of Questioned Costs (continued):

U.S. Department of Health and Human Services				
* Department of Attorney General	93.563	Child Support Enforcement	$673,369	01-04, 01-39
* Bureau of Family Independence	93.563	Child Support Enforcement	$10,614 $73,448	01-35 01-37
* Office of Substance Abuse	93.959	Block Grants for Prevention & Treatment of Substance	$43,580	01-05
* Bureau of Child & Family Services	93.558	Temporary Assistance for Needy Families	$149,082	01-21
	93.575/ 93.596	Child Care and Development Block Grant/ Child Care Mandatory & Matching Funds of Child Care and Development Block Grant	$82,730	01-23
	93.658	Foster Care	$65,203 $1,026 $37,179 $157,825 $1,792 $2,846,146	01-24 01-26 01-28 01-29 01-30 01-32
	93.659	Adoption Assistance	$43,727 $46,445	01-30 01-32
	93.667	Social Services Block Grant	$126,995	01-33
* Department of Human Services, Division of Financial Services	93.658	Foster Care	$4,973	01-48
	93.667	Social Services Block Grant	$789,845	01-48
		Total Questioned Costs	**$6,022,051**	

Section II - Financial Statement Findings

Department of Administrative and Financial Services

(01-01) Bureau of Accounts and Control

Finding: Inadequate controls to ensure complete and accurate recording of general fixed assets

The Bureau of Accounts and Control did not sufficiently monitor agencies for compliance with fixed asset internal control policies that are designed to ensure complete and accurate recording of the State of Maine's fixed assets. General Fixed Assets Account Group records included duplicate entries, assets that were sold but not deleted from the system, and valuations for which supporting documentation could not be produced. In addition, construction in progress was not included. The identified errors were corrected on the financial statements.

Title 5 MRSA §1541 requires the Bureau of Accounts and Control to maintain an official statewide system for fixed assets for all State agencies to update and reconcile annually.

The Bureau of Accounts and Control fixed asset policy manual requires agencies to:
1. develop internal policies and procedures,
2. designate a property officer or officers,
3. conduct physical inventories annually or tri-annually for distributed assets,
4. document the inventory program and have it approved by the Bureau of Accounts and Control,
5. develop written inventory instructions and properly train employees participating in inventories,
6. reconcile inventory counts with the records in the fixed asset system,
7. maintain written certification by the property officer of the inventory and reconciliation, and
8. maintain supporting documentation of fixed asset transactions for examination by appropriate audit organizations.

Recommendation:

We recommend that the Bureau of Accounts and Control monitor and provide clear guidance to agencies to ensure compliance with fixed asset internal control policies and to ensure that the recorded amounts appear reasonable. We also recommend that each agency follow the internal control policies established in the fixed asset manual.

Department of Administrative and Financial Services

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

Contact Person: Carol F. Whitney, 626-8421

Clear guidance is given to agencies via the Fixed Assets Policy Manual (last updated 1/10/02) distributed to each Agency's Property Officer and in electronic format on the Bureau's home page. A Bureau Senior Accountant is assigned active oversight of Fixed Assets policy compliance. Within the <u>Finding's</u> list of activities, the Bureau accountant is responsible for 2,5,7, and 8, with assistance offered for 6.

It is the intent of Bureau management to maintain Agency compliance as stated in State Audit's Recommendation section.

(01-02) Bureau of Accounts and Control
Division of Financial and Personnel Services
Bureau of General Services

<u>Finding</u>: Inadequate internal control over identification, classification, and reporting of lease transactions (Prior Year Finding)

The State of Maine did not identify, classify, and report lease transactions in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 13, *Accounting for Leases.*

Capital lease assets, the related accumulated depreciation and obligations under capital leases were recorded in the State's financial statements and related information was included in the notes to the financial statements. However, there were errors and inconsistencies in determining valuations that resulted in a qualification to the audit opinion.

The Division of Financial and Personnel Services and the Bureau of General Services are currently working on a project to evaluate the leases recorded in an Internal Service Fund. The Bureau of Accounts and Control requires each agency to report any significant leasing transactions.

<u>Recommendation</u>:

We recommend that the State continue to refine control and review procedures used to record and disclose capital and operating lease transactions.

Department of Administrative and Financial Services

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

Contact Person: Kirsten Figueroa. 624-7413

We agree with the recommendation to refine control and review procedures used to record and disclose capital and operating lease transactions.

DFPS has created and is using a database that automates the management, classification, accounting, and billing of the Lease Property Fund. This database has helped tremendously to organize data in a way that helps us evaluate which leases are capital and which are operating. Once that determination is made, we then record the leases appropriately on the financial statements. It should be noted that DFPS does report all leasing arrangements. There has been confusion in the Bureau of General Services Real Property Leasing Program regarding the proper application of GAAP instructions, particularly in the area of Fair Market Value. Because Fair Market Value is such a critical factor in determining whether a lease is capital or operating, it is important that these values be accurate. DFPS has taken on the task to reevaluate the Fair Market Values assigned by BGS for all current lease arrangements. This work is currently being conducted and it is our intention to finish the work in time for the Fiscal Year 2002 audit.

Work on this database is ongoing. As we understand the GAAP instructions better, we improve the database. We expect to be in compliance for the FY02 audit.

Department of Transportation

(01-03) Bureau of Freight Transportation

Finding: Assets not recorded on State records

The Department of Transportation's system of internal control was insufficient to capture all assets that should be recorded on the accounting records of the State of Maine. The Department expends funds on projects or activities, and accumulates those expenses under a PIN that is specific to each project. Certain individuals determine which projects should be capitalized, and give this information to the Department's accounting staff to make the appropriate entries.

Expenditures of $16,837,817 for the Eastport Cargo Pier, built with State funds and placed into service in November 1998, were not recorded as assets in the State's accounting system. This pier was to become the property of the Eastport Port Authority upon completion and upon notification by the Department to the Authority. The Department has not yet transferred ownership of the pier to the Eastport Port Authority; therefore, it is the property of the Department and should be recorded as such.

As a result of the audit, an adjustment was made to include the value of the pier in the State's fixed asset records.

Recommendation:

We recommend that the Department establish controls and procedures to ensure that all of the State's fixed assets are identified and properly accounted for in the State's accounting records.

Auditee Response/Corrective Action Plan:

Contact Person: Robert Nason, 624-3135

We concur. The asset will be added and accounting entries will be made to correct the book value of the asset. Robert Nason will ensure that the corrective action plan will be completed by June 20, 2002.

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001

Section III - Federal Award Findings and Questioned Costs

Department of Attorney General

(01-04) Department of Attorney General

Child Support Enforcement
CFDA#: 93.563 **Questioned Cost:** $673,369

U.S. Department of Health and Human Services
Federal Award Number: Various

Finding: Excess federal program funds to pass-through agency

The Department of Human Services (DHS) transferred Child Support Enforcement program funds to the Department of Attorney General in excess of program expenditures. DHS provided $1,305,175 in Child Support Enforcement funds to the Attorney General by reducing a DHS program revenue account, by increasing the Attorney General's program revenue account by $1,234,000 and by increasing an unrelated program revenue account of the Attorney General by $71,175. The revenue transfers were based on fund requests by the Attorney General, who recorded federal expenditures of $1,271,193 in accounts designated for the Child Support Enforcement program.

Actual program expenditures were $957,282, which was calculated by DHS based on information provided by the Attorney General. The federal portion was 66% or $631,806, which is $673,369 lower than the $1,305,175 in federal funds that was transferred. Although DHS reported only actual expenditures to the federal agency, the Department transferred additional program funds to the Attorney General, who then used the funds for other programs. We question $673,369, the additional amount transferred.

This problem appeared to be caused or compounded by inadequate controls over accounting, failure to reconcile cash accounts, and an incomplete understanding of the process.

Department of Attorney General

<u>Recommendation</u>:

We recommend that the Department of Human Services transfer Child Support Enforcement program funds to the Department of Attorney General only to the extent of program expenditures. We recommend that the Department of Attorney General charge to program expenditure accounts only those costs related to the program.

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

<u>Attorney General's Response:</u>

Contact Person: Sandra Harper, 626-8800

The Office of the Attorney General supplies to DHS information that is used by DHS for cost allocation purposes. It is the DHS that collects and compiles that data, not the Office of the Attorney General. Because our attorneys are involved in a myriad of activities, they complete time studies for DHS. Based on this information, DHS both determines and creates their cost allocation plan as to the correct source of federal money. The Office of the Attorney General's federal account contains all the possible federal funding sources. We do not have the information available to us nor was the program set up by the legislature to charge program expenditure accounts only by those costs related to specific federal programs. Therefore, we rely on the DHS to supply us with this information when they transfer the money. The Office of the Attorney General will report total expenditures by federal program in accordance with the information supplied by DHS.

<u>Department of Human Services Response:</u>

Contact Person: John Mower

From the perspective of the Department of Human Services, DHS should routinely transfer cash in support of budgeted transfers to the Office of the Attorney General based on the projected Legal Services Cost Allocation Schedule. When DHS transfers cash to The Office of the Attorney General they do not know the specific funding source because the source of funds transferred is determined by DHS. Therefore, to reflect accurately the funds transferred, DHS will supply the source of funds to the Office of the Attorney General's and ensure transfers come from all Programs and not mainly Child Support Enforcement

Department of Behavioral and Developmental Services

(01-05) Office of Substance Abuse

Substance Abuse Prevention and Treatment Block Grant
<u>CFDA</u>#: 93.959 **<u>Questioned Cost</u>:** $43,580

U.S. Department of Health and Human Services
Federal Award Number: 99 B1 ME SAPT-01

<u>Finding</u>: Obligation and spending of grant award beyond allowable period

The Office of Substance Abuse did not obligate and disburse federal funds as required by the grant award document for the Substance Abuse Prevention and Treatment Block Grant (SAPT).

The grant award document required that funds be obligated by September 30, 1999 and be spent by September 30, 2000. We determined that $25,224 in encumbrances to service providers were not approved prior to the end of the obligation period. We also determined that other service providers were paid $18,356 beyond the period of availability. As a result of non-compliance with period of availability requirements, we question $43,580 in SAPT Block Grant expenditures.

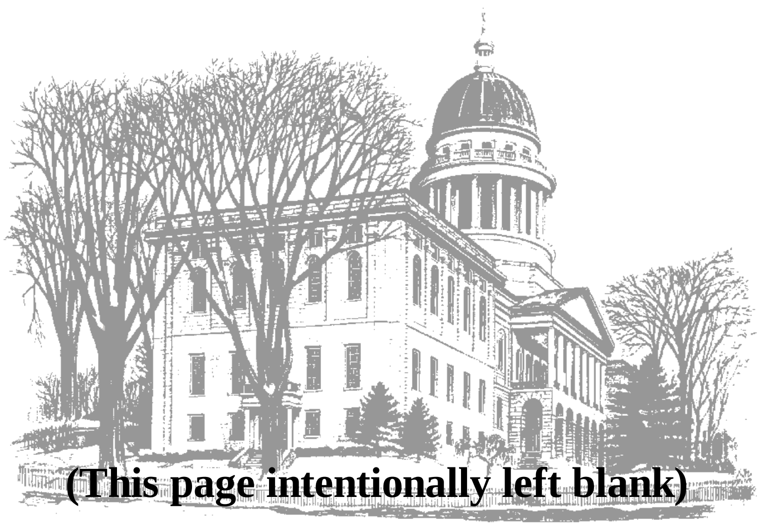
<u>Recommendation</u>:

We recommend that the Office of Substance Abuse obligate funds within the required time frame and expend funds within the period of availability of the grant award.

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

Contact Person: Jeffrey Toothaker, 287-6237

The requirement to obligate funds within the first year of the grant has been changed to include the entire two years of the grant award, effective with the Federal Fiscal Year 2001 award. The Office will monitor obligations and expenditures to ensure they are made within the proper timeframe.



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Department of Conservation

(01-06) Maine Forest Service

Cooperative Forestry Assistance
<u>CFDA</u>#: 10.664 **<u>Questioned Cost</u>:** $29,784

U.S. Department of Agriculture
Federal Award Number: Various

<u>Finding</u>: Payroll expense not allocated

Payroll expenses of $59,567 for the Resource Administrator at Maine Forest Service were charged entirely to the Cooperative Forestry Assistance program. It is estimated that at least 50% of the Resource Administrator's time is spent performing tasks associated with activities other than this program; therefore we question 50%, or $29,784, of the costs charged to the program.

The Office of Management and Budget Circular A-87, *Cost Principles for State and Local Governments,* allows costs to be charged to a federal program only to the extent of the benefit received. Where employees work on multiple activities, a distribution of salaries or wages should be supported by personnel activity reports. At least quarterly, a comparison of actual costs to activity reports must be made and adjustments to reflect this actual activity must be recorded.

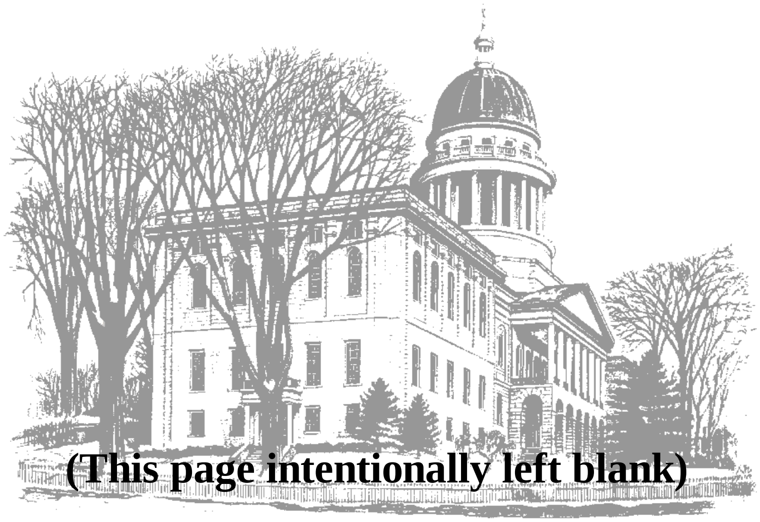
During fiscal year 2002, the Department of Conservation changed funding for this position from being supported 100% by federal funds to being supported by 50% federal and 50% State funds. In addition, costs charged to the Cooperative Forestry Assistance program are now compared to activity reports, and adjustments are made to reflect actual activity. Because corrective action has been taken, we make no recommendation at this time.

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

Contact Person: Peter Beringer, 287-8429

We concur with this finding. Corrective action has been taken.

Corrective action completed 7/1/2001



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Department of Defense, Veterans and Emergency Management

(01-07) Military Bureau

National Guard Military Operations and Maintenance Projects
<u>CFDA</u>#: 12.401 **<u>Questioned Cost</u>:** None

U.S. Department of Defense
Federal Award Number: DAHA17-2-01-100X

<u>Finding</u>: Inadequate internal control over cash management (Prior Year Finding)

Internal controls over cash management are inadequate to ensure that cash is available only for immediate needs. Cash available at the end of each quarter of the fiscal year is as follows:

Quarter	Days of cash on hand	Amount on hand at end of quarter
1	3.0	$ 52,084
2	31.3	$541,945
3	16.4	$284,611
4	31.8	$511,070

Title 31 CFR §205.20 states:

> Cash advances to a State shall be limited to the minimum amounts needed and shall be timed to be in accord only with actual, immediate cash requirements of the State in carrying out a program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual outlay by the State for direct program costs and the proportionate share of allowable indirect costs.

<u>Recommendation</u>:

We recommend that the Department take appropriate action to ensure that cash on hand is limited to the minimum amounts needed and drawdowns be timed to be in accord only with actual, immediate cash requirements of the program.

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

Contact Person: Linda Gosselin, 626-4346

The Military Bureau has created an accounting system using the State MFASIS system to better manage the flow of cash that requires reimbursement. A report is generated on a weekly basis from the MFASIS Warehouse system and sent to the USPFO to reimburse the state for federal expenses, thereby eliminating the need for cash advances.

Department of Defense, Veterans and Emergency Management

The Military Bureau plans to separate the Air Guard and Army Guard accounts effective July 1, 2002. This will assist each entity to better manage Personnel Services, All Other, and Capital accounts as well as improve overall cash management.

(01-08) Military Bureau

National Guard Military Operations and Maintenance Projects
CFDA#: 12.401 **Questioned Cost:** None

U.S. Department of Defense
Federal Award Number: DAHA17-01-2-1000

Finding: Lack of controls to ensure matching requirements are met

The Department of Defense, Veterans and Emergency Management does not have controls in place to ensure compliance with matching requirements of Cooperative Agreement DAHA17-01-2-1000. During fiscal year 2001, the matching requirements in Appendices 1, 2 and 21 of the Cooperative Agreement were exceeded for federal fiscal year by $98,468. However, since the match was not tracked during the year, the requirement could as easily have not been met.

The Department does not know the final match requirement amounts until three months after the close of the federal fiscal year.

Recommendation:

We recommend that the Department of Defense, Veterans and Emergency Management establish controls to ensure that the matching requirements of the Cooperative Agreement are met for the Army National Guard by tracking match expenditures made throughout the fiscal year.

Auditee Response/Corrective Action Plan:

Contact Person: Linda Gosselin, 626-4346

The Military Bureau will maintain a spreadsheet to track all match expenditures spent in a given fiscal year for all expenditures made including personnel match expenditures in the format required.

Department of Defense, Veterans and Emergency Management

The Military Bureau has implemented a new account code system that will identify all match payments made for each appendix of the Military Bureau's Cooperative Agreement. The only exception is the State Payroll system, which does not allow us to code each employee according to our new coding structure. The Military Bureau will provide all available match information paid in a given fiscal year from all Appendices.

(01-09) Military Bureau

Loring Rebuild Facility
CFDA#: 12.999 **Questioned Cost:** None

U.S. Department of Defense
Federal Award Number: DAHA17-2-01-3035

Finding: Inadequate internal control over cash management at the Loring Rebuild Facility, and non-compliance with cash management requirements

Internal controls over cash management are inadequate to ensure that cash is available only for immediate needs. Cash available at the end of each quarter of the fiscal year is as follows:

Quarter	Days of cash on hand	Amount on hand at end of quarter
1	38.5	$858,355
2	12.4	$277,153
3	26.4	$558,106
4	15.6	$347,828

Title 31 CFR §205.20 states:

> Cash advances to a State shall be limited to the minimum amounts needed and shall be timed to be in accord only with actual, immediate cash requirements of the State in carrying out a program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for direct program costs and the proportionate share of allowable indirect costs.

Recommendation:

We recommend that the Department take appropriate action to ensure that cash on hand is limited to the minimum amounts needed and drawdowns be timed to be in accord only with actual, immediate cash requirements of the program.

Department of Defense, Veterans and Emergency Management

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

Contact Person: Robert St. Pierre, 626-4461

Effective October 2001, the facility stopped requesting advanced payments. All requests for reimbursement are processed after the State has made the expenditures.

Department of Education

(01-10) Bureau of Finance

Various
CFDA#: Various **Questioned Cost:** None

U.S. Department of Agriculture
U.S. Department of Education
Federal Award Number: Various

Finding: Controls insufficient to ensure compliance with federal cash management requirements (Prior Year Finding)

For the eight programs listed below, the Department of Education did not disburse federal funds as required by the provisions of either the State's Cash Management Improvement Act (CMIA) Agreement or 31 CFR Part 205.

The CMIA specifies use of pre-issuance funding for the three of the programs that were tested. Pre-issuance funding requires disbursement within two days from day of deposit. Title 31 CFR Part 205 requires time between deposit and disbursement of federal funds be minimized. Controls did not ensure compliance with cash management requirements.

For the tested programs, average number of days from date of deposit to disbursement was:

CFDA#	Grant Name	
84.011	Migrant Education-Basic Grant Program	9.0
84.027	Special Education-Grants to States (IDEA, PART B)	11.0
84.173	Special Education-Preschool Grants (IDEA, Preschool)	9.0
84.048	Vocational Education-Basic Grants to States	9.0
Cluster:		
10.553	School Breakfast Program	7.0
10.555	National School Lunch Program	7.0
10.556	Special Milk Program for Children	7.0
10.559	Summer Food Service Program for Children	7.0

Recommendation:

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

Department of Education

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

Contact Person: Lesley Ann Clark, Chief Accountant, (207) 624-6860

After the finding for FY'00 was provided to us in early FY'02, we arranged with Accounts & Control to have the accounts that "house" three of the major programs placed on estimated revenue. This allows us to process expenditures without having the actual cash, and we can draw down after the payments have gone out so the cash is in place when the checks are presented for disbursement at the bank. With this in place, the following programs should be included: 84.011, 84.027, 10.553, 10.555, 10.556, and 10.559. For FY'03, we have arranged with Accounts & Control to have 84.048 (housed in account 013-08) to be set up with estimated revenue. For 84.173, we will continue to watch allotment when it is time to order cash for a manifest. We have no control over when a subrecipient cashes their check which we believe was the problem with the 84.173 program.

(01-11) Learning Systems Team

Special Education - Grants to States
Vocational Education - Basic Grants to States
<u>CFDA</u>#: 84.027 & 84.048 **<u>Questioned Cost</u>:** None

U.S. Department of Education
Federal Award Number: H027A000109A
V048A000019A

<u>Finding</u>: Insufficient controls over compliance with suspension and debarment requirements (Prior Year Finding)

The Department of Education did not have sufficient controls in place to ensure compliance with suspension and debarment certification requirements. The Department did not require that a current certification be included with each participant or subrecipient's application.

Per 34 CFR §85.510(b), a State must require each participant in certain lower tier transactions to certify with each application that neither it nor its principals is presently debarred or suspended from participation.

As corrective action has been taken, a recommendation is not made.

Department of Education

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

Contact Person: Lesley Ann Clark, Chief Accountant,(207) 624-6860.

The Department now requires all subrecipients receiving federal financial assistance to submit annual certifications with each application. Target completion date is fiscal year 2002.

(01-12) Support Systems Team

Various
<u>CFDA</u>#: Various **<u>Questioned Cost</u>:** None

U.S. Department of Education
Federal Award Number: Various

<u>Finding</u>: Pass-through entity responsibilities not met (Prior Year Finding)

The Department of Education did not ensure compliance with requirements to inform subrecipients of federal award information either in subaward documents or in approved agreements.

Subpart D, subparagraph 400(d) of Office of Management and Budget (OMB) Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, requires a pass-through entity to identify federal awards that it makes by informing each subrecipient of the CFDA title and number, the award name and number, the award year, the name of the federal agency and whether the award is for research and development.

Corrective action has partially been accomplished subsequent to the period of audit; this information is now being included in conditional subaward approval letters for CFDA# 84.048.

<u>Recommendation</u>:

We recommend that the Department of Education ensure identification with required federal award information in all of itssubaward documents and approved agreements.

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

Contact Person: Lesley Ann Clark, Chief Accountant,(207) 624-6860

Department of Education

The federal award information is now required on all letters of award, contracts or grant award forms, and RFP's when services/grants are requested from federal funds. The Department's internal Agreement Review Team (ART) is ensuring that this information is included on all of these documents. Target completion date is fiscal year 2002.

(01-13) Support Systems Team

Various
CFDA#: Various **Questioned Cost:** None

U.S. Department of Education
Federal Award Number: Various

Finding: Inadequate internal controls and compliance over monitoring of subrecipient cash balances (Prior Year Finding)

A sample of 40 quarterly Federal Cash Management Reports from 40 different subrecipients of the Department of Education revealed the following:

* There were six instances in which the Department did not withhold payments to subrecipients that were reporting excess cash balances. The federal programs involved were as follows: IASA Title I Migrant (CFDA#84.011), Special Education Local Entitlement (CFDA#84.027), Class Size Reduction Grants (CFDA#84.340), and Special Education Discretionary (CFDA#84.027).
* At the end of the quarter tested, the 40 subrecipients' cash balances for all federal programs totaled $829,853. This was comprised of 33 subrecipients' positive cash balances of $2,107,935 offset by 28 subrecipients' negative cash balances of $1,278,082. On the average for the quarter tested, positive cash balances represented 68 days of cash needs. One entity alone carried an average cash balance of $445,988, or 117 days cash needs.
* There was one instance in which the Department did not make arrangements to recover a balance of $6,806 paid from the Vocational Education Program (CFDA#84.048) that did not change from April 30, 2000 to December 31, 2001.
* There were three instances in which the Department accepted an unsigned quarterly Federal Programs Cash Management Report from a subrecipient.

Department of Education

According to 34 CFR § 80.20(b)(7):

> Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Recommendation:

We recommend that the Department of Education establish procedures appropriate to ensure compliance with cash management and monitoring requirements.

Auditee Response/Corrective Action Plan:

Contact Person: Lesley Ann Clark, Chief Accountant, (207) 624-6860

1. *To eliminate payments not being withheld to subrecipients and to ensure funds are recovered, Finance will no longer send Program managers Excess Cash Resolution Forms for their approval. Finance will retain the forms and make the decision to pay or withhold. Copies of the forms will be sent to Program Accountants and/or Program Managers for their information only.*

2. *Finance will use a checklist for logging in e-mailed reports to ensure reports with original signatures are received. If they are not, subrecipients will be contacted.*

3. *It appears that some subrecipients delay submitting revised reports until the next cycle. Finance will begin to maintain a list of revised reports required, and will inform the contact person that a revised report is due within five working days. Funds will be withheld for failure to comply.*

All of these new changes that directly affect subrecipients will be spelled out in the EFU-415 instructions on the Department's web site. In addition, the form itself will state that there are new "developments" and all subrecipients should review and comply with these instructions. Target completion date is fiscal year 2003.

Department of Education

(01-14) Special Services Team

Special Education Grants to States
<u>CFDA</u>#: 84.027 **<u>Questioned Cost</u>:** $165,080

U.S. Department of Education
Federal Award Number: H027A000109

<u>Finding</u>: Controls over earmarking requirements not sufficient to ensure compliance

The Department of Education did not have controls in place to ensure compliance with earmarking requirements. The minimum pass-through to Local Education Agencies was not met by $165,080, and the maximum State set-aside amount was exceeded by the same amount, in violation of 34 CFR §300 §§602 and 711. Failure of controls over determining which expenditures qualify as pass-through to Local Education Agencies caused the non-compliance.

<u>Recommendation</u>:

We recommend that the Department ensure that controls over compliance with earmarking requirements are in place and operating effectively.

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

Contact Person: John Kierstead, Consultant, Exceptional Children, (207) 624-6650

The Department will distribute all funds to LEA's earmarked in the notification of grant award. Although the LEA's did not directly receive the $165,080, they indirectly received an adjustment since tuition to private schools was reduced by this amount in the rate-setting process on the EF-S-10. That is, any receipt of federal funds is deducted in the rate-setting process resulting in a direct benefit to LEA's. Therefore, the Department believes that the questioned costs should be dropped. Special Education students did get the benefit of these funds in the long run and that's the purpose of the program. Target completion date is fiscal year 2002.

Department of Education

(01-15) Special Services Team

Special Education Grants of States
<u>CFDA</u>#: 84.027 **<u>Questioned Cost</u>:** None

U.S. Department of Education
Federal Award Number: H027A000109

<u>Finding</u>: Controls do not ensure compliance with maintenance of effort requirements (Prior Year Finding)

The Department of Education does not compare budgeted expenditures of subgrantees for the grant year being awarded against actual expenditures of the previous grant year, as required.

According to 34 CFR §300.231, the State must be satisfied that the Local Education Agencies (LEAs) are meeting the maintenance of effort requirement for the education of children with disabilities. That is, the total amount, or average per capita amount, of State and local school funds budgeted by the LEA for the current fiscal year must be at least equal to the total amount, or average per capita amount, actually spent for the same purpose in the previous year. Allowances can be made under some circumstances.

<u>Recommendation</u>:

We recommend that the Department implement measures to ensure compliance. These measures should include monitoring the LEAs' budgeted expenditures for the current period and actual expenditures for the prior period, and ensuring that LEAs report their budgeted local special education expenditures.

The Department should have adequate documentation on hand to demonstrate that the maintenance of effort calculation has been performed. This documentation should indicate that deviations are investigated and allowable deviations are supported.

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

Contact Person/s: Thomas Coulombe, Program Accountant, and John Kierstead, Consultant, Exceptional Children, (207) 624-6650.

Department of Education

The Office of Special Services maintains a printout comparing LEAs' current period budgeted expenditures to prior year actual expenditures. A visual analysis of the printout is conducted by program staff. Follow up with the LEAs' to review budgeted differences less than the prior year actual was not conducted due to the lack of personnel, time, and incomplete data.

The Department will implement the following corrective action:

- *Send notification to all LEAs that they have not met the maintenance of effort requirements under IDEA 97 and require them to explain the reason for the discrepancy. At that same time, they will also be notified of the non-supplanting requirement of IDEA 97.*

- *After the LEA responds, the Department will review responses and follow up with the LEA. A record of all notifications will be maintained by the Office of Special Services.*

Target completion date is fiscal year 2003.

Department of Environmental Protection

(01-16) ACE
Bureau of Air Quality
Bureau of Land and Water Quality
Bureau of Remediation and Waste Management

Performance Partnership Grants
<u>CFDA</u>#: 66.605 **<u>Questioned Cost</u>:** None

U.S. Department of Environmental Protection
Federal Award Number: BG-99182900
BG-99182997

<u>Finding</u>: Inadequate internal controls and compliance over cash management

The State's average cash balance held for the Performance Partnership Grants represents cash requirements for 19 days. Title 31 CFR 205.7(b) stipulates, "A State and a Federal agency shall minimize the time elapsing between the transfer of funds from the United States Treasury and the pay out of funds for program purposes by a State, whether the transfer occurs before or after the pay out." Section 205.20(a) stipulates, "Cash advances to a State shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the State in carrying out a program or project."

In addition, payments to Nonpoint Source Program subrecipients are made on a predetermined time schedule without consideration of the subrecipients' immediate cash needs. The grant award specifically states "Cash advances will be made only as actually needed for recipient disbursements," and "The recipient will impose the same standards of timing and reporting on subrecipients, if any."

<u>Recommendation</u>:

We recommend that the Department of Environmental Protection establish procedures to comply with all cash management requirements.

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

Contact person: George Viles, Director, Office of Management Services, 287-7832

The Department has implemented procedures to comply with Federal cash management requirements.

Department of Environmental Protection

Action implemented: monitor cash availability more closely; provided improved cash control procedures in concert with the Bureau of Accounts and Control.

Completion date: completed May 2002

(01-17) Bureau of Air Quality
Bureau of Land and Water Quality
Bureau of Remediation and Waste Management

Performance Partnership Grants
CFDA#: 66.605 **Questioned Cost:** None

U.S. Department of Environmental Protection
Federal Award Number: BG-99182900
BG-99182997

Finding: Controls ineffective to ensure compliance with payroll certification requirement

The Department of Environmental Protection does not require that employees prepare a periodic certification when they work solely on a single federal program.

The Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment B, Paragraph 11.h (3) states:

> Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Recommendation:

We recommend that the Department ensure that employees who worked solely on a single federal award prepare the required certifications.

Department of Environmental Protection

Auditee Response/Corrective Action Plan:

Contact Person/s: George Viles, Director, Office of Management Services, 287-7832
David Maxwell, Director of Program Services, Bureau of Remediation and Waste Management, 287-7872
Paul Dutram, Administrative Unit, Bureau of Land and Water Quality, 287-7696
Rich Limouze, Resource Administrator, Bureau of Air Quality, 287-7029

With the coming State FY2003, we will examine where this certification is appropriate and provide the certifications as applicable.

As a matter of operations, the PPG (Performance Partnership Grant) is generally one source of program funding complementing other General Funds, Other Special Revenue Funds, and even other Federal Funds. DEP programs are integrated in that they reflect the complex and interwoven issues of environmental protection; no issue is just air, just water, or just hazardous waste. The very intent of the PPG was to provide the States with flexible resources which meet the outcome objectives agreed upon in the Performance Partnership Agreement by the State and EPA.

The language of A-87 addresses narrower Federal awards and cost objectives, and is not consistent with the integration of effort in the Performance Partnership Agreement and the Performance Partnership Grant.

Corrective action: utilizing the Time and Attendance Management System, management reports, and the requirements of EPA Region I, determine affected employees and have certification prepared and submitted.

Anticipated completion date: ongoing activity.

(01-18) Bureau of Land and Water Quality

Performance Partnership Grants
CFDA#: 66.605 **Questioned Cost:** None

U.S. Department of Environmental Protection
Federal Award Number: BG-99182900
BG-99182997

Department of Environmental Protection

Finding: Inadequate controls over subrecipient monitoring responsibilities

The Department of Environmental Protection's Bureau of Land and Water Quality issues grant awards to municipal governments, soil and water districts, and 501(c)(3) organizations, as part of the Nonpoint Source Program included in the Clean Water Act, Section 319. It does not perform monitoring activities for this program as required by Office of Management and Budget (OMB) Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, Section 400(d)(3) to (d)(5).

Section 400(d)(3), requires that grantees "monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes." The Bureau monitors subrecipients by requiring a final report and local match certification form when projects are complete. Three instances were identified where final payment was made on a completed project. In one of the three, the Bureau made a final payment without having received the final report and match certification form.

Section 400(d)(4) requires grantees to "ensure that subrecipients expending $300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year." Also, to fully identify monitoring responsibilities the Bureau must determine whether the Davis-Bacon Act applies to construction projects funded by payments to subrecipients. Section 400(d)(5) requires that the grantee "issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action." The Department did not comply with these requirements, and has no system to ensure compliance.

Recommendation:

We recommend that the Department monitor subrecipient audits and establish procedures to ensure that required subrecipient monitoring reports are received.

Auditee Response/Corrective Action Plan:

Contact persons: Norman Marcotte, Program Manager, 287-7727
Tony St. Peter, Program Administrator, 287-2116

The Bureau of Land and Water Quality will carry out the audit recommendations as applicable in FY2003. It is noted that there are minimum thresholds for audits. It is also noted that the Non-Point Source program tracks federal expenditures through semi-annual progress reports and subrecipients are not released of their responsibilities under the contract/grant award prior to the Bureau's receipt of a final project report.

Action planned: with the Bureau Administrative Unit and the Office of Management Services, determine cost effective approach to compliance and the recipients affected, then implement compliance procedures through the contracts and grants involved. The approach will include monitoring and review procedures.

Completion date: on-going

(01-19) Bureau of Land and Water Quality

Performance Partnership Grants
CFDA#: 66.605 **Questioned Cost:** None

U.S. Department of Environmental Protection
Federal Award Number: BG-99182900
BG-99182997

Finding: No controls over suspension and debarment requirements

The Bureau of Land and Water Quality of the Department of Environmental Protection has no established procedures to ensure compliance with suspension and debarment requirements for the Nonpoint Source Program, and did not obtain the required certifications from any subrecipient. The Nonpoint Source Program is a water pollution prevention and abatement program providing grants to local governments, soil and water districts, and non-profit organizations.

The Compliance Supplement of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, prohibits non-federal entities from contracting with parties that are suspended or debarred, or making subawards under covered transactions to them. All subrecipients must certify that the organization and its principals are not suspended or debarred.

Recommendation:

We recommend that the Bureau of Land and Water Quality of the Department of Environmental Protection implement procedures to ensure that required certifications are obtained prior to disbursement of federal funds.

Department of Environmental Protection

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

Contact persons: Norman Marcotte, Program Manager, 287-7727
Tony St. Peter, Program Administrator, 287-2116

The Bureau of Land and Water Quality will implement the recommendation in FY2003.

Corrective action: Clearly require certification from subrecipients in the contract or grant language and disburse no Federal funds until the certification is received.

Completion date: on-going.

(01-20) Bureau of Land and Water Quality

Performance Partnership Grants
<u>CFDA</u>#: 66.605 **<u>Questioned Cost</u>:** None

U.S. Department of Environmental Protection
Federal Award Number: BG-99182900
BG-19182997

<u>Finding</u>: No controls over inclusion of federal procurement requirements in subrecipient contracts

The Department of Environmental Protection's Bureau of Land and Water Quality does not have procedures to ensure that subrecipient contracts contain all federal procurement requirements for the Nonpoint Source Program. This is a water pollution prevention and abatement program providing grants to local governments, soil and water districts, and non-profit organizations. The Bureau did not communicate all procurement requirements to subrecipients.

The original conditions of the federal award contain the provision that the State require subrecipients to take affirmative steps to comply with the provisions of the Small Business in Rural Area program. Amendment Two contains the provision that the State require subrecipients to take affirmative steps to comply with the Minority Business Enterprise/Women's Business Enterprise program. These requirements were not included in contracts with subrecipients.

Department of Environmental Protection

<u>Recommendation</u>:

We recommend that the Bureau of Land and Water Quality implement procedures to ensure that federal procurement requirements be communicated to subrecipients.

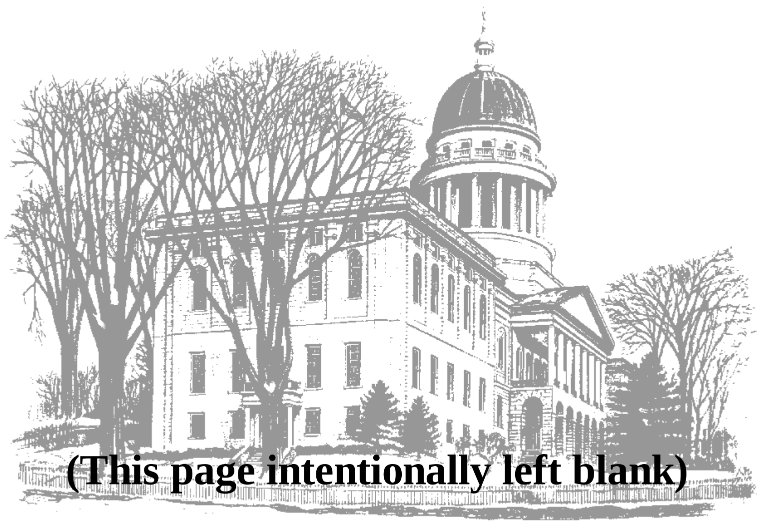
<u>Auditee Response/Corrective Action Plan</u>:

Contact persons: Norman Marcotte, Program Manager, 287-7727
Tony St. Peter, Program Administrator, 287-2116

The Bureau of Land and Water Quality will implement the recommendations in FY 2003.

Action Planned: Clearly include federal procurement requirements in contract and grant language and monitor compliance.

Completion date: ongoing process.



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Department of Human Services

(01-21) Bureau of Child and Family Services

Temporary Assistance for Needy Families
CFDA#: 93.558 **Questioned Cost:** $149,082

U.S. Department of Health and Human Services
Federal Award Number: G-0001METANF
G-0101METANF

Finding: Inaccurate federal financial reporting (Prior Year Finding)

The Department of Human Services submitted Quarterly Federal Financial Reports ACF-196 that did not agree with supporting accounting records. Our comparison of the two showed the following differences:

* Federal expenditures for the Temporary Assistance for Needy Families grant were overstated by $149,082. We question this amount.
* State "Maintenance of Effort" expenditures were overstated by $3,039,334.
* Expenditures for "Separate State Program" were understated by $2,795.
* Amounts reported as "Transfers to the Child Care Development Block Grant (CCDBG) Program" do not agree with transfer receipts reported by the CCDBG program.

Recommendation:

To ensure accurate financial reporting, we recommend that the Department of Human Services:

1. maintain records in accordance with the Office of Management and Budget Common Rule standards for financial management systems, to clearly support the reported financial information,
2. reconcile quarterly reports of cumulative expenditure amounts to accounting records.
3. require program and accounting personnel to jointly review the accounting records and agree on specific financial reporting treatment, and
4. create a record to support transfers to the CCDBG program by using revenue transfer journals.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Bean, 287-1869

Department of Human Services

DHS concurs with the recommendations of the above finding. The Department currently conducts an annual reconciliation for the TANF Block Grant at the close of the Federal grant year. Adjustments were made accordingly based on the annual reconciliation. The annual reconciliation is based upon the federal grant year not the state fiscal year. The Department will reconcile cumulative expenditure amounts on a quarterly basis instead of annually.

The Child Care Development Block Grant receives revenue transfers from the TANF Block Grant. The department will create a procedure to ensure that the reported transfers for CCDF will be based upon the actual expenditures.

DHS does not concur with the finding of overstated State Maintenance of Effort. Audit posted MOE in the amount of $997,535 in the transportation category. MOE was reported correctly for Transportation 9-00 in the amount of $14,942.

DHS also informed Audit that annual reconciliation was in progress at the time of the Audit. $300,000 for PAS Child Care had been corrected as well as $1,302,091 for Systems. These corrections were made to September 2001 Final SF269 for TANF Block Grant.

DHS concurs that there may have been $151,857 in overstated Maintenance of Effort that had not been reconciled as of the audit date but has since been reconciled.

(01-22) Bureau of Child and Family Services

Child Care Development Block Grant
CFDA#: 93.575 & 93.596 **Questioned Cost:** None

U.S. Department of Health and Human Services
Federal Award Number: G001MECCDF

Finding: Inaccurate federal financial reporting (Prior Year Finding)

The Department of Human Services did not have adequate documentation to support Child Care Development Block Grant financial reports. It did not reconcile accounting records with quarterly financial reports and did not retain the detail behind matching, level of effort and earmarking expenditures that were reported.

Department of Human Services

For the federal grant period 2001, we compared the reported amounts to the State's accounting system and found the following variances: the Department underreported Discretionary Fund expenditures by $4,670,946, overreported the State/federal shares of matching fund expenditures by $275,258 and $132,430 respectively, and overreported level of effort expenditures by $929,053. Although the amounts reported were in error, the Department satisfied level of effort and matching requirements.

In addition, the Department reported transfers to the Child Care Development Block Grant (CCDBG) from the Temporary Assistance to Needy Families (TANF) program that are inconsistent with amounts reported on the TANF federal financial reports as having been transferred. For the audit period, the Department reported that TANF transferred $1.4 million to the CCDBG program. For the same period, the Department reported that CCDBG received $ 3 million, or $1.6 million more then the TANF report indicated.

Recommendation:

To ensure accurate financial reporting, we recommend that the Department of Human Services:

1. maintain records in accordance with the Office of Management and Budget Common Rule standards for financial management systems to clearly support the reported financial information,
2. reconcile quarterly reports of cumulative expenditure and transfer amounts to the accounting records, and
3. create a record to support transfers from the TANF program by using revenue transfer journals.

Auditee Response/Corrective Action Plan:

Contract Person: Patricia V. Shaw, 287-1855
Carol Bean, 287-1869

The Department is working to correct reports to bring them in balance with each grant.
The Department will maintain supporting documentation for all TANF revenue transfer journals.

(01-23) Bureau of Child and Family Services

Child Care Development Block Grant
CFDA#: 93.575 & 93.596 **Questioned Cost:** $82,730

Department of Human Services

U.S. Department of Health and Human Services
Federal Award Number: G001MECCDF

Finding: Unallowable payroll costs (Prior Year Finding)

The Department of Human Services charged the Child Care Development Block Grant program with payroll costs of three employees who performed administrative duties involving several federal and/or state programs. The Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, allows costs to be charged to a federal program only to the extent that benefits are received.

We question the amount of payroll costs for these employees that represents work benefiting other programs.

Recommendation:

We recommend that the Department develop procedures to ensure that salaries and fringe benefits are allocated to programs based on benefits received.

Auditee Response/Corrective Action Plan:

The Department of Human Services has not yet provided a written response to the finding.

(01-24) Bureau of Child and Family Services

Foster Care Title IV-E
CFDA#: 93.658 **Questioned Cost:** $65,203

U.S. Department of Health and Human Services
Federal Award Number: 01ME1401

Finding: Costs claimed more than once

The Department of Human Services reported and was reimbursed for the same expenditures twice. The Department uses certain accounting codes to report Foster Care expenditures in the State's accounting system, MFASIS. In addition to these accounting codes, the Department obtains reports from the Maine Automated Child Welfare Information System (MACWIS) of other qualifying expenditures initially charged to other accounts. The Department submits both the direct charges and other amounts reported as program expenditures for reimbursement.

Department of Human Services

Other charges reported included expenditures for transportation and daycare. The Department submitted these qualifying expenditures both on the Title IV-E Gap report (amounts originally paid from the General Fund coded to appropriation organization 0139 – Child Welfare) and on the transportation and daycare reimbursable reports. We tested expenditures claimed for ten children and found all ten on both reports. Known questioned costs for the ten are $3,171. Likely questioned costs, the remainder of the expenditures coded to the account, are $627,111.

We also found that the transportation and daycare expenditure totals included both Federal Expenditure Fund and General Fund Foster Care direct charge accounts (appropriation organization 0137). Because these accounts are already included in the MFASIS reported expenditures, including them in the MACWIS report means that they also were reported twice. Our testing of these accounts identified $62,032 in known questioned costs and $18,430 in likely questioned costs. The total known questioned costs are $65,203 ($3,171 and $62,032) and likely questioned costs are $645,541 ($627,111 and $18,430.)

The Department has experienced considerable personnel turnover. The MACWIS computer system is relatively new. The personnel involved in program administration andfinancial reporting do not have a complete understanding of how the program is funded and where information is reported. These two factors, in conjunction with the use of the accounting system to capture information but not actually posting activity to the accounts that ultimately absorb the cost, makes program reporting prone to errors.

Recommendation:

We recommend that the Department document its accounting procedures. It should identify which funds and accounts are used and for what. One individual should review all sources of information used to report program activity to ensure that program expenditures are not reported more than once and that federal reimbursement is requested only once.

Auditee Response/Corrective Action Plan:

Contact Person: Patricia V. Shaw, 287-1855

This was identified and corrected on the 12/31/01 and 3/31/02 reports. An individual in BCFS checks each report before being submitted to Financial Services to be used as reporting information.

Department of Human Services

(01-25) Bureau of Child and Family Services

Foster Care - Title IV-E
CFDA#: 93.658 **Questioned Cost:** None

U.S. Department of Health and Human Services
Federal Award Number: 01ME1401

Finding: Foster Care payment system not reconciled to State's accounting system

The Department of Human Services processes Foster Care payments through its Maine Automated Child Welfare Information System (MACWIS), which interfaces with the State's accounting system, the Maine Financial and Administrative Statewide Information System (MFASIS). At June 30, 2001 there was an unexplained variance of $1,039,663 between the information on the two systems concerning the Title IV-E Foster Care program.

The methods for accounting for this federal program contribute to the difficulty in determining the cause of the variance. Numerous reports, which assist in locating errors that could lead to underreporting, are printed from the MACWIS system. One such report is the Claims Adjustment Report. This report summarizes claims information incorrectly entered into the MACWIS system and reports the dollar amounts associated with the errors. The MACWIS system is adjusted to the correct information through 9000 series documents. MFASIS is never adjusted. Additionally, we noted an entry to the Claims Adjustment Report, which resulted in a reported expenditure that did not actually take place until the next fiscal quarter.

The Department's MACWIS personnel and financial personnel are not well versed in each other's processes or how the reports are compiled or used.

Unexplained variances could result in overreporting or underreporting of expenditures.

Recommendation:

We recommend that the Department reconcile the Foster Care payments as reported by MACWIS to the State's accounting system.

Auditee Response/Corrective Action Plan:

Contact Person: Patricia V. Shaw, 287-1855

Last payroll in June (MACWIS) does not show up in MFASIS until July.

Department of Human Services

(01-26) Bureau of Child and Family Services

Foster Care - Title IV-E
CFDA#: 93.658 **Questioned Cost:** $1,026

U.S. Department of Health and Human Services
Federal Award Number: 01ME1401

Finding: Ineligible participants

The Foster Care Program does not have effective controls in place to ensure participant eligibility. We tested participant eligibility for charges to the program arising from the add-on of expenditures from Maine Automated Child Welfare Information System (MACWIS) reports. These are also referred to as "Title IV-E Reimbursables." The Department uses MACWIS to ensure that all reimbursable costs are reported; in fiscal year 2001 these reports resulted in reporting additional qualifying expenditures of $2.6 million. Three of thirty-five children tested were not eligible for Federal Foster Care participation.

We identified known questioned costs associated with ineligible participants of $1,026. We projected the error rates to each report population to determine likely questioned costs of $176,282.

Recommendation:

We recommend that the Department review its controls over participant eligibility to ensure that reported costs include only those for eligible participants.

Auditee Response/Corrective Action Plan:

Contact Person: Rhonda Parker, 287-5060

The policies and controls are in place to determine and establish participant eligibility.

(01-27) Bureau of Child and Family Services

Foster Care - Title IV-E
CFDA#: 93.658 **Questioned Cost:** None

Department of Human Services

U.S. Department of Health and Human Services
Federal Award Number: 01ME1401

Finding: Inadequate suspension and debarment procedures

The Department of Human Services, the Division of Technology Services, had no established policies and procedures to ensure compliance with suspension and debarment requirements for contracts related to the Foster Care Program. Title 45 CFR Part 76.200 and the Compliance Supplement of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, prohibit non-federal organizations from contracting with parties that are suspended or debarred. Contractors receiving awards of $100,000 or more must certify that the organization and its principals are not suspended or debarred.

Of the two contracts subject to the suspension and debarment requirements, we found that neither of them contained the required suspension and debarment certification. Payment for the two contracts totaled $2,403,417, or 87% of the amount of contract expenditures for the fiscal year.

Recommendation:

We recommend that the Division require all contractors who are awarded $100,000 or more to certify that the organization and its principals are not suspended or debarred. We further recommend that an internal control system be developed to provide reasonable assurance that computer technology contracts are in compliance with federal suspension and debarment requirements.

Auditee Response/Corrective Action Plan:

Contact Person: Joseph Radziszewski, 287-1748

The Division of Technology Services will require that all contracts over $100,000 add a suspension & disbarment requirement certifying that the organization and its principals are not suspended or debarred.

(01-28) Bureau of Child and Family Services

Foster Care - Title IV-E
CFDA#: 93.658 **Questioned Cost:** $37,179

Department of Human Services

U.S. Department of Health and Human Services
Federal Award Number: 01ME1401

Finding: Payments made to ineligible recipients and at incorrect rates (Prior Year Finding)

The Department of Human Services did not have established policies and procedures in place for the Foster Care Title IV-E Program to ensure compliance with eligibility and match requirements.

We tested 40 payment vouchers and found that 35 of the recipients tested did not meet eligibility requirements. We determined questioned costs by totaling the federal portion of each sample payment that was made on behalf of an ineligible child ($27,348) and adding all payments made in the State fiscal year 2001 beyond the date of eligibility ($9,831) for total known questioned costs of $37,179. We determined likely questioned costs by dividing the sample dollar error ($27,348) by the sample total expenditures ($56,111), which resulted in a 49 percent error rate. We then multiplied the program expenditures for maintenance payments ($39,360,922) by the error rate. This resulted in likely questioned costs of $19,286,852.

Title 45 CFR §1356, the Social Security Act and the Office of Management and Budget Circular A-133 Compliance Supplement state that Foster Care benefits may be made on behalf of a child only if all eligibility requirements are met.

In fiscal year 2001, the program reported expending $55 million in State and federal funds. The federal share was $35 million. The vast majority of the funds expended are for maintenance payments for children in foster care; these payments are funded 66 percent by the federal government and 34 percent by the State. In addition to the maintenance payments, the program is charged with administrative expenses for central services and costs associated with the Maine Automated Child Welfare Information System (MACWIS). MACWIS is the data collection system that is relied on to properly code bills and track participant eligibility. MACWIS interfaces with the State's accounting system to generate payments to the Foster Care providers. It also generates reports that the Department uses to maximize federal reimbursement for such things as error corrections and qualifying charges that were initially charged to non-program accounts.

The sample of 40 participants resulted in the following:

> Thirteen children were deemed ineligible due to lack of supporting documentation. Ten of the thirteen were placed with providers who did not have current licenses. This resulted in total questioned costs of $2,901 and likely questioned costs of $1,968,046.
>
> Seventeen children were deemed ineligible due to lack of parental deprivation documentation. This resulted in questioned costs of $23,945 and likely questioned costs of $16,925,196.

Five children were not eligible, according to MACWIS, for the entire audit period, but federal foster care payments were still made. (The sample included sixteen others who became ineligible per MACWIS and for whom federal participation was properly ended.) MACWIS computer personnel believe that there may be a problem sharing information between the financial and case management modules within the system. This resulted in questioned costs of $10,334 ($503 sampled and $9,831 for the remainder of the period) and likely questioned costs of $393,609.

Five children met all eligibility requirements.

Thirty-three of the forty payments tested had the incorrect match rate applied as follows:

Ten had the correct match rate applied, if the child had been eligible for federal foster care benefits. However, the child was not eligible and therefore the State match should have been 100%.

Twenty-three had the incorrect match rate applied. This was due to MACWIS not being updated to reflect the change of FFP rate (.6612) effective on October 1, 2000. Furthermore, twenty-one of these children were not eligible for federal foster care funds. Therefore, the State match should have been 100%.

Recommendation:

We recommend that the Department review its policies for establishing and redetermining eligibility, that it obtain all necessary documentation, and that it ensure that revised federal financial participation rates are input into MACWIS.

Auditee Response/Corrective Action Plan:

Contract Person: Rhonda Parker, 287-5060

The policies and controls are in place to determine and establish participant eligibility.

(01-29) Bureau of Child and Family Services

Foster Care - Title IV-E
CFDA#: 93.658 **Questioned Cost:** $157,825

U.S. Department of Health and Human Services

Department of Human Services

Federal Award Number: 01ME1401

<u>Finding</u>: Unrelated expenditures reported

The Department of Human Services reported the federal share of Adoption Assistance demonstration project expenditures as costs of the Foster Care program. We question the amount incorrectly reported, $157,825.

Program managers indicated that the demonstration project funds additional assistance, beyond that normally allowed, to an experimental group of adoptive families. The expenditures are not associated with the Foster Care program. The program accountant indicated that she reported the charges as her predecessor had.

<u>Recommendation</u>:

We recommend that the Department file revised reports with the Foster Care and Adoption Assistance programs and adjust accounting records to appropriately report these charges. We recommend that the Department document its accounting and reporting procedures and ensure that financial and program personnel have sufficient information and understanding of program operations to accurately report and account for program activity.

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

Contract: Patricia V. Shaw, 287-1855

The Department of Financial Services can not revise reports but will make prior period adjustments.

(01-30) Bureau of Child and Family Services

Title IV-E: Foster Care and Adoption Assistance

<u>CFDA</u>#: 93.658 **<u>Questioned Cost</u>:** $1,792
93.659 $43,727

U.S. Department of Health and Human Services
Federal Award Number: 01ME1407

Department of Human Services

Finding: Payments made to ineligible recipients and at incorrect rates

The Department of Human Services does not have adequate controls in place to ensure that payments are made only to recipients who are eligible for the Title IV-E Adoption Assistance Program, and only for the correct amounts. The program expended approximately $6.3 million in federal funds and $3.2 million in State funds for direct adoption assistance expenditures, primarily board and care payments. We tested 37 such payments and found errors in 17 of them, an error rate of 46 percent. Costs of $45,519 are questioned; likely questioned costs of $2,352,776 were determined by projecting the dollar error rate of the sample to the $6.3 million of federal funds expended for maintenance.

Ten (27%) of the payments tested were made on behalf of individuals who were not eligible for the program. An eleventh individual who was paid from State funds and a twelfth individual who was paid by the Foster Care program both should have been charged to the Adoption Assistance program. Payments for five individuals (14%) were made at an incorrect rate.

Of those not eligible, six were ineligible because they no longer satisfied age or educational status requirements. They continued to receive payments because continuing eligibility determinations were not made. The original determinations, no matter how old, served to establish and maintain Title IV-E eligibility status. Payments for these six resulted in known questioned costs of $27,936.

A seventh individual was certified as not eligible in 1994, according to the case file. Payments were made to the individual from December 1995 through June 2001. We question $4,857, the amount of payments made in the year under audit.

An eighth individual was no longer eligible because the agreement had expired; the individual was also ineligible due to being a freshman in a four-year college program. This resulted in known questioned costs of $5,520.

A ninth individual received payments prior to having the required signed adoptive placement agreement on file. The agreement was not signed until February 19, 2001 but personnel apparently relied on a computer system date of September 26, 2000. Subsidy payments of $4,126 that were made from October 2, 2000 through February 28, 2001 are questioned.

The tenth individual was not eligible because no subsidy agreement or Adoption Assistance case file could be found. Program personnel believe that the child should have been paid by the Foster Care program. Payments of $1,288 made by the Adoption Assistance program from November 2000 through January 2001 are questioned.

Benefits for an eleventh individual should have been charged to Adoption Assistance but were charged in error to State funds. Although clothing costs were correctly charged by MACWIS to the federally funded adoption assistance program, the board and care costs for the same individual were charged in error to the 100 percent state subsidized adoption assistance program. Although costs are not questioned, this type of activity is not allowable for the program.

Benefits for a twelfth individual should have been charged to Adoption Assistance but were charged in error to Foster Care. The child was adopted on July 5, 2000; however, Foster Care continued to pay until January 6, 2001. Although the program's automated case management module was updated, the financial resources module was not, resulting in the incorrect program charges. Known questioned costs for the Foster Care program are $1,792.

There were also five cases that were paid at incorrect rates, which resulted in four recipients being underpaid and one overpaid. Four cases involved subsidy payments. Daily reimbursement rates for board and care and clothing are intended to increase at certain benchmark ages. These rates do not appear to be programmed to automatically take effect. Two of the rates that were in error did not agree with the rate schedule, while others had not increased as the child's age increased. Also, in some instances the correct rate was paid for one payment type but an incorrect rate for another payment type for the same child. This seemed to be due to incomplete manual overrides. The fifth case involved payment of a Special Needs rate at a rate higher than that supported by the case file.

Recommendation:

We recommend that the Department immediately institute eligibility review procedures to include examination of those participants shown as exceeding program age requirements as well as re-determination of program eligibility on a periodic basis. We recommend that the Department review its procedures governing manual overrides and changes made to the various computer modules to ensure consistent coding and use of current and correct rates.

Auditee Response/Corrective Action Plan:

(01-31) Bureau of Child and Family Services

Title IV-E: Adoption Assistance
CFDA#: 93.659 **Questioned Cost:** None

U.S. Department of Health and Human Services
Federal Award Number: 01ME1407

Department of Human Services

Finding: Accuracy of information maintained by the Maine Automated Child and Welfare Information System (MACWIS) not assured

The Department of Human Services does not have adequate controls in place for the Title IV-E Adoption Assistance program to ensure compliance with the program's requirements. Title 45 CFR §1355.54(g) states that quality assurance monitoring should provide reasonable assurance that information maintained by the State's automated child and welfare information system should be tested for accuracy, completeness and compliance with federal requirements and State standards. Title 45 CFR §1356.21 (g) states that in meeting the requirements of section 471(a)(11) of the Act, the State must review at reasonable, specific, time-limited periods, to be established by the State, the amount of payments made for foster care maintenance and adoption assistance to assure their continued appropriateness. We noted the following exceptions:

1. Financial Resource Specialists of the Division of OMB Operations (DROMBOS) do not review data to ensure that the correct Title IV-E eligibility status codes are established in the MACWIS system. Title IV-E status codes are used to automatically charge accounts for payments to Bureau of Child and Family Services clients. Incorrect coding will result in the wrong State or federal account being charged.

2. DROMBOS specialists do not review Adoption Assistance case files or attempt to verify that eligibility status is being tracked. The reviews conducted by the Bureau's Quality Assurance team generally include: a determination that the goal (typically, adoption) set for a child is being met; an inspection of the case file for inclusion of appropriate legal documentation and licensing information; and follow-up on cases that appear to be progressing too slowly. There is little review of subsidy payments. There were many instances of subsidy payments that were made by a federal program for which participants had been deemed not eligible. These payments could have legitimately been made from a State program.

3. MACWIS reports of eligible program participants included 105 individuals who were older than age 18, which is generally the upper limit to be eligible for program participation. Of the 105, 52 had their eligibility status terminated by June 30, 2001. However, 53 others were listed as eligible to receive benefits. We tested the five oldest participants and found that all five were not eligible. Three cases had actually been closed prior to July 2000, but the closure dates had not been updated in the MACWIS eligibility module. Although ineligible, the other two individuals received payments during the year. One was closed during the year, but continued to be shown as open in the eligibility module.

Closure dates are required to be manually updated in the eligibility module for the Adoption Assistance program, if they are entered in the Case Management module.

4. In addition to the problem of payments made to ineligible recipients, inaccurate participant data may affect the allocation of indirect program costs. The Department uses MACWIS data and factors for the Cost Allocation Plan and to calculate Title IV-E Shared Costs. If the data and factors are incorrect, costs will not be accurately allocated.

5. The federal participation rate changed during the fiscal year from 66.22% for the first quarter to 66.12% for the remainder of the year. The change was not made to MACWIS; consequently, incorrect rates were applied for three-quarters of the year. However, the correct federal participation rate was used in financial reports requesting federal funds, because those are prepared without using the MACWIS coding. The Department does not compare or adjust for inconsistencies between expenditures reported to the federal government and those reported in MACWIS and the State's accounting system.

6. MACWIS generates reports that the Department uses to maximize federal reimbursement for such things as error corrections and qualifying charges that were initially charged to non-program accounts.

We found instances where participants were identified as ineligible throughout the year, but for whom MACWIS continued to provide federal funding. Computer personnel believe that there may be a problem sharing information between the financial resources and case management modules, and between the eligibility and case management modules, within the system. Furthermore, testing results indicated that errors pertaining to case eligibility status (and the resultant payments) for cases transferred over from the prior automated data processing system to MACWIS (implemented in late 1998) might not have been corrected.

Recommendation:

We recommend that the Department address the eligibility problems identified within MACWIS. We recommend that the Department establish quality control review procedures and regularly review program cases to ensure correct coding, accurate participant data, and payment only to eligible participants.

Given the recent technological changes in the work environment of the Bureau of Children and Family Services, an increased number of new employees and the Bureau's commitment to a "paperless work environment," we recommend that the Bureau document all procedures that require manual updates and the resulting interaction between MACWIS modules.

Auditee Response/Corrective Action Plan:

The Department of Human Services has not yet provided a written response to the finding.

(01-32) Bureau of Child and Family Services

Title IV -E: Foster Care and Adoption Assistance

CFDA#:	93.658	**Questioned Cost:**	$2,846,146
	93.659		$46,445

Department of Human Services

U.S. Department of Health and Human Services
Federal Award Number: 01ME1401 (Foster Care)
01ME1407(Adoption Assistance)

<u>Finding</u>: Inadequate controls over accounting and reporting for the Title IV-E Programs

The Department of Human Services, Division of Financial Services, does not have adequate control over its accounting for the Title IV-E programs Adoption Assistance and Foster Care. Controls did not prevent or detect errors in tracking and recording transactions regarding cash management, grant award funding, federal reporting, and program costs. We found the Department's procedures for accounting for administrative and other qualifying expenditures to be highly complex and prone to error, and to result in the accounting records not truly reflecting the sources and uses of funds.

The Department tries to maximize federal reimbursement by using Maine Automated Child Welfare Information System (MACWIS) reports to identify other qualifying expenses, in addition to those recorded as direct program charges, and by charging allowable administrative expenses originally paid from non-federal funds.

The Department does not actually transfer the other qualifying expenditures to the Title IV-E accounts but transfers the federal reimbursements received, referred to as "earned revenue," to Other Special Revenue Funds and uses them to pay for other Department programs. The transferred amounts are sometimes estimates based on budgeted amounts that may not agree with actual qualifying expenditures. In effect, General Fund expenditures are reimbursed with federal funds and the funds are then used to pay for other State expenses, rather than being returned to the General Fund. Those other State expenses may then, in turn, be used to claim additional reimbursement. It is unclear whether the funds in question are federal, General Fund or Other Special Revenue. Because accounting entries are not made and multiple people are involved, no one individual fully understands how the accounts are being used. This has resulted in the same charges being claimed more than once for federal reimbursement. It also conflicts with the Office of Management and Budget's Common Rule, which requires that amounts be traceable to the entity's accounting system.

In fiscal year 2001, the Department reported qualifying shared costs of $6.7 million for the Adoption Assistance and Foster Care programs. Once received, the federal reimbursement constituted State funds. Rather than move the funds to the accounts where the qualifying costs were recorded, the Department used $3.1 million to pay Child Welfare costs and left $3.6 million in the account. The "earned revenues" should be transferred so that it is clear that they do not constitute federal cash that needs to be accounted for further.

Department of Human Services

For Foster Care Title IV-E reimbursables, the qualifying expenditures were reported but the associated cash was not requested. Instead, the Department drew down sufficient cash to cover 100% of MACWIS administrative costs, which were assumed to be roughly equivalent, and which are eligible for 50% federal financial participation for the Foster Care program. (The Department claimed only the allowable MACWIS expenditures.) The Department did not check to see if the drawdowns and expenditures were equivalent.

Although federal award funds are to be drawn only on an as-needed basis, the Adoption Assistance program grant balance in the State accounting system was over $3 million throughout the year. It is not clear whether this balance represents federal funds or accumulated earned revenues from prior periods.

The Department relies on the federal oversight agency to inform them if any amounts for program costs need to be changed in the federal reports. This does not appear to be an effective control.

The Department determines the amount of federal cash to be drawn down for other than direct program costs by aggregating Foster Care, Adoption Assistance, Independent Living and some Medicaid-related costs. This method has resulted in drawing cash from the Foster Care program for expenses of other programs. Consequently, cash drawdowns do not necessarily agree with reported expenditures for the programs. Foster Care program drawdowns inappropriately funded $2,003,484 in Adoption Assistance shared costs, $179,959 in Adoption Assistance Demonstration Project costs, $496,132 in Medicaid-related costs, and $80,577 in Independent Living program (CFDA #93.674) expenses. The Department also incorrectly reported the $179,959 as Foster Care program expenditures. We question the total of these amounts, $2,760,152.

The Department drew $12,000 from the Adoption Assistance program to pay unrelated payroll costs of the Adoption Incentive program (CFDA # 93.603). We question this $12,000 charge to Adoption Assistance.

The Department reported $20,880 in payroll costs both to the Foster Care program and to the Child Welfare Services program (CFDA # 93.645). We question the 50% federal financial participation received from the Foster Care program, $10,440.

The Department reported certain administrative costs allocated to both Title IV-E programs twice. These include $161,648 for legal services and $21,816 for non-voluntary foster care expenses. We question the 50% federal financial participation received for the duplicate charges as allocated to the following programs. Foster Care: $39,369 (legal services) and $7,540 (non-voluntary) or a total of $46,909. Adoption Assistance: $17,587 (legal services) and $3,368 (non-voluntary) or a total of $20,955.

The Department also charged unallowable four-year college degree program administrative expenses to the programs. We question the federal financial participation received. Foster Care: $6,700. Adoption Assistance: $3,213.

The Department reported International Adoption costs of $91,943 once as current period costs (Adoption Assistance) and again, on the same report, as prior period costs (Foster Care and Adoption Assistance). We question the duplicate federal financial participation charged as prior period costs: Foster Care $21,945 and Adoption Assistance $10,277.

Recommendation:

We recommend that the Department adjust cash drawdown records to accurately reflect the correct funding source by crediting the Foster Care program and charging Adoption Assistance and the other programs. We further recommend that the Department document its current use of funds and accounts to prevent additional errors from occurring. We also recommend that the Department restructure its use of accounts to clearly reflect account activity and funding source and to simplify program accounting.

Auditee Response/Corrective Action Plan:

The Department of Human Services has not yet provided a written response to the finding.

(01-33) Bureau of Child and Family Services

Social Services Block Grant
CFDA#: 93.667 **Questioned Cost:** $126,995

U.S. Department of Health and Human Services
Federal Award Number: G-0101MESOSR

Finding: Lack of supporting documentation for portion of TANF Block Grant transfer, and duplication of expenses claimed for reimbursement (Prior Year Finding)

Department of Human Services

Department of Human Services' reports, documenting qualifying expenditures for funds transferred from the Temporary Assistance for Needy Families (TANF) Block Grant to the Social Services Block Grant (SSBG), did not support $63,447 of claimed expenditures. The Department reported expending $2.55 million for foster care costs. However, TANF Transfer Reports listing qualifying client expenditures from various foster care programs totaled only $2,486,553. The difference between this total and the total reported as expended is $63,447. We question this amount.

Also, we compared the TANF Transfer Report detail for the quarter ending September 30, 2000 to the detail of the 26A-GAP report used to claim reimbursement for foster care expenses from the Title IV-E program. There was a duplication of expenditures totaling $63,548. This duplication was projected to the total of the TANF Transfer Reports provided for 2001, resulting in a likely questioned cost of $298,386. We question the known duplicated amount of $63,548.

The total questioned costs for the program are $126,995.

Recommendation:

We recommend that the Department provide support for the entire amount of TANF Block Grant funds expended. In addition, we recommend that expenditures be claimed for reimbursement under only one program.

Auditee Response/Corrective Action Plan:

Contact Person: Patricia V. Shaw, 287-1855

There are quarterly reports, which are being generated. At this time, the Department is comparing the reports for any duplication.

(01-34) Bureau of Family Independence

Administrative and Matching Grants for the Food Stamp Program
CFDA#: 10.561 **Questioned Cost:** $164,026

U.S. Department of Health and Human Services
Federal Award Number: 2001IS251444

Department of Human Services

<u>Finding</u>: No controls in place to ensure payroll costs are properly charged to the federal program; excess payroll costs charged to the Food Stamps program

The Department of Human Services does not have controls in place, such as signed employee certifications required by Office of Management and Budget Circular A-87,*Cost Principles for State, Local and Indian Tribal Governments*, to ensure that the payroll cost of employees who worked for the benefit of more than one program are properly allocated to the programs. The Department charged 100% of payroll costs to the Food Stamps Program for five employees who did not work solely for the benefit of the program. We therefore question $164,026 of payroll costs associated with these five employees. Payroll costs for these employees should have been charged to accounts included in the Department's cost allocation plan.

No review process is in place to ensure that payroll for employees who work for multiple federal programs are charged appropriately.

<u>Recommendation</u>:

We recommend that the Department of Human Services implement procedures to ensure that payroll for each individual position is properly charged to federal programs, and correctly coded in the accounting system.

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

Contact Person: Carol Bean, 287-1869

The Department of Human Services' position, as a whole, is the Time and Attendance Management System (TAMS) will allow for employees to record their time worked to the proper program.

DHS does concur that the above five mentioned employees' time worked on other programs needs to be journaled to the proper accounts. DHS will prepare journals to correct the questioned costs.

(01-35) Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services

Child Support Enforcement
<u>CFDA</u>#: 93.563 **<u>Questioned Cost</u>:** $10,614

U.S. Department of Health and Human Services

Department of Human Services

Federal Award Number: Various

Finding: Costs reported in excess of allowed federal share

The Department of Human Services reported as federal costs $10,614 that should have been reported as the State's share. The Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* states that costs must be allocable in order to be charged to a federal program.

Recommendation:

We recommend that the Department adjust the incorrectly reported costs, and use due care when compiling program activity.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Bean, 287-1869

The Department of Human Services concurs with the above finding. The department has revised the reported federal amount on the SF-269 to reflect the appropriate recipients share of expenditures. The revision has been made to 3-31-01 Review and Modification SF-269.

(01-36) Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services

Child Support Enforcement
CFDA#: 93.563 **Questioned Cost:** None

U.S. Department of Health and Human Services
Federal Award Number: Various

Finding: Inadequate controls and procedures to ensure complete and accurate reporting for the Schedule of Expenditures of Federal Awards

The Department of Human Services initially reported $11,002,519 in federal Child Support Enforcement program expenditures to be included in the Schedule of Expenditures of Federal Awards (SEFA). The actual SEFA expenditures were $1.4 million higher, or $12,419,688.

Adjustments were necessary to delete funds passed through to and expended by other agencies, to add expenditures paid from program income and to reflect a federal audit adjustment.

The Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* requires that auditees prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards; entities should also be able to provide reasonable assurance that financial statements are reliable.

Recommendation:

We recommend that Department of Human Services personnel develop controls to ensure accurate reporting for the Schedule of Expenditures of Federal Awards.

Auditee Response/Corrective Action Plan:

Contract Person: Carol Bean, 287-1869

The Department of Human Services concurs with the above finding. The department reports federal interest earned on Child Support Collections. DHS did not add back in the interest income when preparing the Schedule of Expenditures of Federal Awards. This oversight caused the federal Child Support Administrative expenditures to be understated by the amount of interest income earned. The adjustment has been posted to the 2001 SEFA.

(01-37) Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services

Child Support Enforcement
CFDA#: 93.563 **Questioned Cost:** $73,448

U.S. Department of Health and Human Services
Federal Award Number: Various

Finding: Inadequate controls and procedures to ensure that only program-related payroll costs are charged to the program

Department of Human Services

The Department of Human Services does not have procedures in place to ensure that only program-related payroll costs are charged to the Child Support Enforcement Program. Payroll costs of four employees totaling $125,811 were charged to the Child Support Enforcement program while only $14,526 of those costs were program related. The difference of $111,285 is unallowable, and we question the 66% federal portion or $73,448.

In addition, for employees whose total payroll costs were charged to the program, the Department did not comply with requirements of Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, to ensure that the employees certify, at least semi-annually, that they work solely for the program. Compliance with this requirement can also be met by program-specific descriptions on signed timesheets.

Recommendation:

We recommend that the Department ensure that only Child Support Enforcement program-related payroll costs are charged to the program. We also recommend that the Department comply with payroll certification requirements for all employees who work solely for the program

Auditee Response/Corrective Action Plan:

Contact Person: Carol Bean, 287-1869

The Department of Human Services' position, as a whole, is that this certification requirement is being met by an electronic Time & Attendance Management System (TAMS) where employees can go on-line and enter their time and also their respective programs then forward it to their supervisor with an electronic signature.

DHS does concur with the questioned costs of $73,448. The department will journal the charges to the appropriate accounts and will revise the 396A for quarter ending 3-02.

(01-38) Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services

Child Support Enforcement
CFDA#: 93.563 **Questioned Cost:** None

U.S. Department of Health and Human Services

Department of Human Services

Federal Award Number: Various

Finding: Inadequate controls over accounting for cash and revenue, errors in supporting schedules, and State accounting system and internal computer system not reconciled

The Department of Human Services has not reconciled cash balances in the Child Support Enforcement program collections and distributions accounts. The cash balances of these accounts in the Maine Financial and Administrative Statewide Information System (MFASIS), totaled $19.5 million at June 30, 2001. That balance, which should represent collections not yet distributed, was $17.9 million higher than the amount of $1.6 million in undistributed collections that was reported to the federal government.

The variance is explained in part as follows. Department personnel had not prepared journal entries to distribute the State and federal share of collections for the last four months of the fiscal year that ends on June 30, 2001. The program accountant prepared entries to do this in September 2001 at the request of the auditor, but those entries were made incorrectly due to errors in the underlying spreadsheet. Entries should have been made to reimburse $4.6 millilon to the General Fund for its share of collections made on behalf of Temporary Assistance for Needy Families recipients, and to credit the federal account $8.9 million. Rather, an entry was made for $2.5 million and $4.9 million. The program accountant had included $5.9 million in non-TANF revenue for April 2001 on the spreadsheet twice. The accountant believed the entry had not been made to the accounting system and in January 2002 posted the entry again; the second entry was reversed when questioned by the auditor and the spreadsheet was found to be incorrect. The cash variance also includes $1 million in interest income, which should be used for Child Support Enforcement program expenditures. In addition, a federally recommended adjustment of $3.4 million for undistributable amounts was included on federal reports, but was not posted to the accounting system. It is not clear to us that this adjustment should be posted. The program accountant does not believe that the federal audit adjustment should be posted, but could not otherwise explain the remaining variance.

The Department has not yet reconciled MFASIS to its internal computer system, NECSES, as recommended by a May 2001 federal audit. Reconciliation is critical because NECSES calculates the Child Support Enforcement program award amount, which is based on the federal share of child support collections, and which is transferred from the child support collections and distributions accounts to Child Support Enforcement program accounts for administrative expenditures. In addition, such reconciliations might explain the remaining variance.

Recommendation:

We recommend that Department of Human Services personnel:

* develop controls to ensure accurate cash balances,
* reconcile MFASIS and NECSES,

* thoroughly research adjusting entries prior to submission,
* prepare additional entries to properly record the state and federal shares of Child Support collections ($2.1 million and $4 million respectively) for the last four months of fiscal 2001, and
* account for program income in one of the existing Child Support Enforcement program accounts.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Bean, 287-1869

The Department of Human Services concurs with the above findings. DHS is currently developing a reconciliation of the MFASIS warehouse accounts to be compared to the New England Child Support Enforcement System (NECSES) account. This reconciliation is expected to clearly present the financial information needed to ensure consistency and accuracy. The Department anticipates the reconciliation to be complete by June 30, 2002.

Adjusting journal entries will be prepared and completed by March 31, 2002 to properly record the State and Federal shares of TANF child support.

(01-39) Division of Children & Families
Division of Financial Services

CFDA#: 93.563 **Questioned Cost:** $673,369

U.S. Department of Health and Human Services
Federal Award Number: Various

Finding: Excess federal program funds to pass-through agency

The Department of Human Services (DHS) transferred Child Support Enforcement program funds to the Department of Attorney General in excess of program expenditures. DHS provided $1,305,175 in Child Support Enforcement funds to the Attorney General by reducing a DHS program revenue account, and by increasing the Attorney General's program revenue account by $1,234,000 and by increasing an unrelated program revenue account of the Attorney General by $71,175. The revenue transfers were based on funds requested by the Attorney General, who recorded federal expenditures of $1,271,193 in accounts designated for the Child Support Enforcement program.

Department of Human Services

Actual program expenditures were $957,282, which was calculated by DHS based on information provided by the Attorney General. The federal portion was 66% or $631,806, which is $673,369 lower than the $1,305,175 in federal funds that was transferred. Although DHS reported only actual expenditures to the federal agency, the Department transferred additional program funds to the Attorney General, who then used the funds for other programs. We question $673,369, the additional amount transferred.

This problem appeared to be caused or compounded by inadequate controls over accounting, failure to reconcile cash accounts, and an incomplete understanding of the process.

Recommendation:

We recommend that the Department of Human Services transfer Child Support Enforcement program funds to the Department of Attorney General only to the extent of program expenditures. We recommend that the Department of Attorney General charge to program expenditure accounts only those costs related to the program.

Auditee Response/Corrective Action Plan:

Attorney General's Response:

Contact Person: Sandra Harper, 626-8800

The Office of the Attorney General supplies to DHS information that is used by DHS for cost allocation purposes, it is the DHS that collects and compiles that data, not the Office of the Attorney General. Because our attorneys are involved in a myriad of activities, they complete time studies for DHS. Based on this information, DHS both determines and creates their cost allocation plan as to the correct source of federal money. The Office of the Attorney General's federal account contains all the possible federal funding sources. We do not have the information available to us nor was the program set up by the legislature to charge program expenditure accounts only by those costs related to specific federal programs. Therefore, we rely on the DHS to supply us with this information when they transfer the money. The Office of the Attorney General will report total expenditures by federal program in accordance with the information supplied by DHS.

Department of Human Services Response:

Contact Person: John Mower

Department of Human Services

From the perspective of the Department of Human Services, DHS should routinely transfer cash in support of budgeted transfers to the Office of the Attorney General based on the projected Legal Services Cost Allocation Schedule. When DHS transfers cash to The Office of the Attorney General they do not know the specific funding source because the source of funds transferred is determined by DHS. Therefore, to reflect accurately the funds transferred, DHS will supply the source of funds to the Office of the Attorney General's and ensure transfers come from all Programs and not mainly Child Support Enforcement.

(01-40) Bureau of Health

Supplemental Food Program for Women, Infants and Children
CFDA#: 10.557 **Questioned Cost:** None

U.S. Department of Agriculture
Federal Program Number: 4ME700701

Finding: Noncompliance with cash management requirements

The Department of Human Services did not minimize the time elapsed between drawdown of federal funds and the expenditure of those funds for the Supplemental Food Program for Women, Infants and Children. Most of the program funds are disbursed to program participants using food instruments, which are redeemed by the Financial Services Management Corporation (FSMC) on behalf of the State. FSMC had excess State funds on hand. Its average daily cash balance during the fiscal year was $353,015, while its 3-day average cash needs were $120,041.

Title 31 CFR 205.7 requires that "a State and a Federal agency shall minimize the time elapsing between the transfer of funds from the United States Treasury and the pay out of funds for program purposes by a State, whether the transfer occurs before or after the pay out."

Recommendation:

We recommend that the Department minimize federal cash on hand, in compliance with 31 CFR.

Auditee Response/Corrective Action Plan:

Contact Person: Sandra Davidson, 287-1904

The cash was drawn down bi-weekly at $310,000. As of February, 2002 we have been drawing down $180,000 weekly. We don't draw down when we receive a rebate check because these checks average about $300,000.00. The WIC Accountant is making sure the average daily cash on hand is not as high.

(01-41) Bureau of Health

Supplemental Food Program for Women, Infants and Children
CFDA#: 10.557 **Questioned Cost:** None

U.S. Department of Agriculture
Federal Award Number: 4ME700701

Finding: Schedule of Expenditures of Federal Awards not accurate

The Department of Human Services submitted an inaccurate report of federal expenditures to the State Controller for inclusion in the Schedule of Expenditures of Federal Awards. Expenditures reported as $13,946,646 for the Supplemental Food Program for Women, Infants and Children (WIC) for fiscal year 2001 were overstated by $3,613,742.

The reporting inaccuracies were primarily due to the inclusion of $3,801,805 of rebated food costs.

Office of Management and Budget Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires entities expending federal awards to be able to provide reasonable assurance that financial statements are reliable.

Recommendation:

We recommend that WIC program personnel report expenditures net of food rebates.

Auditee Response/Corrective Action Plan:

Contact Person: Ron Bansmer, 287-5342

Department of Human Services

This issue has been discussed by the appropriate staff within the WIC Program. The inclusion of the rebated food costs was done in error. The WIC staff person responsible for completing this report is now aware of the correct procedure to complete the SEFA and will not repeat the mistake.

(01-42) Bureau of Health

Supplemental Food Program for Women, Infants and Children
CFDA#: 10.557 **Questioned Cost:** None

U.S. Department of Agriculture
Federal Award Number: 4ME700701

Finding: Internal controls over cash transfers inadequate

The Department of Human Services does not have sufficient internal control procedures in place, such as periodic reconciliation of bank deposits to the bank statements, to ensure that all deposits for the Supplemental Food Program for Women, Infants and Children (WIC) are credited properly to the State's account. The WIC program receives federal funds to cover the costs of food vouchers via wire transfers which, in turn, are transferred to the bank to be deposited into a separate account for food voucher redemptions. On August 8, 2000 a wire transfer of $310,000 was sent to the bank, but the cash was deposited into the account of another bank customer. Program personnel were not aware of the error, until it was discovered during the audit in January 2002, nearly 18 months later.

Had the other customer not had sufficient funds in his or her account to return the $310,000 when the error was discovered, it is likely that the State of Maine would have been held responsible, and therefore required to reimburse the federal government for the misplaced funds.

The Uniform Commercial Code (UCC), states that a customer who receives a bank statement is legally obligated to examine it and to notify the bank if any discrepancy is found.

Recommendation:

We recommend that the WIC program personnel reconcile bank statements on a monthly basis to ensure that the bank properly records all deposits.

Department of Human Services

Auditee Response/Corrective Action Plan:

Contact Person: Ron Bansmer, 287-5342

The WIC Program agrees with the recommendation. The Program's Financial Manager now reconciles the bank statements on a monthly basis.

(01-43) Bureau of Health

Immunization Grants
CFDA#: 93.268 **Questioned Cost:** None

U.S. Department of Health and Human Services
Federal Award Number: H23/CCH104482-11

Finding: Procedures insufficient to ensure accurate information for inclusion in the Schedule of Expenditures of Federal Awards (Prior Year Finding)

The Department of Human Services submitted inaccurate amounts for inclusion in the Schedule of Expenditures of Federal Awards (SEFA). The value of vaccines distributed, reported as $5,555,882, was understated by $19,600 and program expenditures, reported as $2,379,931, was overstated by $537,724. The SEFA amounts have since been adjusted.

Reporting inaccuracies were attributed to the following:

1) omission of vaccines purchased with federal funds,
2) reporting of vaccine purchase costs as both "program expenditures" and "value of vaccines distributed," and
3) inadequate supervisory oversight of the inventory system.

Office of Management and Budget Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires entities expending federal awards to be able to provide reasonable assurance that financial statements are reliable.

Recommendation:

We recommend that the Department:

1) account for vaccines to identify those purchased with federal and non-federal funds,
2) review accounting for vaccine purchase costs to prevent duplication of SEFA amounts,

3) adopt procedures for supervisory oversight of the inventory system, and
4) exercise greater care in the preparation of amounts used for the SEFA.

Auditee Response/Corrective Action Plan:

Contact Person: Lisa Tuttle, 287-3746

After a review of the information provided by the auditor, the Maine Immunization Program concurs with the finding. As this finding was carried forth from a prior year, we have already begun corrective action. Following is our corrective action plan:

Vaccines that are not purchased directly through the federal software system will be recorded on a separate Vaccine Purchase Tracking Spreadsheet. Vaccine purchases through the federal software system will be reconciled monthly against the spreadsheet.

The amounts prepared for the SEFA will be reviewed by the Assistant Director of the MIP before submission to the State's official accounting records. The review will consist of a series of checks against documents regarding the purchase of vaccines with federal and non-federal funds.

A team of MIP staff will meet monthly to discuss the vaccine management issues and make recommendations for vaccine purchase. During each monthly review, the latest weekly vaccine inventory will be reviewed and a monthly distribution record will be compared to the Vaccine Purchase Tracking Spreadsheet.

(01-44) Bureau of Health

Immunization Grants
CFDA#: 93.268 **Questioned Cost:** None

U.S. Department of Health and Human Services
Federal Award Number: H23/CCH104482-11

Finding: Controls insufficient to ensure compliance with standards for support of salaries and wages (Prior Year Finding)

Five of twenty Immunization Program employees worked on multiple activities or cost objectives but the distribution of their salaries or wages was supported by budgetary estimates rather than by personnel activity reports. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* states:

> Where employees work on multiple activities or cost objectives a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system… or other substitute system has been approved by the cognizant Federal agency.

Recommendation:

We recommend that the Bureau of Health of the Department of Human Services ensure compliance with requirements for employees who work on multiple activities or cost objectives.

Auditee Response/Corrective Action Plan:

Contact Person: Lisa Tuttle, 287-3746

The Maine Immunization Program concurs with the finding. After exploration into a variety of tools to address the issues highlighted in the finding, we have decided to use a simple spreadsheet for employees who work on multiple funding streams to track their percentage of time across multiple funding streams. This spreadsheet will be put into place by June 1, 2002.

(01-45) Office of Substance Abuse

Substance Abuse Prevention and Treatment Block Grant
CFDA#: 93.959 **Questioned Cost:** None

U.S. Department of Health and Human Services
Federal Award Number: 99 B1 ME SAPT-01

Finding: Noncompliance with cash management requirements (Prior Year Finding)

The Office of Substance Abuse did not disburse federal funds as required by the provisions of the State's Cash Management Improvement Act (CMIA) Agreement for the Substance Abuse Block Grant. Failure to abide by provisions of the Agreement may result in earned interest having to be paid to the federal government.

The Agreement requires that funds be disbursed within two days from time of deposit. Time lags attributable to standard accounting system controls (e.g., approvals and authorization), procedures for processing federal cash drawdowns and processing of payment vouchers make it nearly impossible to meet the two day requirement.

The Office of Substance Abuse is currently working on a resolution; however, the condition still existed during the fiscal year subjected to audit.

Recommendation:

We recommend that the Office of Substance Abuse work with the State Treasurer and the State Controller to attain compliance with the CMIA agreement.

Auditee Response/Corrective Action Plan:

Contact Person: Jeffrey Toothaker, 287-6237

The Office of Substance Abuse has met with the representatives of the Treasurer's office to discuss a different method for drawdown of Block Grant funds. We will work with the Controller's office and Treasury to implement a new method by July 1, 2002.

(01-46) Division of Financial Services

Immunization Grants
CFDA#: 93.268 **Questioned Cost:** None

U.S. Department of Health and Human Services
Federal Award Number: H23/CCH104482-11

Finding: Financial report inaccurate (Prior Year Finding)

The Department of Human Services reported encumbrances as outlays on its annual Financial Status Report (SF-269). It also included encumbrances in the base amount to which the indirect cost rate was applied. This overstated expenditures for the period giving the appearance that funds had been spent when they had not been.

Department of Human Services

Special terms and conditions contained in the Notice of Grant Award and in 45 CFR require the Immunization Grants Program to submit an annual SF-269, which reflects costs resulting from obligations of the funding period. Amounts reported as outlays should include only actual costs. Amounts encumbered should be reported as unliquidated obligations.

On the 1999/2000 biennial calendar year financial report, the Department overstated the total expenditure amount by $547,437, understated the unliquidated obligation amount by $388,529, and overstated the total federal share amount and unobligated balance of federal funds by $158,908. On the supporting schedule, the indirect cost base was overstated by $604,626 and the indirect cost amount was overstated by $29,626.

The overstatement of expenditures was caused by including 2001 encumbrances of $567,178, June 30, 2001 lapsed amounts of $8,423 for calendar year 2000, inaccurate 1998 encumbrances with lapsed amounts (to offset amounts used in the 1998 report), and not deducting a CHIP's Program reimbursement entry for $54,754. The Department did not report unliquidated obligations of $388,529.

<u>Recommendation</u>:

We recommend that the Department claim only actual grant expenditures for the reporting period.

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

Contact Person: John Mower, 287-1867

The Immunization Program grant period runs parallel to the calendar year. That, with the fact that the Department of Audit does not schedule their audit of financial statements the same time every year resulted in this finding carried over a two-year period. The first year the FSR was done incorrectly, by picking up costs outside the report period, had to be adjusted the following year. Since the FSR had been finalized the correction was done on a future FSR so the net would be correct. The Account Manager who has taken over the Bur. of Health Accounts in the last year has been instructed to use only costs that are in MFASIS during the grant period and unliquidated obligations that are in MFASIS also. This should be reflected in the FSR to be completed in the 3rd quarter of FY 03 for the Immunization Program's FSR grant year ending 12/31/02.

Department of Human Services

(01-47) Division of Financial Services

Various
CFDA#: Various **Questioned Cost:** None

U.S. Department of Agriculture
U.S. Department of Health and Human Services
Social Security Administration
Federal Award Number: Various

Finding: Procedures do not ensure compliance with the Cash Management Improvement Act (Prior Year Finding)

The Division of Financial Services of the Department of Human Services is not in compliance with the written agreement between the State and the U. S. Secretary of the Treasury that implements the Cash Management Improvement Act.

We tested eight programs for which compliance with the Act was material to the program. Two, Medicaid and Childhood Immunization Grants, were found to be in compliance. The remainder listed below either did not comply or documentation was insufficient for us to determine compliance.

CFDA#	Grant Name
10.557	Supplemental Food Program for Women, Infants and Children
93.558	Temporary Assistance to Needy Families (TANF)
93.575 & 93.596	Child Care and Development Block Grant
93.658	Foster Care IV-E
93.667	Social Services Block Grant
96.001	Social Security Disability Insurance

In addition, we relied on previous year audit testing for two programs that were in noncompliance in the prior year and that saw no change as of the end of this fiscal year:

- Child and Adult Care Food Program, CFDA 10.558
- State Administrative Matching Grants for Food Stamps Program, CFDA 10.561

We noted the following four types of noncompliance:

Department of Human Services

1) Title 31 CFR Section 205.17 (e) requires a State to maintain records supporting the implementation of the Cash Management Improvement Act. The Division of Financial Services did not maintain adequate records to support drawdown amounts for the following four programs:

   - ✍ State Administrative Matching Grants for Food Stamps Program
   - ✍ Temporary Assistance to Needy Families
   - ✍ Child Care and Development Block Grant
   - ✍ Social Services Block Grant

2) The Cash Management Improvement Act Agreement establishes provisions for individual programs to draw federal funds. Although the State's methods did not comply with the Agreement, it did not hold excess federal funds. The following programs did not comply with the funding technique assigned:

   - ✍ Temporary Assistance to Needy Families
     The Agreement states that payments to clients are to be drawn using an average clearance pattern of two days. The Department deposited funds for payments to clients 2-28 days after the corresponding payments to clients.

   - ✍ Child Care Developmental Block Grant
     All administrative costs are to be drawn biweekly for deposit on the average day of clearance for the State payroll (two days after payroll). Instead, the State has been drawing down funds seven days after payroll.

   - ✍ Foster Care
     Direct administrative funds are to be drawn biweekly for deposit on the average day of clearance for the State payroll. Indirect costs are to be drawn once per quarter by applying an approved indirect cost rate to the direct costs of the previous quarter. Instead, the State has drawn funds by calculating the adjusted deficit balance in the accounting system.

   - ✍ Social Security Disability Insurance
     The Agreement states that payments to Service Providers are to be drawn using an average clearance pattern of four days. The Department deposited funds 5-35 days after having made the corresponding payments to service providers.

3) The Department did not minimize time elapsed between the drawdown of federal funds and the expenditure of those funds for the following programs:

   - Supplemental Food Program for Women, Infants and Children

The Agreement states that the State shall request funds such that they are deposited in a State account not more than two days prior to the day the State makes a disbursement to vendors. The Department had excess cash on hand for fiscal year 2001. The average daily cash on hand for the year was $353,015 and the 3-day average of disbursements for the year was $120,041.

* Temporary Assistance to Needy Families

Direct administrative funds are to be drawn biweekly for deposit on the average day of clearance for the State payroll. Cash draws for direct administrative costs of the TANF program were deposited into the State's bank account before the average day of clearance for 5 of 23 drawdowns.

* Child and Adult Care Food Program

The CMIA Agreement requires that federal cash be deposited in a State account no more than four days prior to disbursement. Testing revealed items deposited from six to ten days earlier than disbursement. Note: The 2001 CMIA Agreement was amended for this program to extend the time allowed from two days to four.

4) For the Food Stamps program, the Department could not substantiate how the amounts of two drawdowns tested were determined and had no process in place to draw funds on the approved basis. The Cash Management Improvement Act Agreement requires that 1/6 or 1/7 of the quarterly grant award for administrative costs be drawn biweekly.

Recommendation:

We recommend that the Division of Financial Services of the Department of Human Services, establish and implement procedures to ensure compliance with the Cash Management Improvement Act Agreement. In addition, we recommend that the Department contact the State Treasurer to revise the State Treasury Agreement so that its actual practice will be consistent with the agreed procedures.

Auditee Response/Corrective Action Plan:

Contact Person: John Mower

Department of Human Services

The Department of Human Services did not always comply with the draw down methodologies outlined for the various federal programs in the CMIA agreement. Occasionally funds were drawn down as needed (pre-issuance). Federal Obligations were not to be held until the next scheduled draw down. Plus, staff, who draw down cash and the Account Managers who account for these federal programs were not aware of the many different draw down methodologies for each grant. Three things have occurred to correct this sometime during the 1st quarter of FY 02. 1.) A meeting was held with the Financial Services staff responsible for draw downs to go over the CMIA Agreement and make sure they have an understanding of the different methods. 2.) Some invoice processing like Adult and Child Care Food Program and WIC obligations are scheduled on a certain days instead at random. And 3.) I meet with the Deputy State Treasurer annually before the next CMIA Agreement is to be finalized to go over our draw down methodologies and see if they still fit the cash flow needs of the program and make adjustments as needed.

(01-48) Division of Financial Services

CFDA#: Various Questioned Cost: $1,290,881

U.S. Department of Agriculture
U.S. Department of Health and Human Services
Federal Award Number: Various

Finding: Costs charged twice, cost allocation plan errors not detected (Prior Year Finding)

Controls at the Department of Human Services are inadequate to ensure accurate financial reporting of federal grant award expenditures. The Department included certain expenditures as both direct program costs and as costs to be allocated through its departmental cost allocation plan. As a result, the Department overcharged the federal government $1,290,881 and overstated expenditures by the same amount in State fiscal year 2001. Of the thirteen Federal programs tested, we identified duplicate charges in the following three programs:

CFDA #	Program Name	Amount
10.561	Food Stamps	$496,063
93.658	Foster Care	4,973
93.667	Social Services Block Grant	789,845
		$1,290,881

Additionally, we noted that in a fourth program, Temporary Assistance for Needy Families (TANF), certain amounts were duplicated when reporting a total of $1,710,096. In September 2001 (the final quarter of federal fiscal year 2001), the problem was identified and corrected through a reconciliation process. Inconsistent methods for preparing the quarterly TANF financial reports caused the initial duplications and caused confusion in tracking the expenditures that were reported.

The Department's cost allocation plan included incorrect rates in a significant cost pool within a primary allocation schedule for the cost allocation plan. Additionally, another primary schedule understated one of the allocated cost pools by $1 million, causing another cost pool to be overstated. These misstated cost pools resulted in some programs being overcharged and others undercharged. Pertinent financial reports were not always revised to reflect amendments to cost allocation schedules. In addition, data extracted from the financial accounting system, rather than from allocation schedules, was sometimes used to complete financial reports. This inconsistency contributed to inaccurate reporting and the duplicate recording of expenditures. The Department has experienced staff turnover, which has resulted in a lack of familiarity with the cost allocation plan.

Recommendation:

We recommend that the Department:

1. document its processes so staff will have guidance to follow,
2. develop controls to ensure that costs are not reported both as allocated and as direct costs,
3. direct staff to consistently use the same source of information to complete financial reports, and
4. revise financial reports as allocation schedules are amended.

Auditee Response/Corrective Action Plan:

Contact Person: John Mower

1. *The Division of Financial Services Assistant Director has been tasked to compile a Procedures Manual. The Assistant Director will be working with the Division's Account Managers to document procedures on how to complete various FSRs and some of the reoccurring transactions like journal entries and schedules that have to be done periodically. This will be done over time beginning in the 3rd quarter of FY 02.*

2. *The issue of picking up the same costs as a direct and an allocated cost can be attributed to new staff and errors when not differentiating between what costs are allocated by cost allocation schedules and what are picked up as direct. The procedures manual listed earlier will address this by outlining the difference between the direct and the allocated costs when completing the FSR. Also the new staff member, who oversees the cost allocation plan, will go over these CAP Schedules with each Account Manager so they all have a better understanding of where the figures originate from and make sure other costs are not double counted. This is scheduled to occur over the last two quarters of CY 2002.*

3. *The Account Managers have been re-educated to the fact that they have to use the costs from MFASIS, the state's accounting system for reporting requirements unless otherwise specified. Either the standard computer generated report or a GQL data warehouse query from the same source. MFASIS is the official accounting system record of the State.*

4. *Various accounting staff members compile the cost allocation plan schedules. Occasionally, a revision is made to a schedule, and this change is not communicated to the other accountants that utilize the schedule. Starting during the 1st quarter of FY 2002 all schedules once completed are turned over to the person responsible for CAP. Any changes to schedules have to be coordinated by this person who sees the revised schedule is distributed to the accountants affected by the change.*

(01-49) Community Services Center
Division of Audit

CFDA#: Various **Questioned Cost:** None

U.S. Department of Health and Human Services
Federal Award Number: Various

Finding: Pass-through responsibilities not met: untimely receipt of corrective action plans and untimely issuance of management decisions (Prior Year Finding)

Department of Human Services

The Department of Human Services does not have adequate controls in place to ensure timely receipt of subrecipient corrective action plans and issuance of management decisions. Of the 25 subrecipient audit reports reviewed, two included findings that required corrective action plans. In one instance, the Department did not obtain a corrective action plan on the basis that no further action was required by the subrecipient relating to the audit report finding, but this decision was issued four months after the required deadline. In the second instance, the Department had not begun the process to determine the need for a corrective action plan or issue a management decision within the allowable time frame.

The Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations,* Subpart D Section .400 requires that the entity responsible for making the management decision do so within six months of receipt of the audit report. Additionally, corrective action should be initiated within six months after receipt of the audit report.

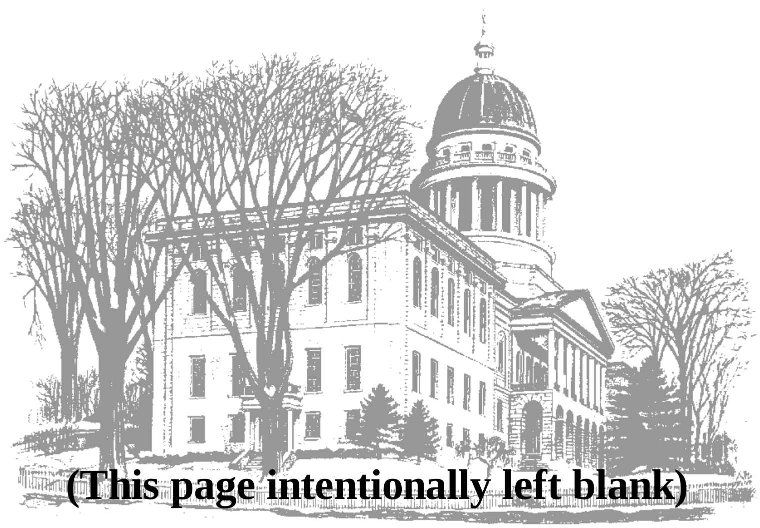
Subrecipients initially submit their audit reports to the Department's Division of Audit, but it is the responsibility of the Community Service Center to address any findings noted within the reports. The Division of Audit does not notify the Community Service Center of audit findings until the Division completes its grant closeout process. This may be eight months from the date that the audit report is received.

<u>Recommendation</u>:

To ensure compliance with OMB Circular A-133, we recommend the Division of Audit implement procedures to advise the Community Services Center of findings that require corrective action plans and management decisions at the time that the Division completes its desk reviews, rather than waiting for the final grant closeout.

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

The Department of Human Services has not yet provided a written response to the finding.



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Department of Labor

(01-50) Bureau of Rehabilitation Services

Rehabilitation Services - Vocational Rehabilitation Grants to States
CFDA#: 84.126 **Questioned Cost:** None

U.S. Department of Education
Federal Award Number: H126A010026D

Finding: Lack of segregation of duties, inadequate oversight

The Department of Labor does not have adequate safeguards in place to segregate program duties or to provide adequate supervision and review. The Department relies on its rehabilitation counselors to interview applicants, determine program eligibility, establish individualized plans for employment, authorize expenditures and initiate and approve payments, as well as to document consideration of comparable services. Counselors also determine when applicant program participation should terminate. In most cases, the Department does not review the work done by the counselors to ensure that all requirements have been satisfied. Supervisory approval of the counselors' decisions is not generally required. Counselors have almost complete discretion over the services agreed to for each program applicant.

The Department of Labor's computer system allows rehabilitation counselors to initiate, authorize and approve payments. The payments are batch processed into the State's accounting system via an interface that receives no additional substantive approval. The system does not limit the expenditure amount, require a second approval or restrict the type of access.

Approximately $7.4 million of the program's $13.1 million of expenditures were processed in this manner.

Title 34 CFR §361.42 requires the State plan to assure that determination for program eligibility is based only on the determination that an applicant has a physical or mental impairment and that the impairment constitutes or results in a substantial impairment to employment.

Recommendation:

We recommend that the Department of Labor:

* establish procedures to ensure independent approvals of expenditures,
* implement computer controls that would limit the ability of a system user to initiate, authorize and approve the payment process, and
* periodically review the work done by the rehabilitation counselors to ensure compliance with program requirements.

Auditee Response/Corrective Action Plan:

Contact Person: William Whitley, Bureau of Rehabilitation Services, 624-5967

We accept the recommendation and have begun to formulate procedures to comply. Some of the things we are going to incorporate into those procedures are: independent verification and approval of payments by personnel other than the counselor; modify the computer system to have a check off to indicate consideration of comparable services; Supervisor review of cases on periodic, random or other basis. This is not complete but will be as soon as we can get it developed. The Supervisor review will help to ensure compliance with program requirements

(01-51) Bureau of Rehabilitation Services

Rehabilitation Services - Vocational Rehabilitation Grants to States
CFDA#: 84.126 **Questioned Cost:** None

U.S. Department of Education
Federal Award Number: H126A010026D

Department of Labor

Finding: Individualized Plan for Employment requirements not met

The Department of Labor did not comply with requirements for Individualized Plans for Employment (IPEs). Title 29 USC §722 requires that there be an individualized plan for employment (IPE) for each program participant. Among other things, the IPE should include: a description of the services required; the participation, if any, of the applicant in paying for the costs of the plan; and the responsibilities of other parties as a result of the applicant having applied for other comparable services, when required. Four of 37 cases that were tested did not have a completed and signed plan on file. Three others had expenditures that did not match the plan. Title 29 USC also requires that the State prepare an IPE in conjunction with the recipient or the recipient's representative, and that the plan be signed by the involved parties. Additionally, State procedures limit expenditures to those identified in the IPE. The expenditures in question otherwise appeared reasonable for the rehabilitation of the clients.

Recommendation:

We recommend that the Department of Labor prepare Individualized Plans for Employment, for all cases that require one, in accordance with applicable requirements and that the Department authorize expenditures only for items and services defined in the plan.

Auditee Response/Corrective Action Plan:

Contact Person: William Whitley, Bureau of Rehabilitation Services, 624-5967

This will be addressed in the reviews to be done by Supervisors. This review will be done to be sure the documentation is done and to provide consistent supervisory guidance to the counselors

(01-52) Bureau of Rehabilitation Services

Rehabilitation Services - Vocational Rehabilitation Grants to States
CFDA#: 84.126 **Questioned Cost:** None

U.S. Department of Education
Federal Award Number: H126A010026D

Finding: Excess federal cash on hand, and program income not properly accounted for

Department of Labor

The Maine Department of Labor did not comply with the Cash Management Improvement Act (CMIA) agreement between the Office of the Treasurer of State and the U.S. Department of Treasury, or with the Office of Management and Budget, *Uniform Administrative Requirements for Grants and Cooperative Agreements to States and Local Governments* ("Common Rule"). The Agreement requires that 1/26th of personal services funds be drawn on the average day of payroll clearance and that cash on hand for non-personal services expenditures not exceed two days. The Department did not follow the approved methods but instead operated on a reimbursement basis by using accumulated program income, approximately $1 million. The Treasurer of State was unaware of the existence of the program income, and consequently did not consider it when calculating interest liability. The Common Rule, Section 21(f)(2) requires that program income be disbursed prior to requesting additional cash payments. Department personnel were not aware of this requirement. For the one quarter tested, the Department had 67 days cash on hand.

<u>Recommendation</u>:

We recommend that the Department:

* expend cash resulting from program income prior to requesting federal funds
* establish internal control procedures to ensure compliance with the requirements of both the CMIA and the Common Rule, and
* provide the program income account coding to the Office of the Treasurer for inclusion in the CMIA interest liability calculation.

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

Contact Person: William Whitley, Bureau of Rehabilitation Services, 624-5967

This recommendation will be adopted with specific suggestion being incorporated into those procedures. We intend to develop procedures which will assist us in complying with the above referenced requirements. Development is not complete but has been initiated. We shall have as one of the goals to reduce the number of days cash on hand until we can, as practicably as possible, be in compliance.

(01-53) Office of Administrative Services

Employment Services Cluster and Unemployment Administration

<u>CFDA</u>#: 17.207
17.801
17.804
17.225

<u>Questioned Cost</u>: None

Department of Labor

U.S. Department of Labor
Federal Award Number: Various

Finding: Compliance with the Cash Management Improvement Act not ensured (Prior Year Finding)

The Department of Labor did not draw down federal funds in accordance with the terms of the Cash Management Improvement Act (CMIA) agreement between the State of Maine and the U.S. Department of Treasury.

1. For the personal services portion of the Employment Services and Unemployment Insurance grants, the Department requested funds prematurely. The CMIA agreement specifies that drawdowns be timed so that transfers coincide with the average day of clearance for the State payroll. Of the 47 payroll draws we reviewed, 30 were drawn at least three days early.

2. We could not correlate drawdown timing with expenditures of funds drawn for those grants requiring compliance with pre-issuance standards. The CMIA agreement specifies that pre-issuance funding for major programs be requested for deposit "in a State account not more than two days prior to the day the State makes a disbursement." According to Department of Labor staff, draws are timed based on available balances, not on immediate cash needs.

3. Of the 74 cash drawdowns we reviewed for the Unemployment Insurance Administration and Employment Services grants, five were not immediately accepted by the State's financial management system. The related funds, averaging $130,000, were unavailable for program needs for periods of between four and nine working days following the draws.

4. Data supplied to the State's CMIA Coordinator to compute interest liabilities for major federal assistance programs could not be verified. The liability calculations were based on the State's accounting system, which was not reconciled to the Department's internal cost accounting and reporting system as of the due date for the CMIA Annual Report.

The CMIA requires that for programs not included in the agreement, "Cash advances to a State shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the State in carrying out" program responsibilities. For the two veterans' programs (Disabled Veterans' Outreach Program and Local Veterans' Employment Representative Program), review of drawdown records indicated that the Department did not meet this requirement.

Department of Labor

Recommendation:

We recommend that the Department of Labor:

* ensure that cash drawdowns are timed in accordance with the CMIA,
* communicate with the appropriate State agencies to ensure that program cash is available immediately upon drawdown, and
* provide verifiable data for use in computing interest liabilities under the CMIA.

Auditee Response/Corrective Action Plan:

Contact Person: Rose M. Bailey, Acting Asst. Director of Fiscal Operations, 287-1276

The Maine Department of Labor Office of Administrative Services will take action with respect to requesting assistance from the State Controller's Office to establish an accrual that would permit check issuance prior to receipt of federal funds. Once this has been accomplished, OAS will discuss the use of an alternative cash drawdown method to be identified in the CMIA agreement.

The current State accounting system requires cash funds be present prior to making disbursements.

Anticipated Implementation Date: July 1, 2002

(01-54) Office of Administrative Services

Various
CFDA#: Various **Questioned Cost:** None

U.S. Department of Labor
Federal Award Number: Various

Department of Labor

Finding: Accounting systems not reconciled (Prior Year Finding)

The Department of Labor does not reconcile on a timely basis federal expenditures recorded on its internal accounting and reporting system (DOLARS) to the statewide accounting system (MFASIS) for various federal programs. All expenditures are made through MFASIS. DOLARS is used to allocate indirect costs and to charge direct costs to the applicable federal grant, as well for federal financial reporting. The Department received 27 federal grants in fiscal year 2001, for a total of $58 million in federal expenditures.

Procedural deficiencies hinder the recording of transactions and the process of reconciliation, and complicate the process of cost allocation.

1. Transactions are separately coded and entered into both the MFASIS and DOLARS systems. Each system has its unique account code structure. DOLARS transactions are entered into approximately 1000 fund ledgers. Due to the complexity of the account code structure, and the duplication of data entry, errors are inevitable.

2. The Department maintains a master file of each employee's hourly rate and benefit package on DOLARS. This master file must be updated whenever an employee's salary or benefits package changes. The Department tracks these changes for approximately 670 employees.

3. Certain prior period adjustments are not made on either system. Department personnel stated that some of these adjustments are due to timing differences; therefore, the adjustments may have cleared in subsequent periods.

According to 29 CFR § 97.20, Standards for Financial Management Systems:

> A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State...must be sufficient to (1) permit preparation of reports required; and (2) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Recommendation:

In order to ensure compliance with federal regulations, accurate financial reporting and effective management review of allocated expenditures, we recommend that the Department reconcile federal revenue and expenditures recorded on DOLARS to those recorded on MFASIS for each federal grant. We recommend that the reconciliation be performed on a monthly basis and prior to preparing any federal or State financial reports.

Department of Labor

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

Contact Person: Rose M. Bailey, Acting Assistant Director of Fiscal Operations, 287-1276

The Maine Department of Labor Office of Administrative Services (OAS) concurs with the finding. The OAS Quality Assurance team has made great strides in accomplishing the initial goal, but has not completed all prior reconciliations and adjusting entries to date. The expectation is that the reconciling items will diminish with the implementation of the Time and Attendance Management System (TAMS), as our reliance on the internal employee master file updates will be eliminated. This will reduce the time necessary to perform the current reconciliations, thus allowing the additional time necessary to address the prior periods.

Anticipated Implementation Date: In FY 2003

(01-55) Office of Administrative Services

Various
<u>CFDA</u>#: Various **<u>Questioned Cost</u>:** None

U.S. Department of Labor
Federal Award Number: Various

<u>Finding</u>: Inadequate suspension and debarment procedures

During the period under audit, the Department of Labor had not established policies and procedures to ensure compliance with suspension and debarment requirements. Title 29 CFR, Part 1470.35, prohibits non federal entities from contracting with parties that are suspended or debarred, or making subawards under covered transactions to them. Contractors receiving individual awards for $100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

Of the six contracts subject to the requirement and selected for testing, none had the required certifications.

No recommendation is made as, subsequent to the year under audit, the Department included the proper suspension and debarment language in the standard contract form located on the Department's web page.

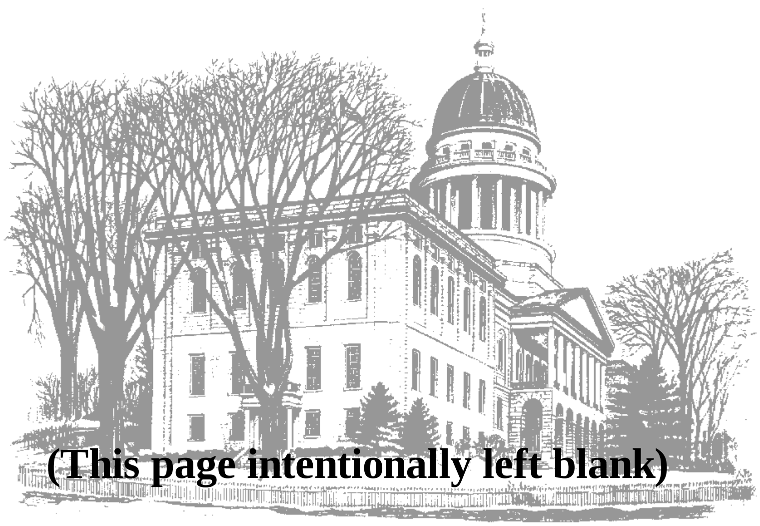
Department of Labor

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

Contact Person: Rose M. Bailey, Acting Assistant Director of Fiscal Operations, 287-1276

The Office of Administrative Services (OAS) acted after the SFY 2000 audit to address this issue. The OAS, in concurrence with the Bureau of Purchases, placed the certification on the MDOL/OAS Web page as a Rider D attachment to the template for all contracts. Further, beginning July 1, 2001, OAS monitored all contracts to ensure the necessary certifications were included as required under Title 29 CFR, Part 1470.35, and the Compliance Supplement of Circular A-133.

The contracts addressed in the current finding were multi-year contracts that were entered into in the 1997, 1998 and 1999 that have not reached their contract end dates. The OAS will submit the necessary forms to the affected vendors to comply with the requirement.



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Department of Public Safety

(01-56) Bureau of Administrative Services

State Cemetery Grants
CFDA#: 64.203 **Questioned Cost:** None

U.S. Department of Veterans Affairs
Federal Award Number: ME-98-06

Finding: Schedule of Expenditures of Federal Awards incorrect (Prior Year Finding)

The Department of Public Safety presented, on behalf of the Department of Defense, Veterans and Emergency Management, incorrect data to the Bureau of Accounts and Control for the 2001 Schedule of Federal Awards (SEFA). Expenditures of $3,772,191 made for program CFDA #64.203 (State Cemetery Grants) were attributed to program CFDA# 64.101 (Burial Expenses Allowance for Veterans).

Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* requires entities expending federal awards to be able to provide reasonable assurance that the financial statements are reliable.

Recommendation:

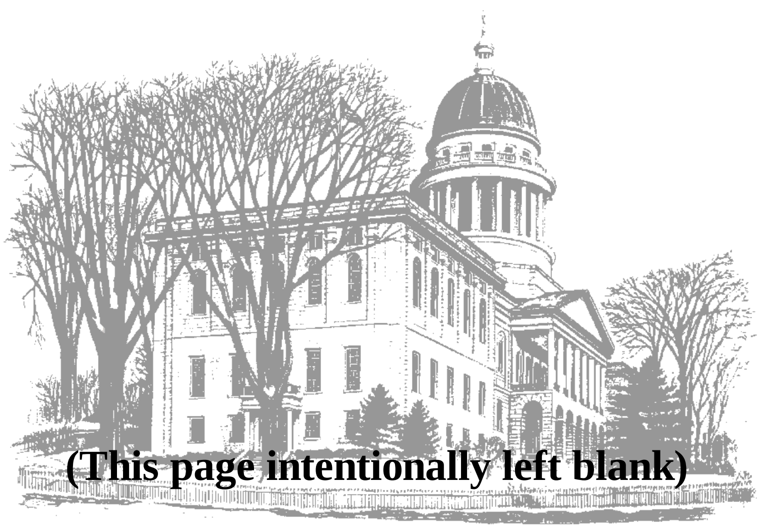
We recommend that the Department of Public Safety develop and implement procedures to ensure that compete and accurate information is used in preparing the SEFA.

Auditee Response/Corrective Action Plan:

Contact Person: Roberta Creamer, 626-4493

The Department of Defense, Veterans and Emergency Management is aware that the SEFA reporting is a difficult report to complete with all the federal grant funding that comes through the Department and a conscious effort is being made to compile the funding sources.

The staff accountant for the department is in the process of compiling the grant funding sources and should have completed this listing by June 30, 2002. As new funding sources are ascertained, they will be added to the list. The yearly report for SEFA will be continuously updated to capture current dollars for reporting.



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Department of Transportation

(01-57) Project Development

Highway Planning and Construction
CFDA#: 20.205 **Questioned Cost:** $13,119

U.S. Department of Transportation
Federal Award Number: Various

Finding: Inadequate oversight of Locally Administered Projects (Prior Year Finding)

The Maine Department of Transportation does not have adequate internal controls in place to ensure that Locally Administered Projects are administered in accordance with Federal Highway Administration (FHWA) or local agreements.

Title 23 United States Code § 106 allows the State of Maine to assume responsibilities for design, specifications, estimates, right-of-way certification statements, contract awards, and inspection/final acceptance of the vast majority of federal-aid projects.

Problems with administration and oversight of locally administered projects include:

1. Local project agreements referred to audit requirements being met "in accordance with the provisions of OMB Circular A-128." This circular is no longer in effect. The agreements should have referred to OMB Circular A-133.

2. One project was funded by the Federal Highway Administration at a participation rate of 80%. The local project agreement stated that the project was funded at a federal participation rate of 80.28%. Payments were correctly made based on the FHWA participation rate.

3. Three projects had State-paid Department of Transportation payroll, travel and overhead expenditures charged to them but the State had no budgeted participation in the project's costs. Per discussions with project managers, the procedure to reimburse the State for expenditures for oversight of the project is to withhold the charges from the final federal payment amount to the municipality and convert that amount in the State's and the Department's accounting systems to show as local participation. This procedure is not outlined in any of the contracts.

4. One project was funded by the FWHA at a participation rate of 60%. The local project agreement stated that the project was funded at a federal participation rate of 59%. The correct rate appeared to be 59%. No payments had been made on this project at the time of audit.

5. Payments made to a town on one project did not include a deduction of 20% for the local share or 5% for retention per the local project contract. For failure to deduct the local share, the town was overpaid $13,119, FHWA was overcharged by $13,119 and the project was overcharged by $16,398. No payment instructions were provided by the project manager on the invoice to deduct the local share or the retention percentage. Payments made on a second project did deduct the 20% local share, but failed to deduct the 5% retention per the local project contract. We question $13,119, the amount overcharged to FHWA.

6. Maine Department of Transportation does not have procedures in place to ensure that local agencies review contractor compliance with prevailing wage requirements of the Davis-Bacon Act.

Recommendation:

We recommend that the Maine Department of Transportation:

1. update local project agreements to refer to A-133 instead of A-128,
2. include a review of local project contracts in written procedures,
3. clarify the payment process in local project contracts,
4. include in local project contracts procedures for reimbursing the Department for any amount due, and
5. establish procedures to ensure that locally administered projects are in compliance with requirements of the Davis-Bacon Act.

Auditee Response/Corrective Action Plan:

Contact Person: Steve Harris, 624-3329

We concur with the finding. In FY 2001 MDOT established and filled the position of Local Project Coordinator. The incumbent in the position was involved with this audit and its findings. Training for MDOT Project Managers is scheduled for March 2002 and for municipal officials in April/May 2002 in regards to the administration of MDOT projects. Renovating the Local Project Agreement and updating its content as recommended by past and current audit findings is being undertaken.

All initiatives and procedures will be in place by July 2002.

Department of Transportation

(01-58) Project Development

Highway Planning and Construction
CFDA#: 20.205 **Questioned Cost:** None

U.S. Department of Transportation
Federal Award Number: Various

Finding: Internal controls regarding Davis Bacon Act not followed

The Department of Transportation did not always follow established internal control procedures related to compliance with the federal Davis Bacon Act. In order to ensure contractors' compliance with Davis Bacon prevailing wage provisions, the Department requires construction managers to maintain a contract file with copies of certified payroll reports from contractors and subcontractors. The construction manager is required to review and sign the payroll report to indicate his or her agreement that the prevailing pay rates have been used. The Department of also requires contractors to submit a signed Statement of Compliance, acknowledging their obligation to comply with all applicable State and federal regulations, including the Davis Bacon Act.

We noted several instances where certified payroll reports were not signed by the construction manager and two instances where no certified payroll reports were found in the contract file. In addition, we did not find a signed Statement of Compliance from the contractor in the file in all cases. In one case where no certified payrolls nor signed Statement of Compliance were obtained, the contractor did not use the appropriate wage rates.

Recommendation:

We recommend that the Department of Transportation require that established internal control procedures be followed. Certified payroll reports and a signed Statement of Compliance should be obtained from all contractors. Payroll reports should be reviewed for use of prevailing wage rates, and reports should be signed to indicate agreement that appropriate pay rates were used. We further recommend that the Department take appropriate action regarding the contractor who is not in compliance.

Auditee Response/Corrective Action Plan:

Contact Person: Bruce Carter, 624-3430

Department of Transportation

We concur with the finding. In the Bureau of Project Development Reorganization, the responsibility for monitoring this function was realigned from the Construction division to the Contracts Section. In the process, the responsible individual (now in the Regional Program) attempted to continue these duties in addition to the work that constituted a new position. As a result, the function suffered. We have taken the steps to remedy the situation by assigning the DEB and Labor Compliance functions to a position in the Contracts Section.

Office of the Treasurer of State

(01-59) Office of the Treasurer of State

Various
CFDA#: Various **Questioned Cost:** None

U.S. Department of Treasury
Federal Award Number: Various

Finding: Internal controls not adequate to ensure compliance with Cash Management Improvement Act (Prior Year Finding)

The Office of the Treasurer of State did not satisfy all administrative requirements of the Cash Management Improvement Act (CMIA). The Office is responsible for administering the Act for the State of Maine. These responsibilities include negotiating the annual CMIA Agreement between the State and the U.S. Department of the Treasury, preparing the CMIA Annual Report and monitoring State agency compliance with CMIA provisions. The Office did not maintain sufficient contact with agencies responsible for administering programs under the CMIA to allow the State's assigned CMIA coordinator to monitor compliance, gather data, and communicate information regarding appropriate and compliant cash management for programs subject to the agreement.

We noted the following instances of inadequate internal control or of noncompliance:

* The CMIA coordinator did not periodically review agency cash management records for programs with interest-neutral drawdown methods, as required by the *CMIA Policy and Procedures Manual*. The Office did review records relating to pre-issuance funded program components.

* The Departments of Labor, Human Services, Education, Behavioral and Developmental Services, Transportation, and Defense, Veterans, and Emergency Management did not comply with drawdown procedures outlined in the Treasury State Agreement for certain programs included in the Agreement. The Office of the Treasurer did not take action to change the drawdown procedures for these departments or to report an interest accrual on all instances of premature drawdowns. Interest accruals were calculated only if the drawdowns were made on a pre-issuance basis or when reported as exceptions by State agencies.

* Interest calculations for four programs netted negative cash balances against positive ones, resulting in lower than actual reported liabilities.

Office of the Treasurer of State

Recommendation:

We recommend that the Office of the Treasurer monitor agencies' compliance with drawdown methods and ensure that all agencies provide sufficient information to provide an accurate interest liability calculation. We recommend that the Office continue working towards amending the Agreement so that for any given drawdown, the specified funding technique is compatible with the purpose of the draw. We recommend that interest calculations include only periods with positive cash balances.

Auditee Response/Corrective Action Plan:

Contact Person: Holly Maffei, 624-7477

The Treasurer's Office will take the following steps during FY 2003:

Due to conflicting responsibilities of the Treasurer's Office, it has been difficult to fulfill its Coordinator responsibilities effectively. Approval has been obtained to use the direct cost allowance permitted under CMIA 31 CFR Part 205 to fund a position dedicated to the coordination of the Treasury-State Agreement (TSA) and to monitor federal drawdown requests. This position will work with State Agencies to educate and gather a better understanding of the processes and required documentation pertaining to the receipt of federal funds.

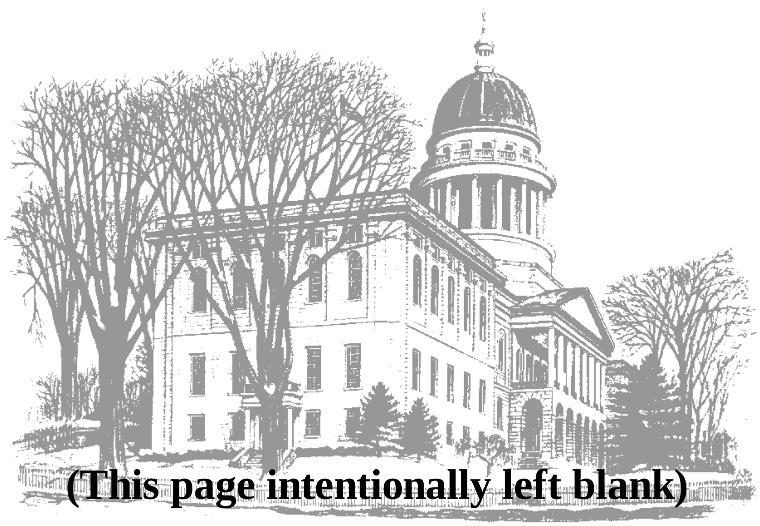
The CMIA Policy and Procedures Manual recommends spot checks and periodic examinations of State Agency reports documenting federal drawdown requests in order to monitor compliance with CMIA. A sampling of such documentation will be scheduled and requested from State Agencies, which shall include the determination of and the amount of federal funds drawn, the date funds are requested and credited to the State's bank account, and the amount and dates of program-related issuance.

In addition, the Treasurer's Office has expressed a desire to work more closely with the Department of Audit to understand the issues raised and the procedures used in the audit of State Agencies. Although sampling may uncover an incidence of noncompliance, the Treasurer's Office is reliant on an Agency's signed Statement of Compliance or their reporting of refunds and/or exceptions in the calculation of the liability owed to the federal government.

At the beginning of FY 2002, The Treasurer's Office began providing a complete copy of the TSA to each State Agency that is guided by the TSA terms and conditions. The designated Agency representative is requested to sign acknowledging receipt of the contract, understanding and agreement to the terms and drawdown methodology cited, and agreement to communicate any changes that would affect the TSA to the Treasurer's Office.

Office of the Treasurer of State

The purpose of the Cash Management Improvement Act is to promote the efficient transfer of Federal funds between the Federal Government and States. CMIA permits the accrual of a federal liability to a State when the federal obligational authority is late in transferring funds to a State that has paid out funds for program purposes and has requested reimbursement in accordance with the TSA. The State has opted to take the more conservative approach with its preissuance interest liability and has consistently ignored any instances of overall federal- liability-to-State in the filing of its Annual Report. In following the format used in previous years, the Office did include monthly negative cash balances against monthly positive cash balances within individual federal programs. The Treasurer's Office, in cooperation with the Bureau of Accounts and Control, has worked to transition State Agencies to interest neutral draw down techniques in the receipt of federal funds, rather than the federal liability-incurring technique of preissuance. Since most Agencies are transitioning to interest neutral drawdown techniques, this should not be an issue in the future.



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STATE OF MAINE
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2001

Finding Number: 01-01
Department of Administrative and Financial Services
Bureau of Accounts and Control
Contact Person: Carol Whitney

Finding: Inadequate controls to ensure complete and accurate recording of general fixed assets

Corrective Action Plan:

Clear guidance is given to agencies via the Fixed Assets Policy Manual (last updated 1/10/02) distributed to each Agency's Property Officer and in electronic format on the Bureau's home page. A Bureau Senior Accountant is assigned active oversight of Fixed Assets policy compliance. Within the Finding's list of activities, the Bureau accountant is responsible for 2,5,7, and 8, with assistance offered for 6.

It is the intent of Bureau management to maintain Agency compliance as stated in State Audit's Recommendation section.

Finding Number: 01-02
Department of Administrative and Financial Services
Bureau of Accounts and Control
Division of Financial and Personnel Services
Bureau of General Services
Contact Person: Kirsten Figueroa

Finding: Inadequate internal control over lease transactions identification, classification, and reporting (Prior Year Finding)

Corrective Action Plan:

We agree with the recommendation to refine control and review procedures used to record and disclose capital and operating lease transactions.

DFPS has created and is using a database that automates the management, classification, accounting, and billing of the Lease Property Fund. This database has helped tremendously to organize data in a way that helps us evaluate which leases are capital and which are operating. Once that determination is made, we then record the leases appropriately on the financial statements. It should be noted that DFPS does report all leasing arrangements. There has been confusion in the Bureau of General Services Real Property Leasing Program regarding the

proper application of GAAP instructions, particularly in the area of Fair Market Value. Because Fair Market Value is such a critical factor in determining whether a lease is capital or operating, it is important that these values be accurate. DFPS has taken on the task to reevaluate the Fair Market Values assigned by BGS for all current lease arrangements. This work is currently being conducted and it is our intention to finish the work in time for the fiscal year 2002 audit.

Work on this database is ongoing. As we understand the GAAP instructions better, we improve the database. We expect to be in compliance for the FY02 audit.

Finding Number: 01-03
Department of Transportation
Bureau of Freight Transportation
Contact Person: Robert Nason

Finding: Assets not recorded on State records

Corrective Action Plan:

We concur. The asset will be added and accounting entries will be made to correct the book value of the asset. The corrective action plan will be completed by June 20, 2002.

Finding Number: 01-04
Department of Attorney General
Contact Person: Sandra Harper
Department of Human Services
Child Support Enforcement
Contact Person: John Mower

Finding: Excess federal program funds to pass-through agency

Corrective Action Plan:

Attorney General's Response:
The Office of the Attorney General supplies to DHS information that is used by DHS for cost allocation purposes, it is the DHS that collects and compiles that data, not the Office of the Attorney General. Because our attorneys are involved in a myriad of activities, they complete time studies for DHS. Based on this information, DHS both determines and creates their cost allocation plan as to the correct source of federal money. The Office of the Attorney General's federal account contains all the possible federal funding sources. We do not have the information available to us nor was the program set up by the legislature to charge program expenditure accounts only by those costs related to specific federal programs. Therefore, we rely on the DHS to supply us with this information when they transfer the money. The Office of the Attorney General will report total expenditures by federal program in accordance with the information supplied by DHS.

Department of Human Services Response:
From the perspective of the Department of Human Services, DHS should routinely transfer cash in support of budgeted transfers to the Office of the Attorney General based on the projected Legal Services Cost Allocation Schedule. When DHS transfers cash to The Office of the Attorney General they do not know the specific funding source because the source of funds transferred is determined by DHS. Therefore, to reflect accurately the funds transferred, DHS will supply the source of funds to the Office of the Attorney General's and ensure transfers come from all Programs and not mainly Child Support Enforcement

Finding Number: 01-05
Department of Behavioral and Developmental Services
Office of Substance Abuse
Contact Person: Jeffrey Toothaker

Finding: Obligation and spending of grant award beyond allowable period

Corrective Action Plan:

The requirement to obligate funds within the first year of the grant has been changed to include the entire two years of the grant award, effective with the Federal Fiscal Year 2001 award. The Office will monitor obligations and expenditures to ensure they are made within the proper timeframe.

Finding Number: **01-06**
Department of Conservation
Maine Forest Service
Contact Person: Peter Beringer

Finding: Payroll expense not allocated

Corrective Action Plan:

We concur with this finding. Corrective action has been taken. Corrective action completed 7/1/2001.

Finding Number: 01-07
Department of Defense, Veterans and Emergency Management
Military Bureau
Contact Person: Linda Gosselin

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

Corrective Action Plan:

The Military Bureau has created an accounting system using the State MFASIS system to better manage the flow of cash that requires reimbursement. A report is generated on a weekly basis from the MFASIS Warehouse system and sent to the USPFO to reimburse the state for federal expenses, thereby eliminating the need for cash advances.

The Military Bureau plans to separate the Air Guard and Army Guard accounts effective July 1, 2002. This will assist each entity to better manage Personnel Services, All Other, and Capital accounts as well as improve overall cash management.

Finding Number: 01-08
Department of Defense, Veterans and Emergency Management
Military Bureau
Contact Person: Linda Gosselin

Finding: Lack of controls to ensure matching requirements are met

Corrective Action Plan:

The Military Bureau will maintain a spreadsheet to track all match expenditures spent in a given fiscal year for all expenditures made including personnel match expenditures in the format required.

The Military Bureau has implemented a new account code system that will identify all match payments made for each appendix of the Military Bureau's Cooperative Agreement. The only exception is the State Payroll system, which does not allow us to code each employee according to our new coding structure. The Military Bureau will provide all available match information paid in a given fiscal year from all Appendices.

Finding Number: 01-09
Department of Defense, Veterans and Emergency Management
Military Bureau
Contact Person: Robert St.Pierre

Finding: Inadequate internal control over cash management at the Loring Rebuild Facility, and noncompliance with cash management requirements

Corrective Action Plan:

Effective October 2001, the facility stopped requesting advanced payments. All requests for reimbursement are processed after the State has made the expenditures.

Finding Number: 01-10
Department of Education
Bureau of Finance
Contact Person: Lesleyann Clark

Finding: Controls insufficient to ensure compliance with federal cash management requirements (Prior Year Finding)

Corrective Action Plan:

After the finding for FY'00 was provided to us in early FY'02, we arranged with Accounts & Control to have the accounts that "house" three of the major programs placed on estimated revenue. This allows us to process expenditures without having the actual cash, and we can draw down after the payments have gone out so the cash is in place when the checks are presented for disbursement at the bank. With this in place, the following programs should be included: 84.011, 84.027, 10.553, 10.555, 10.556, and 10.559. For FY'03, we have arranged with Accounts & Control to have 84.048 (housed in account 013-08) to be set up with estimated revenue. For 84.173, we will continue to watch allotment when it is time to order cash for a manifest. We have no control over when a subrecipient cashes their check, which we believe was the problem with the 84.173 program.

Finding Number: 01-11
Department of Education
Learning Systems Team
Contact Person: Lesleyann Clark

Finding: Insufficient controls over compliance with suspension and debarment requirements (Prior Year Finding)

Corrective Action Plan:

The Department now requires all subrecipients receiving federal financial assistance to submit annual certifications with each application. Target completion date is fiscal year 2002.

Finding Number: 01-12
Department of Education
Support Systems Team
Contact Person: Lesleyann Clark

Finding: Pass-through entity responsibilities not met (Prior Year Finding)

<u>Corrective Action Plan</u>:

The federal award information is now required on all letters of award, contracts or grant award forms, and RFP's when services/grants are requested from federal funds. The Department's internal Agreement Review Team (ART) is ensuring that this information is included on all of these documents. Target completion date is fiscal year 2002.

Finding Number: 01-13
Department of Education
Support Systems Team
Contact Person: Lesleyann Clark

<u>Finding</u>: Inadequate internal controls and compliance over monitoring of subrecipient cash balances (Prior Year Finding)

<u>Corrective Action Plan:</u>

1. To eliminate payments not being withheld to subrecipients and to ensure funds are recovered, Finance will no longer send Program managers Excess Cash Resolution Forms for their approval. Finance will retain the forms and make the decision to pay or withhold. Copies of the forms will be sent to Program Accountants and/or Program Managers for their information only.

2. Finance will use a checklist for logging in e-mailed reports to ensure reports with original signatures are received. If they are not, subrecipients will be contacted.

3. It appears that some subrecipients delay submitting revised reports until the next cycle. Finance will begin to maintain a list of revised reports required, and will inform the contact person that a revised report is due within five working days. Funds will be withheld for failure to comply.

All of these new changes that directly affect subrecipients will be spelled out in the EFU-415 instructions on the Department's web site. In addition, the form itself will state that there are new "developments" and all subrecipients should review and comply with these instructions. Target completion date is fiscal year 2003.

Finding Number: 01-14
Department of Education
Special Services Team
Contact Person: John Kierstead

<u>Finding</u>: Controls over earmarking requirements not sufficient to ensure compliance

<u>Corrective Action Plan</u>:

The Department will distribute all funds to LEA's earmarked in the notification of grant award. Although the LEA's did not directly receive the $165,080, they indirectly received an adjustment since tuition to private schools was reduced by this amount in the rate-setting process on the EF-S-10. That is, any receipt of federal funds is deducted in the rate-setting process resulting in a direct benefit to LEA's. Therefore, the Department believes that the questioned costs should be dropped. Special Education students did get the benefit of these funds in the long run and that's the purpose of the program. Target completion date is fiscal year 2002.

Finding Number: 01-15
Department of Education
Special Services Team
Contact Person: Thomas Coulombe & John Kierstead

<u>Finding</u>: Controls do not ensure compliance with maintenance of effort requirements (Prior Year Finding)

<u>Corrective Action Plan</u>:

The Office of Special Services maintains a printout comparing LEAs' current period budgeted expenditures to prior year actual expenditures. A visual analysis of the printout is conducted by program staff. Follow up with the LEAs' to review budgeted differences less than the prior year actual was not conducted due to the lack of personnel, time, and incomplete data.

The Department will implement the following corrective action:

* Send notification to all LEAs that they have not met the maintenance of effort requirements under IDEA 97 and require them to explain the reason for the discrepancy. At that same time, they will also be notified of the non-supplanting requirement of IDEA 97.

* After the LEA responds, the Department will review responses and follow up with the LEA. A record of all notifications will be maintained by the Office of Special Services.

Target completion date is fiscal year 2003.

Finding Number: 01-16
Department of Environmental Protection
Bureau of Air Quality
Bureau of Land and Water Quality
Bureau of Remediation and Waste Management
Contact Person: George Viles

Finding: Inadequate internal controls and compliance over cash management

Corrective Action Plan:

The Department has implemented procedures to comply with Federal cash management requirements. Action implemented: monitor cash availability more closely, provided improved cash control procedures in concert with the Bureau of Accounts and Control.

Completion date: completed May 2002.

Finding Number: 01-17
Department of Environmental Protection
Bureau of Air Quality
Bureau of Land and Water Quality
Bureau of Remediation and Waste Management
Contact Person: George Viles, Rich Limouze, Paul Dutram, and David Maxwell

Finding: Controls ineffective to ensure compliance with payroll certification requirement

Corrective Action Plan:

With the coming State FY2003, we will examine where this certification is appropriate and provide the certifications as applicable.

As a matter of operations, the PPG (Performance Partnership Grant) is generally one source of program funding complementing other General Funds, Other Special Revenue Funds, and even other Federal Funds. DEP programs are integrated in that they reflect the complex and interwoven issues of environmental protection; no issue is just air, just water, or just hazardous waste. The very intent of the PPG was to provide the States with flexible resources, which meet the outcome objectives, agreed upon in the Performance Partnership Agreement by the State and EPA.

The language of A-87 addresses narrower Federal awards and cost objectives, and is not consistent with the integration of effort in the Performance Partnership Agreement and the Performance Partnership Grant.

Corrective action: utilizing the Time and Attendance Management System, management reports, and the requirements of EPA Region I, determine affected employees and have certification prepared and submitted.

Anticipated completion date: ongoing activity.

Finding Number: 01-18
Department of Environmental Protection
Bureau of Land and Water Quality
Contact Person: Norman Marcotte and Tony St.Peter

<u>Finding</u>: Inadequate controls over subrecipient monitoring responsibilities

<u>Corrective Action Plan</u>:

The Bureau of Land and Water Quality will carry out the audit recommendations as applicable in FY2003. It is noted that there are minimum thresholds for audits. It is also noted that the Non-Point Source program tracks federal expenditures through semiannual progress reports and subrecipients are not released of their responsibilities under the contract/grant award prior to the Bureau's receipt of a final project report.

Action planned: with the Bureau Administrative Unit and the Office of Management Services, determine cost effective approach to compliance and the recipients affected, then implement compliance procedures through the contracts and grants involved. The approach will include monitoring and review procedures.

Completion date: ongoing.

Finding Number: 01-19
Department of Environmental Protection
Bureau of Land and Water Quality
Contact Person: Norman Marcotte and Tony St.Peter

<u>Finding</u>: No controls over suspension and debarment requirements

<u>Corrective Action Plan</u>:

The Bureau of Land and Water Quality will implement the recommendation in FY2003.

Corrective action: Clearly require certification from subrecipients in the contract or grant language and disburse no Federal funds until the certification is received.

Completion date: ongoing.

Finding Number: 01-20
Department of Environmental Protection
Bureau of Land and Water Quality
Contact Person: Norman Marcotte and Tony St.Peter

<u>Finding</u>: No controls over inclusion of federal procurement requirements in subrecipient contracts

<u>Corrective Action Plan</u>:

The Bureau of Land and Water Quality will implement the recommendations in FY 2003.

Action Planned: Clearly include federal procurement requirements in contract and grant language and monitor compliance.

Completion date: ongoing process.

Finding Number: 01-21
Department of Human Services
Bureau of Child and Family Services
Contact Person: Carol Bean

<u>Finding</u>: Inaccurate federal financial reporting (Prior Year Finding)

<u>Corrective Action Plan</u>:

DHS concurs with the recommendations of the above finding. The Department currently conducts an annual reconciliation for the TANF Block Grant at the close of the Federal grant year. Adjustments were made accordingly based on the annual reconciliation. The annual reconciliation is based upon the federal grant year not the state fiscal year. The Department will reconcile cumulative expenditure amounts on a quarterly basis instead of annually.

The Child Care Development Block Grant receives revenue transfers from the TANF Block Grant. The department will create a procedure to ensure that the reported transfers for CCDF will be based upon the actual expenditures.

DHS does not concur with the finding of overstated State Maintenance of Effort. Audit posted MOE in the amount of $997,535 in the transportation category. MOE was reported correctly for Transportation 9-00 in the amount of $14,942.

DHS also informed Audit that annual reconciliation was in progress at the time of the Audit. $300,000 for PAS Child Care had been corrected as well as $1,302,091 for Systems. These corrections were made to September 2001 Final SF269 for TANF Block Grant.

DHS concurs that there may have been $151,857 in overstated Maintenance of Effort that had not been reconciled as of the audit date but has since been reconciled.

Finding Number: 01-22
Department of Human Services
Bureau of Child and Family Services
Contact Person: Patricia Shaw and Carol Bean

Finding: Inaccurate federal financial reporting (Prior Year Finding)

Corrective Action Plan:

The Department is working to correct reports to bring them in balance with each grant. The Department will maintain supporting documentation for all TANF revenue transfer journals.

Finding Number: 01-23
Department of Human Services
Bureau of Child and Family Services
Contact Person:

Finding: Unallowable payroll costs (Prior Year Finding)

Corrective Action Plan:

The Department of Human Services has not yet provided a written response to the finding.

Finding Number: 01-24
Department of Human Services
Bureau of Child and Family Services
Contact Person: Patricia Shaw

Finding: Costs claimed more than once

Corrective Action Plan:

This was identified and corrected on the 12/31/01 and 3/31/02 reports. An individual in BCFS checks each report before being submitted to Financial Services to be used as reporting information.

Finding Number: 01-25
Department of Human Services
Bureau of Child and Family Services
Contact Person: Patricia Shaw

<u>Finding</u>: Foster Care payment system not reconciled to State's accounting system

<u>Corrective Action Plan</u>:

Last payroll in June (MACWIS) does not show up in MFASIS until July.

Finding Number: 01-26
Department of Human Services
Bureau of Child and Family Services
Contact Person: Rhonda Parker

<u>Finding</u>: Ineligible participants

<u>Corrective Action Plan</u>:

The policies and controls are in place to determine and establish participant eligibility.

Finding Number: 01-27
Department of Human Services
Bureau of Child and Family Services
Contact Person: Joseph Radziszewski

<u>Finding</u>: Inadequate suspension and debarment procedures

<u>Corrective Action Plan</u>:

The Division of Technology Services will require that all contracts over $100,000 add a suspension & disbarment requirement certifying that the organization and its principals are not suspended or debarred.

Finding Number: 01-28
Department of Human Services
Bureau of Child and Family Services
Contact Person: Rhonda Parker

<u>Finding</u>: Payments made to ineligible recipients and at incorrect rates (Prior Year Finding)

<u>Corrective Action Plan</u>:

The policies and controls are in place to determine and establish participant eligibility.

Finding Number: 01-29
Department of Human Services
Bureau of Child and Family Services
Contact Person: Patricia Shaw

<u>Finding</u>: Unrelated expenditures reported

<u>Corrective Action Plan</u>:

The Department of Financial Services cannot revise reports but will make prior period adjustments.

Finding Number: 01-30
Department of Human Services
Bureau of Child and Family Services
Contact Person: Rhonda Parker

<u>Finding</u>: Payments made to ineligible recipients and at incorrect rates

<u>Corrective Action Plan</u>:

The policies and controls are in place to determine and establish participant eligibility.

Finding Number: 01-31
Department of Human Services
Bureau of Child and Family Services
Contact Person:

<u>Finding</u>: Accuracy of information maintained by the Maine Automated Child and Welfare Information System (MACWIS) not assured

<u>Corrective Action Plan</u>:

The Department of Human Services has not yet provided a written response to the finding.

Finding Number: 01-32
Department of Human Services
Bureau of Child and Family Services
Contact Person:

<u>Finding</u>: Inadequate controls over accounting and reporting for the Title IV-E Programs

<u>Corrective Action Plan</u>:

The Department of Human Services has not yet provided a written response to the finding.

Finding Number: 01-33
Department of Human Services
Bureau of Child and Family Services
Contact Person: Patricia Shaw

<u>Finding</u>: Lack of supporting documentation for portion of TANF Block Grant transfer, and duplication of expenses claimed for reimbursement (Prior Year Finding)

<u>Corrective Action Plan</u>:

There are quarterly reports, which are being generated. At this time, the Department is comparing the reports for any duplication.

Finding Number: 01-34
Department of Human Services
Bureau of Family Independence
Contact Person: Carol Bean

<u>Finding</u>: No controls in place to ensure payroll costs are properly charged to the federal program; excess payroll costs charged to the Food Stamps program

<u>Corrective Action Plan</u>:

The Department of Human Services' position, as a whole, is the Time and Attendance Management System (TAMS) will allow for employees to record their time worked to the proper program.

DHS does concur that the above five mentioned employees' time worked on other programs needs to be journaled to the proper accounts. DHS will prepare journals to correct the questioned costs.

Finding Number: 01-35
Department of Human Services
Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services
Contact Person: Carol Bean

Finding: Costs reported in excess of allowed federal share

Corrective Action Plan:

The Department of Human Services concurs with the above finding. The department has revised the reported federal amount on the SF-269 to reflect the appropriate recipients share of expenditures. The revision has been made to 3-31-01 Review and Modification SF-269.

Finding Number: 01-36
Department of Human Services
Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services
Contact Person: Carol Bean

Finding: Inadequate controls and procedures to ensure complete and accurate reporting for the Schedule of Expenditures of Federal Awards

Corrective Action Plan:

The Department of Human Services concurs with the above finding. The department reports federal interest earned on Child Support Collections. DHS did not add back in the interest income when preparing the Schedule of Expenditures of Federal Awards. This oversight caused the federal Child Support Administrative expenditures to be understated by the amount of interest income earned. The adjustment has been posted to the 2001 SEFA.

Finding Number: 01-37
Department of Human Services
Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services
Contact Person: Carol Bean

Finding: Inadequate controls and procedures to ensure that only program related payroll costs are charged to the program

Corrective Action Plan:

The Department of Human Services' position, as a whole, is that this certification requirement is being met by an electronic Time & Attendance Management System (TAMS) where employees can go online and enter their time and also their respective programs then forward it to their supervisor with an electronic signature.

DHS does concur with the questioned costs of $73,448. The department will journal the charges to the appropriate accounts and will revise the 396A for quarter ending 3-02.

Finding Number: 01-38
Department of Human Services
Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services
Contact Person: Carol Bean

Finding: Inadequate controls over cash and revenue accounting, errors in supporting schedules, and the State accounting system and the internal computer system not reconciled

Corrective Action Plan:

The Department of Human Services concurs with the above findings. DHS is currently developing a reconciliation of the MFASIS warehouse accounts to be compared to the New England Child Support Enforcement System (NECSES) account. This reconciliation is expected to clearly present the financial information needed to ensure consistency and accuracy. The Department anticipates the reconciliation to be complete by June 30, 2002.

Adjusting journal entries will be prepared and completed by March 31, 2002 to properly record the State and Federal shares of TANF child support.

Finding Number: 01-39
Department of Attorney General
Contact Person: Sandra Harper
Department of Human Services
Division of Children & Families
Division of Financial Services
Contact Person: John Mower

Finding: Excess federal program funds to pass-through agency

<u>Corrective Action Plan</u>:

<u>Attorney General's Response</u>:
The Office of the Attorney General supplies to DHS information that is used by DHS for cost allocation purposes, it is the DHS that collects and compiles that data, not the Office of the Attorney General. Because our attorneys are involved in a myriad of activities, they complete time studies for DHS. Based on this information, DHS both determines and creates their cost allocation plan as to the correct source of federal money. The Office of the Attorney General's federal account contains all the possible federal funding sources. We do not have the information available to us nor was the program set up by the legislature to charge program expenditure accounts only by those costs related to specific federal programs. Therefore, we rely on the DHS to supply us with this information when they transfer the money. The Office of the Attorney General will report total expenditures by federal program in accordance with the information supplied by DHS

<u>Department of Human Services Response</u>:
From the perspective of the Department of Human Services, DHS should routinely transfer cash in support of budgeted transfers to the Office of the Attorney General based on the projected Legal Services Cost Allocation Schedule. When DHS transfers cash to The Office of the Attorney General they do not know the specific funding source because the source of funds transferred is determined by DHS. Therefore, to reflect accurately the funds transferred, DHS will supply the source of funds to the Office of the Attorney General's and ensure transfers come from all Programs and not mainly Child Support Enforcement

Finding Number: 01-40
Department of Human Services
Bureau of Health
Contact Person: Sandra Davidson

<u>Finding</u>: Noncompliance with cash management requirements

<u>Corrective Action Plan</u>:

The cash was drawn down biweekly at $310,000. As of February 2002 we have been drawing down $180,000 weekly. We don't draw down when we receive a rebate check because these checks average about $300,000.00. The WIC Accountant is making sure the average daily cash on hand is not as high.

Finding Number: 01-41
Department of Human Services
Bureau of Health
Contact Person: Ron Bansmer

<u>Finding</u>: Schedule of Expenditures of Federal Awards not accurate

Corrective Action Plan:

This issue has been discussed by the appropriate staff within the WIC Program. The inclusion of the rebated food costs was done in error. The WIC staff person responsible for completing this report is now aware of the correct procedure to complete the SEFA and will not repeat the mistake.

Finding Number: 01-42
Department of Human Services
Bureau of Health
Contact Person: Ron Bansmer

Finding: Internal controls over cash transfers inadequate

Corrective Action Plan:

The WIC Program agrees with the recommendation. The Program's Financial Manager now reconciles the bank statements on a monthly basis.

Finding Number: 01-43
Department of Human Services
Bureau of Health
Contact Person: Lisa Tuttle

Finding: Procedures insufficient to ensure accurate information for inclusion in the Schedule of Expenditures of Federal Awards (Prior Year Finding)

Corrective Action Plan:

After a review of the information provided by the auditor, the Maine Immunization Program concurs with the finding. As this finding was carried forth from a prior year, we have already begun corrective action. Following is our corrective action plan:

Vaccines that are not purchased directly through the federal software system will be recorded on a separate Vaccine Purchase Tracking Spreadsheet. Vaccine purchases through the federal software system will be reconciled monthly against the spreadsheet.

The amounts prepared for the SEFA will be reviewed by the Assistant Director of the MIP before submission to the State's official accounting records. The review will consist of a series of checks against documents regarding the purchase of vaccines with federal and non-federal funds.

A team of MIP staff will meet monthly to discuss the vaccine management issues and make recommendations for vaccine purchase. During each monthly review, the latest weekly vaccine inventory will be reviewed and a monthly distribution record will be compared to the Vaccine Purchase Tracking Spreadsheet.

Finding Number: 01-44
Department of Human Services
Bureau of Health
Contact Person: Lisa Tuttle

Finding: Controls insufficient to ensure compliance with standards for support of salaries and wages (Prior Year Finding)

Corrective Action Plan:

The Maine Immunization Program concurs with the finding. After exploration into a variety of tools to address the issues highlighted in the finding, we have decided to use a simple spreadsheet for employees who work on multiple funding streams to track their percentage of time across multiple funding streams. This spreadsheet will be put into place by June 1, 2002.

Finding Number: 01-45
Department of Human Services
Office of Substance Abuse
Contact Person: Jeffrey Toothaker

Finding: Non-compliance with cash management requirements (Prior Year Finding)

Corrective Action Plan:

The Office of Substance Abuse has met with the representatives of the Treasurer's office to discuss a different method for drawdown of Block Grant funds. We will work with the Controller's office and Treasury to implement a new method by July 1, 2002.

Finding Number: 01-46
Department of Human Services
Division of Financial Services
Contact Person: John Mower

Finding: Financial report inaccurate (Prior Year Finding)

<u>Corrective Action Plan</u>:

The Immunization Program grant period runs parallel to the calendar year. That, with the fact that the Department of Audit does not schedule their audit of financial statements the same time every year resulted in this finding carried over a two-year period. The first year the FSR was done incorrectly, by picking up costs outside the report period, had to be adjusted the following year. Since the FSR had been finalized the correction was done on a future FSR so the net would be correct. The Account Manager who has taken over the Bur. of Health Accounts in the last year has been instructed to use only costs that are in MFASIS during the grant period and unliquidated obligations that are in MFASIS also. This should be reflected in the FSR to be completed in the 3rd quarter of FY 03 for the Immunization Program's FSR grant year ending 12/31/02.

Finding Number: 01-47
Department of Human Services
Division of Financial Services
Contact Person: John Mower

<u>Finding</u>: Procedures do not ensure compliance with the Cash Management Improvement Act (Prior Year Finding)

<u>Corrective Action Plan</u>:

The Department of Human Services did not always comply with the draw down methodologies outlined for the various federal programs in the CMIA agreement. Occasionally funds were drawn down as needed (pre-issuance). Federal Obligations were not to be held until the next scheduled draw down. Plus, staff, who draw down cash and the Account Mangers who account for these federal programs were not aware of the many different drawdown methodologies for each grant. Three things have occurred to correct this sometime during the 1st quarter of FY 02. 1.) A meeting was held with the Financial Services staff responsible for draw downs to go over the CMIA Agreement and make sure they have an understanding of the different methods. 2.) Some invoice processing like Adult and Child Care Food Program and WIC obligations are scheduled on a certain days instead at random. And 3.) I meet with the Deputy State Treasurer annually before the next CMIA Agreement is to be finalized to go over our draw down methodologies and see if they still fit the cash flow needs of the program and make adjustments as needed.

Finding Number: 01-48
Deparmtment of Human Services
Division of Financial Services
Contact Person: John Mower

<u>Finding</u>: Costs charged twice, cost allocation plan errors not detected (Prior Year Finding)

Corrective Action Plan:

1. The Division of Financial Services Assistant Director has been tasked to compile a Procedures Manual. The Assistant Director will be working with the Division's Account Managers to document procedures on how to complete various FSRs and some of the reoccurring transactions like journal entries and schedules that have to be done periodically. This will be done over time beginning in the 3rd quarter of FY 02.

2. The issue of picking up the same costs as a direct and an allocated cost can be contributed to new staff and errors when not differentiating between what costs are allocated by cost allocation schedules and what are picked up as direct. The procedures manual listed earlier will address this by outlining the difference between the direct and the allocated costs when completing the FSR. Also the new staff member, who oversees the cost allocation plan, will go over these CAP Schedules with each Account Manager so they all have a better understanding of where the figures originate from and make sure other costs are not double counted. This is scheduled to occur over the last two quarters of CY 2002.

3. The Account Managers have been re-educated to the fact that they have to use the costs from MFASIS, the state's accounting system for reporting requirements unless otherwise specified. Either the standard computer generated report or a GQL data warehouse query from the same source. MFASIS is the official accounting system record of the State.

4. Various accounting staff members compile the cost allocation plan schedules. Occasionally, a revision is made to a schedule, and this change is not communicated to the other accountants that utilize the schedule. Starting during the 1st quarter of FY 2002 all schedules once completed are turned over to the person responsible for CAP. Any changes to schedules have to be coordinated by this person who sees the revised schedule is distributed to the accountants affected by the change.

Finding Number: 01-49
Department of Human Services
Community Services Center
Division of Audit
Contact Person:

Finding: Pass-through responsibilities not met: untimely receipt of corrective action plans and untimely issuance of management decisions (Prior Year Finding)

Corrective Action Plan:

The Department of Human Services has not yet provided a written response to the finding.

Finding Number: 01-50
Maine Department of Labor
Bureau of Rehabilitation Services
Contact Person: William Whitley

Finding: Lack of segregation of duties, inadequate oversight

Corrective Action Plan:

We accept the recommendation and have begun to formulate procedures to comply. Some of the things we are going to incorporate into those procedures are: independent verification and approval of payments by personnel other than the counselor; modify the computer system to have a check off to indicate consideration of comparable services; Supervisor review of cases on periodic, random or other basis. This is not complete but will be as soon as we can get it developed. The Supervisor review will help to ensure compliance with program requirements

Finding Number: 01-51
Maine Department of Labor
Bureau of Rehabilitation Services
Contact Person: William Whitley

Finding: Individualized Plan for Employment requirements not met

Corrective Action Plan:

This will be addressed in the reviews to be done by Supervisors. This review will be done to be sure the documentation is done and to provide consistent supervisory guidance to the counselors

Finding Number: 01-52
Maine Department of Labor
Bureau of Rehabilitation Services
Contact Person: William Whitley

Finding: Excess federal cash on hand, and program income not properly accounted for

Corrective Action Plan:

This recommendation will be adopted with specific suggestion being incorporated into those procedures. We intend to develop procedures, which will assist us in complying with the above referenced requirements. Development is not complete but has been initiated. We shall have as one of the goals to reduce the number of days' cash on hand until we can, as practicably as possible, be in compliance.

Finding Number: 01-53
Maine Department of Labor
Office of Administrative Services
Contact Person: Rose M. Bailey

__Finding__: Compliance with the Cash Management Improvement Act not ensured (Prior Year Finding)

__Corrective Action Plan__:

The Maine Department of Labor Office of Administrative Services will take action with respect to requesting assistance from the State Controller's Office to establish an accrual that would permit check issuance prior to receipt of federal funds. Once this has been accomplished, OAS will discuss the use of an alternative cash drawdown method to be identified in the CMIA agreement.

The current State accounting system requires cash funds be present prior to making disbursements.

Anticipated Implementation Date: July 1, 2002

Finding Number: 01-54
Maine Department of Labor
Office of Administrative Services
Contact Person: Rose M. Bailey

__Finding__: Accounting systems not reconciled (Prior Year Finding)

__Corrective Action Plan__:

The Maine Department of Labor Office of Administrative Services (OAS) concurs with the finding. The OAS Quality Assurance team has made great strides in accomplishing the initial goal, but has not completed all prior reconciliations and adjusting entries to date. The expectation is that the reconciling items will diminish with the implementation of the Time and Attendance Management System (TAMS), as our reliance on the internal employee master file updates will be eliminated. This will reduce the time necessary to perform the current reconciliations, thus allowing the additional time necessary to address the prior periods.

Anticipated Implementation Date: In FY 2003

Finding Number: 01-55
Maine Department of Labor
Office of Administrative Services
Contact Person: Rose M. Bailey

Finding: Inadequate suspension and debarment procedures

Corrective Action Plan:

The Office of Administrative Services (OAS) acted after the SFY 2000 audit to address this issue. The OAS, in concurrence with the Bureau of Purchases, placed the certification on the MDOL/OAS Web page as a Rider D attachment to the template for all contracts. Further, beginning July 1, 2001, OAS monitored all contracts to ensure the necessary certifications were included as required under Title 29 CFR, Part 1470.35, and the Compliance Supplement of Circular A-133.

The contracts addressed in the current finding were multi-year contracts that were entered into in the 1997, 1998 and 1999 that have not reached their contract end dates. The OAS will submit the necessary forms to the affected vendors to comply with the requirement.

Finding Number: 01-56
Department of Public Safety
Bureau of Administrative Services
Contact Person: Roberta Creamer

Finding: Schedule of Expenditures of Federal Awards incorrect (Prior Year Finding)

Corrective Action Plan:

The Department of Defense, Veterans and Emergency Management is aware that the SEFA reporting is a difficult report to complete with all the federal grant funding that comes through the Department and a conscious effort is being made to compile the funding sources.

The staff accountant for the department is in the process of compiling the grant funding sources and should have completed this listing by June 30, 2002. As new funding sources are ascertained, they will be added to the list. The yearly report for SEFA will be continuously updated to capture current dollars for reporting.

Finding Number: 01-57
Department of Transportation
Project Development
Contact Person: Steve Harris

Finding: Inadequate oversight of Locally Administered Projects (Prior Year Finding)

<u>Corrective Action Plan</u>:

We concur with the finding. In FY 2001 MDOT established and filled the position of Local Project Coordinator. The incumbent in the position was involved with this audit and its findings. Training for MDOT Project Managers is scheduled for March 2002 and for municipal officials in April/May 2002 in regards to the administration of MDOT projects. Renovating the Local Project Agreement and updating its content as recommended by past and current audit findings is being undertaken.

All initiatives and procedures will be in place by July/2002.

Finding Number: 01-58
Department of Transportation
Project Development
Contact Person: Bruce Carter

<u>Finding</u>: Internal Controls regarding Davis Bacon Act not followed

<u>Corrective Action Plan</u>:

We concur with the finding. In the Bureau of Project Development Reorganization, the responsibility for monitoring this function was realigned from the Construction division to the Contracts Section. In the process, the responsible individual (now in the Regional Program) attempted to continue these duties in addition to the work that constituted a new position. As a result, the function suffered. We have taken the steps to remedy the situation by assigning the DEB and Labor Compliance functions to a position in the Contracts Section.

Finding Number: 01-59
Office of the Treasurer of State
Contact Person: Holly A. Maffei

<u>Finding</u>: Internal controls not adequate to ensure compliance with Cash Management Improvement Act (Prior Year Finding)

<u>Corrective Action Plan</u>:

The Treasurer's Office will take the following steps during FY 2003:

Due to conflicting responsibilities of the Treasurer's Office, it has been difficult to fulfill its Coordinator responsibilities effectively. Approval has been obtained to use the direct cost allowance permitted under CMIA 31 CFR Part 205 to fund a position dedicated to the coordination of the Treasury-State Agreement (TSA) and to monitor federal drawdown requests. This position will work with State Agencies to educate and gather a better understanding of the processes and required documentation pertaining to the receipt of federal funds.

The CMIA Policy and Procedures Manual recommends spot checks and periodic examinations of State Agency reports documenting federal drawdown requests in order to monitor compliance with CMIA. A sampling of such documentation will be scheduled and requested from State Agencies, which shall include the determination of and the amount of federal funds drawn, the date funds are requested and credited to the State's bank account, and the amount and dates of program-related issuance.

In addition, the Treasurer's Office has expressed a desire to work more closely with the Department of Audit to understand the issues raised and the procedures used in the audit of State Agencies. Although sampling may uncover an incidence of noncompliance, the Treasurer's Office is reliant on an Agency's signed Statement of Compliance or their reporting of refunds and/or exceptions in the calculation of the liability owed to the federal government.

At the beginning of FY 2002, The Treasurer's Office began providing a complete copy of the TSA to each State Agency that is guided by the TSA terms and conditions. The designated Agency representative is requested to sign acknowledging receipt of the contract, understanding and agreement to the terms and drawdown methodology cited, and agreement to communicate any changes that would affect the TSA to the Treasurer's Office.

The purpose of the Cash Management Improvement Act is to promote the efficient transfer of Federal funds between the Federal Government and States. CMIA permits the accrual of a federal liability to a State when the federal obligational authority is late in transferring funds to a State that has paid out funds for program purposes and has requested reimbursement in accordance with the TSA. The State has opted to take the more conservative approach with its pre-issuance interest liability and has consistently ignored any instances of overall federal-liability-to-State in the filing of its Annual Report. In following the format used in previous years, the Office did include monthly negative cash balances against monthly positive cash balances within individual federal programs. The Treasurer's Office, in cooperation with the Bureau of Accounts and Control, has worked to transition State Agencies to interest neutral draw down techniques in the receipt of federal funds, rather than the federal liability-incurring technique of pre-issuance. Since most Agencies are transitioning to interest neutral drawdown techniques, this should not be an issue in the future.

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99-08	10.569	Office of Policy, Planning, Legislation and Information Service	Noncompliance with record keeping requirements, and inadequate documentation to support the Schedule of Expenditure of Federal Awards	none	The TEFAP program has developed and implemented a perpetual inventory program. We use this to track all shipments in and out as well as to prepare reports of stock on hand and stock allocated. It tracks the inventory at each warehouse as well. This program automates the recording keeping that is required in the receipt, shipment and distribution of USDA TEFAP Commodities.
99-10	12.401	Dept. of Defense, Vet. & Emergency Management, Military Bureau	Failure to contribute required State matching funds (Prior Year Finding)	$541,100	By implementing the new coding system and coding invoices that require a state match to both the state and federal accounts, the Military Bureau will be in a better position to report the state match expenditures.
99-14	84.173 84.181	Bureau of Special Services	Federal compliance not ensured	none	The Child Development Services System State Office (CDS System) has procured the audit services of a Certified Public Accountant to conduct an independent OMB Circular A-133 financial and compliance audit of the CDS System for fiscal year 7/1/99 to 6/30/00. The CDS System Office will also procure the audit services of a Certified Public Accountant to conduct an independent A-133 audit for each subsequent fiscal year as applicable.
99-20	93.778	Dept. of Human Services: Bureau of Family Independence/ Regional OMB Operations	Documentation to support participant eligibility not located	$26,160	The following activities have been completed or implemented by the Bureau of Family Independence: 1. All new Family Independence Specialists are required to complete Centralized Eligibility Policy Training and the associated Learning-At-Work curriculum, which include case file management and documentation. From July 2000 until July 2001, forty-nine (49) Family Independence Specialist have successfully completed the training and completed the State Employee probation period with eleven (11) Family Independence Specialist currently in training. This training will continue to be required. 2. The Bureau of Family Independence entered into a contract with Keane, Inc. for the design, development, construction and implementation for an Automated Client Eligibility System in June 2000. The contracted date for full statewide implementation is March 2002. We are currently in the construction phase with all contract deliverables and products on schedule. 3. The State's Quality Assurance Unit has forwarded one and fifty-two (152) corrective action memos to the appropriate operational office, which provide the reasons for the issue including lack of documentation. This process will continue to be required.
99-22	93.919	Dept. of Human Services: Bureau of Health	Insufficient matching funds	$99,627	The Department of Human Services does not fundamentally concur with this audit finding. The methodology in question used for the third part in-kind contribution has been in place since the inception of the program and was deemed appropriate by the granting agency based on the interpretation of the regulations at that time. The Department has, in good faith, followed this guidance in each subsequent grant period. We defer to the cognizant agency to determine if this is appropriate. At this point in time, no corrective action will be made pending review.
99-23	93.268	Dept. of Human Services: Bur. of Health	Unallowable expenditure	$363,364	The Department of Audit, which is currently auditing the Immunization Program for FY00, has contacted the Centers of Disease Control & Prevention in reference to this finding. CDC still has not issued a ruling on whether these costs are allowable.
99-24	93.778	Bureau of Medical Services	Provider information not obtained or maintained	none	Ownership update requests were sent to all MaineCare (formerly Maine Medicaid) providers and are now part of the required paperwork for providers to enroll with the MaineCare Program. MaineCare operations are currently undergoing significant changes as a result of building a new system to replace the Maine Medicaid Information System. The Maine Claims Management System (MECMS) is expected to be operational late 2002. All providers will be updated and assigned new numbers. The new system and staff shortages have caused delays updating ownership information. However, the issue is being addressed, ownership paperwork is being scanned, indexed and put into a database. It is anticipated that the project will be completed prior to the implementation of MECMS. The database will be used to ensure all paperwork is complete.

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99-29	14.238	Bureau of Mental Health	Inadequate subrecipient monitoring	none	I. The Department will require the following documentation on all monthly reports, regarding Shelter Plus Care, from the Subrecipient: Project Number, Project Name, CDFA #, and Federal Awarding Agency (HUD). II. The Department modified the existing contracts with the Central Administrative Agency, to include the following provisions: a. The existing regional contracts which currently include both a State funded Program and the Federally funded Shelter Plus Care program are segregated. b. Compliance with specific Shelter Plus Care regulations are addressed through a provision in the FY2002 contract. c. Additional provisions include specific responsibilities of the Central Administrative Agency and its monitoring of funds that are passed through to the Local Administrative Agencies. III The Department developed a subrecipient monitoring plan to include elements already addressed. Additionally, the monitoring plan includes both a format and a timetable for periodic on-site reviews of the Central Administrative Agency. All of the above have been implemented as of FY 2002 except for I.
99-30	93.959	Office of Substance Abuse	Late obligation of grant funds (Prior Year Finding)	$1,138,041	Questioned costs have been settled with Federal grantor.
99-31	93.959	Office of Substance Abuse	Amounts reported as expended not supported (Prior Year Finding)	$48,314	Questioned costs have been settled with Federal grantor and OSA is continuing to improve our procedures.
99-32	93.959	Office of Substance Abuse	Noncompliance with cash management requirements	none	The Office of Substance Abuse (OSA) agrees that monitoring of payments to subrecipients needed to be improved and have implemented the following steps: 1. Payments to subrecipients are withheld if required financial reports are not submitted. 2. OSA has changed to monthly payments for the largest Block Grant subrecipients, which represents 80% of Block Grant subrecipient contract funds. This change was effective in January 2001. 3. OSA has taken steps to ensure that payments are made in accordance with the payment schedule as stated in the contract and not significantly earlier as in past practice. Payments to subrecipients are made no earlier than 2 days before the scheduled date.
99-36	20.205	Dept. of Transportation: Bureau of Project Development	Inadequate controls over Locally Administered Projects	$52,777	The Local Project Coordinator position has been filled. The incumbent, Steve Harris, is presently developing a certification course intended for Municipalities (scheduled for April and May 2002). This course will detail all the responsibilities that the Municipality will have along with providing the support that they will need to develop a locally administered project. A process has been established for the oversight of local projects that is endorsed by FHWA and the Bureau of Project Development. This will provide the needed checks and balances for the Department to manage the locally administered projects.
00-01	N/A	Bureau of Accounts and Control	General Fixed Assets Account Group not presented (Prior Year Finding)	None	We expect the General Fixed Asset Group to be reported for FY01.
00-02	N/A	Department of Administrative and Financial Services	Inadequate internal control over lease transactions identification, classification and reporting (Prior Year Finding)	None	This finding has been repeated for fiscal year 2001. The Department plans to be in compliance for fiscal year 2002.
00-03	N/A	Department of Administrative and Financial Services	Internal controls inadequate to ensure accurate budgetary reporting	None	The Bureau of the Budget and the Bureau of Accounts and Control have taken steps to implement internal control procedures to minimize the likelihood of a similar occurrence. Those procedures were put in place for fiscal year 2001.

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00-04	N/A	Dept. of Admin. and Fin. Serv.: Div. of Fin. and Personnel Services, Bur. of Alcoholic Beverages and Lottery Operations	Accurate financial reporting not ensured	None	The Division has examined its accounting procedures and personnel assignments related to the two funds that comprise the Bureau of Alcoholic Beverages and Lottery Operations accounting. We have assigned new staff members where appropriate and have put better control procedures in place to prevent the repeat of these findings.
00-05	N/A	Department of Economic and Community Development, OCD	Loans receivable balances not recorded on the State's financial statements	None	On or before August 31, 2001, the DECD will provide the Office of the State Controller the loans receivable outstanding as of June 30, 2001 as well as an estimate for balances potentially uncollectable and will continue this practice each year. The information for the period ending June 30, 2002 will be provided by July 31, 2002 and by July 31st for each period ending June 30th thereafter. The Bureau of Accounts and Control considered the loans receivable balance to be immaterial and did not record it in the financial statements for fiscal year 2001.
00-06	N/A	Department of Human Services, Bureau of Elder & Adult Services	Reported balance of assets held in trust not supported	None	To correct the noted discrepancies between reported balances and bank balances the Regional DROMBO staff will date and initial bank statements to show the current balance on accounts that have outstanding transactions. The Director of Regional OMB, Robert Nadeau has addressed this issue with the appropriate regional staff. This will assure all regional offices are in compliance with the recommendation. The Department has implemented a more conservative approach to the valuation of real property. The tax-assessed value of the real property is reviewed and in most cases adjusted to accurately reflect the actual market value. The condition of the property is considered along with any past use that may have adversely affected the value of the property. The N.A.D.A. web site is now used to value all mobile homes manufactured between 1961 and 2001.
00-07	N/A	Dept. of Human Services: Bureau of Medical Services, Division of Financial Services	Duplicative and incorrect accounts receivable subsidiary records	None	There is a need for two sets of records one at the Bureau of Medical Services and another at OMB's Division of Financial Services because of the different processes involved. The main issue here is because of temporary staff turnover and shortages in both units, reconciliation was not done recently and the disparity between the two records was large. A meeting was held recently between the two units involved with the State Controller and Budget Office. The result of that meeting and a meeting with the Attorney General's Office resulted in a more aggressive approach to collect old receivables and bring down the outstanding balance. Also the disparity between both sets of records has been reconciled.
00-08	10.664	Dept. of Conservation, Maine Forest Service	Controls insufficient to ensure compliance with financial reporting requirements and documentation of financial reports	None	Up to now it has been the common practice to wait to file the final FS 269 financial status report after the program report has been prepared. In the case of the referenced $3 million, the final report is not complete. The final SF269 now has been submitted and the final report should be completed by the Department of Transportation in a few weeks. In addition, future SF269s will only reflect obligations for which adequate documentation can be readily available.
00-09	10.664	Dept. of Conservation, Maine Forest Service	Inadequate controls over cash management	None	At the Forest Service, there has been a long-standing procedure for processing the grant payments. For several of the grant programs, the checks are returned to the Department for mailing out with a cover letter. This has allowed us to have one final check to ensure the correct person is receiving the funds. Just in the last year we have had 5 events that may have been avoided if the check had been routed back through the program manager. While there currently is no Accounts & Control policy or procedure regarding the routing of checks back through agencies for distribution, we have implemented a policy that directs all grant payments to go directly to the recipient. Additionally for FY 2002 we are included in the CMIA, which should provide us with greater flexibility in the requesting cash and processing payments.

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00-10	10.664	Dept. of Conservation, Maine Forest Service	No procedures to ensure that budget modifications are approved	None	MFS has not used the Consolidated grant payment since the early 90's. Consolidated Payment was used for the Ice Storm Recovery because it was promoted by the USDA Forest Service as providing the state with greater latitude. MFS was unaware that it was necessary to request a waiver on the consolidated payment grant in order to have it be considered one grant. If a waiver had been requested, the budget variances would have been within the 10%. Because we did not have a waiver, the 10% is by sub program within the consolidated grant. Future grants will not be consolidated grants and we will continue to monitor for variances in the budgeted expenditures. MFS will contact USDA Forest Service to determine the amendments necessary to comply. A request for the waiver mentioned in 7 CFR 3016.30 has been requested.
00-11	10.664	Dept. of Conservation, Maine Forest Service	Federal grant not properly accounted for and controls inadequate over electronic payments	None	In order to assure that we had no more instances of drawing down federal funds that did not go through the State Treasurer's office, a directive was sent to all program managers that instructed them to only draw down funds to the State Treasurer's office. Payments from the draw down would then be disbursed through the normal system suing Accounts and Control. We have had discussions with the Deputy State Controller and with the Treasurer's office to assure that this system will work and to accommodate our need for making payments in the types of land transactions for which we were cited in the audit.
00-12	10.664	Dept. of Conservation, Maine Forest Service	Inadequate controls over subrecipient monitoring	None	We have made all sub-recipients aware of the audit requirement. We currently request cities and towns to provide us with the audit report. We have found them less than forthcoming. In an attempt to help the recipient comply with this requirement, we will work with Audit to re draft the language and enter into a dialog with the central agencies, which could provide us with the information necessary to identify those recipients, which receive federal funds above the $300,000 threshold. We will also initiate a process by which we identify critical information in the application process to better identify those recipients required to have a single audit. The process will include requesting a letter from the single audit auditor alerting us to any findings associated with the expenditure of the Cooperative Forestry Assistance funds.
00-13	16.523	Dept. of Corrections	Subrecipient monitoring procedures not documented	None	The Department has developed a site visit form and a subrecipient-monitoring plan and is in the process of implementing.
00-14	16.523	Dept. of Corrections	Inadequate cash management procedures	None	The Department has developed a form used to monitor local awards and state projects. This form has been in use for several months.
00-15	16.523	Dept. of Corrections	Inadequate suspension and debarment procedures	None	A Debarment clause has been added to Rider D for contracts which are over $100,000 and has also been incorporated in MOU for projects over $100,000.
00-16	16.523	Dept. of Corrections	No procedures to ensure compliance with payroll requirements	$12,485	This has been completed as planned.
00-17	16.586	Dept. of Corrections	No procedures to ensure correct payroll charges	$43,751	The Department has already corrected this issue, and the position in question has been moved out of this account.
00-18	16.586	Dept. of Corrections	Inadequate controls over cash management	None	The Department has not ordered cash until the expenses are imminent in FY 2002.
00-19	16.586	Dept. of Corrections	No controls over compliance with suspension and debarment requirements	None	The department has corrected and complied for 2002 by adding the suspension & debarment requirements to all new federal contracts over $100,000.
00-20	12.401	Dept. of Defense, Veterans and Emergency Management, Military Bureau	Procedures inadequate to ensure correct reporting of information for the Schedule of Expenditures of Federal Awards (Prior Year Finding)	None	Sue Hammer completed the SEFA report Fiscal Year 01 and documented process. Bobbie Creamer assigned to complete FY02 report.

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00-21	12.401	Dept. of Defense, Veterans and Emergency Management, Military Bureau	Controls insufficient to ensure compliance with cash management requirements (Prior Year Finding)	None	A new account code structure was created to ensure compliance with cash management requirements. Reports are generated weekly to bill the federal government to reimburse the state for invoices paid by the state. The coding system was created incrementally and is now in full operation. This finding has been repeated for fiscal year 2001.
00-22	12.401	Dept. of Defense, Veterans and Emergency Management, Military Bureau	Procedures do not ensure compliance with suspension and debarment requirements.	None	All current suspension and debarment certificates are on file. A new process is in place for Robert St. Pierre to send the forms at the time of contract award.
00-23	12.401	Dept. of Defense, Veterans and Emergency Management, Military Bureau	Federal funds used to fund contingency reserve	$76,129	Funding was moved and the account was deactivated as previously stated.
00-24	12.401	Dept. of Defense, Veterans and Emergency Management, Military Bureau	Grant funded equipment not managed as if State owned	$56,213	An agreement was reached between the USPFO and the state auditor that clarified equipment ownership. Funds used to purchase equipment were not part of the cooperative agreement. The equipment belongs to the federal government. The auditors concurred when shown documentation during a meeting with Col. Tinkham and Col. Lundquist of the National Guard Bureau.
00-25	12.401	Dept. of Defense, Veterans and Emergency Management, Military Bur. DPS, Admin Svc Div	Accounting procedures inadequate (Prior Year Finding)	None	The newly created account code structure tracks expenditures by appendix, federal fiscal year, and by the federal account code (AMSCO). If an invoice requires a state share the invoice is coded with both the state and federal account structure.
00-26	84.027 84.028	Dept. of Education	Insufficient controls over suspension and debarment certification	None	The Department now requires all subrecipients receiving federal financial assistance to submit annual certifications with each application. Target completion date is fiscal year 2002. Individual responsible for corrective action is Lesley Ann Clark, Chief Accountant. This finding has been repeated for fiscal year 2001.
00-27	Various	Dept. of Education	Pass-through entity responsibilities not met	None	The federal award information is now required on all letters of award, contracts or grant award forms, and RFP's when services/grants are requested from federal funds. The Department's internal Agreement Review Team (ART) is ensuring that this information is included on all of these documents. Target completion date is fiscal year 2002. Individual responsible for corrective action is Lesley Ann Clark, Chief Accountant. This finding has been repeated for fiscal year 2001.
00-28	84.027 84.048	Dept. of Education, Bureau of Finance Support Systems Team	Controls insufficient to ensure compliance with federal cash management requirements (Prior Year Finding)	None	After the finding for FY00 was provided to us in early FY02, we arranged with Accounts & Control to have the accounts that "house" three of the major programs placed on estimated revenue. This allows us to process expenditures without having the actual cash, and we can draw down after the payments have gone out so the cash is in place when the checks are presented for disbursement at the bank. With this in place, the following programs should be included: 84.011, 84.027, 10.553, 10.555, 10.556, and 10.559. For FY03, we have arranged with Accounts & Control to have 84.048 (housed in account 013-08) to be set up with estimated revenue. For 84.173, we will continue to watch allotment when it istime to order cash for a manifest. We have no control over when a subrecipient cashes their check, which we believe was the problem with the 84.173 program. Target completion date is fiscal year 2003. Individual responsible for corrective action is Lesley Ann Clark, Chief Accountant. This finding has been repeated for fiscal year 2001.
00-29	84.318	Dept. of Education, Learning	Insufficient controls over subrecipient monitoring	None	Findings for the Technology Literacy Challenge Fund have been resolved. Funding for this grant ended in fiscal year 2001.

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		Systems Team			
00-30	84.027	Dept. of Education, Learning Systems Team	Controls do not ensure compliance with maintenance of effort requirements (Prior Year Finding)	None	Steps are currently being taken to resolve this issue for 2002.
00-31	10.553 10.555 10.556 10.559	Dept. of Education, Div of School Support Syst - Food Svcs	Controls did not ensure compliance with federal cash management requirements	None	After the finding for FY00 was provided to us in early FY02, we arranged with Accounts & Control to have the accounts that "house" three of the major programs placed on estimated revenue. This allows us to process expenditures without having the actual cash, and we can draw down after the payments have gone out so the cash is in place when the checks are presented for disbursement at the bank. With this in place, the following programs should be included: 84.011, 84.027, 10.553, 10.555, 10.556, and 10.559. For FY03, we have arranged with Accounts & Control to have 84.048 (housed in account 013-08) to be set up with estimated revenue. For 84.173, we will continue to watch allotment when it istime to order cash for a manifest. We have no control over when a subrecipient cashes their check, which we believe was the problem with the 84.173 program. Target completion date is fiscal year 2003. Individual responsible for corrective action is Lesley Ann Clark, Chief Accountant. This finding has been repeated for fiscal year 2001.
00-32	93.575 93.596	Dept. of Human Services: Bureau of Child and Family Services	No procedures to ensure compliance with monitoring requirements (Prior Year Finding)	None	The Community Services Center has standardized the on-site monitoring instrument used by contract staff to include the above-cited tests. The Service Center has established formal procedures to track the schedule of monitoring visits, and to ensure timely submission of monitoring reports and follow-up of monitoring findings in FY2002.
00-33	93.575 93.596	Dept. of Human Services: Bureau of Child and Family Services	No controls to ensure compliance with payroll requirements (Prior Year Finding)	$85,783	The State of Maine's financial policies do not allow positions to be budgeted against more than one account. The Community Services Center does not yet have a federally approved cost allocation plan for the allocation of salaries and fringe benefits. The Department is in the process of updating its cost allocation formulas and the Service Center is included in that process. For FY2002, the Service Center will be cost allocating the personnel costs of contract staff funded through CCDF based on the percentage of CCDF funding in their contract workload. We will also be doing the same for General Fund contract staff who have CCDF funded contracts in their workload. The Service Center will be reconciling the CCDF account based on the results of these cost allocations in the fourth quarter of FY2002.
00-34	93.667	Dept. of Human Services: Bureau of Child and Family Services	Funds not spent in accordance with earmarking requirements (Prior Year Finding)	$24,455	A report is now generated by MACWIS for backup documentation to substantiate the $2.5 million transfer of CW expenses to TANF, so the problem has been corrected. This finding has been repeated for fiscal year 2001.
00-35	Various	Dept. of Human Services: Community Services Center	No procedures to ensure that correct CFDA numbers are communicated (Prior Year Finding)	None	The Community Services Center issued a memorandum to all its contract staff in September 1999 regarding the need to verify CFDA references in contracts. Verification of CFDA #s in contracts is also part of the Service Center's contract review process. Also, the Service Center includes the list of funding source acronyms and CFDA #s in the contracts, beginning October 1, 2000.
00-36	93.778	Dept. of Human Services: Bureau of Family Independence	Procedures do not ensure compliance with Medicaid Eligibility Quality Control (MEQC) rules and procedures (Prior Year Finding)	None	The Department of Human Services, Bureau of Family Independence, Quality Assurance Unit is in the process of working with Stephen Doucette, Boston HCFA Unit, to resolve the issues cited in your letter dated July 18, 2001. The Quality Assurance Unit is taking positive steps to 1. Provide HCFA with past due error rate information, 2. With Mr.Doucette's assistance, calculate MEQC error rates using the prescribed statistical formula, 3. Submit a sampling plan to HCFA for approval, and 4. Include all of the basic components and descriptions in the sampling plan in accordance with provisions in the State Medicaid Manual. The Quality Assurance Unit, with Mr.Doucette's guidance, expects to be in complete compliance, after correcting the deficiencies cited, by the start of the October 2001 to March 2002 review period.

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00-37	10.557	Dept. of Human Services: Bureau of Health	Controls over payroll records not effective to ensure compliance (Prior Year Finding)	$50,855	The two information technology positions in question that were charged to the WIC Program account have been transferred to the Division of Technology Services in the Department of Human Services' OMB account. The transfer of positions between accounts has to be done legislatively. This was accomplished in the 1st Session of the 120th Maine Legislature per Chapter 439. The effective date of this legislation was not until the end of September 2001; thus the positions were not transferred until then. When this finding surfaced, Janice Grenier, the Accountant for the WIC Program began tracking these costs and has had several journal entries prepared to transfer the questioned costs out of the WIC account periodically. The WIC Program has all the supporting documentation on file. Thus, there is no need to bill for collection since this will be reflected in their financial status report. This finding may be seen in subsequent audits since it was not completely corrected until SFY 2002.
00-38	93.268	Dept. of Human Services: Bureau of Health	Procedures insufficient to ensure accurate information for inclusion in the SEFA (Prior Year Finding)	None	After a review of the information provided by the auditor, The Maine Immunization Program concurs with the finding. Inaccurate information was provided for expenditure reports during the State FY2000. Inaccuracies were due in large part to a break down in communication between staff people at the Immunization Program managing the vaccine budget and those who reported budget information to the State accounting personnel for the SEFA. Other problems regarding the purchase, management and distribution of vaccines are have been identified and are currently being addressed. ACTION PLAN "account for vaccines to identify those purchased with federal & non-federal funds", Vac-Man software provided by the CDC was recently upgraded (6-01) to provide greater functionality. Using the software, we are able to identify and track both federal and non-federal funding sources for all vaccines purchased using the Vac-Man software. In addition, vaccines that are not purchased through Vac-Man will be recorded on a separate Vaccine Purchase Tracking Spreadsheet, which includes all vaccines purchased and/or distributed through the Immunization Program. Vac-Man purchases with be reconciled monthly against the spreadsheet. "perform a reconciliation of the purchase price of recorded vaccines in the inventory system to the State's official accounting records," Vaccine receipts will be reviewed monthly to ensure that the estimated and actual purchase prices of vaccines correlate. This information will be checked against the report of inventory value on a monthly basis. Discrepancies will be investigated. A report will be submitted to the State's official accounting records when any adjustments are made that effects any previously submitted report. "adopt procedures for supervisory oversight of the inventory system," A team of staff people that includes the Assistant Director of the Maine Immunization Program will meet monthly to discuss vaccine management issues and make recommendations for vaccine purchase. During each monthly meeting the latest weekly vaccine inventory is reviewed and a monthly distribution record is compared to the Inventory Purchase Tracking Spreadsheet. "exercise greater care in the preparation of amounts used for the SEFA." The amounts prepared for the SEFA will be reviewed by the Assistant Director of the Maine Immunization Program before submission to the State's official accounting records. The review will consist of a series of checks against documents regarding the purchase of vaccines with federal and non-federal funds.
00-39	93.268	Dept. of Human Services: Bureau of Health	Controls insufficient to ensure compliance with certification and personnel activity requirements	None	The Department of Human Services' position, as a whole, is that this certification requirement is being met by the inclusion of the MFASIS account code of the employee's position on the P-25, the Department of Human Services' weekly payroll report that is signed by the employee. Also, the Department (and State as a whole) is in the process of converting from a manual paper payroll time sheet to an electronic Time & Attendance Management System (TAMS) where employees can go on-line and enter their time and also their respective Programs then forward it to their supervisor with an electronic signature. This finding has been repeated for fiscal year 2001.

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00-40	Various	Dept. of Human Services: Bureau of Health	Controls ineffective to ensure compliance with certification requirement (Prior Year Finding)	None	The Department of Human Services' position, as a whole, is that this certification requirement is being met by the inclusion of the MFASIS account code of the employee's position on the P-25, the Department of Human Services' weekly payroll report that is signed by the employee. Also, the Department (and State as a whole) is in the process of converting from manual paper payroll time sheet to an electronic Time & Attendance Management System (TAMS) where employees can go on-line and enter their time and also their respective Programs then forward it to their supervisor.
00-41	93.778	Dept. of Human Services: Bureau of Medical Services	Insufficient documentation for certain Medicaid reimbursement rates	None	The DHS - BMS Division of Finance and Reimbursement - Budget and Reimbursement Unit now approves/denies all rate changes effecting any MaineCare payments. As stated to Steve Withers at CMS, only specific named individuals have the authorization to approve those changes. All rates set on or after 7/1/01 have appropriate documentation as to the reasons why the rates were changed. The documentation will include, at a minimum, the calculations and the corresponding computer file that documents those changes and the specific law/rule that necessitated the rate change.
00-42	10.551 10.561	DHS, Bur. of Health, Bur. of Adult & Elder Services, Div of Fin Serv.	Lack of controls to ensure accurate federal financial reporting	None	The Department revised the SF-269 to reflect costs. The agency prints off the electronic version of the FSR to compare to the work copy and to have signed by an authorizing official to keep on file.
00-43	93.268	DHS, Div of Fin Svc	Controls insufficient to ensure accurate financial report	None	Most of these questioned costs are legitimate Immunization Program costs but because of the inconsistent and unorthodox way costs were reported over different report periods they do not match up with the grant period. The Division of Financial Services has simplified its methodology in reporting only whole costs from either the MFASIS expenditure or encumbrance reports for the relevant grant period with any exceptions to this rule being well documented. The Division will discontinue reporting unliquidated obligations as liquidated and correctly prepare the report on a cash or accrual basis. NOTE: The inclusion of unliquidated obligations are subsequently subtracted out of the liquidated figure the following grant period. As for CHIPS and EPSDT costs, the Immunization Program is still waiting for a decision from the Centers for Disease Control and Prevention on whether they are allowable. This finding has been repeated for fiscal year 2001.
00-44	93.767	Dept. of Human Services: Div. of Financial Services	Controls insufficient to ensure compliance with cash management requirements	None	The cash situation referred to in the audit finding above was the result of adjustment to balance forward journal entries between the Medicaid account and the SCHIP account. During the first year of the State's Child Health Insurance Program (SCHIP), the MMIS (Medicaid Management Information System) was erroneously programmed to charge SCHIP expenses to the regular Title XIX Medicaid account not the CHIP account. The Division of Financial Services had to manually transfer by JE CHIP expenses and revenues over to the CHIP account. There was also a question as to where Title XIX Medicaid Enhancement costs were to be charged, Regular Medicaid or CHIPS? Journal entries were prepared to transfer the expenses between the two accounts. Also it was discovered that because of staff turnover, not all the costs were transferred correctly. The end result of all this movement of expenses and revenues artificially created large positive and negative cash balances as noted above. In FY 2001, the last of the Journal Vouchers were done to correct the balances in the Federal and Block Grant CHIP accounts.
00-45	Various	Dept. of Human Services: Div. of Financial Services	Unsupported disbursement information reported to the federal government (Prior Year Finding)	None	The staff accountant that now does the PM272 report has backup for all figures used.

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2001

Finding #	CFDA #	Department	Description	Questioned Costs	Status
00-46	Various	Dept. of Human Services: Div. of Financial Services	Controls inadequate to ensure accurate financial reporting: costs charged twice, cost allocation plan errors not detected	$963,687	The Department recognizes that the current Cost Allocation Plan is outdated and because of staff turnover and the complexity of the plan, problems persist that must be addressed immediately. The plan is currently being reviewed in its entirety, and a new plan will be phased in over a period of two years barring any unforeseen problems. The Department endeavors to reconcile the plan to the Controllers reports, audit the Cost Allocation Plan internally, and audit all the costs reported on all federal reports. This function will be assigned to the position responsible for the cost allocation plan. This control feature will ensure that duplications, omissions, revisions will be eliminated. This finding has been repeated for fiscal year 2001.
00-47	Various	Dept. of Human Services	No procedures to ensure that pass-through responsibilities are met (Prior Year Finding)	None	The Community Services Center, in response to this finding in the prior year audit, has established procedures to ensure follow-up on audit corrective action plans, beginning on July 1, 2001.
00-48	Various	Dept. of Human Services: Div. of Financial Services	Controls do not ensure compliance with cash management requirements (Prior Year Finding)	None	The Division of Financial Services has continued to work with the Office of the Treasurer of State to come up with the cash draw down techniques that best fits the expenditure patterns in these and all the Department's Federal Programs This is accomplished by conferring with the Deputy State Treasurer every year before the State's CMIA (Cash Management Improvement Act) agreement is signed to see if any changes are required. It is difficult to come up with a scheduled funding technique that fits the variable expenditure patterns in these complex programs.
00-49	Various	Dept. of Human Services: Div. of Financial Services	Procedures do not ensure accurate reporting of information for the Schedule of Expenditures of Federal Awards (Prior Year Finding)	None	The DHS concurs with the audit finding. The inaccurate reporting was due to an error around the difference between reporting the amount of Food Stamps issued during SFY 2000 and the inventory of Food Stamps on hand as of 6/30/00. The Food Stamp Program staff is better informed on the difference for the SEFA, thus reporting should be accurate in the future.
00-50	15.605 15.611	Dept. of Inland Fisheries and Wildlife: Admin Services	Cash controls and records inadequate	None	While the auditor's suggested recommendations were not in place during the period under audit, they were implemented prior to the audit and were in place during the audit.Specifically, journal numbers have been added to monthly summary sheets to tie the expense to revenue; a copy of all pertinent journals are maintained in each monthly file; and, as a result of this audit, IF&W will insure all journals are reviewed on a monthly basis with regard to cash drawn as compared to expenses.
00-51	17.225 17.207	Dept. of Labor: Office of Admin Services	Procedures do not ensure compliance with the Cash Management Improvement Act	None	The current State accounting system requires that cash funds be received and available prior to making disbursements. The MDOL OAS will request assistance from State Controller's Office with regard to establishing an accrual journal in order to permit check issuance prior to receipt of federal funds. With the further assistance of the Maine State Treasury, MDOL OAS would then discuss the use of the Average clearance pattern or other alternative methods and amend the existing CMIA agreement accordingly. To date, the department has not instituted the above procedure.
00-52	Various	Dept. of Labor: Office of Admin Services	Accounting systems not reconciled (Prior Year Finding)	None	The MDOL Office of Administrative Services concurs with the finding. The team established by OAS has aggressively focus on reconciling all outstanding federal appropriations between the internal cost accounting system (DOLARS) and the State accounting system (MFASIS). Although the process is slower than anticipated we will continue to focus the necessary resources on the project to its completion. In addition, the implementation of TAMS (Time and Attendance Management System) is expected to eliminate any payroll discrepancies currently experienced between the two systems.

State of Maine
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Finding #	CFDA #	Department	Description	Questioned Costs	Status
00-53	93.959	DMHMRSAS, Office of Substance Abuse	Controls ineffective to ensure compliance with certification requirement (Prior Year Finding)	None	The Office of Substance Abuse has amended its procedures to ensure that subrecipient payments are made on or close to the dates specified in the contracts. This change was implemented during State fiscal year 2000. The contracts that have been converted from quarterly to monthly payments include approximately eighty (80) percent of Block Grant funding, approximately one-third of total contracts. This change was implemented with payments in January 2001. The Office believes the additional administrative effort to process monthly payments for the remaining two thirds of contracts would place an undue burden on fiscal and contracting staffs, and is not necessary to comply with the regulations cited above. Therefore, OSA has continued to make monthly payments to provider agencies with significant Block Grant funding.
00-54	16.579	Dept. of Public Safety: Bureau of Highway Safety	Inadequate documentation of compliance with earmarking requirements	None	Grants manger, DavidGiampetruzzi, is responsible for documenting earmarking requirements.
00-55	16.579	Dept. of Public Safety: Bureau of Highway Safety	Procedures inadequate to ensure compliance with payroll requirements (Prior Year Finding)	$34,421	Payrolls are monitored to ensure time spent on grants is accounted for properly.
00-56	16.579	Dept. of Public Safety: Bureau of Highway Safety	Procedures inadequate to ensure compliance with pass-through requirements (Prior Year Finding)	None	David Giampetruzzi will ensure pass through requirement compliance.
00-57	16.579	Dept. of Public Safety: Bureau of Highway Safety	Procedures do not ensure compliance with cash management requirements (Prior Year Finding)	None	Cash is currently maintained in accordance with cash management requirements.
00-58	12.401	Dept. of Defense, Veterans and Emergency Management, Military Bureau & DPS Admin Svc Div	Accounting procedures inadequate (Prior Year Finding)	None	The newly created account code structure tracks expenditures by appendix, federal fiscal year, and by the federal account code (AMSCO). If an invoice requires a state share the invoice is coded with both the state and federal account structure.
00-59	20.509	Dept. of Transportation: Office of Passenger Transportation	Procedures not effective to ensure expenditure of federal funds within the period allowed	$60,807	The FTA concurred with the MEDOT that all expenditures were in concurrence with their guidelines and therefore this finding was not upheld. The FTA required that MEDOT institute procedures that track the entire grant award on its internal PROMIS/MEDIA project accounting system or reconcile grant balances periodically to insure that funds are expended in a timely manner. The following procedures have been instituted by MEDOT Finance to insure the financial integrity of FTA grant management process the Federal funds for all FTA grants are managed within a single account, Public Transportation; multiple projects are financially managed within each grant; the Department's project accounting system, PROMIS, is used to provide accountability to all projects; the Public Transportation account is reconciled monthly to MFASIS, the statewide accounting system; PROMIS data is used to generate the quarterly FTA report.

State of Maine
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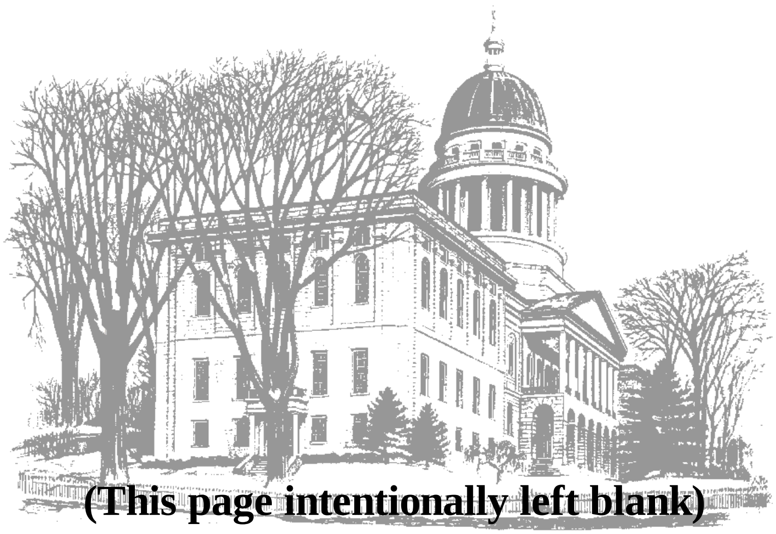
Finding #	CFDA #	Department	Description	Questioned Costs	Status
00-60	20.509	Dept. of Transportation: Office of Passenger Transportation	Procedures do not ensure compliance with earmarking requirements	$139,155	The FTA concurred with the MEDOT Office of Public Transit that in Grant ME-18-X019, the Governor certified the inter-city needs had been met and therefore the 15% requirement did not apply and this finding was not upheld. The FTA concurred with the MEDOT Office of Public Transit that in Grant ME-18-X020 and ME-18-X021 the appropriate amount of funds were set aside for inter-city transportation and therefore this finding was not upheld. The FTA has required a confirmation of the current and proposed expenditures and timelines be submitted for those projects. The timelines are as follows ME-18-X019 - remaining funds will be used to purchase the next Inter-city bus, expected expenditure date will be April 2002; ME-18-X021 - there was a budgeting error and most of the remaining funds will either be expended by June 2002 or returned to FTA at Grant closure; ME-18-X025 - has been expended, was utilized to purchase an Inter-city bus; ME-18-X027 - remaining funds will be used to purchase the next Inter-city bus, ME-18-X027 - remaining funds will be used to purchase the next Inter-city bus, expected expenditure date will be April 2002.
00-61	20.509	Dept. of Transportation: Office of Passenger Transportation	No controls to ensure compliance with payroll requirements	$48,144	The FTA found that it was inappropriate to charge the Manager's payroll expense entirely to one FTA program. The FTA has required the Department to implement procedures to insure compliance with OMB Circular A-87. The Manager's payroll expenditures were changed to reflect the oversight duties in the FTA programs as of October 1, 2001.
00-62	20.509	Dept. of Transportation: Office of Passenger Transportation	Procedure to ensure compliance with federal cash management requirements not followed (Prior Year Finding)	None	The FTA considers this finding closed.
00-63	Various	Office of the Treasurer of State	Internal control not adequate to ensure compliance with Cash Management Improvement Act (Prior Year Finding)	None	The corrective action plan has already begun. The Treasurer's Office will utilize the last available SEFA, in conjunction with the threshold established by the Department of Audit, to determine those grants that need to be included in the contract. This will ensure that all programs are properly addressed. Effective with the Fiscal Year 2002 contract, State Agencies received a full copy of the CMIA Agreement filed with the U.S. Treasury and were asked to return a sign-off form indicating their understanding and agreement to the terms of the contract. This places the necessary responsibility with the agencies for complying with the contract. In addition, the Treasurer's Office will discuss processes to monitor agencies and possibly amend the CMIA Policies and Procedures to ensure effective monitoring and responsibility. The Federal Government clearly promotes interest-neutral draw down techniques. The Treasurer's Office is working with State Agencies and the Bureau of Accounts and Control to convert from pre-issuance funding to interest-neutral methods wherever appropriate. The Treasurer's Office intends to replace the Federal check clearance patterns with updated State clearance patterns in the computer program that calculates interest due to the Federal Government for pre-issuance programs. When this change is made in the program, it will provide an opportunity to review the interest calculations. Changes should be implemented by the Fiscal Year 2003 effective Cash Management Improvement Act contract date.



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