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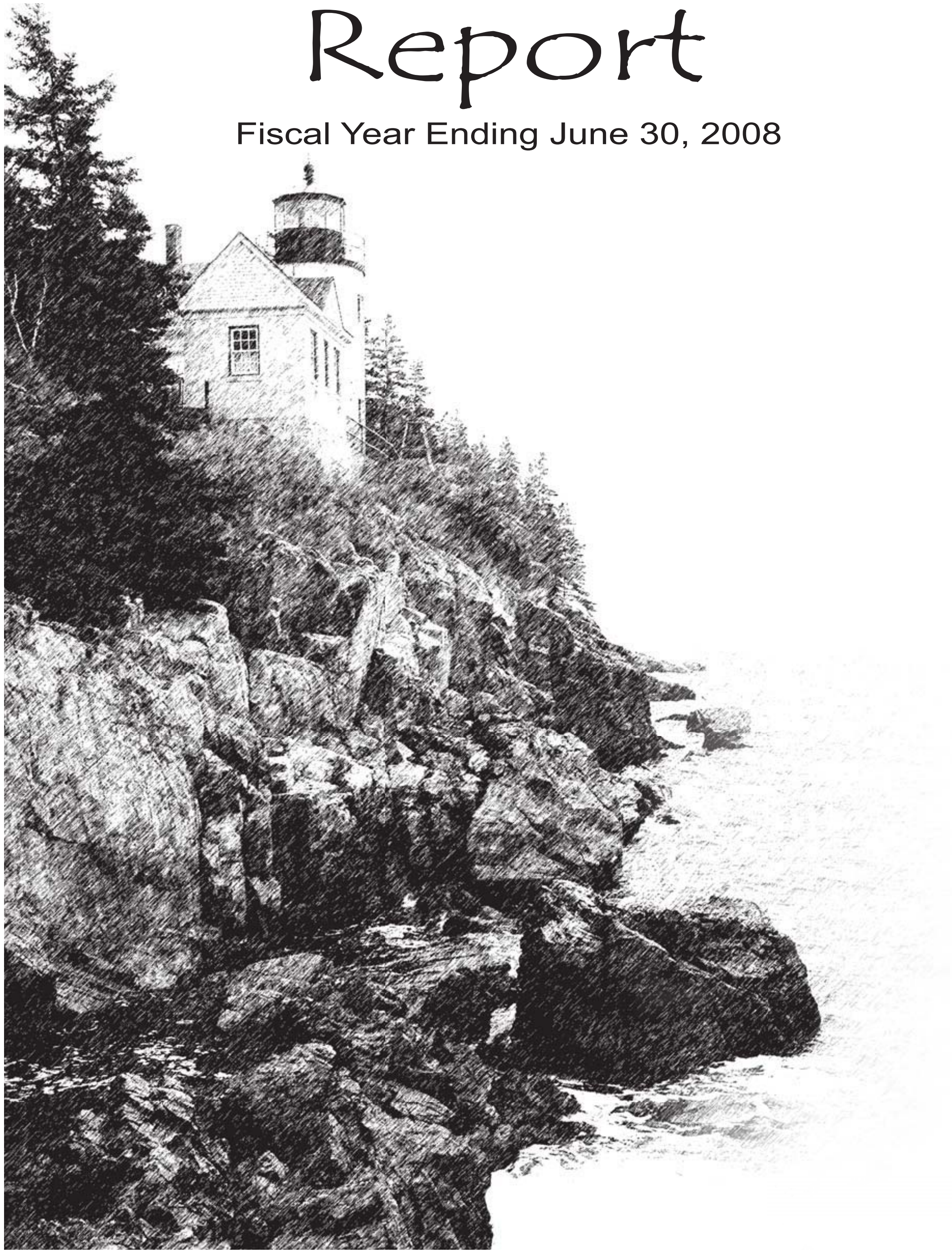
Single Audit Report Fiscal Year Ended June 30, 2008

Maine State Auditor's Office

STATE OF MAINE

Single Audit Report

Fiscal Year Ending June 30, 2008



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

Cover graphics by Tom Randall

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2008

Table of Contents

Table of Contents – Continued

Table of Contents – Continued

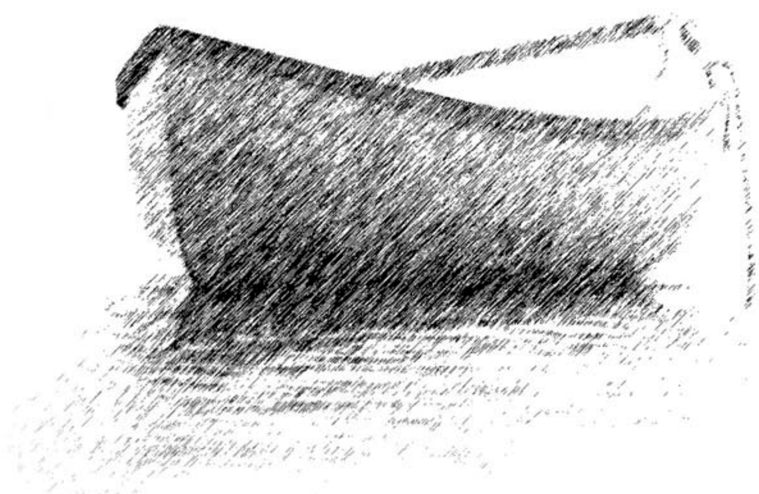
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENT FINDINGS

INDEXES TO FEDERAL PROGRAM FINDINGS

FEDERAL FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION PLAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS



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Letter of Transmittal

Senator Elizabeth Mitchell
President of the Senate

Representative Hannah Pingree
Speaker of the House of Representatives

The Honorable John E. Baldacci
Governor of Maine

I am pleased to submit the Single Audit of the State of Maine for the fiscal year ended June 30, 2008. This audit was conducted in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States; the requirements of the Single Audit Act Amendments of 1996; and the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Our audit complies with Title 5, Chapter 11, §243 and is a prerequisite for the receipt of $2.8 billion in federal financial assistance during fiscal year 2008.

This document contains the following reports and schedules:

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

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

Please contact me if you have questions or comments about the 2008 Single Audit of the State of Maine.

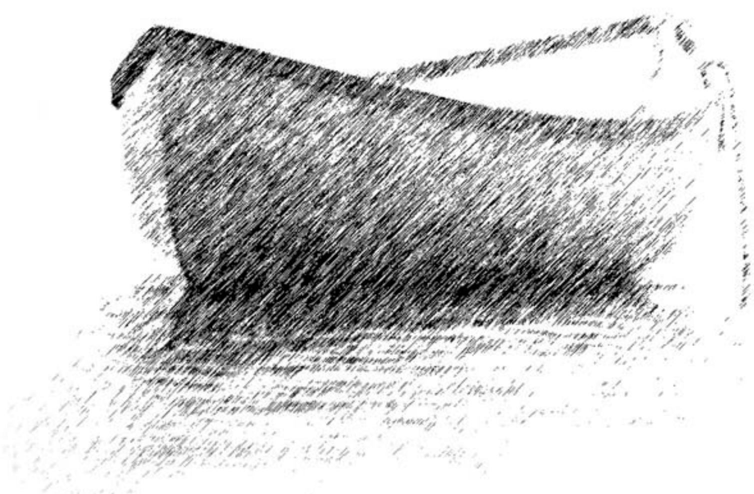
Respectfully submitted,

Neria R. Douglass

Neria R. Douglass, JD, CIA
State Auditor

August 28, 2009

STATE OF MAINE
EXECUTIVE SUMMARY
FOR THE YEAR ENDED JUNE 30, 2008



STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2008

EXECUTIVE SUMMARY

The Department of Audit performs an annual financial and compliance audit, the Single Audit of the State of Maine, in order to comply with federal and State requirements. Our audit included 24 major federal programs representing 84% of the $2.8 billion in federal assistance that the State received. This report consists of various audit reports along with related financial statement and federal audit findings and recommendations.

Independent Auditor's Report

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

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

We reported on internal control over financial reporting and issued four audit findings on control weaknesses that we considered to be significant deficiencies. Significant deficiencies in internal control could adversely affect the State's ability to record, process, summarize and report financial information.

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

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

We issued nine audit findings that resulted in qualifications of our opinions on compliance with program requirements for 14 federal programs because of material noncompliance. The remaining 10 programs complied in all material respects with program requirements.

We identified 69 instances of control weaknesses in internal control that are considered to be significant deficiencies. A significant deficiency is a control deficiency that could adversely affect the State's ability to administer a federal program such that there is more than a remote likelihood that control procedures would not prevent noncompliance with a federal program regulation in a timely manner.

Eight of the significant deficiencies noted in the previous paragraph are considered to be a material weakness in internal control. A material weakness is a significant deficiency, or a combination of significant deficiencies, that has more than a remote likelihood that material noncompliance with federal program requirements could occur because the State's internal control system would not prevent or detect noncompliance with federal program requirements.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs includes audit findings and managements' responses and plans for corrective action. The audit findings also include a total of $5.3 million of questioned costs. Questioned costs are amounts of federal financial assistance that we believe were not spent in accordance with program requirements. The federal government may or may not disallow these costs and could result in reimbursements from the State to the federal government.

STATE OF MAINE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

INDEX TO FINANCIAL INFORMATION

General Purpose Financial Statements of the State of Maine
For the Year Ended June 30, 2008

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2008, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Maine's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units: Child Development Services, Finance Authority of Maine, Maine Educational Center for the Deaf and Hard of Hearing, Loring Development Authority, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine State Housing Authority, Maine Public Employees Retirement System, Maine Community College System, Maine Technology Institute, Northern New England Passenger Rail Authority, Small Growth Enterprise Fund, and University of Maine System. We also did not audit the financial statements of the NextGen College Investing Plan. Those financial statements reflect the following percentages of total assets and revenues or additions of the indicated opinion unit:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Total Revenue / Additions
Aggregate Discretely Presented Component Units	100%	100%
Aggregate Remaining Fund Information	96%	65%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinions, insofar as they relate to the amounts included for these entities, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Maine Educational Loan Authority, Maine Technology Institute, Northern New England Passenger Rail Authority and Small Enterprise Growth Fund were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the State has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans,* GASB No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and GASB No. 50, *Pension Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2009 on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages B-5 through B-16, budgetary comparison schedules and related notes, State Retirement Plan and Post-Employment Benefits Plans schedules of funding progress and employer contributions, and Information About Infrastructure Assets Reported Using the Modified Approach, included on pages B-99 through B-107 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Neria R. Douglass

Neria R. Douglass, JD, CIA
State Auditor

February 19, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State of Maine's annual financial report presents the State's discussion and analysis of financial performance during the year ended June 30, 2008. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- The State's net assets decreased by 0.7 percent from the previous fiscal year. Net assets of Governmental Activities decreased by $25.7 million, while net assets of Business-type Activities decreased by $5.7 million. The State's assets exceeded its liabilities by $4.2 billion at the close of fiscal year 2008. Component units reported net assets of $2.0 billion, an increase of $74.8 million (3.9 percent) from the previous year, as restated.

Fund level:

- At the end of the fiscal year, the State's governmental funds reported combined ending fund balances of $187.9 million, a decrease of $76.5 million from the previous year. The General Fund's total fund balance was a negative $238.5 million, a decline of $73.7 million from the previous year, as restated. The Highway Fund total fund balance also decreased by $29.8 million.

- The proprietary funds reported net assets at year end of $617.1 million, a decrease of $89.0 million. This decrease is due to several factors: a decrease in the Retiree Health Insurance Fund of $94.9 million, a decrease in the Dirigo Health Fund of $26.5 million, a decrease in the Maine Military Fund of $3.1 million, offset by an increase in the Alcoholic Beverages Fund of $12.5 million, an increase in the Employment Security Fund of $4.1 million, an increase in the Ferry Service Fund of $5.7 million, and an increase in the Workers' Compensation Fund of $3.6 million

Long-term Debt:

- The State's liability for general obligation bonds increased by $27.1 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $104.1 million in bonds and made principal payments of $77 million.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Statements

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

The Statement of Activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change

occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused leave).

Both government-wide statements report three activities:

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

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

Component units - Although legally separate, component units are important because the State is financially accountable for these entities. The State has "blended" one component unit, the Maine Governmental Facilities Authority (MGFA) with Governmental Activities as described above. Maine reports 15 other component units (6 major and 9 non-major) as discretely presented component units of the State, and one component unit is reported with the State's fiduciary funds. Complete financial statements of the individual component units may be obtained directly from their respective administrative offices as shown in Note 1 A to the financial statements.

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

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

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

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

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

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

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

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

- Net asset balances are allocated as follows:

  Net Assets Invested in Capital Assets, Net of Related Debt; are capital assets, net of accumulated depreciation, and reduced by outstanding balances for bonds, notes, and other debt attributed to the acquisition, construction or improvement of those assets.

  Restricted Net Assets are those with constraints placed on the use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation; and

  Unrestricted Net Assets are net assets that do not meet any of the above restrictions.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds. Funds are fiscal and accounting entities with self-balancing sets of accounts that the State uses to keep track of specific revenue sources and spending for particular purposes. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different measurement focuses and bases of accounting.

Governmental funds: Most of the basic services are included in governmental funds, which generally focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the State. The governmental fund statements focus primarily on the sources, uses, and balance of current financial resources and often have a budgetary orientation. These funds are reported using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Because this information does not encompass the additional long-term focus of the government-wide statements, a separate reconciliation provides additional information that explains the relationship (or differences) between them. The governmental funds consist of the General Fund, special revenue, capital projects, and permanent funds.

Proprietary funds: When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) apply the accrual basis of accounting utilized by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery Fund. Internal service funds report activities that provide supplies and services to the State's other programs and activities – such as the State's Postal, Printing & Supply Fund. Internal service funds are reported as Governmental Activities on the government-wide statements.

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

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

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's net assets decreased by 0.7 percent to $4.2 billion at June 30, 2008, as detailed in Tables A-1 and A-2.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007*	2008	2007	2008	2007*
Current and other noncurrent assets	$2,097,624	$1,988,591	$511,516	$530,972	$2,609,140	$2,519,563
Capital assets	4,095,417	3,934,171	95,905	90,361	4,191,322	4,024,532
Total Assets	**6,193,041**	**5,922,762**	**607,421**	**621,333**	**6,800,462**	**6,544,095**
Current liabilities	1,610,654	1,381,509	44,095	39,703	1,654,749	1,421,212
Long-term liabilities	848,256	781,373	63,088	75,646	911,344	857,019
Total Liabilities	**2,458,910**	**2,162,882**	**107,183**	**115,349**	**2,566,093**	**2,278,231**
Net assets (deficit):						
Investment in capital assets, net of related debt	3,632,073	3,519,371	95,905	90,361	3,727,978	3,609,732
Restricted	200,888	198,786	493,733	489,677	694,621	688,463
Unrestricted (deficit)	(98,830)	41,723	(89,400)	(74,054)	(188,230)	(32,331)
Total Net Assets	**$ 3,734,131**	**$ 3,759,880**	**$ 500,238**	**$ 505,984**	**$ 4,234,369**	**$ 4,265,864**

*As Restated

Changes in Net Assets

The State's fiscal year 2008 revenues totaled $7.2 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 48.5 percent and 35.7 percent, respectively, of every dollar raised. The remainder came from charges for services and other miscellaneous sources.

The total cost of all programs and services totaled $7.2 billion for the year 2008. (See Table A-2) These expenses are predominantly (69.2 percent) related to health & human services and education activities. The State's governmental support & operations activities accounted for 7.5 percent of total costs. Total net assets decreased by $31.5 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007*	2008	2007	2008	2007*
Revenues						
Program Revenues:						
Charges for Services	$ 460,080	$ 406,582	$ 493,197	$ 463,518	$ 953,277	$ 870,100
Operating Grants/Contributions	2,559,533	2,353,398	22,950	21,386	2,582,483	2,374,784
Capital Grants/Contributions	-	6,434	-	4,143	-	10,577
General Revenues:					-	-
Taxes	3,512,767	3,448,127	-		3,512,767	3,448,127
Other	189,349	211,168	2	2	189,351	211,170
Total Revenues	6,721,729	6,425,709	516,149	489,049	7,237,878	6,914,758
Expenses						
Governmental Activities:						
Governmental Support	540,789	460,315			540,789	460,315
Education	1,669,353	1,622,653			1,669,353	1,622,653
Health & Human Services	3,290,482	2,989,001			3,290,482	2,989,001
Justice & Protection	407,879	358,718			407,879	358,718
Transportation Safety	329,914	267,994			329,914	267,994
Other	412,007	414,597			412,007	414,597
Interest	35,524	36,246			35,524	36,246
Business-Type Activities:					-	-
Employment Security			122,518	120,215	122,518	120,215
Lottery			178,419	180,722	178,419	180,722
Military Equip. Maint.			80,306	35,140	80,306	35,140
Dirigo Health			76,860	65,178	76,860	65,178
Other			25,322	22,595	25,322	22,595
Total Expenses	6,685,948	6,149,524	483,425	423,850	7,169,373	6,573,374
Excess (Deficiency) before Special Items and Transfers	35,781	276,185	32,724	65,199	68,505	341,384
Special Items	(100,000)	-	-	-	(100,000)	-
Transfers	38,470	40,979	(38,470)	(40,979)	-	-
Increase (Decrease) in Net Assets	(25,749)	317,164	(5,746)	24,220	(31,495)	341,384
Net Assets, beginning of year	3,759,880	3,442,716	505,984	481,764	4,265,864	3,924,480
Ending Net Assets	$ 3,734,131	$ 3,759,880	$ 500,238	$ 505,984	$ 4,234,369	$ 4,265,864

*As Restated

Governmental Activities

Revenues for the State's Governmental Activities totaled $6.7 billion while total expenses equaled $6.7 billion. The decrease in net assets for Governmental Activities was $25.7 million in 2008. This is due, primarily, to an initial contribution during fiscal year 2008 of $100 million to an irrevocable trust for State employees' retiree healthcare costs. Additionally, program revenues were insufficient to cover program expenses. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes. Tax revenue increased by $64.6 million from the prior year, however net expenses supported by tax revenue increased by approximately $291.7 million.

The users of the State's programs financed $460.1 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $2.6 billion. $3.7 billion of the State's net costs were financed by taxes and other miscellaneous revenue.

Table A-3: Total Sources of Revenues for Governmental Activities for Fiscal Year 2008

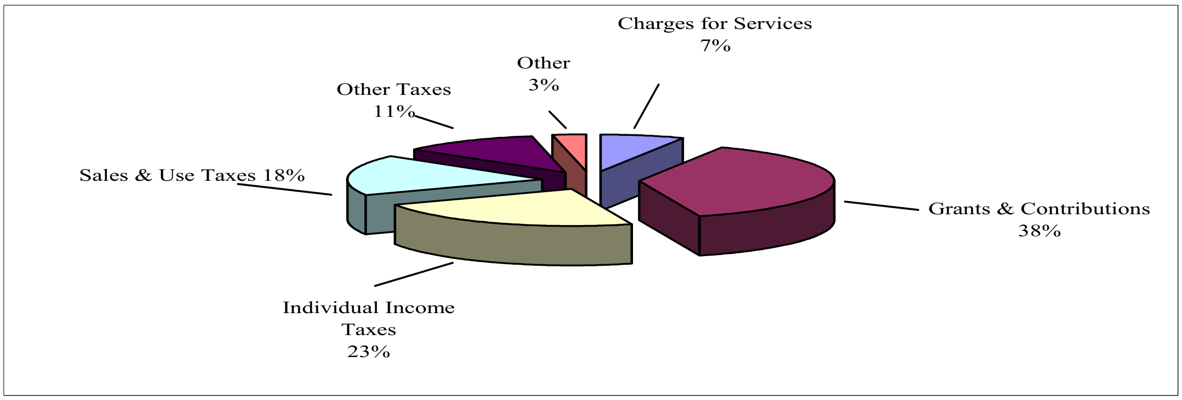
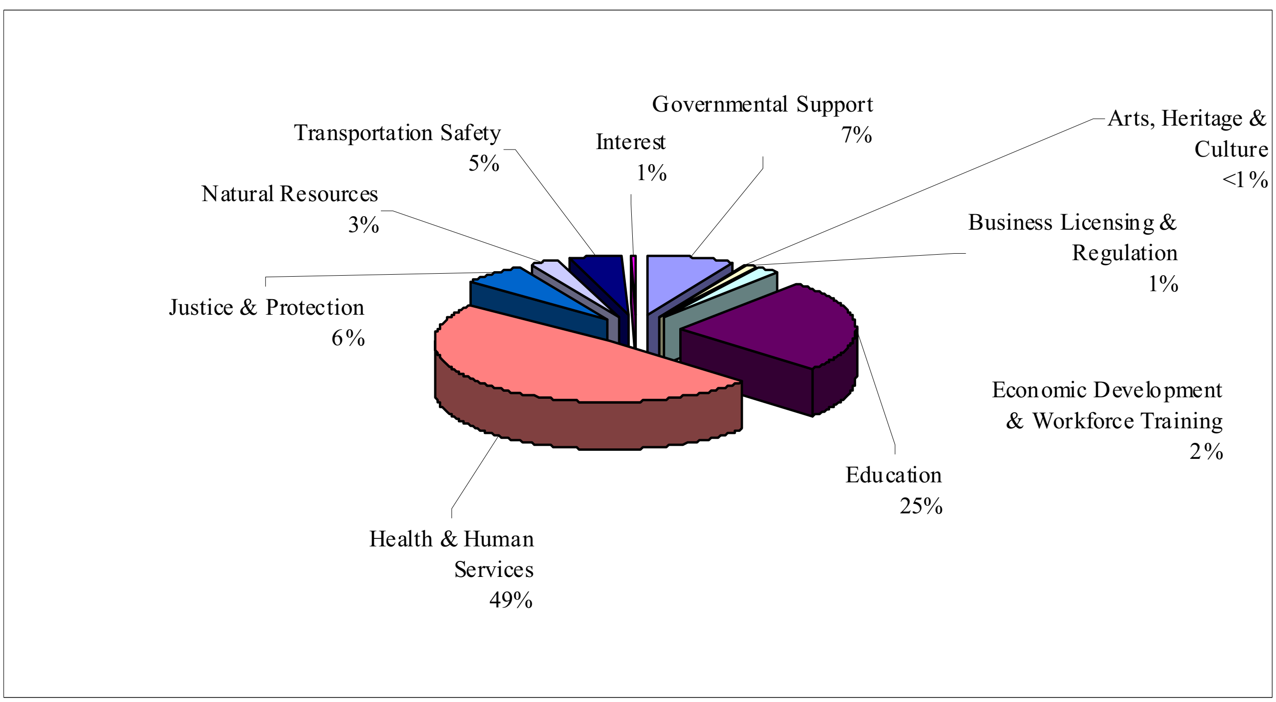


Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2008



Business-type Activities

Revenues for the State's Business-type Activities totaled $516.1 million while expenses totaled $483.4 million. The decrease in net assets for Business-type Activities was $5.7 million in 2008, due mainly to the timing of revenue collections from the Savings Offset Program of Dirigo Health.

Table A-5 presents the cost of State Business-type Activities: employment security, alcoholic beverages, lottery, military equipment maintenance, Dirigo Health and other. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the State's taxpayers by each of these functions.

Table A-5: Net Cost of Business-Type Activities
(Expressed in Thousands)

	Total Cost		Net (Cost) Revenue	
Category	**2008**	**2007**	**2008**	**2007**
Employment Security	$122,518	$120,215	$6,968	$13,991
Alcoholic Beverages	-	-	12,527	12,525
Lottery	178,419	180,722	50,561	50,906
Military Equip. Maint.	80,306	35,140	(3,077)	(4,822)
Dirigo Health	76,860	65,178	(22,353)	(1,839)
Other	25,322	23,595	(11,902)	(5,562)
Total	$483,425	$424,850	$32,724	$65,199

The cost of all Business-type Activities this year was $483.4 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-type Activities was $32.7 million, with the Lottery making up $50.6 million of the total. The State’s Business-type Activities transferred $38.5 million (net) to the Governmental Activities in statutorily required profit transfers.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

Fund	Total Cost 2008	2007*	Change
General	($238,472)	($164,779)	($73,693)
Highway	(2,263)	27,559	(29,822)
Federal	38,155	37,595	560
Other Special Revenue	291,084	263,983	27,101
Other Governmental	99,404	100,098	(694)
Total	$187,908	$264,456	($76,548)

* As restated

The State's governmental fund balances decreased during fiscal year 2008 from fiscal year 2007 by $76.5 million. The General Fund's decrease of $73.7 million was due mainly to an increase in the Medicaid hospital and IBNP accruals of approximately $60.8 million. The Highway Fund fund balance decreased by $29.8 million from fiscal year 2007. Transportation, safety and development expenditures were $31.5 million higher in fiscal year 2008. However, revenues to support those expenditures, mainly taxes, decreased by $5.6 million.

Budgetary Highlights

For the 2008 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to $3.2 billion, an increase of about $18.7 million from the original legally adopted budget of approximately $3.2 billion. Actual expenditures on a budgetary basis amounted to approximately $93.6 million less than those authorized in the final budget; however, after deducting the encumbered obligations and other commitments that will come due in fiscal year 2009, $44.6 million of funds remained as a result of a continuing concerted effort to control spending, primarily in the broad categories of education and social services. Of this amount, all but $935 thousand was designated for Mainecare appropriations in fiscal year 2009. Actual revenues exceeded final budget forecasts by $44.3 million. The unobligated balance reported on a budgetary basis was overstated by $11.1 million due to an accounting/programming error. This accounting error was corrected legislatively in fiscal year 2009 by transferring funds from the State's Budget Stabilization Fund.

As a part of the final budget adjustment for Fiscal Year 2008, the Legislature approved a direct appropriation to the State's Budget Stabilization Fund in the amount of $10 million. The additional appropriation and interest earnings increased the balance in the Fund to $128.9 million as of June 30, 2008. This item is further explained in Note 2 of Notes to the Financial Statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2008, the State had roughly $4.2 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2008, the State acquired or constructed more than $230.4 million of capital assets. The most significant impact on capital assets during the year resulted from continued construction and rehabilitation of roads and bridges, and major construction and renovation of State-owned facilities. More detailed information about the State's capital assets and significant construction commitments is presented in Notes 8 and 15 to the financial statements.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Land	$ 434,230	$ 424,331	$ 43,345	$ 38,417	$ 477,575	$ 462,748
Buildings	564,182	560,307	9,499	9,769	573,681	570,076
Equipment	250,828	248,129	44,194	43,385	295,022	291,514
Improvements	19,541	18,246	62,607	61,218	82,148	79,464
Infrastructure	3,178,666	3,023,973	-	-	3,178,666	3,023,973
Construction in Progress	24,175	10,230	10,368	3,613	34,543	13,843
Total Capital Assets	4,471,622	4,285,216	170,013	156,402	4,641,635	4,441,618
Accumulated Depreciation	376,205	351,045	74,108	66,041	450,313	417,086
Capital Assets, net	$ 4,095,417	$ 3,934,171	$ 95,905	$ 90,361	$ 4,191,322	$ 4,024,532

Modified Approach for Infrastructure

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

Highways and bridges are included in the State's infrastructure. There are 8,816 highway miles or 17,912 lane miles within the State. Bridges have a deck area of 11.5 million square feet among 2,962 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2008, the actual average condition was 75.6. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 79 at June 30, 2008. Preservation costs for fiscal year 2008 totaled $81.6 million compared to estimated preservation costs of $99.7 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 39, PL 2007, $60 million was spent during FY 2008.

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

Long-Term Debt

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

At year-end, the State had $1 billion in general obligation and other long-term debt outstanding. More detailed information about the State's long-term liabilities is presented in Note 11 to the financial statements.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
General Obligation Bonds	$ 475,835	$ 448,760	$ -	$ -	$ 475,835	$ 448,760
Other Long-Term Obligations	523,906	470,815	750	718	524,656	471,533
Total	$ 999,741	$ 919,575	$ 750	$ 718	$1,000,491	$ 920,293

During the year, the State reduced outstanding long-term obligations by $77 million for outstanding general obligation bonds and $230.4 million for other long-term debt. Also during fiscal year 2008, the State incurred $387.6 million of additional long-term obligations.

Credit Ratings

Three of the major bond rating agencies regularly assess the State’s credit rating. During fiscal year 2008, Moody’s Investors Service rated the State at Aa3, Standard & Poor’s rated it at AA, and Fitch Ratings rated it at AA. For fiscal year 2007, the Moody’s rating was Aa3, Standard & Poor’s was AA, and Fitch Ratings was AA.

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

Inflation continued to rise though the past year. The Consumer Price Index rose nearly 2.6 percent from July 2007 to July 2008; however, fuel and utilities prices rose much faster. The rise in oil prices to over $140 a barrel in late summer due to unrest in the Middle East and a strained dollar put pressure on both household and government budgets. Oil prices throughout the summer of 2008 in the $140 a barrel range, are imposing significant challenges to Maine households and governmental operations at all levels in the State during the winter heating season. Fuel oil prices started 2008 at approximately $3.34 per gallon rising steadily through the summer months to $4.65 per gallon in July which is the peak of the pre-buy season for consumers in Maine, and then declined steadily to $2.64 per gallon in December 2008. The decline in fuel oil prices was driven by the worsening economy in the US driven by the crises in the subprime mortgage credit markets which developed into a nationwide recession and banking credit crunch.

Personal income continues to rise in Maine faster than inflation. According to the latest statistics available, the average weekly wage in Maine is estimated to have risen by 3.9 percent in calendar year 2007 and personal income by 5.5 percent. The moderate growth in 2007 is in contrast to the much slower growth in 2005 when the state was affected by a number of events, the most significant of which was the Base Realignment and Closure Commission process. Unemployment has hovered around the national average throughout the year. The rate in Maine stood at 7.2 percent in December of 2008 which was consistent with the rest of New England; however, unemployment in Maine is expected to reach 9 percent in calendar year 2009 as the nationwide recession continues.

The General Fund Revenue estimate accepted by the Independent Revenue Forecasting Commission for the 2010-2011 Biennium provides approximately $6.1 billion in resources to be available for general purpose spending. The 2008-2009 biennial budget had to be brought into balance by a curtailment order issued by the Governor and enacted into law by a supplemental budget Public Law 2009, Chapter 1. We expect the upcoming biennial budget will require several adjustments to keep in balance throughout the next biennium as revenues continue to erode. The Budget will be amended several times through various public laws to ensure adequate resources are available for the fiscal years of the biennium as revenues and resources appear to be in decline as the result of high energy costs, inflation, and the real estate market's sub prime mortgage crises.

The national economic recession is forecasted to impact Maine, but not as severely as the rest of the nation. While the housing market has slowed in Maine, homes prices have mostly held steady and most financial institutions in Maine are solid. Maine's economy is not heavily dependent on financial services jobs, and therefore is not expected to be significantly affected by the crisis in the nation's financial sector. The one area that is estimated to be strongly affected by the recession is the retail sector. Employment in the retail sector is forecasted to contract during the first half of 2009 as consumers continue to retrench.

At the close of fiscal year 2008, the deficit balance in the State of Maine's Unreserved Fund Balance Account in the General Fund has increased to $403.9 million. The deficit in 2007 amounted to $283.5 million causing a single year increase of approximately 42.5 percent.

There are many factors that adversely affect our General Fund Balance Sheet that we should strive to resolve over the next several years. The paramount cause for the current condition is the increasing Medicaid liabilities that accrue at the end of each fiscal year. Included in the end of the year Medicaid liabilities are the growing number of incurred but not paid claims and the unpaid hospital settlements that date back several years that are still unresolved. In the past year, Medicaid liabilities increased by 23 percent while General Fund Tax Revenue only increased by approximately 3 percent. The increases in funding that the State has provided to local school districts has also placed a huge strain on resources. Other factors that have a significant impact on the State's Financial Statements compiled and issued in accordance with Generally Accepted Accounting Principles as applicable to governments include such factors as accruing tax revenues for budgetary purposes and for financial statement

purposes without accruing the offsetting liabilities for budgetary purposes, the increase in the demand for carrying accounts and a lack of allowing money to accrue to the Unreserved Fund Balance of the General Fund.

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

These factors will have a significant impact on Maine's economy and the State's budget for the next several years.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

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

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


DIRIGO
MAINE

STATE OF MAINE
STATEMENT OF NET ASSETS

June 30, 2008
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ 436,430	$ 3,253	$ 439,683	$ 53,342
Cash and Cash Equivalents	289	2,848	3,137	52,783
Cash with Fiscal Agent	72,139	-	72,139	-
Investments	74,975	-	74,975	738,425
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	9,201	-	9,201	-
Restricted Deposits and Investments	24,112	463,574	487,686	-
Inventories	7,918	849	8,767	2,142
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	384,522	-	384,522	-
Loans Receivable	5,853	-	5,853	77,045
Notes Receivable	-	-	-	145
Other Receivables	229,706	55,825	285,531	57,277
Internal Balances	17,377	(17,377)	-	-
Due from Other Governments	693,846	-	693,846	143,045
Due from Primary Government	-	-	-	28,501
Loans receivable from primary government	-	-	-	4,617
Due from Component Units	180	73	253	-
Other Current Assets	4,054	76	4,130	39,621
Total Current Assets	1,960,602	509,121	2,469,723	1,196,943
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	28,640	210	28,850	3,272
Assets Held in Trust	-	-	-	4,205
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	380	-	380	-
Restricted Deposits and Investments	-	-	-	785,128
Investments	-	-	-	339,612
Receivables, Net of Current Portion:				
Taxes Receivable	50,724	-	50,724	-
Loans Receivable	-	-	-	2,557,204
Notes Receivable	-	-	-	269,130
Other Receivables	-	-	-	10,387
Due from Other Governments	4,075	-	4,075	1,136,345
Loans receivable from primary government	-	-	-	34,203
Due From Primary Government	-	-	-	2,386
Other Noncurrent Assets	-	-	-	33,883
Post-Employment Benefit Asset	53,203	2,185	55,388	-
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	3,637,071	53,713	3,690,784	106,293
Buildings, Equipment and Other Depreciable Assets	834,551	116,300	950,851	1,129,389
Less: Accumulated Depreciation	(376,205)	(74,108)	(450,313)	(390,462)
Capital Assets, Net of Accumulated Depreciation	4,095,417	95,905	4,191,322	845,220
Total Noncurrent Assets	4,232,439	98,300	4,330,739	6,020,975
Total Assets	$ 6,193,041	$ 607,421	$ 6,800,462	$ 7,217,918

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

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Liabilities				
Current Liabilities:				
Accounts Payable	$ 1,109,584	$ 7,486	$ 1,117,070	$ 78,843
Accrued Payroll	50,258	1,632	51,890	842
Tax Refunds Payable	147,719	-	147,719	-
Due to Component Units	30,909	-	30,909	-
Due to Primary Government	-	-	-	253
Undistributed Grants and Administrative Funds	-	-	-	10,970
Allowances for Losses on Insured Commercial Loans	-	-	-	9,208
Current Portion of Long-Term Obligations:				
Compensated Absences	5,294	162	5,456	2,280
Due to Other Governments	87,606	-	87,606	1,931
Amounts Held under State & Federal Loan Programs	-	-	-	19,664
Claims Payable	24,964	-	24,964	-
Bonds and Notes Payable	79,190	-	79,190	151,546
Revenue Bonds Payable	15,625	-	15,625	41,089
Obligations under Capital Leases	6,247	-	6,247	301
Certificates of Participation and Other Financing Arrangements	30,785	-	30,785	-
Pledged Future Revenues	4,135	-	4,135	-
Accrued Interest Payable	7,611	-	7,611	46,983
Deferred Revenue	949	14,051	15,000	42,753
Other Current Liabilities	9,778	20,764	30,542	50,078
Total Current Liabilities	1,610,654	44,095	1,654,749	456,741
Long-Term Liabilities:				
Compensated Absences	39,340	588	39,928	-
Due to Other Governments	253	-	253	14,655
Amounts Held under State & Federal Loan Programs	-	-	-	45,391
Claims Payable	41,457	-	41,457	-
Bonds and Notes Payable	396,645	-	396,645	3,176,211
Revenue Bonds Payable	192,935	-	192,935	1,413,479
Obligations under Capital Leases	31,275	-	31,275	4,563
Certificates of Participation and Other Financing Arrangements	44,073	-	44,073	-
Pledged Future Revenues	34,203	-	34,203	-
Deferred Revenue	14,502	62,500	77,002	23,454
Pension Obligation	18,708	-	18,708	-
Other Post-Employment Benefit Obligation	34,865	-	34,865	-
Other Noncurrent Liabilities	-	-	-	88,821
Total Long-Term Liabilities	848,256	63,088	911,344	4,766,574
Total Liabilities	2,458,910	107,183	2,566,093	5,223,315
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,632,073	95,905	3,727,978	611,964
Restricted:				
Federal Programs	38,155	-	38,155	-
Natural Resources	16,458	-	16,458	-
Capital Projects and Debt Service	24,342	-	24,342	-
Unemployment Compensation	-	493,733	493,733	-
Other Purposes	46,871	-	46,871	1,103,699
Funds Held as Permanent Investments:				
Expendable	62,171	-	62,171	-
Nonexpendable	12,891	-	12,891	-
Unrestricted	(98,830)	(89,400)	(188,230)	278,940
Total Net Assets	$ 3,734,131	$ 500,238	$ 4,234,369	$ 1,994,603

STATE OF MAINE
STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Governmental Support & Operations	$ 540,789	$ 86,178	$ 8,315	$ -
Arts, Heritage & Cultural Enrichment	12,406	1,303	2,567	-
Business Licensing & Regulation	63,417	69,845	597	-
Economic Development & Workforce Training	149,970	2,361	75,490	-
Education	1,669,353	3,653	187,014	-
Health & Human Services	3,290,482	11,694	2,013,056	-
Justice & Protection	407,879	89,580	72,543	-
Natural Resources Development & Protection	186,214	92,737	34,571	-
Transportation Safety & Development	329,914	102,729	165,380	-
Interest Expense	35,524	-	-	-
Total Governmental Activities	6,685,948	460,080	2,559,533	-
Business-Type Activities:				
Employment Security	122,518	106,536	22,950	-
Alcoholic Beverages	-	12,527	-	-
Lottery	178,419	228,980	-	-
Transportation	7,432	2,089	-	-
Marine Ports	1,925	315	-	-
Ferry Services	9,292	4,116	-	-
Military Equipment Maintenance	80,306	77,229	-	-
Dirigo Health	76,860	54,507	-	-
Other	6,673	6,898	-	-
Total Business-Type Activities	483,425	493,197	22,950	-
Total Primary Government	$ 7,169,373	$ 953,277	$ 2,582,483	$ -
Component Units:				
Finance Authority of Maine	50,579	19,233	28,691	-
Maine Community College System	106,194	25,266	28,414	2,651
Maine Health & Higher Educational Facilities Authority	73,670	70,087	7,235	-
Maine Municipal Bond Bank	65,272	47,418	14,790	21,432
Maine State Housing Authority	226,865	73,386	179,250	-
University of Maine System	654,380	278,178	163,337	5,624
All Other Non-Major Component Units	97,014	33,722	41,566	3,990
Total Component Units	$ 1,273,974	$ 547,290	$ 463,283	$ 33,697

General Revenues:
- Taxes:
  - Corporate
  - Individual Income
  - Fuel
  - Property
  - Sales & Use
  - Other
- Unrestricted Investment Earnings
- Non-Program Specific Grants, Contributions & Appropriations
- Miscellaneous Income
- Loss on Assets Held for Sale
- Tobacco Settlement

Special Items
Transfers - Internal Activities
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning (As Restated)
Net Assets - Ending

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

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (446,296)	$ -	$ (446,296)	$ -
(8,536)	-	(8,536)	-
7,025	-	7,025	-
(72,119)	-	(72,119)	-
(1,478,686)	-	(1,478,686)	-
(1,265,732)	-	(1,265,732)	-
(245,756)	-	(245,756)	-
(58,906)	-	(58,906)	-
(61,805)	-	(61,805)	-
(35,524)	-	(35,524)	-
(3,666,335)	-	(3,666,335)	-
-	6,968	6,968	-
-	12,527	12,527	-
-	50,561	50,561	-
-	(5,343)	(5,343)	-
-	(1,610)	(1,610)	-
-	(5,176)	(5,176)	-
-	(3,077)	(3,077)	-
-	(22,353)	(22,353)	-
-	225	225	-
-	32,722	32,722	-
$ (3,666,335)	$ 32,722	$ (3,633,613)	$ -
-	-	-	(2,655)
-	-	-	(49,863)
-	-	-	3,652
-	-	-	18,368
-	-	-	25,771
-	-	-	(207,241)
-	-	-	(17,736)
$ -	$ -	$ -	$ (229,704)
291,463	-	291,463	-
1,552,412	-	1,552,412	-
177,937	-	177,937	-
43,672	-	43,672	-
1,192,986	-	1,192,986	-
254,297	-	254,297	-
5,857	-	5,857	8,532
-	-	-	293,613
120,109	2	120,111	2,854
(1,016)	-	(1,016)	(492)
64,399	-	64,399	-
(100,000)	-	(100,000)	-
38,470	(38,470)	-	-
3,640,586	(38,468)	3,602,118	304,507
(25,749)	(5,746)	(31,495)	74,803
3,759,880	505,984	4,265,864	1,919,800
$ 3,734,131	$ 500,238	$ 4,234,369	$ 1,994,603


DIRIGO
MAINE

STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2008
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Treasurer's Cash Pool	$ 62,935	$ 20,422	$ 3,982	$ 217,703	$ 78	$ 305,120
Cash and Short-Term Investments	124	116	4	42	-	286
Cash with Fiscal Agent	603	2,986	-	50,664	-	54,253
Investments	-	-	-	-	74,975	74,975
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	3,370	-	-	-	6,211	9,581
Restricted Deposits and Investments	-	-	-	-	21,150	21,150
Inventories	1,984	-	613	-	-	2,597
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	405,747	19,688	-	9,811	-	435,246
Loans Receivable	1	62	-	5,790	-	5,853
Other Receivable	83,191	1,767	62,395	73,459	-	220,812
Due from Other Funds	43,321	2,873	16,039	19,459	159	81,851
Due from Other Governments	-	-	693,301	-	-	693,301
Due from Component Units	51	-	10	-	119	180
Other Assets	2,989	-	52	-	-	3,041
Working Capital Advances Receivable	111	-	-	-	-	111
Total Assets	$ 604,427	$ 47,914	$ 776,396	$ 376,928	$ 102,692	$ 1,908,357
Liabilities and Fund Balances						
Accounts Payable	$ 381,876	$ 30,201	$ 626,056	$ 32,377	$ 875	$ 1,071,385
Accrued Payroll	22,845	9,967	5,494	8,585	-	46,891
Tax Refunds Payable	147,561	158	-	-	-	147,719
Due to Other Governments	-	-	87,606	-	-	87,606
Due to Other Funds	64,887	2,409	8,043	4,745	27	80,111
Due to Component Units	3,371	58	9,911	1,474	2,386	17,200
Deferred Revenue	215,541	7,382	650	35,708	-	259,281
Other Accrued Liabilities	6,818	2	481	2,955	-	10,256
Total Liabilities	842,899	50,177	738,241	85,844	3,288	1,720,449
Fund Balances:						
Reserved						
Continuing Appropriations	118,657	35,591	48,403	228,317	155	431,123
Capital Projects	-	-	-	-	24,342	24,342
Permanent Trusts	-	-	-	-	12,891	12,891
Other	46,745	62	-	46,461	62,016	155,284
Unreserved	(403,874)	(37,916)	(10,248)	16,306	-	(435,732)
Total Fund Balances	(238,472)	(2,263)	38,155	291,084	99,404	187,908
Total Liabilities and Fund Balances	$ 604,427	$ 47,914	$ 776,396	$ 376,928	$ 102,692	$ 1,908,357

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

STATE OF MAINE
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2008
(Expressed in Thousands)

Total fund balances for governmental funds		$ 187,908
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	4,167,592	
Less: Accumulated depreciation	(193,681)	3,973,911
Other Post-Employment Benefit Assets are not financial resources		53,203
Long-term liabilities are not due and payable in the current period. Therefore, long-term liabilities are not reported in the governmental fund statements. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement:		
Bonds Payable	(475,835)	
Interest Payable Related to Long-term Financing	(4,650)	
Certificates of Participation and Other Financing Arrangements	(25,736)	
Pledged Future Revenues	(38,338)	
Compensated Absences	(40,786)	
Pension Obligation	(18,708)	
Other Post-Employment Benefit Obligation	(34,865)	(638,918)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		249,716
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		(91,689)
Net assets of governmental activities		$ 3,734,131

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

STATE OF MAINE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$ 3,079,706	$ 221,492	$ -	$ 209,439	$ -	$ 3,510,637
Assessments and Other Revenue	116,742	93,714	-	109,907	-	320,363
Federal Grants and Reimbursements	11,041	465	2,551,346	6,780	-	2,569,632
Service Charges	47,262	6,995	1,449	89,385	-	145,091
Investment Income (Loss)	2,562	675	222	1,640	(2,743)	2,356
Miscellaneous Revenue	7,872	-	3,891	117,933	4,414	134,110
Total Revenues	3,265,185	323,341	2,556,908	535,084	1,671	6,682,189
Expenditures						
Current:						
Governmental Support & Operations	280,871	37,749	9,431	167,181	7,891	503,123
Economic Development & Workforce Training	39,360	-	80,649	27,428	4,966	152,403
Education	1,478,192	-	184,441	5,918	12,545	1,681,096
Health and Human Services	1,063,499	-	2,028,571	261,913	2,700	3,356,683
Business Licensing & Regulation	-	-	548	64,922	-	65,470
Natural Resources Development & Protection	72,709	28	32,426	85,951	4,216	195,330
Justice and Protection	267,117	36,229	72,495	39,436	368	415,645
Arts, Heritage & Cultural Enrichment	8,632	-	2,566	1,258	261	12,717
Transportation Safety & Development	-	273,852	152,451	21,349	69,104	516,756
Debt Service:						
Principal Payments	66,250	10,750	4,015	-	-	81,015
Interest Payments	16,058	2,051	1,466	-	-	19,575
Total Expenditures	3,292,688	360,659	2,569,059	675,356	102,051	6,999,813
Revenue over (under) Expenditures	(27,503)	(37,318)	(12,151)	(140,272)	(100,380)	(317,624)
Other Financing Sources (Uses):						
Transfer from Other Funds	101,092	8,162	28,195	173,314	1,391	312,154
Transfer to Other Funds	(152,813)	(3,995)	(15,484)	(47,623)	(5,780)	(225,695)
COP's and Other	5,531	3,329	-	41,682	-	50,542
Bonds Issued	-	-	-	-	104,075	104,075
Net Other Finance Sources (Uses)	(46,190)	7,496	12,711	167,373	99,686	241,076
Revenues and Other Sources over (under) Expenditures and Other Uses	(73,693)	(29,822)	560	27,101	(694)	(76,548)
Fund Balances at Beginning of Year (As Restated)	(164,779)	27,559	37,595	263,983	100,098	264,456
Fund Balances at End of Year	$ (238,472)	$ (2,263)	$ 38,155	$ 291,084	$ 99,404	$ 187,908

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

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

June 30, 2008
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ (76,548)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, the amounts are:		
Capital outlay	177,432	
Depreciation expense	(18,796)	158,636
The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets.		(1,316)
Post-employment benefit asset funding, net		53,203
The issuance of long-term debt provides current financial resources to governmental funds which increases long-term debt in the Statement of Net Assets. Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but repayment reduces long-term debt in the Statement of Net Assets. This is the amount that proceeds exceed repayments:		
Bond proceeds	(104,075)	
Proceeds from other financing arrangements	(8,860)	
Repayment of bond principal	77,000	
Repayment of other financing debt	10,840	
Accrued interest	101	(24,994)
Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported as expenditures on the Statement of Net Assets and have been eliminated from the Statement of Activities as follows:		
Pension obligation	(264)	
Other post-employment benefit obligation	(34,865)	
Pledged future revenues	4,015	
Compensated absences	(2,693)	(33,807)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		8,262
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is included in governmental activities in the Statement of Activities.		(109,185)
Changes in net assets of governmental activities		$ (25,749)

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


DIRIGO
MAINE

STATE OF MAINE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2008
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major Employment Security	Non-Major Other Enterprise	Totals	Internal Service Funds
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ -	$ 3,253	$ 3,253	$ 150,172
Cash and Short-Term Investments	2,091	757	2,848	3
Cash with Fiscal Agent	-	-	-	17,886
Restricted Assets:				
Restricted Deposits and Investments	463,574	-	463,574	2,962
Inventories	-	849	849	5,321
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	-	15,625
Other Receivable	30,273	25,552	55,825	3,231
Due from Other Funds	25	542	567	45,940
Due from Component Units	-	73	73	-
Other Current Assets	-	76	76	1,013
Total Current Assets	495,963	31,102	527,065	242,153
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	-	210	210	9,778
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	-	192,935
Post-Employment Benefit Asset	-	2,185	2,185	-
Capital Assets - Net of Depreciation	-	95,905	95,905	121,506
Total Noncurrent Assets	-	98,300	98,300	324,219
Total Assets	495,963	129,402	625,365	566,372
Liabilities				
Current Liabilities:				
Accounts Payable	1,358	6,128	7,486	21,254
Accrued Payroll	-	1,632	1,632	3,367
Due to Other Governments	-	-	-	253
Due to Other Funds	-	19,353	19,353	40,175
Due to Component Units	-	-	-	13,709
Current Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	-	-	-	20,701
Revenue Bonds Payable	-	-	-	15,625
Obligations Under Capital Leases	-	-	-	6,247
Claims Payable	-	-	-	24,964
Compensated Absences	-	162	162	481
Deferred Revenue	-	14,051	14,051	299
Other Accrued Liabilities	872	19,892	20,764	2,483
Total Current Liabilities	2,230	61,218	63,448	149,558
Long-Term Liabilities:				
Working Capital Advances Payable	-	-	-	111
Deferred Revenue	-	62,500	62,500	967
Certificates of Participation and Other Financing Arrangements	-	-	-	28,421
Revenue Bonds Payable	-	-	-	192,935
Obligations Under Capital Leases	-	-	-	31,275
Claims Payable	-	-	-	41,457
Compensated Absences	-	588	588	3,367
Total Long-Term Liabilities	-	63,088	63,088	298,533
Total Liabilities	2,230	124,306	126,536	448,091
Net Assets				
Invested in Capital Assets, Net of Related Debt	-	95,905	95,905	64,096
Restricted for:				
Unemployment Compensation	493,733	-	493,733	-
Other Purposes	-	-	-	2,676
Unrestricted	-	(90,809)	(90,809)	51,509
Total Net Assets	$ 493,733	$ 5,096	498,829	$ 118,281
Amounts reported for business-type activities in the government-wide Statement of Net Assets are different due to elimination of the State's internal business-type activities.			1,409	
Net Assets of Business-Type Activities			$ 500,238	

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

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

Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		Internal
	Employment Security	Other Enterprise	Totals	Service Funds
Operating Revenues				
Charges for Services	$ -	$ 371,576	$ 371,576	$ 420,721
Assessments	105,986	1,746	107,732	-
Miscellaneous Revenues	550	576	1,126	16,128
Total Operating Revenues	106,536	373,898	480,434	436,849
Operating Expenses				
General Operations	-	350,917	350,917	349,217
Depreciation	-	10,139	10,139	18,077
Claims/Fees Expense	122,518	-	122,518	10,197
Other Operating Expenses	-	-	-	719
Total Operating Expenses	122,518	361,056	483,574	378,210
Operating Income (Loss)	(15,982)	12,842	(3,140)	58,639
Nonoperating Revenues (Expenses)				
Investment Revenue (Expense) - net	22,950	-	22,950	3,501
Interest Expense	-	-	-	(16,053)
Other Nonoperating Revenues (Expenses)- net	-	12,763	12,763	317
Total Nonoperating Revenues (Expenses)	22,950	12,763	35,713	(12,235)
Income (Loss) Before Capital Contributions, Transfers and Special Items	6,968	25,605	32,573	46,404
Capital Contributions, Transfers and Special Items				
Capital Contributions from (to) Other Funds	-	14,371	14,371	3,177
Transfers from Other Funds	-	4,564	4,564	916
Transfers to Other Funds	(2,912)	(54,498)	(57,410)	(33,570)
Special Items	-	-	-	(100,000)
Total Capital Contributions, Transfers In (Out) and Special Items	(2,912)	(35,563)	(38,475)	(129,477)
Change in Net Assets	4,056	(9,958)	(5,902)	(83,073)
Total Net Assets - Beginning of Year	489,677	15,054		201,354
Total Net Assets - End of Year	$ 493,733	$ 5,096		$ 118,281
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-types activities			156	
Changes in Business-Types Net Assets			$ (5,746)	

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

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2008
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major Employment Security	Non-Major Other Enterprise	Totals	Internal Service Funds
Cash Flows from Operating Activities				
Receipts from Customers and Users	$ 105,093	$ 378,819	$ 483,912	$ 389,993
Payments of Benefits	(123,454)	-	(123,454)	-
Payments to Prize Winners	-	(143,951)	(143,951)	-
Payments to Suppliers	-	(156,245)	(156,245)	(244,638)
Payments to Employees	-	(37,917)	(37,917)	(74,528)
Net Cash Provided (Used) by Operating Activities	(18,361)	40,706	22,345	70,827
Cash Flows from Noncapital Financing Activities				
Operating Transfers in	-	4,564	4,564	916
Operating Transfers out	(2,912)	(54,498)	(57,410)	(33,570)
Special Items - Initial OPEB Trust Contribution	-	-	-	(100,000)
Net Cash Provided (Used) by Noncapital Financing Activities	(2,912)	(49,934)	(52,846)	(132,654)
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets	-	(1,449)	(1,449)	(19,435)
Proceeds from Financing Arrangements	-	-	-	42,285
Principal and Interest Paid on Financing Arrangements	-	-	-	(40,087)
Proceeds from Sale of Capital Assets	-	137	137	1,353
Net Cash Provided (Used) by Capital Financing Activities	-	(1,312)	(1,312)	(15,884)
Cash Flows from Investing Activities				
Interest Revenue	22,950	263	23,213	3,501
Net Cash Provided (Used) by Investing Activities	22,950	263	23,213	3,501
Net Increase (Decrease) in Cash/Cash Equivalents	1,677	(10,277)	(8,600)	(74,210)
Cash/Cash Equivalents - Beginning of Year	463,988	14,497	478,485	255,011
Cash/Cash Equivalents - End of Year	$ 465,665	$ 4,220	$ 469,885	$ 180,801
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	$ (15,982)	$ 12,842	$ (3,140)	$ 58,639
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	-	10,139	10,139	18,077
Decrease (Increase) in Assets				
Accounts Receivable	(1,434)	(3,467)	(4,901)	(23,368)
Interfund Balances	(9)	18,047	18,038	(13,123)
Inventories	-	(70)	(70)	(630)
Increase (Decrease) in Liabilities				
Accounts Payable	(938)	3,355	2,417	15,442
Accrued Payroll Expenses	-	187	187	302
Change in Compensated Absences	-	32	32	261
Other Accruals	2	(359)	(357)	15,227
Total Adjustments	(2,379)	27,864	25,485	12,188
Net Cash Provided (Used) by Operating Activities	$ (18,361)	$ 40,706	$ 22,345	$ 70,827
Non Cash Investing, Capital and Financing Activities				
Property Leased, Accrued, or Acquired	-	-	-	526
Contributed Capital Assets	-	14,371	14,371	3,177
Recognize revenue from the prior sale of liquor operations	-	12,500	12,500	-

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

STATE OF MAINE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2008
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
Assets			
Equity in Treasurer's Cash Pool	$ -	$ 1,276	$ 7,002
Cash and Short-Term Investments	568,402	-	42
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	10,289	-	-
Interest and Dividends	23,065	442	-
Due from Brokers for Securities Sold	187,899	-	-
Investments at Fair Value:			
Debt Securities	4,245,834	-	-
Equity Securities	1,998,003	-	-
Common/Collective Trusts	3,944,741	-	-
Other	5,552	10,980	-
Securities Lending Collateral	2,689,790	-	-
Due from other funds	-	16,937	7
Investments Held on Behalf of Others	-	5,316,066	60,263
Capital Assets - Net of Depreciation	4,898	-	-
Other Assets	-	14,195	6,115
Total Assets	13,678,473	5,359,896	73,429
Liabilities			
Accounts Payable	4,878	417	27
Due to Other Funds	-	15	5,648
Due to Brokers for Securities Purchased	198,802	-	-
Agency Liabilities	-	-	67,738
Obligations Under Securities Lending	2,689,790	-	-
Other Accrued Liabilities	137,821	-	16
Total Liabilities	3,031,291	432	73,429
Net Assets			
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	10,647,182	5,359,464	-
Total Net Assets	$ 10,647,182	$ 5,359,464	$ -

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

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

Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts
Additions:		
Contributions:		
Members	$ 163,711	$ 1,857,853
State and Local Agencies	482,780	-
Investment Income (Loss):		
Net Increase (Decrease) in the Fair Value of Investments	(523,607)	(748,803)
Capital Gains Distributions from Investments	-	216,531
Interest and Dividends	218,646	161,153
Less Investment Expense:		
Investment Activity Expense	34,644	-
Net Investment Income (Loss)	(339,605)	(371,119)
Miscellaneous Revenues	-	7,212
Transfers In	-	574
Total Additions	306,886	1,494,520
Deductions:		
Benefits Paid to Participants or Beneficiaries	650,945	1,355,735
Refunds and Withdrawals	27,899	-
Administrative Expenses	10,544	44,001
Claims Processing Expense	621	-
Transfers Out	-	1,533
Total Deductions	690,009	1,401,269
Net Increase (Decrease)	(383,123)	93,251
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year (As Restated)	11,030,305	5,266,213
End of Year	$ 10,647,182	$ 5,359,464

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


DIRIGO
MAINE

STATE OF MAINE
STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2008
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority
Assets			
Current Assets:			
Equity in Treasurer's Cash Pool	$ 24,158	$ 8,043	$ -
Cash and Cash Equivalents	6,904	671	11,452
Investments	144,351	24,303	22,392
Restricted Assets:			
Inventories	-	1,159	-
Receivables, Net of Allowance for Uncollectibles:			
Loans Receivable	-	-	39,935
Notes Receivable	-	-	-
Other Receivables	5,002	3,447	1,877
Due from Other Governments	1,142	-	-
Due from Primary Government	-	11,638	-
Loans receivable from primary government	-	-	-
Other Current Assets	2,686	734	586
Total Current Assets	184,243	49,995	76,242
Noncurrent Assets:			
Equity in Treasurer's Cash Pool	1,573	524	-
Assets Held in Trust	-	-	-
Restricted Assets:			
Restricted Deposits and Investments	-	1,149	166,033
Investments	-	8,631	-
Receivables, Net of Current Portion:			
Loans Receivable	-	-	1,279,357
Notes Receivable	223,841	-	-
Other Receivables	-	-	110
Due from Other Governments	-	-	-
Due from Primary Government	-	-	-
Loans receivable from primary government	-	-	-
Capital Assets - Net of Depreciation	2,060	109,258	3,036
Other Noncurrent Assets	-	287	974
Total Noncurrent Assets	227,474	119,849	1,449,510
Total Assets	411,717	169,844	1,525,752
Liabilities			
Current Liabilities:			
Accounts Payable	1,322	2,281	1,128
Accrued Payroll	-	-	-
Compensated Absences	-	1,860	-
Due to Other Governments	-	-	296
Due to Primary Government	-	-	-
Amounts Held under State & Federal Loan Programs	-	-	-
Undistributed Grants and Administrative Funds	10,919	-	-
Allowances for Losses on Insured Commercial Loans	9,208	-	-
Bonds Payable	54	-	40,955
Obligations under Capital Leases	-	-	-
Accrued Interest Payable	839	-	27,578
Deferred Revenue	1,768	1,974	1,060
Other Current Liabilities	45	8,445	1,817
Total Current Liabilities	24,155	14,560	72,834
Long-Term Liabilities:			
Due to Other Governments	1,322	-	2,000
Amounts Held under State & Federal Loan Programs	45,391	-	-
Bonds Payable	303,884	23,399	1,411,240
Obligations under Capital Leases	-	3,490	-
Deferred Revenue	-	-	-
Other Noncurrent Liabilities	-	-	-
Total Long-Term Liabilities	350,597	26,889	1,413,240
Total Liabilities	374,752	41,449	1,486,074
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,060	83,806	3,036
Restricted	7,450	19,531	3,841
Unrestricted	27,455	25,058	32,801
Total Net Assets	$ 36,965	$ 128,395	$ 39,678

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

Maine Municipal Bond Bank	Maine State Housing Authority	University of Maine System	Non-Major Component Units	Totals
$ -	$ -	$ 17,839	$ 3,302	$ 53,342
49	3,236	1,097	29,374	52,783
20,796	389,966	133,970	2,647	738,425
-	-	-	983	2,142
-	24,801	-	12,309	77,045
-	2	113	30	145
1,330	16,978	22,926	5,717	57,277
125,095	4,148	11,329	1,331	143,045
-	1,069	10,595	5,199	28,501
4,617	-	-	-	4,617
26,355	-	6,924	2,336	39,621
178,242	440,200	204,793	63,228	1,196,943
-	-	1,162	13	3,272
-	-	-	4,205	4,205
248,910	322,024	43,098	3,914	785,128
-	2,574	280,250	48,157	339,612
-	1,182,809	-	95,038	2,557,204
-	661	43,005	1,623	269,130
-	-	6,687	3,590	10,387
1,136,345	-	-	-	1,136,345
-	-	2,386	-	2,386
34,203	-	-	-	34,203
775	2,323	621,302	106,466	845,220
3,536	4,086	18,778	6,222	33,883
1,423,769	1,514,477	1,016,668	269,228	6,020,975
1,602,011	1,954,677	1,221,461	332,456	7,217,918
361	43,308	22,828	7,615	78,843
-	-	-	842	842
-	-	-	420	2,280
1,507	116	-	12	1,931
-	-	-	253	253
19,664	-	-	-	19,664
51	-	-	-	10,970
-	-	-	-	9,208
102,548	41,245	7,699	134	192,635
-	-	285	16	301
8,939	9,139	-	488	46,983
1,607	8,471	14,815	13,058	42,753
-	-	34,959	4,812	50,078
134,677	102,279	80,586	27,650	456,741
2,196	5,638	-	3,499	14,655
-	-	-	-	45,391
983,065	1,509,284	209,212	149,606	4,589,690
-	-	1,031	42	4,563
-	22,228	-	1,226	23,454
-	-	88,821	-	88,821
985,261	1,537,150	299,064	154,373	4,766,574
1,119,938	1,639,429	379,650	182,023	5,223,315
-	2,323	417,633	103,106	611,964
423,197	298,322	326,627	24,731	1,103,699
58,876	14,603	97,551	22,596	278,940
$ 482,073	$ 315,248	$ 841,811	$ 150,433	$ 1,994,603

STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority
Expenses	$ 50,579	$ 106,194	$ 73,670
Program Revenues			
Charges for Services	19,233	25,266	70,087
Program Investment Income	8,091	(540)	7,235
Operating Grants and Contributions	20,600	28,954	-
Capital Grants and Contributions	-	2,651	-
Net Revenue (Expense)	(2,655)	(49,863)	3,652
General Revenues			
Unrestricted Investment Earnings	-	518	1,406
Non-program Specific Grants, Contributions and Appropriations	-	63,692	-
Miscellaneous Income	-	1,511	134
Gain (Loss) on Assets Held for Sale	-	64	-
Total General Revenues	-	65,785	1,540
Change in Net Assets	(2,655)	15,922	5,192
Net Assets, Beginning of the Year (As Restated)	39,620	112,473	34,486
Net Assets, End of Year	$ 36,965	$ 128,395	$ 39,678

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

	Maine Municipal Bond Bank	Maine State Housing Authority	University of Maine System	Non-Major Component Units	Totals
	$ 65,272	$ 226,865	$ 654,380	$ 97,014	$ 1,273,974
	47,418	73,386	278,178	33,722	547,290
	10,239	44,196	-	2,574	71,795
	4,551	135,054	163,337	38,992	391,488
	21,432	-	5,624	3,990	33,697
	18,368	25,771	(207,241)	(17,736)	(229,704)
	995	713	3,724	1,176	8,532
	-	-	210,195	19,726	293,613
	939	-	(363)	633	2,854
	-	-	-	(556)	(492)
	1,934	713	213,556	20,979	304,507
	20,302	26,484	6,315	3,243	74,803
	461,771	288,764	835,496	147,190	1,919,800
	$ 482,073	$ 315,248	$ 841,811	$ 150,433	$ 1,994,603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INDEX
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. REPORTING ENTITY

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

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

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

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

The MGFA was created in 1997, as a successor to the Maine Court Facilities Authority, for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as a court facility, State office or State activity space. The MGFA is included as an internal service fund in the State's financial statements.

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

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

The Maine Community College System is Maine's primary provider of post-secondary technical education leading to a certificate, diploma, or associate degree. The combined financial statements of the System include the activity

of seven colleges, the central administrative office, the Center for Career Development (including the Maine Career Advantage and Maine Quality Centers programs), and its component unit, Maine Community College Educational Foundations.

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

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

The Finance Authority of Maine provides commercial financing and loan guarantees to Maine businesses and educational financing to Maine students and their parents. The Authority also provides financial and other services for the Potato Marketing Improvement Fund Board, the Nutrient Management Fund Board, the Northern Maine Transmission Corporation, the Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Agricultural Marketing Loan Fund Board, and the Occupational Safety Program Fund Board. Additionally, the Authority administers the Maine College Savings Program. Net assets of the program, NextGen College Investing Plan, are included in the State's fiduciary fund financial statements. The Governor appoints the fifteen voting members of the Authority.

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

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

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

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

Maine Public Employees Retirement System administers an agent-multiple employer public employee retirement system. It provides pension, death, and disability benefits to its members, which include employees of the State, some public school employees, employees of approximately 270 local municipalities and other public entities in Maine. The Governor appoints four of the Board's eight voting trustees. A fifth trustee is either the Treasurer of State or the Deputy Treasurer of State.

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

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

Related Organizations
Officials of the State's primary government appoint a voting majority of the governing boards of the Maine Turnpike Authority and the Maine Veteran's Home. The primary government has no material accountability for these organizations beyond making board appointments.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements
The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The *Statement of Net Assets* presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports $694.6 million of restricted net assets, of which $41.2 million is restricted by enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

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

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

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

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* the State's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or prior to November 30, 1989, except those that conflict with a GASB pronouncement.

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

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

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

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

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

Financial Statement Presentation
The State reports the following major governmental funds:

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

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

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

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

The State reports the following major enterprise fund:

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

Additionally, the State reports the following fund types:

Governmental Fund Types:

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

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

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

Proprietary Fund Types:

Enterprise Funds report the activities for which fees are charged to external users for goods or services, such as the unemployment compensation program, lottery operations and transportation services.

Internal Service Funds provide goods or services primarily to other agencies or funds of the State, rather than to the general public. These goods and services include printing and mailing services, supplies warehousing, information technology, fleet management, risk management, health-related benefits, and financing for acquisition and construction of governmental facilities.

Fiduciary Fund Types:

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

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

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

D. Fiscal Year-Ends

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

E. Assets, Liabilities, and Net Assets/Fund Balance

Equity in Treasurer's Cash Pool
The State pools cash and cash equivalents for a variety of State agencies and public sector entities. The pooled balances are reported at fair value. Interest earned on pooled cash is allocated to the various funds, generally based on their average equity balances. The Treasurer's Cash Pool has the general characteristics of a demand deposit account and is comprised primarily of prime commercial paper, repurchase agreements, U.S. Treasury Bills, U.S. Treasury Notes, and other U.S. Agency Obligations, certificates of deposit, and corporate bonds.

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

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

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

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

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

Investments Held on Behalf of Others
These assets include amounts held by the State in a fiduciary capacity, acting as either a trustee or an agent for individuals, organizations or other funds. Generally, these investments are reported at fair value or at amortized cost which approximates fair value. The State also holds $167 million of Workers' Compensation, $46 million of Bureau of Insurance, and $24 million of Maine Department of Labor surety bonds and letters of credit that are not reflected on the financial statements.

Restricted Deposits and Investments
Restricted deposits and investments include: unemployment tax receipts deposited with the United States Treasury that are drawn down to pay unemployment benefits; cash and investments of the Maine Governmental Facilities Authority, a blended component unit that has been independently audited; unspent bond proceeds, and funds invested in Certificates of Deposit and other investments at various financial institutions within the State. The financial institutions lend these deposits and investments to local commercial and agricultural enterprises to foster economic growth in Maine.

Inventories
The costs of materials and supplies of the Governmental Funds are reported as expenditures when purchased. Undistributed vaccines and food commodities are reported as inventory and deferred revenue in the Federal Fund. Revenues and corresponding expenditures are recognized when food stamps are used (EBT cards), and when vaccines and food commodities are issued. Inventories of materials and supplies in the Proprietary Funds are determined by physical counts and by perpetual inventory systems. Proprietary Fund inventories are stated at cost or average cost.

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

Receivables
Receivables consist primarily of amounts due to the State from taxpayers and service providers. Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. Loans receivable for the primary government represent low interest financing arrangements to construct and modernize agricultural storage facilities and local commercial enterprises, as well as Department of Transportation loans to local governments. Receivables in the component units' column arise in the normal course of business. Receivables are stated net of estimated allowances for uncollectible amounts that are determined based upon past collection experience and aging of the accounts. Receivables due from related providers for interim payments are $33 million, net of an allowance for uncollectible amounts of $19.5 million.

Interfund Transactions and Balances
Numerous transactions are made between funds to finance operations, provide services, and acquire or construct assets. To the extent that transactions between funds were not completed as of June 30, interfund receivables and payables have been recorded in the fund financial statements. Interfund receivables and payables have been eliminated from the Statement of Net Assets.

Long-term loans made by one fund to another are classified as "Working Capital Advances Receivable" and "Working Capital Advances Payable." In the fund financial statements, advances receivable are offset by reservations of fund balance indicating that the reserves do not constitute expendable financial resources.

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

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

Capital Assets
Capital assets, which include land, buildings, equipment and infrastructure assets (e.g., roads, bridges, ramps and similar items), are reported in the government-wide statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide statements. The State capitalizes governmental fund buildings valued at $1 million or more and proprietary fund buildings valued at $100 thousand or more. Governmental fund equipment is capitalized at $10 thousand or more and proprietary fund

equipment is capitalized $5 thousand or more. All land, regardless of value, is capitalized. Capital assets are recorded at cost or, if donated, at estimated fair market value at date of acquisition. In some instances, capital assets historical cost were not available. The costs of these assets at the date of acquisitions have been estimated.

In the government-wide statements, most capital assets are depreciated on a straight-line basis over the assets' estimated useful lives, which are 10-40 years for buildings and improvements, and 2-25 years for equipment. The State uses the modified approach for reporting its significant infrastructure assets. As long as the State maintains and preserves its infrastructure assets at pre-determined condition levels, maintenance costs are expensed and depreciation is not reported. This approach is discussed further in the Required Supplementary Information.

Capital assets of component units are capitalized upon purchase and depreciated over their estimated useful lives. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are 5–60 years for structures and improvements and 3–15 years for equipment, furniture, fixtures and vehicles. Component units reflect infrastructure in improvements other than buildings and record depreciation expense on them.

Accounts Payable
Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers. Incurred but not paid (IBNP) Medicaid claims settlements are actuarially estimated. The IBNP estimate at June 30, 2008 is $380 million.

Tax Refunds Payable
The amount of collected or accrued tax revenues that will be refunded is estimated and accrued as a General Fund liability.

Claims Payable
Claims payable represent workers' compensation, retiree health, employee health, and other claims payable, including actual claims submitted and actuarially determined claims incurred but not reported. The actuarially determined claims liability is discounted and presented at net present value.

Compensated Employee Absences
In the government-wide statements and proprietary fund financial statements, compensated absences are recorded as liabilities as required by GASB. In the governmental fund financial statements, vested or accumulated leave expected to be liquidated with current available financial resources is reported as an expenditure and fund liability. In the discretely presented component units, employees' accumulated compensated absences are recorded as an expense and liability as the benefits accrue.

Deferred Revenue
In the government-wide statements and proprietary fund financial statements, deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements, amounts recorded as receivable that do not meet the "availability" criterion for recognition as revenue in the current period are classified as deferred revenue. Resources received by the government before it has a legal claim to them are also included as deferred revenue. Deferred revenue reported in the General Fund relates to sales and income taxes. Deferred revenue in the Federal Fund consists primarily of food commodities not yet issued. Deferred revenue in the Alcoholic Beverages Fund comprises the proceeds from the sale of the State's liquor operations.

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

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

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

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

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

The State reported the following fund balance reservations:

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

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

Permanent Trusts – indicates assets reserved for the purpose of the permanent fund.

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

F. REVENUES AND EXPENDITURES/EXPENSES

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g., governmental support & operations, education, health & human services, etc). Additionally, revenues are classified between program and general revenues. Program revenues include: charges to customers or applicants for goods, services, or privileges provided; operating grants and contributions; and capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "dedicated" or "undedicated." Undedicated revenues are available to fund any activity accounted for in the fund. Dedicated revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. Unused dedicated revenues at year-end are recorded as reservations of fund balance. When both dedicated and undedicated funds are available for use it is the State's policy to use dedicated resources first.

In the governmental fund financial statements, expenditures are reported by function. Capital outlay expenditures for real property or infrastructure (e.g. highways) are included with expenditures by function.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g. general operations and depreciation). Operating revenues and expenses generally result from providing

services and producing and delivering goods. All other revenues and expenses are reported as nonoperating, capital contributions, transfers or special items.

NOTE 2 – BUDGETING AND BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Appropriation Limits

The total General Fund appropriation for each fiscal year of the biennium in the Governor's budget submission to the Legislature may not exceed the General Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate, as defined in Title 5 Maine Revised Statutes Annotated (MRSA) § 1665, subsection 1, plus the average forecasted inflation rate. "Average forecasted inflation rate" means the average forecasted change in the Consumer Price Index underlying the revenue projections developed by the Revenue Forecasting Committee.

This appropriation limitation may be exceeded only by the amount of the additional costs or the lost federal revenue from the following exceptional circumstances: unfunded or under-funded new federal mandates; losses in federal revenues or other revenue sources; citizens' initiatives or referenda that require increased State spending; court orders or decrees that require additional State resources to comply with the orders or decrees; and sudden or significant increases in demand for existing State services that are not the result of legislative changes that increased eligibility or increased benefits.

The Governor may designate exceptional circumstances that are not explicitly defined, but meet the intent of, this statute. "Exceptional circumstances" means an unforeseen condition or conditions over which the Governor and the Legislature have little or no control. Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

Budget Stabilization Fund

The Maine Budget Stabilization Fund, a fund designation established under Title 5 MRSA C. 142, is included in the negative $403.9 million unreserved General Fund fund balance. Amounts in the stabilization fund may be expended only to offset a General Fund revenue shortfall. The Governor may also allocate funds for payment of death benefits for law enforcement officers, firefighters and emergency medical services personnel.

Balances in the fund do not lapse, but carry forward each year. Money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. In addition to interest earnings, the fund received $10.0 million according to Public Law 2007, Chapter 700, Part C.

The statutory cap for the fund is 12 percent of the total General Fund revenue received in the immediately preceding fiscal year. At the close of the fiscal year, the cap is based on the revenue received in the fiscal year being closed. Based on fiscal year 2008 actual General Fund revenue, the statutory cap at the close of fiscal year 2008 and during fiscal year 2008 was $370.5 million. At the close of fiscal year 2008, the balance of the Maine Budget Stabilization Fund was $128.9 million. No reductions to the Maine Budget Stabilization Fund balance are required when it exceeds the balance of the statutory cap as a result of a decline of General Fund revenue.

Budget Stabilization Fund Activity

(Expressed in Thousands)

Balance, beginning of year	$ 115,480
Increase in fund balance	13,397
Balance, end of year	$ 128,877

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

Except in specific instances, only the Legislature may transfer appropriations between departments. Changes in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget. For the year ended June 30, 2008, the Legislature decreased supplemental appropriations to the General Fund by $19.5 million.

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

NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS

Accounting Changes
The State established, and partially funded, an irrevocable trust for postemployment benefits during fiscal 2008. The State implemented the Governmental Accounting Standards Board's Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The statement requires accounting and financial reporting for postretirement benefits provided to employees similarly to accounting for pension benefits. The statement provides specific guidance for plans that are held as trusts or equivalent arrangements and for plans that are not held in that manner. Required notes to the financial statements include a brief plan description, a summary of significant accounting policies, and information about contributions.

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*, is required to be implemented by the State as of June 30, 2008. The statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities/(assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial statements of State governmental employers. The effects of applying this standard require the State to account for other postemployment benefits (OPEB), primarily healthcare, on an accrual basis rather than on the past pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the Statement of Revenues, Expenses, and Changes in Net Assets when future retirees earn their postemployment benefits, rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a post employment benefit obligation is recognized on the Balance Sheet over time. Required Supplementary Information includes a schedule of funding progress for the most recent valuation and the two preceding valuations accompanied by notes regarding factors that significantly affect the identification of trends in the amounts reported. The statement was implemented prospectively with a zero net OPEB obligation at transition.

In addition, the State has implemented Governmental Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* This statement establishes criteria that governments will use to ascertain whether a transaction should be regarded as a sale or as collateralized borrowings and if the resulting proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or

relinquishes control over the receivables or future revenues. Implementation of this statement did not require any modification to the financial statements.

Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures*, became effective in fiscal year 2008. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits and, in doing so, enhances information disclosed in notes to the financial statements by employers that provide pension benefits.

Restatement – Primary Government
The beginning net assets of the General Fund, a major governmental fund, and the Governmental Activities decreased by $8.4 million to correct an error in reported accounts receivable.

Restatement – Fiduciary Fund Financial Statements
The beginning net assets on the Statement of Changes in Fiduciary Net Assets increased $7.3 million to reflect the assets of the Defined Contribution Retirement Plans.

Restatement – Component Units
The beginning net assets on the Statement of Activities increased $5.9 million with the inclusion of the Small Enterprise Growth Fund as a reported non-major component unit.

NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS

Four internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2008. The Workers' Compensation Fund reported a deficit of $11.6 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund had a fund balance deficit of $4.3 million because rates charged were insufficient to cover expenses incurred. The Postal, Printing & Supply fund reported a deficit of $918 thousand because expenses are recognized when incurred; however, related revenue is not earned until jobs are satisfactorily completed. The Financial & Personnel Services Fund had a fund balance deficit of $182 thousand because rates charged were insufficient to cover expenses incurred. All of the deficits mentioned above are expected to be funded by future service charges.

The Alcoholic Beverages Enterprise Fund shows a deficit of $75.0 million. During fiscal year 2004, the State of Maine entered into a 10 year contract with a vendor to manage and operate wholesale liquor distribution as the State's agent. The deficit reflects the deferral of license fees that will be amortized over that 10 year period.

The Maine Military Authority Enterprise Fund shows a deficit of $3.2 million. Expenses are recognized when incurred; however, related revenue is not earned until repair projects are satisfactorily completed. The deficit will be funded by future billings as projects are completed.

The Dirigo Health Enterprise Fund shows a deficit of $15.9 million. This deficit is the result of the timing of revenue collections from the Savings Offset Program.

The General Fund shows a deficit fund balance of $238.5 million at June 30, 2008. This deficit is due to the full recognition of the State's share of Medicaid liabilities at fiscal year end, which are funded throughout the year with the aforementioned tax revenue. The federal portion of these liabilities is also fully accrued, with an offsetting receivable from the federal government as allowed under Governmental Accounting Standards Board (GASB) Statement No. 33. Per GASB 33, revenue associated with government mandated non-exchange transactions should be recognized when applicable eligibility requirements have been met and the resources are available. Medicaid is an entitlement program. Therefore, the funds are available when the payments for these liabilities are processed.

The Highway Fund shows a deficit fund balance of $2.3 million. The deficit reflects the way in which the State accrues liabilities related to Highway Planning and Construction. The deficit will be funded by future federal grant payments.

NOTE 5 - DEPOSITS AND INVESTMENTS

Title 5 MRSA § 135 governs the deposit and investment policies of the State of Maine Office of the Treasurer. The Treasurer may deposit State funds, including trust funds of the State, in any of the banking institutions (including trust companies, State or federal savings and loan associations, and mutual savings banks) organized under the laws of this State and any national bank or federal savings and loan association located in the State.

The State follows the practice of pooling cash and cash equivalents for a variety of State agencies and public sector entities. The Treasurer may invest funds that exceed current obligations, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services and the consent of the Governor.

Approved investments include bonds, notes, certificates of indebtedness, other obligations of the United States that mature not more than 36 months from the date of investment; repurchase agreements secured by obligations of the United States that mature within the succeeding 12 months; prime commercial paper; tax-exempt obligations; corporate bonds rated “AAA” that mature within 36 months from the date of investment; banker’s acceptances; and “no-load” shares of an investment company registered under the Federal Investment Company Act of 1940, whose shares maintain a constant share price. Although authorized to do so, the Treasurer does not participate in the securities loan market.

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

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

With assistance from the Finance Authority of Maine, the Treasurer participates in a restricted deposit program to encourage banks to provide loans at two percent below market rate. The Treasurer may invest up to $8 million in lending institutions at a two percent lower-than-market rate provided the lenders pass the rate reduction on to the borrowers. $4 million of this program are earmarked for loans to agricultural enterprises and the other $4 million are designated for commercial entities.

The Primary Government's Deposits and Investments excluding component units that are fiduciary in nature at June 30, 2008:

Primary Government Deposits and Investments
(Expressed in Thousands)

	Governmental Activities	Business-Type Activities	Private Purpose Trusts	Agency Funds	Total
Equity in Treasurer's Cash Pool	$ 465,070	$ 3,463	$ 1,276	$ 7,002	$ 476,811
Cash and Cash Equivalents	289	2,848	-	15	3,152
Cash with Fiscal Agent	72,139	-	-	27	72,166
Investments	74,975	-	10,980	-	85,955
Restricted Equity in Treasurer's Cash Pool	9,581	-	-	-	9,581
Restricted Deposits and Investments	24,112	463,574	-	-	487,686
Investments Held on Behalf of Others	-	-	5,316,066	60,263	5,376,329
Other Assets	-	-	-	-	-
Total Primary Government	$ 646,166	$ 469,885	$ 5,328,322	$ 67,307	$ 6,511,680

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

The following table provides the segmented time distribution of the Primary Government's investments at June 30, 2008:

Maturities in Years
(Expressed in Thousands)

	Less than 1	1 - 5	6 - 10	11 - 20	More than 20	No Maturity	Fair Value
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	$27,913	$26,009	$ -	$ -	$ -	$ -	$53,922
US Treasury Notes	4,101	-	-	-	-	-	4,101
Repurchase Agreements	73,038	-	-	-	-	-	73,038
Corporate Notes and Bonds	8,714	2,449	-	-	-	-	11,163
Commercial Paper	5,653	-	-	-	-	-	5,653
Certificates of Deposit	11,770	-	-	-	-	-	11,770
Money Market	327,188	-	-	-	-	-	327,188
Cash and Cash Equivalents	-	-	-	-	-	18,529	18,529
Unemployment Fund							
Deposits with US Treasury	-	-	-	-	-	463,574	463,574
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	2,095	2,804	436	1,042	6,568	-	12,945
US Treasury Notes	1,857	9,882	4,253	6,262	4,197	-	26,451
Repurchase Agreements	898	-	-	-	-	-	898
Corporate Notes and Bonds	745	3,097	3,531	401	1,862	5,140	14,776
Other Fixed Income Securities	-	-	136	-	46	-	182
Commercial Paper	98	-	-	-	-	-	98
Certificates of Deposit	175	-	-	-	-	10,150	10,325
Money Market	5,665	-	-	-	-	820	6,485
Cash and Cash Equivalents	-	-	-	-	-	18,794	18,794
Equities	-	-	-	-	-	61,749	61,749
Other	-	-	-	-	-	1,807	1,807
	$469,910	$44,241	$8,356	$7,705	$12,673	$580,563	$1,123,448
NextGen College Investing Plan							5,316,066
Other Assets							-
Cash with Fiscal Agent							72,166
Total Primary Government							$6,511,680

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

The Primary Government's total investments by credit quality rating as of June 30, 2008 are presented below:

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

	A1	A	AA	AA+	AAA	BB	BBB	Not Rated	Total
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	$ -	$ -	$ -	$ -	$ 53,923	$ -	$ -	$ -	$ 53,923
US Treasury Notes	-	-	-	-	-	-	-	4,101	4,101
Corporate Notes and Bonds	-	-	-	-	11,163	-	-	-	11,163
Commercial Paper	-	-	-	-	-	-	-	5,653	5,653
Money Market	-	-	-	-	34,261	-	-	292,927	327,188
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	-	-	101	-	3,688	-	-	9,156	12,945
US Treasury Notes	-	-	-	-	4,999	-	-	21,452	26,451
Corporate Notes and Bonds	-	2,443	1,320	-	1,941	78	692	8,302	14,776
Commercial Paper	-	-	-	-	-	-	-	98	98
Money Market	-	-	-	-	593	-	-	5,892	6,485
Other Fixed Income Securities	-	22	24	-	-	-	136	-	182
Total Primary Government	$ -	$ 2,465	$ 1,445	$ -	$ 110,568	$ 78	$ 828	$347,581	$ 462,965

Concentration of Credit Risk –Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State limits concentration of credit risk in its trusts by requiring that no single stock represent more than 10 percent of the total portfolio. There is no concentration of credit risk policy for the Treasurer's Cash Pool. At June 30, 2008, more than 5 percent of the cash pool's investments were in Bank of America and Morgan Stanley. These investments are $28.0 million (5.17 percent) and $30.0 million (5.5 percent), respectively, of the cash pool's total investments.

Custodial Credit Risk - For investments, custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The State limits its custodial credit risk for the Treasurer's Cash Pool by maintaining a file of the most recent credit rating analysis reports performed for each approved financial institution. The State also requires that all securities be perfected in the name of the State and held in third party safekeeping by a state approved custodian. Of the cash pool's $11.8 million invested in non-negotiable certificates of deposit, $3.5 million exceeded the FDIC insured amounts for the institutions at which they were held. The State does not have a policy regarding custodial credit risk for its trusts. The Percival P. Baxter Trust is held by the counterparty's trust department, but not in the State's name.

The fair value of the trust's investments as of June 30, 2008 was $62.0 million and was comprised of the following:

U.S. Instrumentalities	$ 8,297
US Treasury Notes	4,054
Corporate Notes and Bonds	5,393
Other Fixed Income Securities	136
Equities	43,346
Cash and Equivalents	289
Other	530
Total	$ 62,045

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to its vendors. During fiscal year 2008 these disbursements, on average, exceeded $149.6 million per month. The funds in transit are not collateralized and are not held by the State Treasurer. Until the vendor receives payment, the State retains some liability.

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Maine Public Employees Retirement System (the System) makes investments in a combination of equities, fixed income securities, mutual funds, commingled mutual and index funds, derivative financial instruments, and other investment securities established by the Trustee's investment policy. The System prohibits its investment managers from using leverage in its derivative financial instruments or from investing in speculative positions.

Securities Lending - The System has also entered into agreements for securities lending transactions, which are collateralized in an amount at least equal to 102 percent (105 percent for international securities) of the market value of the securities loaned. All securities and loans can be terminated on demand by either the lender or the borrower.

Cash open collateral is invested in a short-term investment pool, the Global Core Collateral Section. Cash collateral may also be invested separately in "term loans." At June 30, 2008, all of the collateral for securities lending is subject to custodial credit risk. The System believes that there is no credit risk as defined in GASB Statement No. 28 and GASB Statement No. 40. The collateral held and the market value of securities on loan for the System as of June 30, 2008 was $3.8 billion and $3.7 billion, respectively.

NEXTGEN COLLEGE INVESTING PLAN

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

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

NextGen's investments are comprised of 47 different investment portfolios which are reported at fair value and total $5.3 billion at June 30, 2008.

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

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

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

Credit Risk - The Program has not established an investment policy that specifically limits its exposure to credit risk. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account may bear credit risk. The GIC underlying the Program's investment in the Principal Plus Portfolio has not been rated by any of the nationally recognized statistical rating organizations. The fair value of the GIC at June 30, 2008 was $79.8 million.

The assets of the Account are invested in a portfolio of high-quality, short-term money-market securities consisting primarily of direct U.S. Government obligations, U.S. Government agency securities, obligations of domestic and foreign banks, U.S. dollar denominated commercial paper, and other short-term debt securities issued by U.S. and foreign entities repurchase agreements. In addition, the Account invests in certificates of deposit issued by Maine financial institutions in accordance with instructions of FAME and the Treasurer. All Maine Certificate of Deposit's are FDIC insured or fully collateralized. The value of the Account at June 30, 2008 was $370.6 million.

Concentration of Credit Risk – The Program has not established an investment policy that specifically limits its exposure to concentration of credit risk because the Program principally invests in mutual funds which have been excluded by GASB Statement No. 40 from its concentration of disclosure risk requirements.

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

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

	Fair Value
Principal Plus Portfolio	$ 79,770
Cash Allocation Account	370,623
Fixed Income Securities	1,228,975
Total Fair Value	$1,679,368

COMPONENT UNITS

Generally, component unit investment policies authorize investments in obligations of U.S. Treasury and Agency Securities, repurchase agreements, corporate bonds, certificates of deposit and money market funds. Some component units may invest in stocks, bonds, fixed income securities, mutual funds, commingled mutual funds and index funds, guaranteed investment contracts, real estate and other investment securities.

Certain component units also invest in the Treasurer's Cash Pool and comprise approximately 13 percent of pool assets. The component units reported their participation as either Cash and Cash Equivalents or Investments on their financial statements. The State reclassified $53.5 million of the component units' participation to "Equity in Treasurer's Cash Pool" on the State's financial statements. In addition to the amounts reported, the State Treasurer's Cash Pool includes $18.3 million, consisting of Finance Authority of Maine component unit fiduciary funds that, because of GASB Statement No. 34 reporting criteria, are not shown in the accompanying financial statements.

NOTE 6 - RECEIVABLES

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

Primary Government – Receivables
(Expressed in Thousands)

	Taxes	Accounts	Loans	Allowance for Uncollectibles	Net Receivables
Governmental Funds:					
General	$547,767	$143,834	$1	($202,663)	$488,939
Highway	24,954	1,790	62	(5,289)	21,517
Federal	-	89,625	-	(27,230)	62,395
Other Special Revenue	10,166	78,674	6,127	(5,907)	89,060
Other Governmental Funds	-	-	-	-	-
Total Governmental Funds	582,887	313,923	6,190	(241,089)	661,911
Allowance for Uncollectibles	(147,641)	(93,111)	(337)		
Net Receivables	$435,246	$220,812	$5,853		$661,911
Proprietary Funds:					
Employment Security	$0	$40,025	$0	($9,752)	$30,273
Nonmajor Enterprise	-	26,269	-	(717)	25,552
Internal Service	-	3,231	208,560	-	211,791
Total Proprietary Funds	-	69,525	208,560	(10,469)	267,616
Allowance for Uncollectibles	-	(10,469)	-		
Net Receivables	$0	$ 59,056	$208,560		$267,616

Component Units – Receivables
(Expressed in Thousands)

	Accounts	Loans	Notes	Allowance For Uncollectibles	Net Receivables
Finance Authority of Maine	$5,002	$ -	$228,593	($4,752)	$228,843
Maine Community College System	4,390	-	-	(943)	3,447
Maine Health and Educational Facilities Authority	2,863	1,319,292	-	(876)	1,321,279
Maine Municipal Bond Bank	1,330	-	-	-	1,330
Maine State Housing Authority	16,978	1,216,922	663	(9,312)	1,225,251
University of Maine System	32,285	-	44,092	(3,646)	72,731

NOTE 7 - INTERFUND TRANSACTIONS

Interfund receivables and payables represent amounts owed to one State fund by another, for goods sold or services received, or for borrowings to eliminate negative balances in the Treasurer's Cash Pool.

Balances due within one year are recorded as Due to/Due from Other Funds. The balances of current interfund receivables and payables as of June 30, 2008 were:

Interfund Receivables

(Expressed in Thousands)

	Due to Other Funds				
Due from Other Funds	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ 2,238	$ -	$ 2,287	$ -	$ 27
Highway	218	1	2,431	1	-
Federal	9,058	43	368	2,135	-
Other Special Revenue	17,495	370	634	582	-
Other Governmental	159	-	-	-	-
Employment Security	-	-	25	-	-
Non-Major Enterprise	98	47	357	4	-
Internal Service	18,677	1,948	1,941	2,023	-
Fiduciary	16,944	-	-	-	-
Total	$ 64,887	$ 2,409	$ 8,043	$ 4,745	$ 27

Due from Other Funds	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ 19,083	$ 14,038	$ 5,648	$ 43,321
Highway	-	222	-	2,873
Federal	-	4,435	-	16,039
Other Special Revenue	27	351	-	19,459
Other Governmental	-	-	-	159
Employment Security	-	-	-	25
Non-Major Enterprise	-	36	-	542
Internal Service	243	21,093	15	45,940
Fiduciary	-	-	-	16,944
Total	$ 19,353	$ 40,175	$ 5,663	$ 145,302

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

Transfers are made in accordance with statutory authority. Significant transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the funds required to pay debt service as principal and interest payments come due, 3) use unrestricted revenues collected in the General Fund to finance various

programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Lottery Fund, and 5) transfer accumulated surpluses from other funds to the General Fund when authorized by statute.

During fiscal year 2008, the State of Maine, in accordance with the legislatively authorized budget, recorded several non-routine, nonrecurring transfers.

The Other Special Revenue Fund transferred $2.5 million to the unappropriated surplus of the General Fund.

The Retiree Health Insurance Fund transferred $16.8 million to the unappropriated surplus of the General Fund, and $3.1 million to the unappropriated surplus of the Highway Fund.

The Accident, Sickness, and Health Insurance Fund transferred $10.4 million to the unappropriated surplus of the General Fund, and $2.3 million to the unappropriated surplus of the Highway Fund.

Interfund transfers for the year ended June 30, 2008, consisted of the following:

Interfund Transfers
(Expressed in Thousands)

	Transferred From				
Transferred To	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ -	$ -	$ 2,818	$ 19,914	$ -
Highway	1,958	-	-	524	-
Federal	63	-	-	25,220	-
Other Special Revenue	149,473	-	12,500	-	5,780
Other Governmental Funds	-	-	-	1,391	-
Employment Security	-	-	-	-	-
Non-Major Enterprise	569	3,995	-	-	-
Internal Service	750	-	166	-	-
Fiduciary	-	-	-	574	-
Total	$ 152,813	$ 3,995	$ 15,484	$ 47,623	$ 5,780

	Transferred From				
Transferred To	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ -	$ 49,518	$ 27,890	$ 952	$ 101,092
Highway	-	-	5,680	-	8,162
Federal	2,912	-	-	-	28,195
Other Special Revenue	-	4,980	-	581	173,314
Other Governmental Funds	-	-	-	-	1,391
Employment Security	-	-	-	-	-
Non-Major Enterprise	-	-	-	-	4,564
Internal Service	-	-	-	-	916
Fiduciary	-	-	-	-	574
Total	$ 2,912	$ 54,498	$ 33,570	$ 1,533	$ 318,208

NOTE 8 - CAPITAL ASSETS

The following schedule details changes in capital assets for the governmental activities and business-type activities of the primary government for the fiscal year ended June 30, 2008:

Primary Government – Capital Assets
(Expressed in Thousands)

	Beginning Balance	Increases and Other Additions	Decreases and Other Deletions	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 424,331	$ 11,391	$ 1,492	$ 434,230
Construction in progress	10,230	24,055	10,110	24,175
Infrastructure	3,023,973	154,693	-	3,178,666
Total capital assets not being depreciated	3,458,534	190,139	11,602	3,637,071
Capital assets being depreciated:				
Buildings	560,307	3,990	115	564,182
Equipment	248,129	20,193	17,494	250,828
Improvements other than buildings	18,246	1,295	-	19,541
Total capital assets being depreciated	826,682	25,478	17,609	834,551
Less accumulated depreciation for:				
Buildings	183,908	17,243	350	200,801
Equipment	158,140	20,457	13,345	165,252
Improvements other than buildings	8,997	1,155	-	10,152
Total accumulated depreciation	351,045	38,855	13,695	376,205
Total capital assets being depreciated, net	475,637	(13,377)	3,914	458,346
Governmental Activities Capital Assets, net	$ 3,934,171	$ 176,762	$ 15,516	$ 4,095,417

	Beginning Balance	Net Additions	Net Deletions	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 38,417	$ 4,928	$ -	$ 43,345
Construction in progress	3,613	6,755	-	10,368
Total capital assets not being depreciated	42,030	11,683	-	53,713
Capital assets being depreciated:				
Buildings	9,769	-	270	9,499
Equipment	43,385	1,669	860	44,194
Improvements other than buildings	61,218	1,389	-	62,607
Total capital assets being depreciated	114,372	3,058	1,130	116,300
Less accumulated depreciation	66,041	9,049	982	74,108
Total capital assets being depreciated, net	48,331	(5,991)	148	42,192
Business-Type Activities Capital Assets, net	$ 90,361	$ 5,692	$ 148	$ 95,905

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

Governmental Activities – Depreciation Expense
(Expressed in Thousands)

	Amount
Governmental Activities:	
Arts, Heritage and Cultural Enrichment	$ 27
Business Licensing and Regulation	459
Economic Development and Workforce Training	1,475
Education	310
Governmental Support and Operations	6,334
Health and Human Services	5,791
Justice and Protection	12,360
Natural Resources Development and Protection	4,202
Transportation Safety and Development	7,241
Total Depreciation Expense – Governmental Activities	$ 38,199

NOTE 9 - MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

PLAN DESCRIPTIONS

The Maine Public Employees Retirement System, formerly named the Maine State Retirement System, (the System), is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Title 5 MRSA C. 421, 423, and 425. The System provides pension, disability, and death benefits to its members, which includes employees of the State, public school employees (defined by Maine law as teachers and for whom the State is the employer for retirement contribution and benefit purposes, or SETP) and employees of 272 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine, each of which contracts for participation in the System under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2008 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The Maine Public Employees Retirement System management's interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries. The System is therefore regarded as administering an agent, multiple-employer plan for financial reporting purposes. The statements include $2.1 billion of assets related to the PLD's. The Attorney General's Office does not concur that these assets are available for payment of State benefits.

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

The System administers three defined contribution plans for employees of PLD's that elect to participate. At June 30, 2008, there were 43 employers participating in these plans. The 429 participants individually direct the $7.4 million in assets covered by the plans.

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

BASIS OF ACCOUNTING

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

INVESTMENTS

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

CONTRIBUTION INFORMATION

Membership in each defined benefit plan consisted of the following at June 30, 2008:

	State Employees and Teachers Plan	Consolidated Plan for PLD
Active vested and nonvested members	41,790	9,612
Terminated vested participants	7,098	1,095
Retirees and benefit recipients	26,991	7,191
Total	75,879	17,898
Number of participating employers/sponsors	1	272

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

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits and membership rights. The annual rate of interest credited to terminated members' accounts is set by the System's Board of Trustees and is currently 6 percent.

STATE EMPLOYEES AND TEACHERS PENSION PLAN SPECIFICS

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

PARTICIPATING LOCAL DISTRICTS PLAN SPECIFICS

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

SPECIAL FUNDING SITUATION – TEACHERS DEFINED BENEFIT PENSION PLAN

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

FUNDED STATUS AND FUNDING PROGRESS – DEFINED BENEFIT PENSION PLANS

The funded status of each plan as of June 30, 2008, the most recent biennial actuarial valuation date, is as follows:

Plans	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) – Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
SETP	8,691,075,704	11,721,271,968	3,030,196,264	74.1%	1,628,421,362	186.1%
PLD's	2,201,652,592	1,953,629,020	(248,023,572)	112.7%	362,783,243	-68.4%

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

	SETP	PLD's
Valuation date	June 30, 2008	June 30, 2008
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent closed	Level percent open
Remaining amortization period	20 [1]	15
Asset valuation method	3-Year smoothed market	3-Year smoothed market
Actuarial assumptions:		
Investment rate of return	7.75%	7.75%
Projected salary increases	4.75% - 10.00%	4.50% - 9.00%
Includes inflation at	4.50%	4.50%
Cost of living adjustments	3.75%	3.75%
Most recent review of plan experience:	2006	2006
Plan changes from last valuation	none	none

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

years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The contribution rate in effect for 2008 was determined by the 2006 valuation, as revised, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 9 years remained at June 30, 2008.

CONTRIBUTION RATES – DEFINED BENEFIT PENSION PLANS

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

In order to reduce any unfunded pension liability for State employees and teachers under Title 5 MRSA § 1536, the State is required to remit 20 percent of its General Fund unappropriated surplus to the System at year-end. For fiscal 2008, no General Fund unappropriated surplus existed.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension obligation.

The actuarially determined contribution rates in effect for 2008 for participating entities:

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

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

ANNUAL PENSION COST AND NET PENSION OBLIGATION

The State is one of several employers whose employees are System members. The State's net pension obligation shown at the end of the year includes the pension liability related to its employees. It does not include the pension liability related to PLD's. The State's annual pension cost and net pension obligation to the System for the current year were:

Net Pension Obligation
(Expressed in Thousands)

Annual required contribution	$ 305,361
Interest on net pension obligation	1,429
Adjustment to annual required contribution	(1,165)
Annual pension cost	305,625
Contributions made	305,361
Increase (decrease) in net pension obligation	264
Net pension obligation beginning of year	18,444
Net pension obligation end of year	$ 18,708

Analysis of Funding Progress
(Expressed in Thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
2008	305,625	99.91%	18,708
2007	303,470	99.87%	18,444
2006	287,253	105.63%	18,050

Employer contributions met actuarially determined contribution requirements.

COMPONENT UNIT PARTICIPANTS

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

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

STATE ADMINISTERED OR SPONSORED POST RETIREMENT HEALTHCARE PLANS

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

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

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

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

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

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

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

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

PLAN MEMBERSHIP

Membership in the four healthcare plans administered by the State is as follows:

	State Employees	Teachers	First Responders	Ancillary Groups
Actives	14,654	27,180	934	1,452
Retirees	8,772	9,201	45	239
Total	23,426	36,381	979	1,691
Number of employers	1			3
Contributing entities		1	1	3

STATE EMPLOYEES PLAN FUNDING POLICY

Title 5 MRSA § 286-B authorizes an Irrevocable Trust Fund for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants who are the beneficiaries of the irrevocable trust fund. Annually, beginning with the fiscal year starting July 1, 2009, the Legislature shall appropriate funds to meet the State's obligations under any group health plan, policy or contract purchased by the State Employee Health Commission. Unfunded liabilities may not be created except those resulting from experience losses. Unfunded liability resulting from experience losses must be retired over a period not to exceed 10 years. The unfunded liability for retiree health benefits for eligible participants must be retired in 30 years or less from July 1, 2009.

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

TEACHERS PLAN AND FIRST RESPONDERS PLAN FUNDING

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

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

ANCILLARY GROUP PLAN

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

ANNUAL OPEB COST

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

(Expressed in Thousands)

	State Employees	Teachers	First Responders
Annual required contribution	$ 111,000	$ 46,000	$ 1,045
Contributions made	166,388	17,657	-
Increase (decrease) in net healthcare obligation	(55,388)	28,343	1,045
Net healthcare obligation beginning of year	-	-	-
Net healthcare (asset) end of year	$ (55,388)		
Net healthcare obligation end of year		$ 28,343	$ 1,045

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

Analysis of Funding Progress - 2008
(Expressed in Thousands)

Plan	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Asset	Net OPEB Obligation
State Employees	111,000	149.90%	55,388	
Teachers	46,000	38.38%		28,343
First Responders	1,045	0.00%		1,045

Initial year of prospective implementation.

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plans as of June 30, 2008 was as follows:

	(Expressed in Millions) State Employees	(Expressed in Millions) Teachers	(in 000's) First Responders
Actuarial accrued liability (AAL) (a)	$ 1,242	$ 1,044	$ 19,806
Actuarial value of plan assets (b)	98	-	-
Unfunded actuarial accrued liability (funding excess) (UAAL) (a)-(b)	$ 1,144	$ 1,044	$ 19,806
Funded ratio (b)/(a)	7.89%	0.00%	0.00%
Covered payroll (c)	$ 568	$ 1,160	$ 51,021
UAAL (as a percentage of covered payroll) ([(a)-(b)]/(c)	201.41%	90.00%	38.82%

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

ACTUARIAL METHODS AND ASSUMPTIONS

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

	State Employees	Teachers	First Responders
Valuation date	June 30, 2008	June 30, 2008	6/30/2007 rollforward to 6/30/2008
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed	Level percent closed
Remaining amortization period - UAAL	29	29	29
Plan changes - closed 20 year period	n/a [1]	n/a [1]	n/a
(Gains) /losses	n/a [1]	n/a [1]	rolling 15 year period
Asset valuation method	market	n/a	n/a
Actuarial assumptions:			
Investment rate of return	4.50% initial 7.50% ultimate	4.50%	4.50%
Projected salary increases	4.75%	4.75%	3.75%
Inflation rate	3.75%	3.75%	3.75%
Healthcare inflation rate	initial 9% ultimate 4.5%	initial 9% ultimate 5%	4.50%

[1] For the State and Teachers, the UAAL is amortized as a level percent of payroll over a 30-year period because the ARC calculated using separate amortization periods resulted in an equivalent single amortization period greater than the maximum 30-year period.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CONTRIBUTIONS AND RESERVES

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

INVESTMENTS

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

POST RETIREMENT GROUP LIFE INSURANCE BENEFIT PLAN

The Maine Public Employees Retirement System, (the System), is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit Group Life Insurance Plan (GLIP) administered by a third party insurance company in accordance with Title 5 MRSA C. 423 and 425. Members include employees of the State, public school employees (defined by Maine law as teachers and for whom the State acts like the employer for retirement contribution and benefit purposes), members of the Judiciary and the Legislature, that are eligible for membership in the System. Group life insurance benefits are also provided to employees of 431 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine, that elect to participate under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2008 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

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

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

BASIS OF ACCOUNTING

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

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

INVESTMENTS

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

FUNDING POLICY

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

insurance coverage for retired teachers are paid by the State based on a rate of $.33 per $1,000 of coverage per month during the post-employment retired period.

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

Analysis of Funding Progress - 2008
(Expressed in Thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Net OPEB Obligation	Percentage of OPEB Cost Contributed
June 30, 2008	5,500	23	5,477	0.42%

FUNDED STATUS AND FUNDING PROGRESS
The funded status of the plan as of June 30, 2008 was as follows:

(Expressed in Thousands)

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

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

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

Significant methods and assumptions were as follows:

Valuation date	June 30, 2008
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Asset valuation method	3-Year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75% - 10.00%
Cost of living increases in life benefits	N/A
Participation percent for future retirees	100.00%
Form of benefit payment	lump sum

NOTE 11 - LONG-TERM OBLIGATIONS

PRIMARY GOVERNMENT

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

GENERAL OBLIGATION BONDS

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

Changes in general obligation bonds of the primary government during fiscal year 2008 were:

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

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008	Due Within One Year
General Obligation Debt:					
General Fund	$398,280	$46,525	$66,230	$378,575	$65,685
Special Revenue Fund	50,460	57,550	10,750	97,260	13,505
Self Liquidating	20	-	20	-	-
Total	$448,760	$104,075	$77,000	$475,835	$79,190

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2008 until maturity, are summarized in the following table:

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

Fiscal Year	Principal	Interest	Total
2009	$ 79,190	$ 19,027	$ 98,217
2010	73,390	15,784	89,174
2011	68,030	12,687	80,717
2012	64,005	10,072	74,077
2013	61,245	7,631	68,876
2014-2018	129,975	12,679	142,654
Total	$ 475,835	$ 77,880	$ 553,715

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2008 are as follows:

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

	Amounts Issued	Outstanding June 30, 2008	Fiscal Year Maturities First Year	Last Year	Interest Rates
General Fund:					
Series 1999	$ 54,385	$ 3,875	2000	2009	4.20% - 6.75%
Series 2000	66,290	11,210	2000	2010	4.875% - 7.75%
Series 2001	22,050	6,315	2002	2011	4.00% - 6.08%
Series 2002	27,610	11,040	2003	2012	3.00% - 5.75%
Series 2003	97,080	48,525	2003	2013	1.50% - 5.00%
Series 2004	117,275	71,700	2005	2014	2.00% - 5.27%
Series 2005	137,525	106,905	2006	2015	2.00% - 5.27%
Series 2006	52,390	41,905	2007	2016	4.00% - 5.51%
Series 2007	33,975	30,575	2008	2017	4.00% - 5.50%
Series 2008	46,525	46,525	2009	2018	3.00% - 5.13%
Total General Fund		$ 378,575			
Special Revenue Fund:					
Series 1999	$ 16,900	$ 1,690	2000	2009	4.00% - 5.50%
Series 2001	19,225	5,760	2002	2011	4.00% - 5.00%
Series 2004	13,000	7,960	2005	2014	2.00% - 4.00%
Series 2007	27,000	24,300	2008	2017	4.00% - 5.50%
Series 2008	57,550	57,550	2009	2018	3.00% - 5.13%
Total Special Revenue		$ 97,260			

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, 2008, general obligations bonds authorized and unissued totaled $191.8 million.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY

The State included $208.6 million in other financing arrangements to reflect revenue bonds issued by the Maine Governmental Facilities Authority (MGFA), a blended component unit. Payment of the bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature. Debt issued by MGFA is not debt of the State or any political subdivision within the State. The State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. MGFA may not issue securities in excess of $263.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2008, MGFA issued the Series 2008 Bonds, which totaled $40.6 million at an interest rate between 4 percent and 5 percent. At June 30, 2008, there were approximately $71.9 million of MGFA in-substance defeased bonds outstanding.

CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS

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

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

SHORT TERM OBLIGATIONS

The State of Maine issued and retired $87.6 million in Bond Anticipation Notes during fiscal year 2008. Short term obligations are used to meet temporary operating cash flow needs. At June 30, 2008 there were no outstanding Tax Anticipation Notes or Bond Anticipation Notes.

OTHER LONG-TERM OBLIGATIONS

In general, expenditures and fund liabilities are not recorded in governmental funds for long-term obligations until amounts owed are "due and payable." Fund liabilities are recorded in the proprietary funds when obligations are incurred. In the Statement of Net Assets, the State has recorded long-term obligations for its compensated employee absences and net pension obligation.

Changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2008, are summarized as follows:

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

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Governmental Activities:					
MGFA Revenue Bonds	$182,605	$40,565	$14,610	$208,560	$15,625
COP's and Other Financing	79,886	17,343	22,371	74,858	30,785
Compensated Absences	41,680	3,320	366	44,634	5,294
Claims Payable	64,096	183,804	181,479	66,421	24,964
Capital Leases	41,751	3,350	7,579	37,522	6,247
Pledged Future Revenues	42,353	-	4,015	38,338	4,135
Net Pension Obligation	18,444	264	-	18,708	-
Other Post-Employment Benefit Obligation	-	34,865	-	34,865	-
Total Governmental Activities	$470,815	$283,511	$230,420	$523,906	$87,050
Business-Type Activities:					
Compensated Absences	$718	$32	$ -	$750	$162
Total Business-Type Activities	$718	$32	$ -	$750	$162

Debt service requirements (principal and interest) for COP's and other financing arrangements of the primary government, from June 30, 2008 until maturity, are summarized as follows:

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

	Governmental Funds			Internal Service Funds		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total
2009	$ 10,084	$ 1,047	$ 11,131	$ 36,326	$ 10,217	$ 46,543
2010	9,423	572	9,995	28,579	9,463	38,042
2011	3,572	223	3,795	23,777	8,298	32,075
2012	1,757	94	1,851	21,302	7,358	28,660
2013	359	34	393	20,624	6,520	27,144
2014 - 2018	541	63	604	77,344	20,776	98,120
2019 - 2023	-	-	-	37,870	5,848	43,718
2024 - 2028	-	-	-	10,410	1,635	12,045
2029 - 2033	-	-	-	1,450	36	1,486
Total	$ 25,736	$ 2,033	$ 27,769	$ 257,682	$ 70,151	$ 327,833

CONDUIT DEBT OBLIGATIONS

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

PLEDGED FUTURE REVENUES

On December 16, 2004, the Maine Municipal Bond Bank (MMBB) issued $48.4 million of GARVEE grant anticipation revenue bonds on behalf of the Maine Department of Transportation, to provide financing for construction of a new Waldo-Hancock bridge. Net proceeds from the bonds totaled $49.4 million including bond premium of approximately $900 thousand. The bonds payable bear interest rates from 2.5 percent to 5 percent, and have maturities from 2005 to 2015. Payment of principal and interest on the bonds shall be subject to appropriation each year by the Legislature in an amount sufficient to cover the principal and interest requirements of MMBB's debt for these bonds. The State's receipt of these funds is subject to continuing federal appropriations. MMBB insured payments of principal and interest with a financial guaranty insurance policy. The bonds do not constitute a debt or obligation of the State.

Total principal and interest requirements over the life of the bonds are $60.2 million, with annual requirements of up to $5.6 million. Federal transportation funds received by the State for the federal fiscal year preceding the issuance of the bonds totaled $175 million. Total federal transportation funds received in federal fiscal year 2008 were $146.5 million. Current year payments to MMBB were $5.5 million (3.8 percent of federal transportation funds received).

OBLIGATIONS UNDER CAPITAL LEASES

The State leases various assets under noncancelable leasing arrangements. Leases that constitute rental agreements are classified as operating leases; the resulting expenditures are recognized as incurred over the lease term. Leases that are comparable to purchases are classified as capital leases.

In the government-wide and proprietary fund statements, assets and liabilities resulting from capital leases are recorded at lease inception. The principal portion of lease payments reduces the liability; the interest portion is expensed.

Most leases have cancellation clauses in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered because the likelihood that they will be exercised is considered remote. Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Because the accounting treatment for installment purchase agreements is similar, such agreements are reported with capital leases.

Leases that exist between the State and the Maine Governmental Facilities Authority (MGFA), a blended component unit, are not recorded as leases in this report. In their separately issued financial statements, MGFA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide statements for the bonds issued by MGFA to construct the assets associated with the leases. Future payments to MGFA are, therefore, not included in the schedule of lease commitments below. At June 30, 2008 capital assets include $68.1 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of $34.9 million.

OBLIGATIONS UNDER OPERATING LEASES

The State is obligated under certain leases, accounted for as operating leases, in the proprietary funds. Operating leases do not give rise to property rights or lease obligations, and therefore assets and liabilities related to the lease agreements are not recorded in the State's financial statements. Rental expense incurred under operating leases totaled $2.0 million during the year.

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

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

Fiscal Year	Capital Leases	Operating Leases
2009	$ 6,247	$ 1,343
2010	5,608	809
2011	5,328	464
2012	5,090	360
2013	4,082	269
2014-2018	14,291	645
2019-2023	4,510	2
2024-2028	1,114	-
2029-2033	-	-
Total Minimum Payments	46,270	$ 3,892
Less: Amount Representing Interest	8,748	
Present Value of Future Minimum Payments	$ 37,522	

MGFA REVENUE BONDS, COP'S AND OTHER FINANCING ARRANGEMENTS
MGFA revenue bonds will be liquidated by the MGFA Internal Service Fund, from revenues received through lease agreements with various governmental funds. The liability for pledged future revenues will be liquidated from the Federal Fund. The vast majority of COP's and other financing arrangements will be liquidated by the internal service fund in which the leases are recorded; the General and Highway Funds will pay relatively small amounts.

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

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

COMPONENT UNITS

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

Component Unit Bonds Outstanding
(Expressed in Thousands)

Component Unit	Interest Rates	Amount	Maturity Dates
Finance Authority of Maine	1.0 - 3.31%	303,938	2025 – 2037
Maine Community College System	4.0 - 5.0%	23,399	2012 - 2036
Maine Health and Higher Educational Facilities Authority			
debt	2.0 - 6.2%	1,452,195	1993 - 2038
conduit debt	4.5- 7.3%	49,880	1990 - 2043
Maine Municipal Bond Bank	1.0 - 10.25%	1,085,613	1991 – 2038
Maine State Housing Authority	2.35 - 6.40%	1,550,529	2008 – 2039
University of Maine System	2.0 - 5.75%	216,911	2000 – 2037

MHHEFA advance refunded various bond obligations in prior years. Proceeds were primarily used to purchase U.S. Government securities that will provide for future payment on the debt. Between July 18, 2007 and June 19, 2008, MHHEFA issued $279.2 million Series 2007A, 2008A, 2008B and 2008C revenue bonds with either variable interest rates or an average interest rate of 4.75 percent or 4.38 percent. A portion of the $241.7 million proceeds was used to refund $237.0 million of outstanding bonds. At June 30, 2008, there were approximately $97.0 million of in-substance defeased bonds remaining outstanding with respect to all advance-refunded issues within the reserve fund and taxable fund resolutions. Approximately $160.0 million of the total $237.0 million reserve fund bonds refunded in 2008 were immediately called. At June 30, 2008, there were approximately $38.3 million of defeased bonds outstanding with respect to advance refunded bond issues of the general resolution. The general resolution bonds are considered conduit debt.

UMS advance refunded various bond obligations in prior years. Proceeds were primarily used to purchase U.S. Government securities that will provide for future payment on the debt. The refunding resulted in a deferred amount on refunding of $841 thousand, of which the unamortized balance was $120 thousand as of June 30, 2008. At June 30, 2008, $41.2 million of advance refunded bonds remained outstanding.

In periods of declining interest rates, MMBB has refunded its bond obligations, reducing aggregate debt service. Where allowed, the bank retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Government securities that will provide for future payment on the debt. At June 30, 2008, the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately $154 million.

For the period ended December 31, 2007, MSHA redeemed $251.9 million of its Mortgage Purchase Fund bonds from reserve funds, mortgage prepayments, surplus revenues and the proceeds of refunding bonds. Mortgage Purchase Fund losses of $345 thousand were attributable to recognition of the redemption premium, bond discount and debt issuance expenses associated with the redeemed bonds.

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

Component Units Principal Maturities
(Expressed in Thousands)

Fiscal Year Ending	FAME	MMBB	MCCS	MSHA	UMS	MHHEFA
2009	$ 54	$ 102,763	$ -	$ 41,245	$ 7,475	$ 40,955
2010	54	99,881	-	43,755	7,885	50,680
2011	55	97,510	-	202,927	8,325	52,925
2012	55	88,758	-	41,200	39,225	57,710
2013	56	82,776	545	45,630	7,410	62,190
2014-2018	289	323,324	3,065	217,575	36,900	305,980
2019-2023	303	199,445	3,775	273,515	35,040	301,885
2024-2028	114	80,390	4,790	254,035	31,550	264,780
2029-2033	69,500	7,385	6,095	259,995	30,800	204,575
2034-2038	234,500	2,545	4,352	163,295	8,865	107,750
2039-2043	-	-	-	22,560	-	2,765
2044-2048	-	-	-	-	-	-
Net unamortized premium or (deferred amount)	(1,042)	836	777	(15,203)	3,436	-
Total Principal Payments	$ 303,938	$ 1,085,613	$ 23,399	$ 1,550,529	$ 216,911	$ 1,452,195

NOTE 12 - SELF-INSURANCE

A. RISK MANAGEMENT

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

Insurance plans offered include property, vehicle, boat and aircraft, tort, civil rights, employee bonds, police professionals, and a variety of other insurance products. All departments have elected to insure through the Risk Management Division. The Department of Transportation elected to purchase general liability insurance as of April 1, 2007; in prior fiscal years the Department of Transportation had elected not to purchase general liability insurance through the Risk Management Division.

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

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

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

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

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

All risk-financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims liabilities represent the estimated cost of claims as of March 31, 2008. This cost of claims includes case reserves, the development of known claims, and the direct administrative expenses for settling specific claims.

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

At March 31, 2008 and 2007, the present value of the claims payable for the State's self-insurance plan was estimated at $3.5 million and $3.2 million, respectively. The actuary calculated this based on the State's rate on investments.

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

	2008	2007
Liability at Beginning of Year	$ 3,190	$ 3,190
Current Year Claims and Changes in Estimates	1,058	683
Claims Payments	723	683
Liability at End of Year	$ 3,525	$ 3,190

As of June 30, 2008, fund assets of $21.6 million exceeded fund liabilities of $4.0 million by $17.6 million. The portion of this amount that may be reserved for catastrophic losses has not been determined.

In the past, general liability insurance coverage excluded lawsuits brought by employees. Therefore, the loss history used by the actuary to project claims did not include the effects of any such lawsuits. Effective July 1,

1999, the State added $50 thousand coverage per occurrence for the cost of defending the State in any such lawsuits. Effective July 1, 2000, the State increased coverage to include both defense and indemnification costs up to $400 thousand. The effect of this change has been partially incorporated into the estimate used to determine claims payable as of June 30, 2008.

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 $875.8 thousand for the fiscal year ended June 30, 2008.

C. WORKERS' COMPENSATION

Workers' Compensation is accounted for in an Internal Service Fund. Interfund premiums are treated as quasi-external transactions. Each State agency is charged a premium based on the number of employees to be covered plus an added amount to reduce the unfunded liability. The Legislature, Legislative Council, and Law Library employees are self-insured for workers' compensation purposes. The State assumes the full risk of all claims filed for workers' compensation.

Claims liabilities are actuarially determined based on estimates of the ultimate cost of claims, including future claim adjustment expenses that have been incurred but not reported and claims reported but not settled. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The balance of claims liabilities as of June 30, 2008:

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

	2008	2007
Liability at Beginning of Year	$ 45,358	$ 53,343
Current Year Claims and Changes in Estimates	9,474	474
Claims Payments	9,474	8,459
Liability at End of Year	$ 45,358	$ 45,358

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

D. EMPLOYEE HEALTH INSURANCE

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

The State retained an independent contractor for claims administration, utilization review, and case management services. Premiums are paid to the independent contractor based upon rates established with the technical assistance of the plan's consulting actuary.

There are two primary health plans available. HMO Choice is a point-of-service plan available to all active employees and retirees not eligible for Medicare. The Group Companion Plan is a supplement to Medicare Parts A & B and is available to Medicare eligible retirees. Total enrollment averaged approximately 40,100 covered individuals. This total includes 29,000 active employees and dependents, 4,400 pre-Medicare retirees and dependents, and 6,700 Medicare retirees and dependents.

Claims expenses are recorded when premiums are paid to the claims servicing contractor. At the end of the period, the total of these premium payments are compared with the actual claims paid and claims expense is adjusted for any overage or shortage with an offsetting receivable or liability recorded. For the period ending June 30, 2008, the State recorded a receivable of $155 thousand for an overpayment of health care premiums.

Expenses and liabilities for incurred but not reported claims, based on an actuarial analysis of claim lag pattern, have been recorded as liabilities in the amount of $17.4 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2008 follows (in thousands):

	Employee Health Fund	Retiree Health Fund
Liability at Beginning of Year	$ 9,946	$ 5,602
Current Year Claims and Changes in Estimates	118,715	54,557
Claims Payments	117,705	53,577
Liability at End of Year	$ 10,956	$ 6,582

The table above reflects actual activity of the employee health and retiree health insurance programs. In accordance with GASB Statement No. 45, certain costs reported above were reclassified for financial statement purposes. $41.5 million in retiree healthcare costs were reclassified from the internal service fund to the OPEB Trust Fund, a fiduciary fund. Additionally, $25 million of active employee healthcare costs was reclassified from the internal service fund to the OPEB Trust Fund to reflect age-adjusted claims.

NOTE 13 – JOINT VENTURES

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

Tri-State Lotto Commission

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

The Commission is composed of one member from each of the participating states. Each member State's commission appoints one of its members to serve on the Commission and each member holds office at the pleasure of his or her appointing authority. The Commission annually elects a chairman from among its members. The Commission designated that 50 percent of its operating revenue be aggregated in a common prize pool.

A prize award liability is established when the winning ticket number is selected. If no winning ticket is selected, the available jackpot is carried over to the following drawing. The Tri-State Lotto Compact requires that prizes not

claimed within one year from the date of the drawing be forfeited. All expired unclaimed prizes are credited to future prize pools. The Commission funds its jackpots through annuity contracts purchased from insurance companies and zero-coupon U.S. Government Treasury Strips.

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

The Tri-State Lotto Commission financial report for fiscal year 2008, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected financial information:

Tri-State Lotto Commission
(Expressed in Thousands)

Current Assets	$	35,817
Noncurrent Assets		82,496
Total Assets	$	118,313
Current Liabilities	$	24,139
Long-term Liabilities		78,561
Total Liabilities		102,700
Designated Prize Reserves		4,096
Reserve for Unrealized Gains		11,517
Total Net Assets		15,613
Total Liabilities and Net Assets	$	118,313
Total Revenue	$	73,901
Total Expenses		49,692
Allocation to Member States		24,209
Change in Unrealized Gain on Investments Held for Resale		3,217
Change in Net Assets	$	3,217

Multi-State Lottery Association

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

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

The Multi-State Lottery Association's financial report for fiscal year 2008, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected information:

Multi-State Lottery Association
(Expressed in Thousands)

Cash and Cash Equivalents	$ 100,901
Investments in US Government Securities	123,273
US Government Securities Held for Prize Annuities	651,055
Due from Party Lotteries	23,131
Other Assets	1,342
Total Assets	$ 899,702
Amount Held for Future Prizes	$ 204,932
Grand Prize Annuities Payable	681,867
Other Liabilities	12,628
	899,427
Net Assets, Unrestricted	275
Total Liabilities and Net Assets	$ 899,702
Total Revenue	$ 4,204
Total Expenses	4,126
Excess of revenue over expenses	78
Net assets, beginning	197
Net assets, ending	$ 275

NOTE 14 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

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

By statute, program assets are held by the Treasurer of the State of Maine. FAME and the Treasurer of the State of Maine have entered into a management agreement for the Treasurer to act as a fiduciary of the Fund. The Treasurer is responsible for investment of the Fund and determining, with the advice of the Advisory Committee on College Savings, the proper allocation of the investments of the Fund. The NextGen had approximately $5.3 billion in net assets at June 30, 2008, which have been recorded in an Agency Fund on the financial statements of the State.

The State of Maine pays a local company as a provider for mental health and independent living services through the MaineCare program. The Executive Director of the Company also serves as House Chair of the Joint Standing Committee on Health and Human Services in the Maine Legislature. During fiscal 2008, the State paid $14 million for these services; $5 million from the General Fund and $9 million from the Federal Fund. At June 30, 2008, the State owed $705 thousand to this vendor.

The State of Maine pays a family owned company as a provider for road reconstruction through the Department of Transportation. The family includes a House Representative on the Utilities and Energy Committee. During fiscal 2008, the State paid $7.7 million for these services; $6.4 million from the Highway Fund, $1.1 million from the Other Special Revenue Fund and $.2 million from the Capital Projects Fund. At June 30, 2008, the State owed $613 thousand to this vendor.

The State of Maine pays subsidiaries of a local business for nursing facilities medical care services for seniors. The Chief Executive Officer of the company is the spouse of a Deputy Director. During fiscal 2008, the State paid $10.8 million for these services; $3.9 million from the General Fund and $6.9 million from the Federal Fund. At June 30, 2008, the State had no outstanding balance with this vendor.

The State of Maine pays a local non-profit to provide medical care, nursing facilities and MaineCare services to individuals with developmental disabilities. The Chief Executive Officer of the company is the spouse of the Commissioner of the Department of Health and Human Services. During fiscal 2008, the State paid $4.4 million for these services; $2.7 million from the Federal Fund and $1.7 million from the General Fund. At June 30, 2008, the State had no outstanding balance with this vendor.

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

COMPONENT UNITS

The State provided appropriations and grant monies to the following discretely presented component units: University of Maine System, $231.4 million; Maine Community College System, $57.1 million; Maine Municipal Bond Bank, $3.4 million; Finance Authority of Maine, $16.8 million; and Maine State Housing Authority, $9.7 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $32.7 million at June 30, 2008, as a liability in Amounts Held Under State Revolving Loan Programs in their financial statements. The state reports the asset as a receivable in the Special Revenue Fund. During fiscal year 2008, the State expended $4.6 million to FAME for State revolving loan funds. The State also transferred $1 million from its Loan Insurance Reserves to FAME.

Title 20-A MRSA Chapter 419-A established the Maine State Grant Program as a fund under the jurisdiction of the Finance Authority of Maine. All grant revenues under this fund must be distributed by FAME to students who meet the eligibility requirements for a grant under this chapter. During fiscal year 2007, the NextGen College Savings grant funds and the Maine State Grant funds were pooled into the new State of Maine Grant. FAME paid approximately $8.6 million in grants to the University of Maine System (UMS) on behalf of eligible students. The UMS reflected these as grant revenues from the State.

RELATED ORGANIZATIONS

The State receives transfers in the amount of the annual operating surplus from the Maine Turnpike Authority under the Sensible Transportation Act of 1991. The Legislature defined operating surplus within the Maine Turnpike Authority statute to be the total operating revenues of the Authority after money has been set aside to pay

reasonable operating expenses and to meet the requirements of any resolution authorizing bonds. The Authority, with the concurrence of the Maine Department of Transportation, established the operating surplus at $4.7 million annually. The payment of debt service costs in connection with the issuance of the Series 1996 Special Obligation Bonds is considered to constitute payment of the operating surplus for the year 2008.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

PRIMARY GOVERNMENT

LITIGATION

The State of Maine, its units, and its employees are parties to numerous legal proceedings, many of which are the result of normal governmental operations. In the opinion of the Attorney General and other legal counsel representing the State, in all of the cases listed, the State or its agencies or employees have valid defenses. The following cases have the potential for liability in excess of $1 million. Even if liability is found, the State should not expect to pay out the full amounts being sought against it in all of the cases. In any given case, however, the State could incur a large judgment.

Franklin Memorial Hospital v DHHS. The issue in this case is whether DHHS has failed to issue interim settlements for the fiscal years 2005 and 2006, and if so, whether DHHS is required legally to issue those interim settlements. Maine regulations require that payment follows within 30 days of settlements. The complaint alleges that DHHS owes Franklin approximately $3.0 million for 2005 and $1.7 million for 2006. Should the plaintiff prevail, many other outstanding hospital settlements would be affected. Status: DHHS prevailed in Superior Court and Franklin has filed an appeal. The potential for expenditure is moderate.

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

In various lawsuits, Plaintiffs seek damages in excess of $1 million against the State or against State officials, and various notices of claim also specify damages in excess of $1 million where no lawsuit has been filed. In none of these lawsuits, in the view of the Attorney General, is there any reasonable possibility that the State's liability could reach or exceed $1 million. Therefore, these suits have not been individually identified.

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

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

FEDERAL GRANTS

The State receives significant financial assistance from the federal government. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable federal regulations,

including the expenditure of resources for allowable purposes. Grants are subject to the Federal Single Audit Act. Disallowances by federal officials as a result of these audits may become liabilities of the State. The amount of expenditures that may be disallowed by the grantor agencies cannot be determined at this time.

MUNICIPAL SOLID WASTE LANDFILLS

Title 38 MRSA §1310-F, establishes within the Department of Environmental Protection (DEP) a cost-sharing program for the closure and remediation of municipal solid waste landfills that pose an actual or potential hazard to the environment and public health. The State's obligation to provide cost sharing to municipalities is subject to the availability of funds approved for that purpose. State expenditures for landfill remediation projects totaled $28 thousand for fiscal year 2008.

During the 2008 fiscal year, no State general funds or bond funds were expended for municipal solid waste landfill closure projects. After January 1, 2000, the State is no longer liable for the costs relating to the closure of municipal solid waste landfills, except the Commissioner may make grants or payments up to 30 percent, if they are incurred pursuant to an alternative closure schedule approved by DEP prior to January 1, 2000, and if they are specifically identified in a department order or license, schedule of compliance or consent agreement. No reimbursement applications for past closure costs are on file. No additional cost share eligible closures have been approved by DEP. Consequently, the DEP expects no further expenditures for municipal landfill closures.

During the 2008 fiscal year, the State expended $28 thousand of general obligation bond funds for municipal solid waste landfill remediation projects. Remediation funding, subject to the availability of funds, will continue for 90 percent of the cost of remediation for threats posed by a municipal landfill to wells or other structures constructed on or before December 31, 1999. The maximum reimbursement for remediation funding is 50 percent for structures constructed after that date. The DEP recognizes that, in the future, some landfills will require State funds for post closure investigation and remediation activities. The DEP has estimated the amount of these potential future costs could be as much as $5 million, based on current site knowledge, the increasing frequency of residential development near closed municipal landfills, the discovery of older abandoned dump sites now occupied by residential homes, and recent issues involving gas migration from two municipal landfills in the state. Approximately $18 thousand remains in the existing municipal landfill bond account. The bond approved by the voters on the June 2008 ballot will be insufficient to fully cover identified obligations. Additional bond funds will be necessary to cover these outstanding remedial obligations.

SAND AND SALT STORAGE PROGRAM

The State estimates the potential aggregate cost to comply with the environmental requirements associated with the Sand and Salt Storage program to be $24 million. This consists of approximately $18 million for State-owned facilities and approximately $6 million for the State’s share, under a cost sharing arrangement, for municipal facilities.

POLLUTION ABATEMENT PROGRAM

Title 38 MRSA § 411 establishes within DEP a cost-sharing program for pollution abatement projects. Subject to funding by the Legislature and the approval of the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. During the 2008 fiscal year, $2.8 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2008, amounts encumbered for pollution abatement projects totaled $6.6 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $7.5 million. As of June 30, 2008, DEP estimated the total cost (federal, State, and local) of future projects to be $422 million.

DESIGNATION AS A POTENTIALLY RESPONSIBLE PARTY BY THE ENVIRONMENTAL PROTECTION AGENCY

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

GROUND WATER OIL CLEAN-UP FUND

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

A report to the legislature dated February 15, 2007, submitted by the Maine Department of Environmental Protection (DEP), identified 359 long-term remediation sites as of January 2007 that are covered by the insurance program. As of August 28, 2007 there were 377 sites on the long-term remediation priority list. Since it is not possible for the DEP to estimate the cost of remediation, the State has not accrued a liability in the financial statements.

CONSTRUCTION COMMITMENTS

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. Although the outstanding indebtedness for school construction projects is debt of the municipalities, the State subsidizes 54.0 percent of the annual payments. As of June 30, 2008, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $837.3 million.

At June 30, 2008, the Department of Transportation had contractual commitments of approximately $59.5 million for construction of various highway projects. The State’s share of that amount is expected to be approximately $11.2 million. Of these amounts, $2.2 million has already been accrued. Federal and State funds plus bond proceeds are expected to fund these future expenditures.

TOBACCO SETTLEMENTS

On November 23, 1998, Maine along with 45 other states and five civil jurisdictions (known under the MSA as the "Settling States"), entered into a Master Settlement Agreement (MSA) with certain Participating Tobacco Manufacturers (PM’s). The MSA is a settlement of lawsuits brought by many States against the four largest tobacco companies alleging a variety of misconduct and claiming damages, including a claim for all the State's Medicaid costs caused by or related to tobacco use. The MSA includes provisions to annually compensate the State for smoking-related Medicaid costs and to impose marketing and advertising restrictions on PM's to protect public health. In this settlement, the PM’s agreed, among other things, to make annual payments to the states and jurisdictions based on their allocated share of the market. In return, the states agreed to relinquish claims to further damages resulting from, among other things, Medicaid costs. Annual payments fluctuate subject to various adjustments and are partially contingent on the passage and enforcement of a State statute imposing economic conditions related to the State's public health claims on the Nonparticipating manufacturers (NPM’s) in the form of an annual escrow payment due from each NPM with in-state sales. The NPM adjustment is set forth in the Master Settlement Agreement (MSA). If the PM’s claim an NPM adjustment for a given year and prove that they lost market share to the NPM’s and it is determined that the MSA was a significant factor contributing to that lost market share then the PM's are entitled to an NPM adjustment, which in effect means for the challenged sales year they owe less money to a losing State or States. However, a State that has passed qualifying statue imposing escrow requirements on NPM's and that 'diligently enforced' that qualifying statue is not liable for any amount of that NPM adjustment. Due to the provisions of the MSA, a losing State may lose up to its entire annual payment amount due to the NPM adjustment for a given year.

The NPM adjustment may be claimed each year and has been claimed for each completed calendar year since 2003. Frequently PM's claim entitlement to the NPM adjustment and either withhold the amount from their annual payments, or place the amount in what is known as a 'disputed payment account'. Each year beginning in 2003 Maine's annual payments have been lower than calculated due to the NPM adjustment claims of many of the PM's. For the year 2003, the adjustment claimed by the PM's, and calculated as set forth in the MSA, was approximately 18 percent of the total amount paid by the PM's and distributed among the Settling States.

In the MSA, the PM's have also agreed to pay $8.6 billion in Strategic Contribution Payments (SCP) to certain states and jurisdictions as compensation for their contribution to the overall settlement. Maine's share of this total amount is approximately $114 million. Maine will receive this amount through ten annual SCP payments starting in 2008. In April 2008, Maine received a total of $58.2 million including both the annual payment amount and the strategic contribution amount.

DIRIGO HEALTH AGENCY

Savings Offset Payment

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

For the first Savings Offset Payment, the State Superintendent of Insurance determined that $43.7 million was saved in the health care system because of Dirigo Health. The Board established a percentage of .02408 to be applied to claims paid by health insurance carriers, employee benefit excess insurance carriers and third party administrators. In SFY 2008, the Agency collected $7.9 million of this first assessment. The Agency does not anticipate any further collections for the first Savings Offset Payment.

For the second Savings Offset Payment, the State Superintendent of Insurance determined that $34.3 million was saved in the health care system because of Dirigo Health. The Board established a percentage of .0185 to be applied to claims paid by health insurance carriers, employee benefit excess insurance carriers and third party administrators. In SFY 2008, the Agency collected $13.4 million of this second assessment. The Agency expects to collect the remaining $18.7 million in SFY 2009 for the second Savings Offset Payment.

ESCHEAT PROPERTY

The State Abandoned Property Statute requires the deposit of certain defined and unclaimed assets into a state-managed Abandoned Property Fund (Private Purpose Trust Fund). The State Statute provides that whenever the cash balance of the fund exceeds $500 thousand at fiscal year-end, the excess must be remitted to the General Fund where it is reported as operating transfers from other funds. At June 30, 2008, the Fund included $14.2 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2008 of approximately $144.1 million represent a contingent liability to the State since claims for refund may be filed by the owners of such property.

A liability representing the probable amount of escheat property that will be reclaimed and paid to claimants and other third parties is reported in the Fund. To the extent that the assets in the Fund are less than the claimant liability, a receivable (due from other funds) is reported in that Fund and an equal liability (due to other funds) is reported in the General Fund. At June 30, 2008, the amount reported in the Fund for claimant liability is $24.9 million. The General Fund shows a $16.9 million payable to the Escheat Fund.

NURSING HOME LOANS

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

MHHEFA advanced approximately $613 thousand from the operating fund as of June 30, 2008 to other financially troubled institutions, with combined loan amounts due the Authority of approximately $10.1 million at June 30, 2008, including loans of $9.4 million reserved at June 30, 2008. These advances were primarily made to assist

these institutions in meeting debt service requirements in years prior to fiscal 2008. MHHEFA also has approximately $.4 million of other receivables outstanding with the operating fund at June 30, 2008, primarily related to amounts due from institutions to reimburse the Authority for arbitrage rebate payments made on their behalf. MHHEFA established a $.9 million reserve in its operating fund related to the above loans, advances and other receivables outstanding.

CONSTITUTIONAL OBLIGATIONS

Article 9, § 14-A, C, and D of the Maine State Constitution provides that the State may insure the payment of mortgage loans for industrial, manufacturing, fishing, agricultural and recreational enterprises; mortgage loans for the acquisition, construction, repair and remodeling of houses owned or to be owned by members of two tribes on several Indian reservations; and mortgage loans to resident Maine veterans of the Armed Forces of the United States, including loans to a business organization owned in whole or in part by resident Maine veterans. The aggregate of these obligations, at any one time, may not exceed $90 million, $1 million, and $4 million, respectively. At June 30, 2008, loans outstanding pursuant to these authorizations are $40.1 million, less than $1 million, and less than $1 million, respectively. The State has not paid, nor does it expect to pay, any amounts as a result of these authorizations as of June 30, 2008.

Article 8, § 2, of the Maine State Constitution provides that the State may secure funds, through the issuance of bonds authorized by the Governor, for loans to Maine students attending institutions of higher education. The amount of bonds issued and outstanding shall not at any one time exceed $4 million in the aggregate. At June 30, 2008, no bonds were outstanding. The State has not paid, nor does it expect to pay, any amount as a result of this authorization as of June 30, 2008.

TARGETED CASE MANAGEMENT

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

MORAL OBLIGATIONS

The State of Maine, through statute, enables certain Authorities to establish capital reserve funds. These funds may be used to secure a variety of financial undertakings including the issuance of bonds. The minimum amount of the capital reserve fund may be determined by statute or set by the Authority. The statutes may also limit the amount of debt that may be secured by the capital reserve funds, and allow the Authority to issue debt that is not secured by these funds.

On or before December first of each year, the Authority is required to certify to the Governor the amount, if any, necessary to restore any capital reserve fund to its required minimum. If there is a shortfall, the Governor is required to pay first from the "Contingent Account" the amounts necessary for restoration. The Governor shall certify any remaining unpaid amounts to the Legislature, which is then required to appropriate and pay the remaining amounts to the Authority during the then-current State fiscal year.

These moral obligations are not considered to be "full faith and credit" obligations of the State, and voter approval of the underlying bonds is not required. No capital reserve fund restorations have been made in the current or previous years.

The following summarizes information regarding outstanding moral obligations:

Moral Obligation Bonds
(Expressed in Thousands)

Issuer	**Bonds Outstanding**	**Required Debt Reserve**	**Obligation Debt Limit**	**Legal Citation**
Maine Health and Higher Educational Facilities Authority - debt	$ 1,452,195	$116,098	no limit	22 MRSA § 2075
conduit debt	49,880		no limit	22 MRSA § 2075
Finance Authority of Maine	36,287	-	$ 700,795	10 MRSA §1032, 1053
	-	-	50,000	20-A MRSA §11449
	-	-	50,000	38 MRSA §2221
Loring Development Authority *	-	-	100,000	5 MRSA §13080-N
Maine Municipal Bond Bank	1,084,778	126,731	no limit	30-A MRSA §6006
Maine Educational Loan Authority *	32,115	1,285	50,000	20-A MRSA §11424
Maine State Housing Authority	1,404,720	125,519	2,150,000	30-A MRSA §4906
Total	$ 4,059,975	$369,633		

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

NOTE 16 - SUBSEQUENT EVENTS

PRIMARY GOVERNMENT

On August 14, 2008, October 16, 2008, and January 23, 2009, the State issued $58.6 million, $24.5 million, and $28.9 million respectively, of Bond Anticipation Notes that mature on June 17, 2009.

COMPONENT UNITS

On March 1, 2008 the Maine State Housing Authority (MSHA) redeemed $10.4 million of its 2005 Series A and B General Housing Draw Down bonds, with variable interest rates maturing in 2010. On January 29, 2008, MSHA issued a total of $50 million 2008 Series A-1, A-2 and B Mortgage Purchase Fund bonds at par, with variable interest rates with maturities from 2016 to 2041. On March 12, 2008, MSHA committed to redeem $22 million of various series of its Mortgage Purchase Program bonds at par. The bonds carried interest rates from 3.65 percent to 5.60 percent, and maturities from 2008 to 2035.

On September 1, 2008, the Maine Municipal Bond Bank issued $50 million of Series 2008A Grant Anticipation Bonds. The bonds mature from 2009 to 2020 and carry an interest rate ranging from 3.25 percent to 4.00 percent.

Maine Health and Higher Educational Facilities Authority entered into an asset purchase and sale agreement to sell all of the assets of Portland Center for Assisted Living to a third-party. The parties have agreed to a purchase price and are awaiting final approval from the Department of Health and Human Services. If the transaction closes, the purchase price will exceed the carrying value of the assets sold.

In accordance with the Higher Education Loan Purchase Program, the Finance Authority of Maine (FAME) committed to lend up to $25 million to a lending partner for the purpose of originating FFELP student loans.

COMMERCIAL PAPER

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

As of June 30, 2008 Mainsail had a fair market value of $6.7 million. On August 28, 2008 the State came to an agreement with Merrill Lynch which involved the purchase of Mainsail at the price paid by the State, approximately $20 million.

FINANCIAL MARKETS

Investments are reported at fair value as of June 30, 2008. Subsequent to year-end, financial markets have experienced substantial volatility that has had a significant adverse impact on investment portfolios. As a result, certain investments reported in the accompanying financial statements have incurred significant declines in value. Because the values of individual investments fluctuate with market conditions, the amount of losses, if any, that the State will recognize in the future, cannot be determined.

FISCAL STABILIZATION

On February 12, 2009, the United States Congress enacted the American Recovery and Reinvestment Act of 2009 providing funds to all States to aid in the economic recovery of the U.S. economy. Funds are being made available for infrastructure and economic development, energy efficiency projects, assistance to the unemployed, and for state and local government fiscal stabilization. It is estimated that the State of Maine will receive approximately $1.2 billion in additional federal aid over the next two and half years. This bill was signed into law on February 17, 2009.

NOTE 17 – SPECIAL ITEMS

The Retiree Health Insurance Post-employment Benefits Investment Trust Fund is established as an irrevocable trust for the sole purpose of holding and investing funds appropriated or otherwise provided to the investment trust fund for the benefit of the Irrevocable Trust Fund for Other Post-employment Benefits established in Title 5 MRSA § 286-B with respect to the State's liabilities for retiree health benefits. The purpose of accumulating assets in this investment trust fund is to provide funding of the State's unfunded liability obligations for retiree health benefits. Funds appropriated for the irrevocable trust must be held in trust and must be invested or disbursed for the exclusive purpose of providing for retiree health benefits and may not be encumbered for, or diverted to, other purposes. Funds appropriated for the irrevocable trust fund may not be diverted or deappropriated by any subsequent action. On January 21, 2008 the State transferred $100 million to the Maine Public Employees Retirement System for the Retiree Health Insurance Post-Employment Benefits Investment Trust Fund.


DIRIGO
MAINE

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	General Fund				Highway Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues								
Taxes	$ 2,987,226	$ 2,943,976	$ 2,976,959	$ 32,983	$ 234,551	223,369	$ 225,235	$ 1,866
Assessments and Other	108,281	110,744	114,302	3,558	93,611	92,216	92,023	(193)
Federal Grants	16,256	10,950	11,041	91	-	465	3,983	3,518
Service Charges	40,161	38,380	47,288	8,908	5,474	5,030	6,995	1,965
Income from Investments	4,500	900	4,452	3,552	795	1,000	1,152	152
Miscellaneous Revenue	17,971	11,320	6,521	(4,799)	2,244	2,185	(1,666)	(3,851)
Total Revenues	3,174,395	3,116,270	3,160,563	44,293	336,675	324,265	327,722	3,457
Expenditures								
Governmental Support and Operations	251,313	252,677	245,992	6,685	39,458	40,280	37,646	2,634
Economic Development & Workforce Training	40,600	39,695	38,253	1,442	-	-	-	-
Education	1,487,084	1,488,433	1,471,239	17,194	-	-	-	-
Health and Human Services	1,029,976	1,044,185	985,139	59,046	-	-	-	-
Business Licensing & Regulation	-	-	2	(2)	-	-	-	-
Natural Resources Development & Protection	74,700	75,024	72,957	2,067	37	37	28	9
Justice and Protection	266,892	269,326	262,299	7,027	37,058	36,941	35,476	1,465
Arts, Heritage & Cultural Enrichment	8,871	8,797	8,682	115	-	-	-	-
Transportation Safety & Development	-	-	-	-	267,191	303,487	276,294	27,193
Total Expenditures	3,159,436	3,178,137	3,084,563	93,574	343,744	380,745	349,444	31,301
Revenues Over (Under) Expenditures	14,959	(61,867)	76,000	137,867	(7,069)	(56,480)	(21,722)	34,758
Other Financing Sources (Uses)								
Operating Transfers Net	(68,732)	(75,529)	(20,073)	55,456	2,472	2,092	6,569	4,477
Net Other Financing Sources (Uses)	(68,732)	(75,529)	(20,073)	55,456	2,472	2,092	6,569	4,477
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (53,773)	$ (137,396)	$ 55,927	$ 193,323	$ (4,597)	$ (54,388)	$ (15,153)	$ 39,235
Fund Balances at Beginning of Year (As Restated)			265,424				130,067	
Fund Balances at End of Year			$ 321,351				$ 114,914	

Federal Funds				Other Special Revenue Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
$ -	$ -	$ -	$ -	$ 194,631	$ 218,361	$ 212,033	$ (6,328)
-	-	160	160	121,308	125,968	108,515	(17,453)
2,530,365	2,637,181	2,198,403	(438,778)	13,590	15,549	6,950	(8,599)
932	932	1,478	546	141,954	152,300	147,623	(4,677)
17	17	293	276	2,169	2,224	2,218	(6)
4,056	4,611	(2,676)	(7,287)	243,007	250,934	176,301	(74,633)
2,535,370	2,642,741	2,197,658	(445,083)	716,659	765,336	653,640	(111,696)
9,269	15,860	6,991	8,869	161,569	178,255	160,309	17,946
120,445	126,458	81,058	45,400	29,684	32,881	24,105	8,776
188,953	202,448	178,762	23,686	6,305	9,328	5,871	3,457
1,898,019	1,927,941	1,667,197	260,744	469,410	489,292	400,857	88,435
822	955	488	467	76,238	77,907	65,113	12,794
41,764	48,297	32,000	16,297	112,743	122,379	89,020	33,359
101,214	137,806	65,346	72,460	37,185	41,241	32,935	8,306
3,279	3,371	2,490	881	1,986	2,140	1,261	879
191,893	194,310	155,760	38,550	14,605	21,105	17,731	3,374
2,555,658	2,657,446	2,190,092	467,354	909,725	974,528	797,202	177,326
(20,288)	(14,705)	7,566	22,271	(193,066)	(209,192)	(143,562)	65,630
258	258	(8,405)	(8,663)	164,481	145,321	134,105	(11,216)
258	258	(8,405)	(8,663)	164,481	145,321	134,105	(11,216)
$ (20,030)	$ (14,447)	$ (839)	$ 13,608	$ (28,585)	$ (63,871)	$ (9,457)	$ 54,414
		3,522				231,574	
		$ 2,683				$ 222,117	


DIRIGO
MAINE

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	General Fund	Highway Fund	Federal Funds	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 321,351	$ 114,914	$ 2,683	$ 222,117
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	210,261	(2,383)	-	8,552
Intergovernmental Receivables	-	-	691,834	-
Other Receivables	41,922	1,683	62,173	71,335
Inventories	1,982	-	613	-
Due from Component Units	51		10	
Due from Other Funds	6,886	5,345	15,141	63,394
Other Assets	-	-	-	-
Deferred Revenues	(215,541)	(7,382)	(613)	(29,555)
Total Revenue Accruals/Adjustments	45,561	(2,737)	769,158	113,726
Expenditure Accruals/Adjustments:				
Accounts Payable	(372,783)	(25,433)	(622,459)	(30,476)
Due to Component Units	(3,371)	(58)	(9,911)	(1,474)
Bonds Issued	-	-	-	-
Accrued Liabilities	(16,782)	(9,953)	(5,667)	(8,064)
Taxes Payable	(147,561)	(158)	-	-
Intergovernmental Payables	-	(2,409)	(87,606)	-
Due to Other Funds	(64,887)	(76,429)	(8,043)	(4,745)
Total Expenditure Accruals/Adjustments	(605,384)	(114,440)	(733,686)	(44,759)
Fund Balances - GAAP Basis	$ (238,472)	$ (2,263)	$ 38,155	$ 291,084

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING

Statutory/Budgetary Presentation

In accordance with statute, the Governor presents a biennial budget for the General Fund and special revenue funds to the Legislature for enactment or revision. Effective November 27, 1995, a State Constitutional Amendment provided the Governor a "line item" veto of dollar amounts, allowing a dollar substitution for those amounts disapproved, as long as an appropriation or allocation is not increased (or a deappropriation or deallocation decreased) either in the specified line or in any other line in the legislative document. Another Constitutional Amendment requires the State to fund at least 90 percent of the annual cost of future mandates imposed on local governments; any exception requires a two-thirds vote of the elected members of the House and Senate.

Once passed and signed, the budget becomes the financial plan for the next biennium. It includes proposed expenditures for all departments and agencies, interest and debt redemption charges, and expenditures for capital projects to be undertaken and executed during each fiscal year. The budget also includes anticipated revenues and any other means of financing expenditures. The State Budget Officer is required to use the revenue projections of the Revenue Forecasting Committee in preparing the General Fund and Highway Fund budgets.

Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

Detailed budgetary control is maintained at the program and line category level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers. Except in specific instances, only the Legislature may transfer appropriations between departments. Increases in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget. For the year ended June 30, 2008, the legislature deappropriated $19.5 million of original appropriations for the General Fund.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of the applicable appropriation or allocation, is employed in governmental fund types. For financial statement purposes, encumbrances outstanding at June 30 are shown as reservations of fund balance. Unencumbered appropriations in the General Fund and Highway Fund lapse at June 30 unless, by law, they are carried forward to a subsequent year. Amounts carried forward are shown as reservations of fund balance.

The State's budget is prepared primarily on a cash basis. Sales, income, corporate and fuel taxes include a modified accrual basis adjustment to recognize revenues that are expected to be collected within 60 days of the end of the fiscal year.

The Budgetary Comparison Schedule is presented as Required Supplementary Information (RSI) in this report. Actual amounts in this schedule are presented on a budgetary basis. Because this basis differs from accounting principles generally accepted in the United States of America (GAAP), a reconciliation between the budgetary and GAAP basis is presented in the RSI.

The various funds and programs within funds utilize a number of different budgetary control processes. Annual legislative appropriations and revenue estimates are provided for most "operating" funds.

The original executive budget and original legislative appropriations provide general purpose (unrestricted) revenue estimates in order to demonstrate compliance with constitutional provisions. Revenues restricted by law or outside grantors to a specific program are estimated at a level of detail consistent with controlling related expenditure accounts.

For programs financed from restricted revenues, spending authorization is generally contingent upon recognition of the related revenue. Reductions of spending authority occur if revenues fall short of estimates. If revenues exceed the estimate, supplemental appropriations are required before the additional resources can be spent.

The budgetary comparison schedule presented for the General Fund, the Highway Fund, the Federal Fund, and the Other Special Revenue Fund presents the original and final appropriated budgets for fiscal year 2008-2009, as well as the actual resource inflows, outflows and fund balances stated on the budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of June 7, 2007, and includes encumbrances carried forward from the prior year.

Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the "final budget" column. Therefore updated revenue estimates available for appropriations as of June 30, 2008 rather than the amounts shown in the original budget, are reported.

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

<u>Compliance at the Legal Level of Budgetary Control</u>

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

Required Supplementary Information – State Retirement Plan

Schedule of Funding Progress

	(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, 2008	8,691,075,704	11,721,271,968	3,030,196,264	74.1%	1,628,421,362	186.1%
June 30, 2007	8,302,466,643	11,209,708,127	2,907,241,484	74.1%	1,595,199,514	182.2%
June 30, 2006	7,556,514,663	10,598,346,071	3,041,831,408	71.3%	1,546,315,522	196.7%
June 30, 2005	7,013,846,148	10,048,587,643	3,034,741,495	69.8%	1,516,390,862	200.1%
June 30, 2004	6,498,608,717	9,485,605,608	2,986,996,891	68.5%	1,472,429,214	202.9%
June 30, 2003	6,085,632,834	9,007,851,422	2,922,218,588	67.6%	1,442,278,362	202.6%

Major changes in actuarial assumptions include the following:

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

The Maine Public Retirement System (the System), which is a component unit of the State, is the administrator of an agent, multiple-employer, defined benefit public employee retirement system. The June 30, 2008 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The System amortizes the unfunded liability of the State and teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The contribution rate in effect for 2008 was determined by the 2006 valuation, as revised, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 9 years remained at June 30, 2008.

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

Required Supplementary Information – Other Post-employment Benefit Plans

Schedules of Funding Progress
(Expressed in millions)

State Employees Healthcare Plan

	(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, 2008	98	1,242	1,144	7.89%	568	201.41%

Teachers Healthcare Plan

	(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, 2008	$-	1,044	1,044	0.00%	1,160	90.00%

State Employees Group Life Insurance Plan

	(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, 2008	21.1	64.9	43.8	32.51%	601.1	7.29%
June 30, 2007	20.8	65.2	44.4	31.90%	521.2	8.52%

Teachers Group Life Insurance Plan

	(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, 2008	19.9	52.1	32.2	38.20%	591.1	5.45%
June 30, 2007	19.1	54.1	35.0	35.30%	559.1	6.26%

Schedules of Funding Progress

(Expressed in 000's)

First Responders Healthcare Plan

	(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, 2008	$-	19,806	19,806	0.00%	51,021	38.82%

Schedule of Employer Contributions

(Expressed in 000's)

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

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

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Assets accounted for under the modified approach include 8,816 highway miles or 17,912 lane miles of roads and 2,962 bridges having a total deck area of 11.5 million square feet that the State is responsible to maintain.

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

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

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

Highways

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

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

Bridges

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

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

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

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

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

Fiscal Year	Highways	Bridges
2008	75.6	79.0
2007	76.0	78.0
2006	75.0	77.0

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

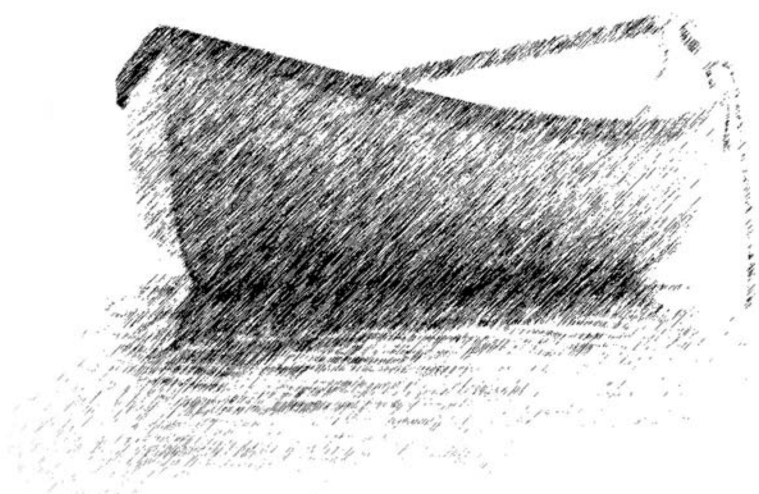
Actual Preservation Costs
(Amounts in millions)

	2008	2007	2006	2005	2004
Highways	$ 80.0	$ 71.7	$ 46.3	$ 42.1	$ 33.3
Bridges	1.6	1.6	4.8	4.0	2.0
Total	**$ 81.6**	**$ 73.3**	**$ 51.1**	**$ 46.1**	**$ 35.3**

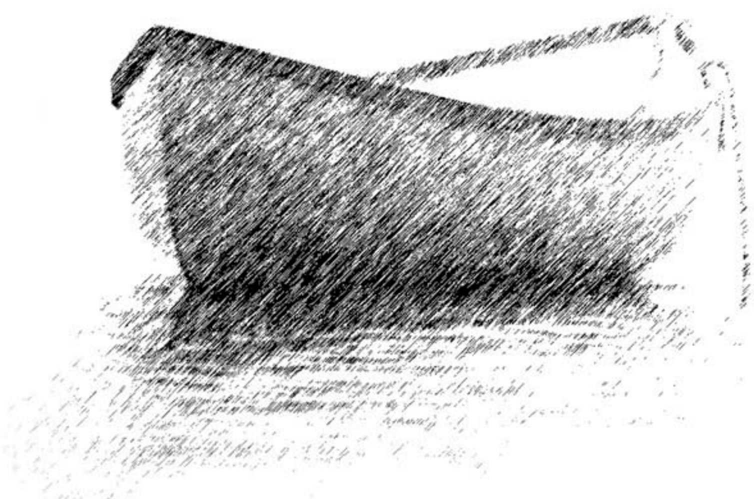
Estimated Preservation Costs
(Amounts in millions)

	2008	2007	2006	2005	2004
Highways	$ 97.7	$ 59.7	$ 47.1	$ 43.8	$ 28.3
Bridges	2.0	1.3	4.9	4.2	1.7
Total	**$ 99.7**	**$ 61.0**	**$ 52.0**	**$ 48.0**	**$ 30.0**

Transportation Bonds
Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 39, PL 2007, $60 million was spent during FY2008.



STATE OF MAINE
REPORTS ON INTERNAL CONTROL AND COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2008



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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2008, which collectively comprise the State of Maine's basic financial statements, and have issued our report thereon dated February 19, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Child Development Services, Finance Authority of Maine, Maine Educational Center for the Deaf and Hard of Hearing, Loring Development Authority, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Municipal Bond Bank, Maine Port Authority, Maine State Housing Authority, Maine Public Employees Retirement System, Maine Community College System, Maine Technology Institute, Northern New England Passenger Rail Authority, Small Growth Enterprise Fund, and University of Maine System. Also, we did not audit the financial statements of the NextGen College Investing Plan, as described in our report on the State of Maine's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Maine Educational Loan Authority, the Maine Technology Institute, and the Northern New England Passenger Rail Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 08-01 through 08-04 to be significant deficiencies in internal control over financial reporting.

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

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

<u>Compliance and Other Matters</u>

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

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

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

Neria R Douglass

Neria R. Douglass, JD, CIA
State Auditor

February 19, 2009

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

Compliance

We have audited the compliance of the State of Maine with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The State of Maine's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Maine's management. Our responsibility is to express an opinion on the State of Maine's compliance based on our audit.

The State of Maine's basic financial statements include the operations of the following component units: the Child Development Services, Finance Authority of Maine, Maine Educational Center for the Deaf and Hard of Hearing, Loring Development Authority, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Municipal Bond Bank, Maine Port Authority, Maine State Housing Authority, Maine Public Employees Retirement System, Maine Community College System, Maine Technology Institute, Northern New England Passenger Rail Authority, Small Growth Enterprise Fund, and University of Maine System. The federal awards that these component units received are not included in the supplementary Schedule of Expenditures of Federal Awards for the year ended June 30, 2008. Our audit, described below, did not include the operations of these component units because the component units engaged other auditors.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Maine's compliance with those requirements.

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

Finding Number	Federal Program Name	Compliance Requirements
08-07	Child Nutrition Cluster	Subrecipient monitoring
08-07	Title I Grants to Local Educational Agencies	Subrecipient monitoring
08-07	Special Education Cluster	Subrecipient monitoring
08-07	Improving Teacher Quality State Grants	Subrecipient monitoring
08-15	Highway Planning and Construction Cluster	Davis-Bacon Act
08-22	Vocational Rehabilitation Grants to States	Procurement and suspension and debarment
08-26	Public Health Emergency Preparedness	Matching, earmarking and level of effort
08-29	Temporary Aid for Needy Families	Reporting
08-31	State Children's Insurance Program	Reporting
08-31	Medicaid Cluster	Reporting
08-43	Foster Care - Title IV-E	Reporting
08-43	Adoption Assistance	Reporting
08-64	Medicaid Cluster	Special tests and provisions
08-69	Disability Insurance/SSI Cluster	Procurement and suspension and debarment

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Maine complied, in all material respects, with the requirements that are applicable to each of its major federal programs for the year ended June 30, 2008. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 08-19, 08-25, 08-27, 08-36, 08-37, 08-40, 08-45, 08-48 through 08-57, 08-70 and 08-73.

Internal Control over Compliance

The management of the State of Maine is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Maine's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the State of Maine's internal control over compliance.

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 08-05 through 08-50 and 08-52 through 08-74 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 08-07, 08-15, 08-22, 08-26, 08-29, 08-31, 08-43, 08-64, 08-69 to be material weaknesses.

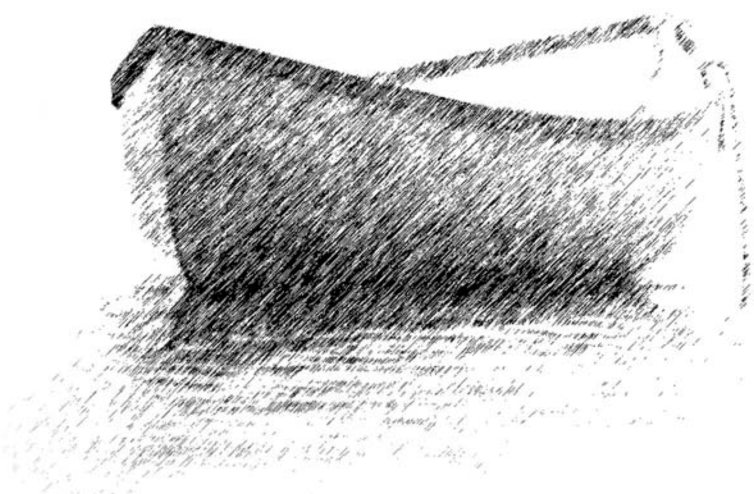
The State of Maine's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State of Maine's response and, accordingly, we express no opinion on it.

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

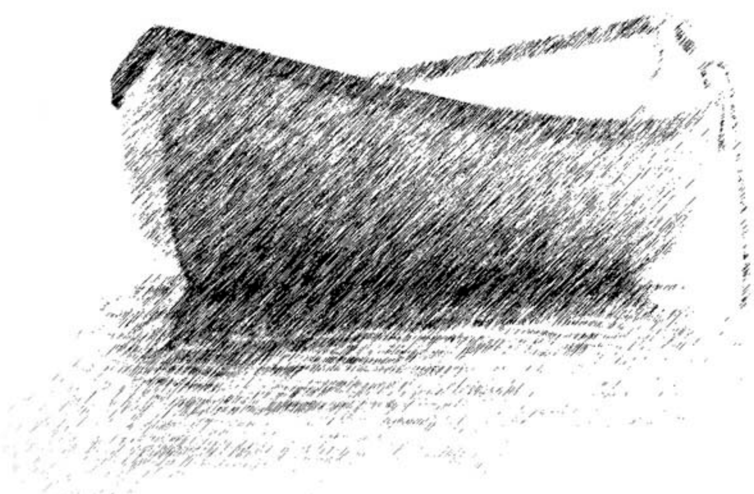
Neria R. Douglass

Neria R. Douglass, JD, CIA
State Auditor

July 15, 2009



STATE OF MAINE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008



STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	
U.S. Department of Agriculture				
Animal & Plant Health Inspection Service				
10.025	Plant & Animal Disease, Pest Control & Animal Care	Agriculture	230,930	
10.025	Plant & Animal Disease, Pest Control & Animal Care	Conservation	34,528	
10.025	Plant & Animal Disease, Pest Control & Animal Care	Inland Fisheries	36,343	
Agricultural Marketing Service				
10.156	Federal-State Marketing Improvement Program	Agriculture	1,103,073	
10.162	Inspection Grading & Standardization	Agriculture	792,934	
10.163	Market Protection and Promotion	Agriculture	95,338	
10.169	Specialty Crop Block Grant Program	Agriculture	26,965	
Farm Service Agency				
10.435	State Mediation Grants	Agriculture	66,613	
Food Safety & Inspection Service				
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	Agriculture	185,386	
Food & Nutrition Service				
10.550	Food Donation	Education	3,778,956	
10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Human Services	17,453,968	**
10.558	Child and Adult Care Food Program	Human Services	9,561,242	**
10.560	State Administrative Expenses for Child Nutrition	Human Services	289,669	
10.572	WIC Farmers' Market Nutrition Program (FMNP)	Human Services	76,801	
10.574	Team Nutrition Grants	Education	561,623	
10.576	Senior Farmers Market Nutrition Program	Agriculture	937,296	
Forest Service				
10.652	Forestry Research	Conservation	506,968	
10.664	Cooperative Forestry Assistance	Conservation	1,076,527	
10.672	Rural Development, Forestry and Communities	Conservation	15,000	
10.675	Urban and Community Forestry Program	Conservation	192,597	
10.676	Forest Legacy Program	Conservation	30,025	
10.677	Forest Land Enhancement Program	Conservation	359,213	
10.678	Forest Stewardship Program	Conservation	463,198	
00-52101-9706	USDA Natural Resource Conservation 69-1218-4-34	Conservation	4,651	
6974826283	A Large Scale Assessment of Brook Trout Populations	Inland Fisheries	92,550	
National Resources Conservation Service				
10.914	Wildlife Habitat Incentive Program	Inland Fisheries	33,750	
Food Stamp Cluster				
Food & Nutrition Service				
10.551	Food Stamps	Human Services	186,622,807	**
10.561	State Administrative Matching Grants for Food Stamp Program	Human Services	10,907,835	**
Child Nutrition Cluster				
Food & Nutrition Service				
10.553	School Breakfast Program	Education	6,695,421	**
10.555	National School Lunch Program	Corrections	383,858	**
10.555	National School Lunch Program	Education	24,483,917	**
10.556	Special Milk Program for Children	Education	40,940	**
10.559	Summer Food Service Program for Children	Education	922,269	**
Emergency Food Assistance Cluster				
Food & Nutrition Service				
10.568	Emergency Food Assistance Program (Administrative Costs)	Agriculture	242,740	
10.569	Emergency Food Assistance Program (Food Commodities)	Agriculture	993,037	
Total U.S. Department of Agriculture Federal Programs			**269,298,968**	

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	
U.S. Department of Commerce				
National Oceanic & Atmospheric Administration				
11.405	Anadromous Fish Conservation Act Program	Marine Resource	58,529	
11.407	Interjurisdictional Fisheries Act of 1986	Marine Resource	159,980	
11.419	Coastal Zone Management Administration Awards	Conservation	119,437	
11.419	Coastal Zone Management Administration Awards	Environment	452,999	
11.419	Coastal Zone Management Administration Awards	Marine Resource	296,283	
11.419	Coastal Zone Management Administration Awards	Planning	1,481,200	
11.439	Marine Mammal Data Program	Marine Resource	76,701	
11.452	Unallied Industry Projects	Marine Resource	109,248	
11.463	Habitat Conservation	Marine Resource	17,270	
11.472	Unallied Science Program	Inland Fisheries	1,622	
11.472	Unallied Science Program	Marine Resource	1,723,447	
11.474	Atlantic Coastal Fisheries Cooperative Management Act	Marine Resource	504,407	
11.481	Educational Partnership Program	Marine Resource	231,808	
11.555	Public Safety Interoperable Communications Program	Defense	49,575	
05-1109	Lobster Ventless Trap Survey	Marine Resource	154,238	
11.999	Macro (Letter of Agreement/NMFS)	Marine Resource	6,976	
11.999	New Generation Trawl	Marine Resource	582	
11.999	Maine New Hampshire Inshore Trawl Survey	Marine Resource	176,832	
11.999	Marine Patrol JEA	Marine Resource	1,051,489	
05-949	Manipulative Trapping Experiments - Monhegan Lobster Conservative Area	Marine Resource	44,976	
NFFM5100500807 8	Pinniped and Cetacean Carcass Documentation in Western ME	Marine Resource	77	
EA133F-06-CN-02	Biological Sampling, Behavior and Migration Study of Atlantic Halibut in the Gulf	Marine Resource	136,424	
DG133F-04-SE-8	NMFS Large Pelagic Intercept Study	Marine Resource	21,565	
POU248642UN	Evaluation of Maine Sea Cucumbers Resources & Impacts of Exploitation	Marine Resource	2,810	
11.999	JEA Support Atlantic Large Whale Take Reduction Plan	Marine Resource	10,905	
2003-0118-028	NFWF Watershed Habitat Features Assessment (ME)	Marine Resource	41,747	
2005-0009-002	NFWF Atlantic Salmon (ME) Planning and Outreach II	Marine Resource	5,439	
Total U.S. Department of Commerce Federal Programs			**6,936,566**	
U.S. Department of Defense				
Office of the Chief Engineers				
12.113	State Memo of Agree Prog for the Reimb of Tech Services	Environment	534,695	
National Guard Bureau				
12.401	National Guard Military Operations & Maintenance (O&M) Projects	Defense	100,354,639	
12.404	National Guard Civilian Youth Opportunities	Defense	209,025	
12.999	Cooperative Agreement Dept. of Army Presumpscot River Restoration	Marine Resource	2,307	
Total U.S. Department of Defense Federal Programs			**101,100,666**	
U.S. Department of Housing & Urban Development				
Office of Community Planning & Development				
14.228	Community Development Block Grants / State's Program	Economic Devel	13,971,978	**
14.235	Supportive Housing Program	Human Services	25,594	
14.238	Shelter Plus Care	Human Services	5,566,285	
Office of Fair Housing and Equal Opportunity				
14.401	Fair Housing Assistance Program: State and Local	Human Rights	189,919	
Total U.S. Department of Housing & Urban Development Federal Programs			**19,753,776**	

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures
U.S. Department of the Interior			
U.S. Fish & Wildlife Service			
15.608	Fish and Wildlife Management Assistance	Conservation	105,097
15.608	Fish and Wildlife Management Assistance	Marine Resource	1,203
15.615	Cooperative Endangered Species Conservation Fund	Conservation	11,343
15.615	Cooperative Endangered Species Conservation Fund	Inland Fisheries	28,937
15.616	Clean Vessel Act	Environment	211,631
15.622	Sportfishing and Boating Safety Act	Transportation	19,408
15.623	North American Wetlands Conservation Fund	Inland Fisheries	532,000
15.633	Landowner Incentive Program	Inland Fisheries	313,371
15.634	State Wildlife Grants	Inland Fisheries	488,685
Geological Survey			
15.810	Nat'l Cooperative Geologic Mapping Program	Conservation	107,451
National Park Service			
15.904	Historic Preservation Fund Grants-in-Aid	Historic Preserve	582,914
15.916	Outdoor Recreation: Acquisition, Development, & Planning	Conservation	312,531
15.921	Rivers, Trails and Conservation Assistance	Transportation	1,217,418
Fish & Wildlife Service			
14-48-005-96-902	Flag Island Cooperative Agreement	Inland Fisheries	6,176
2002-0180-000	Sebasticook River Restoration Project	Marine Resource	4,654
501818M542	Prioritization Meeting for the Region AS Recover Effort	Marine Resource	13,000
15.999	Webber Pond - 7 Mile Stream Fish Passage	Marine Resource	359
2001-0007-000	Atlantic Salmon Management Project	Marine Resource	28,709
Fish and Wildlife Cluster			
U.S. Fish & Wildlife Service			
15.605	Sport Fish Restoration Program	Inland Fisheries	2,850,641
15.605	Sport Fish Restoration Program	Marine Resource	764,709
15.611	Wildlife Restoration	Inland Fisheries	2,359,984
Total U.S. Department of the Interior Federal Programs			**9,960,221**
U.S. Department of Justice			
Drug Enforcement Administration			
16.005	Public Education on Drug Abuse: Information	Public Safety	75,080
Office of Justice Programs			
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	Corrections	277,545
16.523	Juvenile Accountability Block Grants (JABG)	Corrections	300,168
16.523	Juvenile Accountability Block Grants (JABG)	Human Services	28,233
16.540	Juvenile Justice & Delinquency Prevention_Allocation to States (State Formula (	Corrections	642,047
16.548	Title V_Delinquency Prevention Program	Corrections	108,559
16.550	State Justice Statistics Program for Statistical Analysis Centers	Corrections	64,164
16.554	National Criminal History Improvement Program	Public Safety	232,640
16.560	Nat'l Inst of Justice Research Evaluation and Development Project Grants	Attorney General	29,641
16.560	Nat'l Inst of Justice Research Evaluation and Development Project Grants	Public Safety	391,116
16.575	Crime Victim Assistance	Human Services	1,899,875
16.576	Crime Victim Compensation	Attorney General	147,243
16.579	Edward Byrne Memorial Formula Grant Program	Attorney General	657,338
16.579	Edward Byrne Memorial Formula Grant Program	Corrections	174,553
16.579	Edward Byrne Memorial Formula Grant Program	Public Safety	276,889
16.580	Edward Byrne Memorial State And Local Law Enforcement Assistance Discretio	Human Services	92,560
16.585	Drug Court Discretionary Grant Program	Human Services	(578)
16.585	Drug Court Discretionary Grant Program	Judicial	225,019
Office on Violence Against Women			
16.588	Violence Against Women Formula Grants	Attorney General	95,197
16.588	Violence Against Women Formula Grants	Judicial	114,713
16.588	Violence Against Women Formula Grants	Public Safety	903,725
Office of Justice Programs			
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	Judicial	552,818
16.593	Residential Substance Abuse Treatment for State Prisoners	Public Safety	2,722
16.606	State Criminal Alien Assistance Program	Corrections	115,991

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures
16.609	Community Prosecution and Project Safe Neighborhoods	Public Safety	218,869
Office of Community Oriented Policing Services			
16.710	Public Safety Partnership and Community Policing Grants	Public Safety	34,324
Office of Juvenile Justice & Delinquency Prevention			
16.727	Enforcing Underage Drinking Laws Program	Human Services	229,839
National Institute of Justice			
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	Public Safety	7,701
Office of Justice Programs			
16.744	Anti-Gang Initiative	Public Safety	38,590
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	Corrections	5,175
Pass Through Federal Programs			
Office on Violence Against Women			
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	Corrections	172,249
(through Cumberland County, Maine)			
Office of Justice Programs			
16.593	Residential Substance Abuse Treatment for State Prisoners	Corrections	42,074
(through York County, Maine)			
Total U.S. Department of Justice Federal Programs			**8,156,079**

U.S. Department of Labor			
Bureau of Labor Statistics			
17.002	Labor Force Statistics	Labor	1,432,685
17.005	Compensation and Working Conditions	Labor	44,073
Employment & Training Administration			
17.225	Unemployment Insurance	Labor	141,950,811
17.235	Senior Community Service Employment Program	Human Services	589,887
17.245	Trade Adjustment Assistance	Labor	3,728,175
17.261	WIA Pilots, Demonstrations and Research Projects	Economic Devel	597,204
17.266	Work Incentive Grants	Labor	314,008
17.268	H-1B Job Training Grants	Economic Devel	1,339,763
17.268	H-1B Job Training Grants	Governor	181,712
17.268	H-1B Job Training Grants	Labor	2,547,682
17.271	Work Opportunity Tax Credit Program (WOTC)	Labor	73,462
17.999	Employment & Training Assistance Dislocated Workers	Labor	231,009
Occupational Safety & Health Administration			
17.504	Consultation Agreements	Labor	479,783
Mine Safety & Health Administration			
17.600	Mine Health and Safety Grants	Labor	46,133
Office of the Asst Sec for Veterans' Emplmnt & Trng			
17.802	Veterans' Employment Program	Labor	5,689
17.805	Homeless Veterans Reintegration Project	Labor	200,000
Employment Service Cluster			
Employment & Training Administration			
17.207	Employment Service/Wagner-Peyser Funded Activities	Labor	4,436,991
Office of the Asst Sec for Veterans' Emplmnt & Trng			
17.801	Disabled Veterans' Outreach Program (DVOP)	Labor	456,144
17.804	Local Veterans' Employment Representative Program	Labor	368,512
Native American Employment and Training Cluster			
Employment & Training Administration			
17.265	Native American Employment & Training	Labor	286,073

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	
WIA Cluster				
Employment & Training Administration				
17.258	WIA Adult Program	Labor	2,421,764	
17.259	WIA Youth Activities	Labor	2,545,913	
17.260	WIA Dislocated Workers	Governor	133,029	
17.260	WIA Dislocated Workers	Labor	4,704,237	
Total U.S. Department of Labor Federal Programs			**169,114,739**	
U.S. Department of Transportation				
Federal Aviation Administration				
20.106	Airport Improvement Program	Transportation	925,050	
Federal Motor Carrier Safety Administration				
20.218	National Motor Carrier Safety	Public Safety	571,165	
Federal Highway Administration				
20.219	Recreational Trails Program	Conservation	794,253	
Federal Motor Carrier Safety Administration				
20.233	Border Enforcement Grants	Public Safety	748,339	
Federal Transit Administration				
20.505	Federal Transit: Metropolitan Planning Grants	Transportation	228,934	
20.509	Formula Grants for Other Than Urbanized Areas	Transportation	4,116,175	
20.520	Alternative Transportation in Parks and Public Lands	Transportation	219,840	
Research and Special Programs Administration				
20.700	Pipeline Safety	Public Utilities	121,118	
20.703	Interagency Hazardous Materials Pub Sector Train & Plan Gr	Defense	107,242	
20.721	PHMSA Pipeline Safety Program One Call Grant	Public Utilities	39,143	
Highway Planning and Construction Cluster				
Federal Highway Administration				
20.205	Highway Planning and Construction	Transportation	144,876,581	**
Federal Transit Cluster				
Federal Transit Administration				
20.500	Federal Transit: Capital Investment Grants	Transportation	895,395	
20.507	Federal Transit: Formula Grants	Transportation	2,393,609	
Transit Services Programs Cluster				
Federal Transit Administration				
20.513	Capital Assistance Program for Elderly Persons & Persons w/Disabilities	Transportation	624,228	
20.516	Job Access_Reverse Commute	Transportation	348,208	
Highway Safety Cluster				
National Highway Traffic Safety Administration				
20.600	State and Community Highway Safety	Human Services	216,651	
20.600	State and Community Highway Safety	Public Safety	1,815,416	
20.602	Occupant Protection	Public Safety	617,988	
20.605	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	Public Safety	21,096	
Total U.S. Department of Transportation Federal Programs			**159,680,431**	
Equal Employment Opportunity Commission				
30.002	Empl Discr - St & Loc - Fair Empl Pract Agcy Contracts	Human Rights	203,088	
Total Equal Employment Opportunity Commission Federal Programs			**203,088**	

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	
General Services Administration				
39.003	Donation of Federal Surplus Personal Property	Financial Serv	2,571,391	
Total General Service Administration Federal Programs			**2,571,391**	
National Foundation on the Arts & the Humanities				
National Endowment for the Arts				
45.024	Promotion of the Arts: Grants to Organizations and Individuals	Arts	30,000	
45.025	Promotion of the Arts: Partnership Agreements	Arts	578,560	
National Endowment for the Humanities				
45.164	Promotion of the Humanities: Public Programs	Museum	57,583	
Office of Museum & Library Services				
45.301	Museum for America	Museum	47,177	
45.310	Grants to States	Library	1,192,268	
Total National Foundation on the Arts & the Humanities Federal Programs			**1,905,588**	
U.S. Department of Veterans Affairs				
Veterans Benefits Administration				
64.101	Burial Expenses Allowance for Veterans	Defense	163,598	
Total U.S. Department of Veterans Affairs Federal Programs			**163,598**	
U.S. Environmental Protection Agency				
Office of Air & Radiation				
66.032	State Indoor Radon Grants	Human Services	167,924	
66.034	Surveys, Studies, Invest., Demo. and Spec. Purp. Activ. Relating to Clean Air Ac	Environment	21,772	
Office of Administration				
66.202	Congressionally Mandated Projects	Environment	220,570	
66.202	Congressionally Mandated Projects	Human Services	30,028	
Office of Water				
66.432	State Public Water System Supervision	Human Services	1,284,794	
66.436	Surveys, Studies, Investig., Demo. and Training Gr. and Coop. Agreements - Se	Environment	59,647	
66.454	Water Quality Management Planning	Environment	123,008	
66.461	Regional Wetland Program Grants	Conservation	14,408	
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	Environment	91,339	
66.468	Capitalization Grants For Drinking Water State Revolving Funds	Human Services	1,348,072	
66.472	Beach Monitoring & Notification Program Implementation Grants	Planning	251,683	
Research and Special Programs Administration				
66.509	Science to Achieve Results (STAR)	Inland Fisheries	1,350	
Office of Administration				
66.605	Performance Partnership Grants	Agriculture	463,413	**
66.605	Performance Partnership Grants	Environment	7,663,368	**
66.608	Environmental Info Exchange Network Grant Program & Rel Assist	Environment	307,070	
66.608	Environmental Info Exchange Network Grant Program & Rel Assist	Human Services	10,418	
Office of Enforcement and Compliance Assurance				
66.709	Multi-Media Capacity Bldg. Grants for States & Tribes	Environment	32,453	
Office of Prevention				
66.717	Source Reduction Assistance	Environment	8,454	
Office of Solid Waste & Emergency Response				
66.802	Superfund State, Political Subdivision, and Indian Tribe-Site: Specific Cooperativ	Environment	62,766	
66.804	State and Tribal Underground Storage Tanks Program	Environment	57,594	
66.805	Leaking Underground Storage Tank Trust Fund Program	Environment	744,549	
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	Environment	227,082	
66.817	State and Tribal Response Program Grants	Environment	1,277,190	

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	
Office of Administration				
66.940	Environmental Policy and State Innovation Grants	Environment	33,545	
Total U.S. Environmental Protection Agency Federal Programs			**14,502,497**	
Nuclear Regulatory Commission				
77.001	Radiation Control: Training Assistance and Advis Counseling	Human Services	14,221	
Total Nuclear Regulatory Commission Federal Programs			**14,221**	
U.S. Department of Energy				
Office of Energy Efficiency & Renewable Energy				
81.041	State Energy Program	Public Utilities	413,800	
81.119	State Energy Program Special Projects	Planning	224,600	
81.119	State Energy Program Special Projects	Public Utilities	34,790	
Total U.S. Department of Energy Federal Programs			**673,190**	
U.S. Department of Education				
Office of Vocational & Adult Education				
84.002	Adult Education_State Grant Program	Corrections	32,948	
84.002	Adult Education_State Grant Program	Education	2,029,668	
Office of Elementary & Secondary Education				
84.010	Title I Grants to Local Educational Agencies	Education	43,743,920	**
84.011	Migrant Education: State Grant Program	Education	405,985	
84.013	Title I Program for Neglected and Delinquent Children	Corrections	228,352	
Office of Assistant Secretary for Vocational & Adult Education				
84.048	Vocational Education_Basic Grants to States	Corrections	59,577	
84.048	Vocational Education_Basic Grants to States	Education	5,673,377	
Office of Special Education & Rehabilitative Services				
84.126	Rehabilitation Services: Vocational Rehabilitation Grants to States	Labor	15,905,103	**
84.161	Rehabilitation Services: Client Assistance Program	Labor	122,459	
84.169	Independent Living: State Grants	Labor	295,079	
84.177	Rehab Services: Independent Living Serv for Older Individuals Who are Blind	Labor	104,403	
84.181	Special Education: Grants for Infants and Families with Disabilities	Education	2,139,334	
Office of the Assistant Secretary for Postsecondary Education				
84.185	Byrd Honors Scholarships	Education	156,000	
Office of Elementary & Secondary Education				
84.186	Safe and Drug-Free Schools and Community: State Grants	Corrections	3,707	
84.186	Safe and Drug-Free Schools and Community: State Grants	Education	999	
84.186	Safe and Drug-Free Schools and Community: State Grants	Human Services	1,621,247	
Office of Special Education & Rehabilitative Services				
84.187	Supported Employment Services for Individuals with Severe Disabilities	Labor	435,135	
Office of Elementary & Secondary Education				
84.196	Education for Homeless Children and Youth	Education	226,271	
84.213	Even Start: State Educational Agencies	Education	267,400	
Office of Special Education & Rehabilitative Services				
84.224	Assistive Technology	Education	309,042	
Office of Safe and Drug-Free Schools				
84.255	Literacy Program for Prisoners	Corrections	65,175	
Office of Special Education & Rehabilitative Services				
84.265	Rehabilitation Training: State Vocational Rehabilitation Unit In-Service Training	Labor	84,807	
Office of Elementary & Secondary Education				
84.287	Twenty First Century Community Learning Centers	Education	3,623,689	
84.298	State Grants for Innovative Programs	Corrections	727	
84.298	State Grants for Innovative Programs	Education	547,936	
84.318	Education Technology State Grants	Corrections	6,960	
84.318	Education Technology State Grants	Education	1,624,041	

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	
Office of Special Education & Rehabilitative Services				
84.323	Special Ed: State Personnel Development	Education	643,641	
84.326	Special Ed: Tech. Asst. & Dissem. To Imp Sve. & Results for Child. w/Disabilities	Education	52,567	
Office of Elementary & Secondary Education				
84.330	Advanced Placement Program	Education	786,989	
Office of Vocational & Adult Education				
84.331	Grants to States for Incarcerated Youth Offenders	Corrections	35,032	
Office of Elementary & Secondary Education				
84.332	Comprehensive School Reform Demonstration	Education	473,566	
Office of the Asst Sec for Postsecondary Education, Higher Education Programs				
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	Education	3,191,219	
84.336	Teacher Quality Enhancement Grants	Education	21,067	
Office of Vocational & Adult Education				
84.346	Vocational Education: Occupational and Employment Information State Grants	Labor	1,954	
Office of Elementary & Secondary Education				
84.357	Reading First State Grants	Education	2,836,502	
84.358	Rural Education (REAP)	Corrections	8,883	
84.358	Rural Education (REAP)	Education	1,996,213	
84.365	English Language Acquisition Grants	Education	564,386	
84.366	Mathematics & Science Partnerships	Education	914,941	
84.367	Improving Teacher Quality State Grants	Corrections	21,668	**
84.367	Improving Teacher Quality State Grants	Education	14,032,977	**
84.369	Grants for State Assessments and Related Activities	Education	5,072,773	
Institute of Education Sciences				
84.372	Statewide Data Systems	Education	498,757	
Special Education Cluster (IDEA)				
Office of Special Education & Rehabilitative Services				
84.027	Special Education: Grants to States	Corrections	47,985	**
84.027	Special Education: Grants to States	Education	50,553,475	**
84.173	Special Education: Preschool Grants	Education	2,511,776	**
Total U.S. Department of Education Federal Programs			**163,979,712**	
National Archives & Records Administration				
89.005	Cooperative Agreements to Support the Programs of the NARA	State	39,993	
Total National Archives & Records Administration			**39,993**	
Election Assistance Commission				
90.401	Help America Vote Act Requirements Payments	State	1,953,046	
Total Election Assistance Commission			**1,953,046**	
U.S. Department of Health & Human Services				
Office of the Secretary				
93.006	State & Terr. & Tech. Assist. Cap. Dev. Minority HIV/AIDS Demo. Prog.	Human Services	225,807	
Administration on Aging				
93.041	Spc Prg/Agng-Ttl VII, Ch 3-Pro /Prev of Eld Abu, Neg & Expl	Human Services	21,865	
93.042	Spc Prg/Agng-Ttl VII, Ch 2-Long Term Ombudsman	Human Services	82,637	
93.043	Spc Prg/Agng-Ttl III, Part D-Disease Prev & Hlth Prom Ser	Human Services	114,894	
93.048	Spc Prg /Agng-Ttl IV & II, Discretionary Projects	Human Services	830,468	
93.051	Alzheimer's Disease Demonstration Grants to States	Human Services	387,451	
93.052	National Family Caregiver Support	Human Services	773,564	

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	
Centers for Disease Control & Prevention				
93.069	Public Health Emergency Preparedness	Human Services	7,619,646	**
Health Resources & Services Adm				
93.110	Maternal and Child Health Federal Consolidated Programs	Human Services	1,029,252	
Centers for Disease Control & Prevention				
93.116	Project Grants and Coop. Ag. for Tuberculosis Control Programs	Human Services	162,151	
Health Resources & Services Adm				
93.127	Emergency Medical Services for Children	Public Safety	151,269	
93.130	Primary Care Services: Resource Coord & Development	Human Services	173,668	
Centers for Disease Control & Prevention				
93.136	Injury Prevention and Control Research and State and Comm Based Progs	Human Services	250,301	
Substance Abuse & Mental Health Service Adm				
93.150	Projects for Assistance in Transition from Homelessness	Human Services	1,962,576	
Centers for Disease Control & Prevention				
93.197	Childhood Lead Poisoning Prevention Project (CLPPP)	Human Services	204,747	
Substance Abuse & Mental Health Service Adm				
93.230	Consolidated Knowledge Development and Application Program	Human Services	282,399	
Health Resources & Services Administration				
93.224	Consolidated Health Centers	Human Services	781,288	
93.234	Traumatic Brain Injury State Demonstration Grant Program	Human Services	179,646	
93.236	Grants for Dental Public Health Residency Training	Human Services	99,924	
93.241	State Rural Hospital Flexibility Program	Human Services	474,626	
Substance Abuse & Mental Health Service Adm				
93.243	Substance Abuse & Mental Hlth Svs: Projects of Regional & Nat'l Significance	Human Services	3,159,866	
Health Resources & Services Administration				
93.251	Universal Newborn Hearing Screening	Human Services	101,493	
93.256	State Planning Grants_Health Care Access for the Uninsured	Human Services	69,114	
Centers for Disease Control & Prevention				
93.268	Immunization Grants	Human Services	16,152,260	**
93.283	Centers for Disease Control and Prevention: Investigations and Tech Assistance	Human Services	6,335,968	
Health Resources & Services Administration				
93.301	Small Rural Hospital Improvement Grant Program	Human Services	146,403	
Administration for Children & Families				
93.556	Promoting Safe and Stable Families	Human Services	1,283,377	
93.558	Temporary Assistance for Needy Families	Human Services	81,399,308	**
93.563	Child Support Enforcement	Human Services	17,063,020	**
93.566	Refugee and Entrant Assistance: State Administered Programs	Human Services	639,857	
93.569	Community Services Block Grant	Human Services	3,415,819	
93.576	Refugee and Entrant Assistance: Discretionary Grants	Education	41,073	
93.576	Refugee and Entrant Assistance: Discretionary Grants	Human Services	289,692	
93.586	State Court Improvement Program	Judicial	422,000	
93.587	Promote the Survival and Continuing Vitality of Native American Languages	Human Services	100,000	
93.599	Chafee Education & Training Vouchers Program (ETV)	Human Services	198,386	
93.600	Head Start	Human Services	88,977	
93.617	Voting Access for Individuals with Disabilities_Grants to States	State	245,821	
93.630	Development Disabilities Basic Support and Advocacy Grants	Financial Serv	393,511	
93.643	Children's Justice Grants to States	Human Services	84,835	
93.645	Child Welfare Services: State Grants	Human Services	936,474	
93.647	Social Services Research and Demonstration	Human Services	174,900	
93.652	Adoption Opportunities	Human Services	345,942	
93.658	Foster Care: Title IV-E	Human Services	13,823,774	**
93.659	Adoption Assistance	Human Services	14,356,409	**
93.667	Social Services Block Grant	Human Services	12,112,866	**
93.669	Child Abuse and Neglect State Grants	Human Services	116,959	
93.671	Family Violence Prev & Service: Grants for Battered Women's Shelters to St & Ir	Human Services	728,818	
93.674	Chafee Foster Care Independence Program	Human Services	826,672	
Centers for Medicare and Medicaid Services				
93.767	State Children's Insurance Program	Human Services	32,845,326	**
93.768	Medicaid Infrastructure Grants To Support the Competitive Employment of Peop	Human Services	651,855	
93.779	CMS Research, Demonstrations and Evaluations	Governor	264,579	
93.779	CMS Research, Demonstrations and Evaluations	Human Services	1,090,392	

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	
Health Resources & Services Adm				
93.889	National Bioterrorism Hospital Preparedness Program	Human Services	2,768,237	
93.889	National Bioterrorism Hospital Preparedness Program	Public Safety	710,457	
93.913	Grants to States for Operation of Offices of Rural Health	Human Services	166,097	
93.913	Grants to States for Operation of Offices of Rural Health	Public Safety	149	
93.917	HIV Care Formula Grants	Human Services	1,493,611	
Centers for Disease Control & Prevention				
93.938	Coop Ag-Sch Hlth Prg/Pvt the Spd of HIV & Oth Imp Hlth Prb	Corrections	3,313	
93.938	Coop Ag-Sch Hlth Prg/Pvt the Spd of HIV & Oth Imp Hlth Prb	Education	631,158	
93.940	HIV Prevention Activities: Health Department Based	Human Services	1,538,312	
93.944	HIV/AIDS Surveillance	Human Services	71,758	
93.945	Assistance Programs for Chronic Disease Prevention and Control	Human Services	946,068	
Substance Abuse & Mental Health Service Adm				
93.958	Block Grants for Community Mental Health Services	Human Services	1,793,620	
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Human Services	6,930,892	
Centers for Disease Control & Prevention				
93.977	Prevention Health Svcs: Sexually Transmitted Diseases Control Grants	Human Services	343,731	
93.988	Coop Agrmnt for St Based Diabetes Control Progs & Eval of Surveil. Systems	Human Services	307,793	
93.991	Preventive Health and Health Services Block Grant	Human Services	515,355	
Health Resources & Services Adm				
93.994	Maternal and Child Health Services Block Grant to the States	Education	172,977	
93.994	Maternal and Child Health Services Block Grant to the States	Human Services	3,378,422	
283-02-9026	MIS: Implementation of Uniform Alcohol & Drug Abuse Data Collection System	Human Services	15,774	
Aging Cluster				
Administration on Aging				
93.044	Spc Prg/Agng-Ttl III, Part B-Grnt for Supt Service & Sen Ctrs	Human Services	2,118,427	
93.045	Spc Prg/Agng-Ttl III, Part C-Nutrition Services	Human Services	2,989,073	
93.053	Nutrition Services Incentive Program	Human Services	616,761	
CCDF Cluster				
Administration for Children & Families				
93.575	Child Care & Development Block Grant	Human Services	12,525,729	**
93.596	Child Care Mandatory & Match. Funds of Child Care/Dev Fund	Human Services	9,133,217	**
Medicaid Cluster				
Office of the Secretary				
93.775	State Medicaid Fraud Control Units	Attorney General	578,640	**
Centers for Medicare and Medicaid Services				
93.777	State Survey and Certification of Health Care Providers and Suppliers	Human Services	2,450,075	**
93.778	Medical Assistance Program (Medicaid)	Financial Serv	57,150	**
93.778	Medical Assistance Program (Medicaid)	Governor	92,865	**
93.778	Medical Assistance Program (Medicaid)	Human Services	1,541,398,405	**
Total U.S. Department of Health & Human Services Federal Programs			**1,819,461,991**	
Corporation for National & Community Service				
94.003	State Commissions	Planning	133,699	
94.004	Learn and Serve America: School and Community Based Programs	Education	192,462	
94.006	AmeriCorps	Planning	885,675	
94.007	Planning and Program Development Grants	Planning	50,086	
94.009	Training and Technical Assistance	Planning	104,839	
94.013	Volunteers in Service to America (VISTA)	Planning	722,548	
Total Corporation for National & Community Service Federal Programs			**2,089,309**	

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Department / Major Sub-Division / Federal Catalog Number/Award Number	Program Title	State Agency	Expenditures	
Social Security Administration				
Disability Insurance/SSI Cluster				
96.001	Social Security: Disability Insurance	Human Services	7,998,153	**
Total Social Security Administration Federal Programs			**7,998,153**	
U.S. Department of Homeland Security				
97.012	Boating Safety Financial Assistance	Inland Fisheries	602,267	
97.012	Boating Safety Financial Assistance	Marine Resource	240,743	
97.023	Community Assistance Program - State Support Services Element (CAP-SSSE)	Planning	100,680	
97.029	Flood Mitigation Assistance	Defense	20	
97.036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Conservation	11,813	**
97.036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Corrections	2,056	**
97.036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Defense	21,850,297	**
97.036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Inland Fisheries	20,805	**
97.036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Marine Resource	14,085	**
97.036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Public Safety	38,519	**
97.036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Transportation	1,179,416	**
97.039	Hazard Mitigation Grant	Defense	1,107,888	
97.041	National Dam Safety Program	Defense	25,145	
97.042	Emergency Management Performance Grants	Defense	1,850,729	
97.044	Assistance to Firefighters Grant	Conservation	56,519	
97.045	Cooperating Technical Partners	Financial Serv	107,500	
97.047	Pre-Disaster Mitigation	Defense	573,748	
97.070	MAP Modernization Management Support (MMMS)	Planning	61,665	
97.078	Buffer Zone Protection Program	Defense	86	
Homeland Security Cluster				
97.067	Homeland Security Grant Program	Defense	8,950,071	**
97.067	Homeland Security Grant Program	Financial Serv	126,755	**
97.067	Homeland Security Grant Program	Inland Fisheries	456,979	**
97.067	Homeland Security Grant Program	Marine Resource	179,392	**
97.067	Homeland Security Grant Program	Public Safety	516,863	**
Total U.S. Department of Homeland Security			**38,074,041**	
Total State Expenditures of Federal Awards			**2,797,631,264**	

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Legend of State Agency Abbreviations

Abbreviation	State Agency Name
Agriculture	Department of Agriculture
Arts	Maine Arts Commission
Attorney General	Department of the Attorney General
Conservation	Department of Conservation
Corrections	Department of Corrections
Defense	Department of Defense, Veterans and Emergency Management
Economic Devel	Department of Economic and Community Development
Education	Department of Education
Environment	Department of Environmental Protection
Financial Serv	Department of Administrative and Financial Services
Governor	Governor’s Office
Historic Preserve	Maine Historical Preservation Commission
Human Rights	Maine Human Rights Commission
Human Services	Department of Health and Human Services
Inland Fisheries	Department of Inland Fisheries and Wildlife
Judicial	Judicial Branch
Labor	Department of Labor
Library	Maine State Library
Marine Resource	Department of Marine Resources
Museum	Maine State Museum
Planning	State Planning Office
Professional Reg	Department of Professional and Financial Regulation
Public Safety	Department of Public Safety
Public Utilities	Maine Public Utilities Commission
State	Department of Secretary of State
Transportation	Department of Transportation

STATE OF MAINE
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

1. Purpose of the Schedule

The accompanying Schedule of Expenditures of Federal Awards (Schedule) is a supplementary schedule to the State's basic financial statements (BFS) and is presented for purposes of additional analysis. Total expenditures for each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance (CFDA) are shown. Federal financial assistance programs, which have not been assigned a CFDA number, have been identified using the two-digit federal agency number and the suffix *999*. Federal award amounts aggregated by federal agency; direct and pass-through amounts are reported by primary recipient to prevent overstatement of expenditures of federal awards. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations requires the Schedule.

2. Significant Accounting Policies

A. *Reporting Entity* - The reporting entity is defined in Note 1 to the BFS. The accompanying Schedule includes all federal financial assistance programs of the State of Maine reporting entity for the fiscal year ended June 30, 2008, with the exception of the discrete component units identified in Note 1 to the BFS. The discrete component units engaged other auditors.

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

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

2) Type A and Type B Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 established the levels of expenditures to be used in defining Type A and Type B federal financial assistance programs. Type A programs for the State of Maine are those programs that equal or exceed $8.39 million in expenditures, distributions, or issuances for the year ended June 30, 2008. Programs audited as major programs are marked with asterisks in the accompanying schedule.

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

3. Program Information
NonCash Awards

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

CFDA Number	Program Title	Noncash Awards	Commodities on hand at June 30, 2008
10.550	Food Donation	$3,778,956	$ -
10.551	Food Stamps	186,622,807	-
10.555	National School Lunch Program	33,645	-
10.569	Emergency Food Assistance Program	993,037	179,443
12.401	National Guard Military Operations & Maint. Proj.	1,504,495	-
12.401	Readiness Sustainment Maint. Center (formerly CFDA 12.999)	7,695,711	-
17.207	Employment Service/Wagner-Peyser Funded Activities	26,210	-
17.225	Unemployment Insurance	826,489	-
17.268	H-1B Job Training Grants	8,119	-
17.801	Disabled Veterans' Outreach Program (DVOP)	78	-
17.804	Local Veterans' Employment Representative Program	368	-
39.003	Donation of Federal Surplus Property	2,571,391	419,891
84.126	Rehabilitation Services: Vocational Rehabilitation Grants to States	5,893	-
93.268	Immunization Grants – admin. costs	3,057,202	
93.268	Immunization Grants - vaccines	13,095,058	-

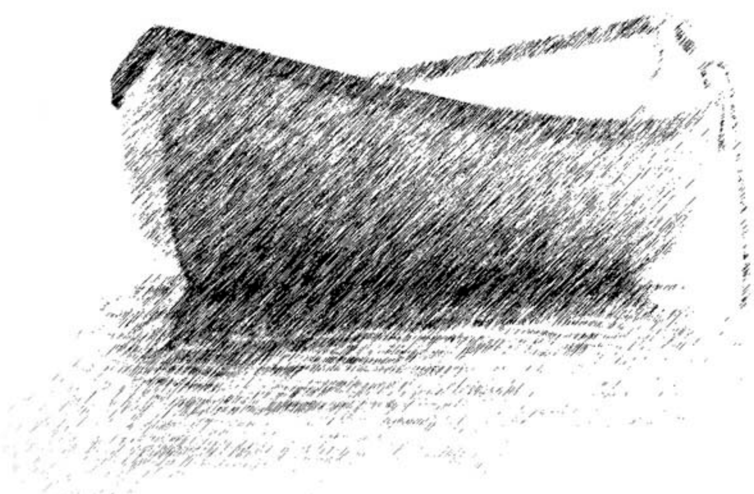
4. Unemployment Insurance Program

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

State Funds	$122,518,000
Federal Funds	19,432,811
Total	$141,950,811

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

Section I – Summary of Auditor's Results



SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued:	<u>Unqualified</u>	
Internal control over financial reporting:		
• Material weaknesses identified?	YES ☐	NO ☑
• Significant deficiencies identified that were not considered to be material weaknesses?	YES ☑	NO ☐
• Noncompliance material to financial statements noted?	YES ☐	NO ☑

Federal Awards:

Internal control over major programs:		
• Material weaknesses identified?	YES ☑	NO ☐
• Significant deficiencies identified that were not considered to be material weaknesses?	YES ☑	NO ☐

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

<u>Unqualified</u>
Food Stamp Cluster
Special Supplemental Nutrition Program for Women, Infants, and Children
Child and Adult Care Food Program
Community Development Black Grants / State's Program
Performance Partnership Grants
Immunization Grants
Child Support Enforcement
CCDF Cluster
Social Services Block Grant
Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Homeland Security Cluster

<u>Qualified</u>
Child Nutrition Cluster
Highway Planning and Construction Cluster
Title I Grants to Local Educational Agencies
Special Education Cluster
Rehabilitation Services — Vocational Rehabilitation Grants to States
Improving Teacher Quality State Grants
Public Health Emergency Preparedness
Temporary Assistance for Needy Families
Foster Care - Title IV-E
Adoption Assistance
State Children's Insurance Program
Disability Insurance/SSI Cluster
Medicaid Cluster

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

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Identification of Major Programs:

CFDA #	Name of Federal Program or Cluster
Food Stamp Cluster	
10.551	Food Stamps
10.561	State Administrative Matching Grants for Food Stamp Program
Child Nutrition Cluster	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children
Highway Planning and Construction Cluster	
20.205	Highway Planning and Construction
Special Education Cluster	
84.027	Special Education — Grants to States
84.173	Special Education — Preschool Grants
CCDF Cluster	
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory & Matching Funds — Child Care & Develop. Fund
Medicaid Cluster	
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program (Medicaid)
Disability Insurance/SSI Cluster	
96.001	Social Security Disability Insurance
Homeland Security Cluster	
97.067	Homeland Security Grant Program

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Identification of Major Program (continued):

Other Programs

10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
14.228	Community Development Block Grants / State's Program
66.605	Performance Partnership Grants
84.010	Title I Grants to Local Educational Agencies
84.126	Rehabilitation Services — Vocational Rehabilitation Grants to States
84.367	Improving Teacher Quality State Grants
93.069	Public Health Emergency Preparedness
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
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between type A and type B programs: $8,392,894

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

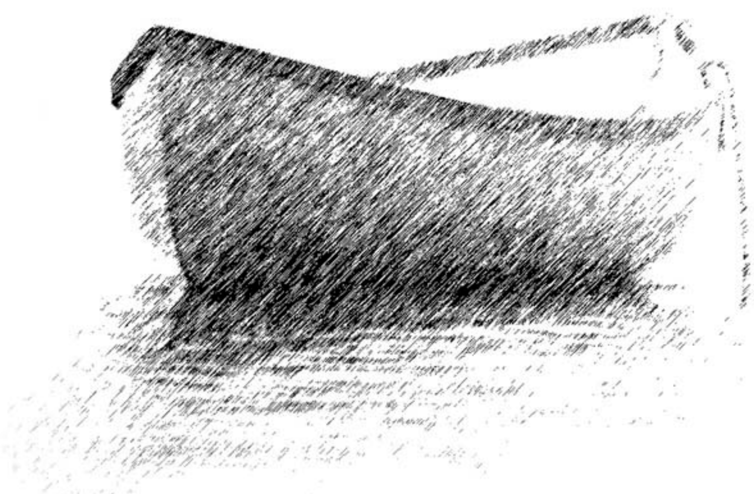
SECTION I – SUMMARY OF AUDITOR'S RESULTS

Summary of Questioned Costs:

Federal Agency	Federal Program	Questioned Costs	Finding Number
U.S. Department of Education	Rehabilitation Services: Vocational Rehabilitation Grants	$264	08-19
U.S. Department of Health and Human Services	Public Health Emergency Preparedness	Undeterminable $474,138	08-25 08-26
U.S. Department of Health and Human Services	Temporary Assistance for Needy Families	$290,020	08-27
U.S. Department of Health and Human Services	Child Support Enforcement	$54,760	08-70
U.S. Department of Health and Human Services	Foster Care-Title IV-E	$30,092	08-36
U.S. Department of Health and Human Services	Adoption Assistance	$200,646	08-37
U.S. Department of Health and Human Services	State Children's Insurance Program	$295,909 Undeterminable $13,578 $28,607 $2,571 $266,342	08-45 08-48 08-49 08-51 08-53 08-57
U.S. Department of Health and Human Services	Medicaid Cluster	Undeterminable $3,976 $2,335 $335,724 $64,368 $46,149 $79,309 $80,000 $619,000 $2,364,580	08-48 08-49 08-50 08-51 08-52 08-53 08-54 08-55 08-56 08-70
U.S. Department of Homeland Security	Homeland Security Cluster	Undeterminable	08-73
	Total Questioned Costs	**$5,252,368**	

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

Section II – Financial Statement Findings



FINANCIAL STATEMENT FINDINGS

(08-01)

Finding Title: Transfer of capital assets between funds was not properly reflected in the State's draft financial statements

Prior Year Finding: 07-08
S**tate Department:** Administrative and Financial Services
State Bureau: Office of the State Controller

Type of Finding: Significant Deficiency

Criteria: Statement No. 34 of the Governmental Accounting Standards Board - Basic Financial Statements – and Managements Discussion and Analysis - For State and Local Governments

Condition: The Office of the State Controller did not properly account for the transfer of assets between funds on State's entity-wide financial statements.

Context: An audit adjustment totaling $16 million was necessary to ensure the financial statements were reasonably stated.

Cause: Staff turnover

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

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

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

Transferred assets totaling $8 million were not accounted for correctly on the entity-wide statements. The financial reporting division posted the necessary adjustments to ensure that the fund level statements were accurately stated; however, due to staff turnover the related entry needed for the entity-wide statements did not get posted. The financial reporting division will continue to improve internal communications to ensure that the State's financial statements remain reasonably stated.

Contact: *Heidi McDonald, Principal Financial Management Coordinator, 624-8437*

FINANCIAL STATEMENT FINDINGS

(08-02)

Finding Title: Revenue accrual incorrectly calculated

Prior Year Finding: 07-03
State Department: Administrative and Financial Services
State Bureau: Security and Employment Service Center

Type of Finding: Significant Deficiency

Criteria: Codification of Governmental Accounting and Financial Reporting Standards N50.113.

Condition: The Security and Employment Service Center incorrectly calculated the revenue accrual based on wages paid during the final quarter of the fiscal year.

Context: An audit adjustment of $13 million was necessary to ensure the financial statements were reasonably stated.

Cause: Inadequate training and lack of oversight

Effect: The State's draft financial statements related to Employment Security Fund were significantly misstated prior to this adjustment.

Recommendation: We recommend that training and oversight be provided to ensure transactions are accounted for in accordance with generally accepted accounting principles.

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

When the accrual was calculated at June 30, 2008, the revenue accrual for earned wages was reduced by the balance previously reported in the State's accounting system. Effective immediately for the 2009 financial statements, a change in the accrual calculation procedure has been implemented to accrue the full amount of revenue related to earned wages by including the balance recorded in the State's accounting system.

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

FINANCIAL STATEMENT FINDINGS

(08-03)

Finding Title: Revenue accrual incorrectly recorded

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

Type of Finding: Significant Deficiency

Criteria: Codification of Governmental Accounting and Financial Reporting Standards 1600.114

Condition: The Office of the State Controller (OSC) posted an adjustment to the State's financial statements to accrue revenue associated with the Maine Military Authority. In posting this adjustment, an error was made to the offsetting account.

Context: An audit adjustment totaling $6.2 million was necessary to ensure the financial statements were reasonably stated.

Cause: Insufficient oversight and employee turnover

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

Recommendation: We recommend that the Department provide appropriate oversight to ensure that revenue accruals related to the Maine Military Authority are properly recorded.

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

Supporting documentation provided to the OSC by the Service Center for this accrual was insufficient to indicate that the accounting was different then it had been in prior years. The OSC will continue to improve communication within the financial reporting division as well as with the other State agencies to ensure that the State's financial statements remain reasonably stated.

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

FINANCIAL STATEMENT FINDINGS

(08-04)

Finding Title: $100 million transfer was made without approved financial order

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

Type of Finding: Significant Deficiency

Criteria: Chapter 240 Public Laws of 2007, Part RRR (3) required a transfer by financial order upon approval of the Governor

Condition: In January 2008 the Office of the State Controller transferred $100 million from the Retiree Health Insurance Internal Service Fund to the Retiree Health Insurance Post-employment Benefits Investment Trust Fund within the Maine Public Employees Retirement System without first obtaining a financial order approved by the Governor as required by law.

Context: The transfer moved the remaining fund balance from the Internal Service Fund to an irrevocable trust fund for retiree health insurance.

Cause: The Office of the State Controller believed that no financial order was required and that the Controller had the authority to transfer the money.

Effect: The transfer did not comply with public law.

Recommendation: We recommend that the Office of the State Controller use due professional care to identify and to ensure compliance with all laws and regulations.

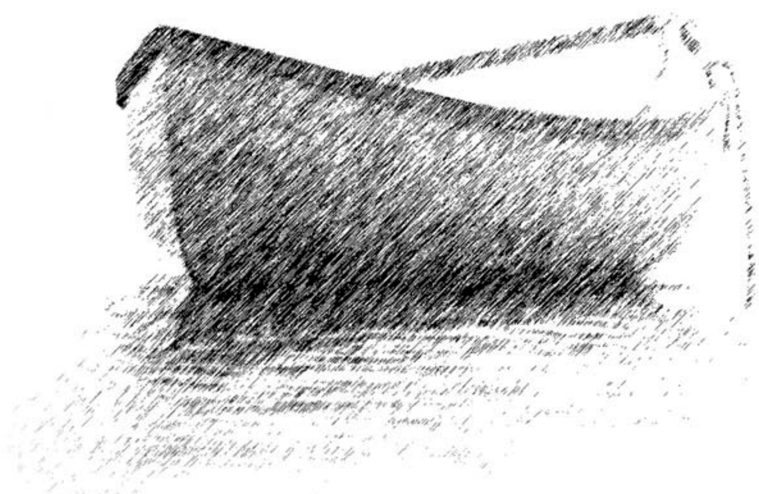
Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services agrees with the finding.*

The legislature approved the transfer of funds to the trust and the funds were transferred in January 2008. A financial order was not obtained. The Office of the State Controller is committed to carrying out our responsibilities in accordance with all laws and regulations. Going forward we will take measures to ensure the required financial order is obtained before authorizing transfers of funds.

Contact: *Edward Karass, State Controller, 626-8420*

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

Indexes to Federal Program Findings



INDEX TO FEDERAL FINDINGS
BY FEDERAL PROGRAM

Program / Finding #	Brief Summary of Finding	State Agency	Page
Food Stamp Cluster CFDA# 10.551, 10.561			
08-05	IVES requirements not followed	DHHS	E-27
08-70	Costs not allocated in accordance with cost allocation plan	DAFS	E-129
Child Nutrition Cluster CFDA# 10.553, 10.555, 10.556, 10.559			
08-06	Cash management requirements not followed	DAFS	E-29
08-07	Subrecipient monitoring requirements not followed	DOE	E-31
08-18	Cash management requirements not followed	DAFS	E-49
Special Supplemental Nutrition Program for Women, Infants, and Children CFDA# 10.557			
08-08	Cash management requirements not followed	DHHS	E-33
08-09	Subrecipient monitoring requirements not followed	DHHS	E-34
08-10	Compliance investigations not prioritized by risk	DHHS	E-35
08-44	Audit cost settlement process is not adequate	DAFS	E-88
08-70	Costs not allocated in accordance with cost allocation plan	DAFS	E-129
Child and Adult Care Food Program CFDA# 10.558			
08-11	Subrecipient cash management requirements not followed	DHHS	E-37
08-12	Cash management procedures need improvement	DAFS	E-38
08-35	Subrecipient monitoring requirements not followed	DAFS	E-74
08-70	Costs not allocated in accordance with cost allocation plan	DAFS	E-129
Community Development Block Grants / State's Program CFDA# 14.228			
08-13	Cash management procedures need improvement	DECD	E-40
08-14	Inadequate environmental oversight and review procedures	DECD	E-41
Highway Planning and Construction Cluster CFDA# 20.205			
08-15	Davis-Bacon Act requirements not followed	DOT	E-43
Performance Partnership Grants CFDA# 66.605			
08-16	Subrecipient cash management requirements not followed	DEP	E-45
Title I Grants to Local Educational Agencies CFDA# 84.010			
08-06	Cash management requirements not followed	DAFS	E-29

See agency legend at page E-19

INDEX TO FEDERAL FINDINGS
BY FEDERAL PROGRAM

Program / Finding #	Brief Summary of Finding	State Agency	Page
08-07	Subrecipient monitoring requirements not followed	DOE	E-31
08-17	Provision of equitable services not ensured	DOE	E-47
08-24	Subrecipient cash management requirements not followed	DAFS/ DOE	E-58
Special Education Cluster CFDA# 84.027, 84.173			
08-06	Cash management requirements not followed	DAFS	E-29
08-07	Subrecipient monitoring requirements not followed	DOE	E-31
08-18	Cash management requirements not followed	DOE	E-49
08-24	Subrecipient cash management requirements not followed	DAFS/ DOE	E-58
Rehabilitation Services – Vocational Rehabilitation Grants to States CFDA# 84.126			
08-19	Client service payments not adequately monitored	DOL	E-51
08-20	Cash management procedures need to be improved	DAFS	E-52
08-21	Eligibility decisions not timely	DOL	E-53
08-22	Procurement requirements not followed	DOL	E-54
08-23	Quarterly financial reports not accurate	DAFS	E-56
Improving Teacher Quality State Grants CFDA# 84.367			
08-07	Subrecipient monitoring requirements not followed	DOE	E-31
08-24	Subrecipient cash management requirements not followed	DAFS/ DOE	E-58
Public Health Emergency Preparedness CFDA# 93.069			
08-25	Payroll expenditures incorrectly charged to program	DHHS	E-60
08-26	Noncompliance with earmarking requirements	DHHS	E-61
08-70	Costs not allocated in accordance with cost allocation plan	DHHS	E-129
Immunization Grants CFDA# 93.268			
08-70	Costs not allocated in accordance with cost allocation plan	DHHS	E-129
Temporary Assistance for Needy Families CFDA# 93.558			
08-05	IVES requirements not followed	DHHS	E-27
08-27	Unallowable transitional transportation benefits paid	DHHS	E-63
08-28	Eligibility determinations not adequately supported	DHHS	E-64

See agency legend at page E-19

INDEX TO FEDERAL FINDINGS
BY FEDERAL PROGRAM

Program / Finding #	Brief Summary of Finding	State Agency	Page
08-29	Required reports inaccurate	DAFS	E-65
08-30	Cash management requirements not followed	DAFS	E-67
08-31	Financial report not supported	DAFS	E-68
08-44	Audit cost settlement process is not adequate	DAFS	E-88
08-70	Costs not allocated in accordance with cost allocation plan	DAFS	E-129
<u>Child Support Enforcement</u> CFDA# 93.563			
08-32	Federal funds were drawn in excess of expenditures	DAFS	E-70
08-33	Distribution of collections incorrect	DAFS	E-71
08-34	Case record establishment untimely	DHHS	E-72
08-70	Costs not allocated in accordance with cost allocation plan	DAFS	E-129
<u>CCDF Cluster</u> CFDA# 93.575, 93.569			
08-30	Cash management requirements not followed	DAFS	E-67
08-35	Subrecipient monitoring requirements not followed	DHHS	E-74
08-44	Audit cost settlement process is not adequate	DAFS	E-88
08-70	Costs not allocated in accordance with cost allocation plan	DAFS	E-129
<u>Foster Care: Title IV-E and Adoption Assistance</u> CFDA# 93.658, 93.659			
08-36	Payments made for unallowable activities (FC only)	DHHS	E-76
08-37	Costs not properly charged or allocated	DAFS	E-77
08-38	Cost allocation plan contained errors	DAFS	E-79
08-39	Cash management procedures lacking	DAFS	E-81
08-40	Inadequate matching procedures	DAFS	E-83
08-41	Inadequate suspension and debarment procedures (FC only)	DHHS	E-84
08-42	Procurement requirements not followed (FC only)	DHHS	E-85
08-43	Inaccurate financial reports	DAFS	E-86
<u>Social Services Block Grant</u> CFDA# 93.667			
08-30	Cash management requirements not followed	DAFS	E-67
08-35	Subrecipient monitoring requirements not followed	DHHS	E-74
08-44	Audit cost settlement process is not adequate	DAFS	E-88
08-70	Costs not allocated in accordance with cost allocation plan	DAFS	E-129
<u>State Children's Insurance Program</u> CFDA# 93.767			
08-30	Cash management requirements not followed	DAFS	E-67
08-31	Financial report not supported	DAFS	E-68

See agency legend at page E-19

INDEX TO FEDERAL FINDINGS
BY FEDERAL PROGRAM

Program / Finding #	Brief Summary of Finding	State Agency	Page
08-45	Waiver costs funded by incorrect program	DHHS	E-90
08-46	MECMS errors may result in local matching errors	DHHS	E-91
08-47	Billing service contracts not compliance with regulations	DHHS	E-93
08-48	TPL data incomplete/cost avoidance not maximized	DHHS	E-94
08-49	School based rehab services billing and payment policy	DHHS	E-96
08-51	Reimbursement rate not supported	DHHS	E-99
08-53	Overpayments for free standing day habilitation services	DHHS	E-102
08-57	Incorrect client eligibility determinations	DHHS	E-107
08-59	Basis for certification of public expenditures not supported	DHHS	E-111
08-60	MMIS procedures for client counts not adequate	DHHS	E-113
08-70	Costs not allocated in accordance with cost allocation plan	DAFS	E-129
<u>Medicaid Cluster</u> CFDA# 93.775, 93.777, 93.778			
08-05	IVES requirements not followed	DHHS	E-27
08-30	Cash management requirements not followed	DAFS	E-67
08-31	Financial report not supported	DAFS	E-68
08-47	Billing service contracts not compliance with regulations	DHHS	E-93
08-48	TPL data incomplete/cost avoidance not maximized	DHHS	E-94
08-49	School based rehab services billing and payment policy	DHHS	E-96
08-50	Cost of care not properly deducted from nursing home claims	DHHS	E-98
08-51	Reimbursement rate not supported	DHHS	E-99
08-52	Unallowable Katie Beckett costs	DAFS/ DHHS	E-101
08-53	Overpayments for free standing day habilitation services	DHHS	E-102
08-54	Cost of Care recoupments not credited to federal funds	DHHS	E-104
08-55	Overstated payroll costs	DAFS	E-105
08-56	Payroll costs not properly charged	DAFS	E-106
08-57	Incorrect client eligibility determinations	DHHS	E-107
08-58	Eligibility quality control procedures not met	DHHS	E-110
08-59	Basis for certification of public expenditures not supported	DHHS	E-111
08-60	MMIS procedures for client counts not adequate	DHHS	E-113
08-61	Noncompliance with ADP requirements	DAFS/ DHHS	E-114
08-62	Audit cost settlements not credited timely	DAFS/ DHHS	E-116
08-63	Services furnished to recipients not verified	DHHS	E-117
08-64	Information system lacking functionalities	DAFS/ DHHS	E-118
08-65	Deposit procedures need to be improved	DAFS/ DHHS	E-121
08-66	Inadequate surveillance and utilization of services	DHHS	E-122

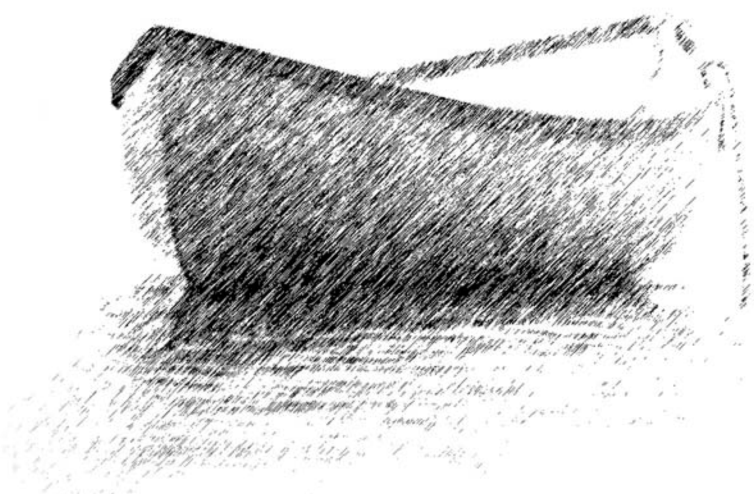
See agency legend at page E-19

Program / Finding #	Brief Summary of Finding	State Agency	Page
08-67	Drug Utilization Review Board's report lacks information	DHHS	E-124
08-70	Costs not allocated in accordance with cost allocation plan	DAFS	E-129
Disability Insurance/SSI Cluster CFDA # 96.001			
08-68	Payroll certifications not obtained	DHHS	E-126
08-69	Suspension and debarment requirements not followed	DHHS	E-127
08-70	Costs not allocated in accordance with cost allocation plan	DAFS	E-129
Disaster Grants-Public Assistance (Presidentially Declared Disasters) CFDA # 97.036			
08-71	Cash management procedures need to be improved	DVEM	E-132
08-72	Subrecipient monitoring requirements not followed	DVEM	E-133
Homeland Security Cluster CFDA# 97.067			
08-73	Payroll certifications not obtained	DVEM	E-135
08-74	Subrecipient monitoring requirements not followed	DVEM	E-136

Legend of State Agency Abbreviations:

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

See agency legend at page E-19



INDEX TO FEDERAL FINDINGS
BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

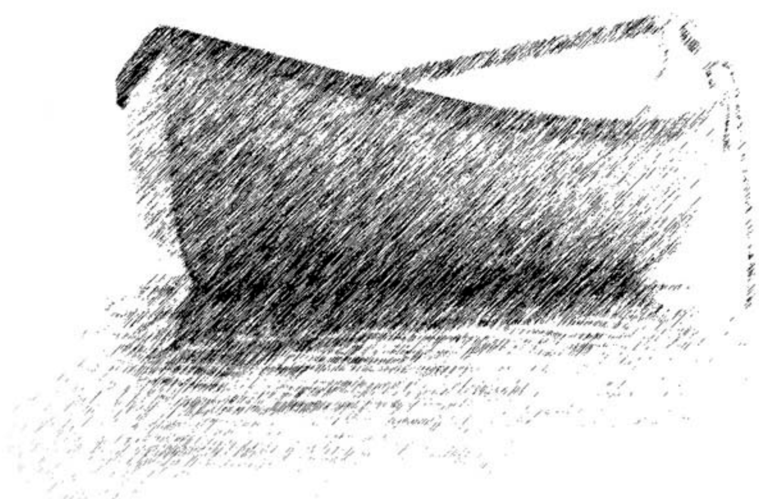
Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Administrative and Financial Services																
08-06	Multiple programs			✓												E-29
08-12	Child and Adult Care Food			✓												E-38
08-18	Multiple programs			✓												E-49
08-20	Rehabilitation Services			✓												E-52
08-23	Rehabilitation Services												✓			E-56
08-24	Multiple programs			✓												E-58
08-29	Temp. Aid Needy Families												✓			E-65
08-30	Multiple programs			✓												E-67
08-31	Multiple programs												✓			E-68
08-32	Child Support Enforcement			✓												E-70
08-33	Child Support Enforcement												✓			E-71
08-37	Foster Care/Adoption Assist.	✓	✓													E-77
08-38	Foster Care/Adoption Assist.		✓													E-79
08-39	Foster Care/Adoption Assist.			✓												E-81
08-40	Foster Care/Adoption Assist.							✓								E-83
08-43	Foster Care/Adoption Assist.												✓			E-86
08-44	Multiple programs													✓		E-88
08-52	Medicaid Cluster	✓	✓													E-101
08-55	Medicaid Cluster		✓													E-105
08-56	Medicaid Cluster		✓													E-106
08-61	Medicaid Cluster														✓	E-114
08-62	Medicaid Cluster														✓	E-116
08-64	Medicaid Cluster														✓	E-118
08-65	Medicaid Cluster														✓	E-121
08-70	Multiple programs		✓													E-129
Department of Defense, Veterans and Emergency Services																
08-71	Disaster Grants			✓												E-132
08-72	Disaster Grants													✓		E-133
08-73	Homeland Security Cluster	✓														E-135
08-74	Homeland Security Cluster													✓		E-136

INDEX TO FEDERAL FINDINGS
BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Economic and Community Development																
08-13	Community Development			✓												E-40
08-14	Community Development														✓	E-41
Department of Environmental Protection																
08-16	Performance Partnership			✓												E-45
Department of Education																
08-07	Multiple programs													✓		E-31
08-17	Title I Grants														✓	E-47
08-24	Multiple Programs			✓												E-
08-47	Medicaid Cluster/SCHIP	✓												✓		E-
Department of Health and Human Services																
08-05	Multiple programs														✓	E-27
08-08	WIC			✓												E-33
08-09	WIC													✓		E-34
08-10	WIC														✓	E-35
08-11	Child and Adult Care Food			✓												E-37
08-25	Public Health Emerg Prep	✓														E-60
08-26	Public Health Emerg Prep							✓								E-61
08-27	Temp. Aid Needy Families	✓														E-63
08-28	Temp. Aid Needy Families					✓										E-64
08-34	Child Support Enforcement														✓	E-72
08-35	Multiple programs													✓		E-74
08-36	Foster Care	✓														E-76
08-41	Foster Care									✓						E-84
08-42	Foster Care									✓						E-85
08-45	State Children’s Insurance	✓														E-90
08-46	State Children’s Insurance							✓								E-91
08-47	Medicaid Cluster/SCHIP	✓														E-93
08-48	Medicaid Cluster/SCHIP	✓	✓													E-94
08-49	Medicaid Cluster/SCHIP	✓														E-96
08-50	Medicaid Cluster	✓														E-98

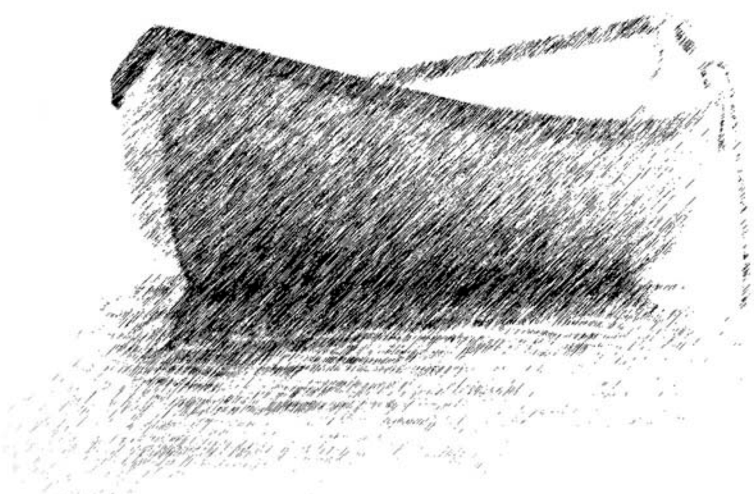
INDEX TO FEDERAL FINDINGS
BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
08-51	Medicaid Cluster/SCHIP	✓	✓													E-99
08-52	Medicaid Cluster	✓	✓													E-101
08-53	Medicaid Cluster/SCHIP		✓													E-103
08-54	Medicaid Cluster		✓													E-104
08-57	Medicaid Cluster/SCHIP	✓	✓			✓										E-107
08-58	Medicaid Cluster					✓										E-110
08-59	Medicaid Cluster/SCHIP							✓								E-111
08-60	Medicaid Cluster/SCHIP														✓	E-113
08-61	Medicaid Cluster														✓	E-114
08-62	Medicaid Cluster														✓	E-116
08-63	Medicaid Cluster														✓	E-117
08-64	Medicaid Cluster														✓	E-118
08-65	Medicaid Cluster														✓	E-121
08-66	Medicaid Cluster														✓	E-122
08-67	Medicaid Cluster														✓	E-124
08-68	Disability Insurance		✓													E-126
08-69	Disability Insurance									✓						E-127
Department of Labor																
08-19	Rehabilitation Services		✓													E-51
08-21	Rehabilitation Services					✓										E-53
08-22	Rehabilitation Services									✓						E-54
Department of Transportation																
08-15	Highway Planning Cluster				✓											E-43



STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

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



(08-05)

Title: Income and Eligibility Verification System requirements not followed

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office of Integrated Access and Support
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Temporary Assistance for Needy Families
Food Stamp Cluster
Medicaid Cluster
CFDA #: 10.551; 10.561; 93.558; 93.775; 93.777; 93.778
Federal Award #: METANF08; 4ME400401; 0805ME5028; 0805ME5048

Compliance Area: Special tests and provisions

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

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

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

Context:

- The Department did not document that alien registration information was verified for any of the 25 non-United States citizen clients tested.
- Twenty-eight clients who were included on IEVS data matching reports were tested. The Department did not document in the case files that action had been taken or that action was not necessary for 14 of these clients.

Cause:

- Unfamiliarity with program regulations
- Procedures not followed

Effect: Potential questioned costs resulting from ineligible clients

Recommendation: We recommend that the Department implement procedures to ensure that documentation of case action regarding IEVS information are followed. We further recommend that the Department implement procedures to ensure that alien registration documentation is verified through a designated automated system.

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

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

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

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

(08-70) ***page E-129***

(08-06)

Title: Noncompliance with federal cash management requirements for programs included in the Treasury-State Agreement

Prior Year Finding: 07-90
State Department: Administrative and Financial Services
State Bureau: Division of Financial and Personnel Services
Federal Agency: U.S. Department of Education
CFDA Title: Title I Grants to Local Educational Agencies
Special Education Cluster
Child Nutrition Cluster
CFDA #: 10.553; 10.555; 10.556; 10.559; 84.010; 84.027; 84.173
Federal Award #: S010A070019A; H173A070115; 2007IN109844

Compliance Area: Cash management

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

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

Context: Federal cash was not consistently drawn down in programs covered by the Treasury-State Agreement. Cash drawdowns ranged from 16 business days earlier than allowed to 73 business days later than allowed for local educational agencies.

Cause:
- Staff turnover
- Inadequate monitoring

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

Recommendation: We recommend that the Department follow established procedures to ensure that federal funds are drawn in compliance with cash management requirements.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services agrees with this finding. Corrective action will be completed as of August 1, 2009.*

CHILD NUTRITION CLUSTER

1. The Rules and Procedures from Treasury on CMIA major programs and non-major program cash draws have been sent to all account managers.

2. *All cash receipts for CMIA major programs will have backup to show check date and amount of payments covered by the draw to ensure the rules and procedures are correctly adhered to. All cash receipts for CMIA major programs will be monitored and approved by a management level staff member.*
3. *Draws are made for payments processed through the Grant Accounting System based on check date. State agency payments can not be included in the monthly check run. The Accounting Technician must create a journal to transfer funds to the appropriate State Agency. Draws for these journals will be based on the date the journal is final.*

   The Accounting Technician refers to the Distribution of Accounts list and will give the assigned Account Manager a copy of the Grant Accounting Check Run document showing the total of payments due and the date they will be processed. All State agency payment journals will be entered into AdvantageME by the Accounting Technician and a copy given to the assigned Account Manager. The assigned Account Manager will check on AdvantageME daily until the journal is final. All funds will be drawn according to CMIA rules and regulations. All Account Managers keep spreadsheets for all grant funds. This spreadsheet contains Major Program, Program, CFDA number, Grant Number and total budget. All draws are listed on this spreadsheet by Cash Receipt. Each draw is listed on this spreadsheet and the balance of the spreadsheet should equal the balance on the Federal Draw Website.

   All Account Managers have received the CMIA rules and regulations for their assigned accounts. These new procedures will ensure that the funds are ordered by Account Managers according to Treasury CMIA Rules and Regulations.
4. *Management Level Staff will monitor all cash balances on a monthly basis to ensure that CMIA rules and procedures are being adhered to.*

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

CHILD NUTRITION CLUSTER

(08-07)

Title: Subrecipient audit reports not properly reviewed

Prior Year Finding: 07-89
State Department: Education
State Bureau: Support Systems Team—Finance
Federal Agency: U.S. Department of Education
CFDA Title: Child Nutrition Cluster
Title I Grants to Local Educational Agencies
Special Education Cluster
Improving Teacher Quality State Grants

CFDA #: 10.553; 10.555; 10.556; 10.559; 84.010; 84.027; 84.173; 84.367
Federal Award #: S010A070019A; H027A070109A; 4ME300301; S367A070018A

Compliance Area: Subrecipient monitoring

Type of Finding: Material Weakness/Material Noncompliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, § __.400(d); Title 20-A MRSA §6051

Condition: The Department has not performed effective monitoring procedures to ensure that subrecipient audits were performed in a timely manner. Furthermore, sanctions were not imposed in cases where subrecipients did not obtain required audits.

Context: In a sample of 40 subrecipients tested, we noted the following:
- Six did not submit audit reports
- Four submitted audit reports after the deadline with no remedial action taken
- Two did not have a required Single Audit
- Four subrecipients did not submit corrective action plans to audit findings
- Measures were not taken to obtain the corrective action plans

Cause:
- Staff turnover
- Lack of training
- Lack of supervisory review

Effect: Potential federal sanctions

Recommendation: We recommend that the Department follow procedures already in place to ensure compliance with federal subrecipient monitoring requirements.

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

This finding for the Audits of States, Local Governments, and Non-Profit Organizations sub-recipient monitoring has been resolved in the current fiscal year (2008-09) ensuring compliance with federal sub-recipient monitoring requirements and State statutes. The Department of Education audit staff has established written procedures for sub-recipient monitoring in our DOE Audit Policies and Procedures Manual including a more extensive tracking and follow-up on annual audit reports in order to ensure effective monitoring of sub-recipients. Since September 2008, additional supervision to audit staff has been provided to ensure compliance with federal sub-recipient monitoring requirements. Also, additional procedures have also been established to ensure compliance with State regulations including the imposed sanction of withholding of State subsidy for school administrative units that have not met audit requirements. It is Department of Education policy to require school administrative units to file corrective action for findings however corrective action is not currently a statutory requirement. In 2009-10, Department of Education staff will submit possible revisions to current statutory language to establish corrective action requirements and to clarify audit requirements.

Contact: *Shel Marcotte, Audit Supervisor, Department of Education, 624-6863*

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

(08-18) ***page E-49***

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

(08-08)

Title: Noncompliance with cash management requirements

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Center for Disease Control and Prevention
Federal Agency: U.S. Department of Agriculture
CFDA Title: Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
CFDA #: 10.557
Federal Award #: 4ME700701; 4ME700752; 4ME720701

Compliance Area: Cash management

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

Condition: Cash held by the Special Supplemental Nutrition Program's fiscal agent is in excess of immediate cash needs. During the twelve months of the fiscal year, the average daily balance ranged from $224,000 to $421,000. Program personnel transfer $300,000 to the bank when the cash balance falls below $250,000.

Context: We reviewed the twelve monthly bank statements and noted excess cash on hand during each month.

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

Effect: Potential interest liability to the federal government

Recommendation: We recommend that the Department draw cash based on anticipated needs and should include rebate checks in the analysis.

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

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

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

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

(08-09)

Title: Grant information not provided to subrecipients

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Center for Disease Control and Prevention
Federal Agency: U.S. Department of Agriculture
CFDA Title: Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #: 10.557
Federal Award #: 4ME700701; 4ME700752; 4ME720701

Compliance Area: Subrecipient monitoring

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

Condition: The Department did not include all the required information when awarding funds to subrecipients. All nine award letters issued did not include the Catalog of Federal Domestic Assistance title and number, award name, name of federal awarding agency, award year, and applicable regulations.

Context: The program awarded funds to nine subrecipients.

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

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

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

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

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

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

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

(08-10)

Title: Compliance investigations not prioritized by risk

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Center for Disease Control and Prevention
Federal Agency: U.S. Department of Agriculture
CFDA Title: Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #: 10.557
Federal Award #: 4ME700701; 4ME720702; 4ME700752

Compliance Area: Special tests and provisions

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

Condition: High risk vendors are not prioritized based on level of risk when selecting a sample for annual compliance investigations. Instead, the sample is selected by geographic region, without regard to the risk of program noncompliance and/or loss of funds.

Context:

- Twenty-two percent of vendors were considered high risk
- Forty-seven percent of vendors (seven out of 15 vendors reviewed) had violations

Cause: Effort to minimize costs of compliance investigations

Effect: Highest risk vendors may not be selected for compliance investigations

Recommendation: We recommend the Department implement risk assessment procedures when selecting vendors to review.

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

As of July 1, 2009, the Vendor Manager has run a report of high risk vendors who were determined to be high risk in accordance with the seven criteria identified in the Vendor Manual. Vendors are prioritized by comparing the report to the recorded complaints that have been received. Vendors will be chosen for compliance monitoring based on risk. In accordance with program regulations, a minimum of 5% of vendors will be selected for compliance testing. This procedure will be included in the Vendor Manual version effective October 1, 2009.

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

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

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

(08-44) ***page E-88***

(08-70) ***page E-129***

CHILD AND ADULT CARE FOOD PROGRAM

(08-11)

Title: Subrecipient cash management requirements not followed

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

Compliance Area: Cash management

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Cash management (7 CFR §3016.20(7))

Condition: The Department did not adequately monitor cash drawdowns by subrecipients receiving funds prior to disbursement to ensure that they minimize the time between receipt and disbursement of funds.

Context: Monitoring visits of sponsoring organizations are conducted once every three years and the largest sponsoring organization is visited once every two years. The Department relies on these site visits to monitor compliance with federal cash management requirements.

Cause: Reliance on infrequent site visits

Effect: Noncompliance with federal subrecipient cash management requirements

Recommendation: We recommend that the Department more frequently monitor subrecipients receiving funds prior to disbursement to ensure compliance with federal cash management requirements.

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

During fiscal year 2009, CACFP personnel established an annual procedure whereby the Directors of all sponsoring organizations provided a signed detailed listing of receipt and disbursements of funds to providers for each month of the program year. Effective July 1, 2009, this schedule will be compiled quarterly by all sponsoring organizations, signed by the Director of the organization and submitted to CACFP personnel for review. Corrective action will be

required for any sponsoring organization whose payments to providers are determined to be untimely.

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

(08-12)

Title: State level cash management procedures need improvement

Prior Year Finding: 07-15
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Agriculture
CFDA Title: Child and Adult Care Food Program
CFDA #: 10.558
Federal Award #: 4ME300302

Compliance Area: Cash management

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

Condition: The Department does not have sufficient procedures to ensure that disbursements to subrecipients are made within a reasonable time frame. In addition, we noted that program accounts had excessive cash balances in two out of the 12 months reviewed.

Context: Twenty-four federal draws were tested of which five did not fully distribute the amounts to subrecipients within a reasonable time frame.

Cause: The Department does not make a reasonable estimation of expenditures on which they base their draws and does not take into account the residual cash balance in determining the amount to be drawn.

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

Recommendation: We recommend that the Department establish additional procedures to ensure compliance with federal cash management requirements. It was noted during our audit that in September 2008, procedures and controls were enhanced and should address this issue.

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

As of July 2008, the Service Center committed additional resources to increase the internal controls over disbursements to sub recipients. Service Center personnel ensure that all accounts payable invoices are entered into the system. A list of accounts payables rejected for insufficient funds is used to draw cash. Reconciliations of cash balances and cash draws to the FSR-269 report are done at least monthly.

Contact: *Diane Williamson, Manager Staff Accountant, 287-6390.*

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

(08-35) ***page E-74***

(08-70) ***page E-129***

(08-13)

Title: Procedures over cash management need to be improved

Prior Year Finding: No
State Department: Economic and Community Development
State Bureau: Office of Community Development
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Title: Community Development Block Grants
CFDA #: 14.228
Federal Award #: 0604MEDI00; 0704MEDI00

Compliance Area: Cash management

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

Condition: The Department did not draw funds in accordance with the specified funding technique outlined in the 2008 Treasury State Agreement (TSA).

Context: Five of the 40 cash draws were made between one and two days after the expenditures were processed. According to the TSA, funds should not be drawn until three days after processing the payment.

Cause: Inadequate monitoring to ensure that program funds are drawn in accordance with the TSA.

Effect: Possibility of the federal government imposing more stringent cash management requirements on the program due to noncompliance with TSA provisions

Recommendation: We recommend that the Department improve internal controls to ensure that funds are drawn in accordance with the funding technique outlined in the TSAs.

Management's Response/Corrective Action Plan: *The Department of Economic and Community Development agrees with the finding.*

The five occurrences where the Development Project Officer drew down funds too early all occurred during weeks with a holiday in them.

COMMUNITY DEVELOPMENT BLOCK GRANTS

As of 7/1/2009 the CDBG program is not a major program so DECD staff will be requesting funds on Wednesdays and the grantees' payments will be keyed into Advantage the following Tuesday after funds are available in our account from HUD. Checks/EFTs will be dated the following Friday after the Tuesday data entry. This time frame is absolutely the best that can be done and represents a 6-day clearance. This payment system was discussed with and approved by Tim Rodriguez, State CMIA Coordinator.

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

(08-14)

Title: Inadequate environmental oversight and review procedures

Prior Year Finding: No
State Department: Economic and Community Development
State Bureau: Office of Community Development
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Title: Community Development Block Grants
CFDA #: 14.228
Federal Award #: 0604MEDI00; 0704MEDI00

Compliance Area: Special tests and provisions

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Environmental Review Procedures For Entities Assuming HUD Environmental Responsibilities (24 CFR Part 58)

Condition: The Department did not receive and/or maintain required environmental review documentation for all subrecipients.

Context: Of the 40 subrecipients files reviewed, we noted the following:
- Two did not have an environmental clearance letter
- Two did not have an environmental certification or Request for Release of Funds approval
- Four did not have complete environmental review documentation
- One did not have an environmental review checklist

Cause: Insufficient review procedures

Effect: Possible negative environmental impact

Recommendation: We recommend the Department perform additional supervisory review to ensure compliance with environmental oversight and review requirements.

Management's Response/Corrective Action Plan: *The Department of Economic and Community Development agrees with the finding.*

As of 1/1/2009, the OCD Director has been reviewing all environmental review packages at the time of the input of the data entry sheet to assure that all necessary forms are included. The data entry sheet has been revised to include the OCD Director's signature and review date.

Contact: *Michael D. Baran, Director, Office of Community Development, 624-9816*

(08-15)

Title: Davis-Bacon requirements not followed

Prior Year Finding: 07-23
State Department: Transportation
State Bureau: Project Development
Federal Agency: U.S. Department of Transportation
CFDA Title: Highway Planning and Construction Cluster
CFDA #: 20.205
Federal Award #: Various

Compliance Area: Davis-Bacon Act

Type of Finding: Material Weakness/Material Noncompliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction (29 CFR Part 5)

Condition: The procedures used to ensure that contractors and subcontractors were properly classifying and compensating their employees were not being systematically applied. We noted the following:

- Department field engineering personnel did not conduct all of the required interviews of contractor and subcontractor personnel for 21 of the 50 files reviewed
- Department civil rights office personnel did not conduct interviews of contractor and subcontractor personnel for eight out of nine of the largest projects selected for review

Context: The Department did not have adequate procedures to ensure compliance with their own record keeping and enforcement responsibilities.

Cause: The Department has not taken the steps needed to ensure compliance with the Davis-Bacon Act.

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

Recommendation: We recommend that the Department implement procedures to ensure that contractor and subcontractor personnel are paid the required rates for wages and fringe benefits in accordance with Davis-Bacon Act provisions. Procedures should include adequate review and follow-up by field engineering personnel.

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

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

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

PERFORMANCE PARTNERSHIP GRANTS

(08-16)

Title: Subrecipient cash management requirements not followed

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

Compliance Area: Cash management

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

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

Context: Seven out of 12 subrecipients tested had funds advanced in excess of immediate cash needs

Cause: Misinterpretation of subrecipient cash management requirements

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

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

Management's Response/Corrective Action Plan: *The "Condition" and "Context" described in this finding relate to State implementation of the federal Clean Water Act non-point source pollution abatement program. As a result of a request from the Department of Audit to the United States Environmental Protection Agency (D.E.P.'s grantor) in the context of this FY08 audit, and a change in its interpretation of standards applicable advance payments under this grant, D.E.P. agrees with, and has established a system that resolves the issues associated with this finding.*

D.E.P. has developed and is implementing fundamental changes to the manner in which grant funds are disbursed to subrecipients – from a system using cash advances intended to allow work to be funded in the first instance with grant money, to a system where, except under extraordinary circumstances, grant money will be used to reimburse qualifying entities for out-of-pocket expenses incurred. Prior to implementation, the Department of Audit reviewed and approved as appropriate to remedy this finding standards established in D.E.P.'s Guidance on Payments & Cash Management for Non-Point Source Grants (effective June 4, 2009).

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

(08-17)

Title: Provision of equitable services not ensured

Prior Year Finding: No
State Department: Education
State Bureau: Learning Systems Team – Title I-A, Disadvantaged
Federal Agency: U.S. Department of Education
CFDA Title: Title I Grants to Local Educational Agencies
CFDA #: 84.010
Federal Award #: S010A070019A

Compliance Area: Special tests and provisions

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Determining Equitable Participation of Teachers and Families of Participating Private School Children (34 CFR §200.65)

Condition: The Department did not have controls in place to ensure that local educational agencies (LEAs) were correctly calculating equitable services for teachers and families of private school students.

Context: We tested five out of 14 LEAs that had a private school resident obligation. None of the LEAs tested provided the Department with a calculation of equitable services for teachers and families of private school students.

Cause: Lack of procedures

Effect: Noncompliance with federal participation of private school children requirements

Recommendation: We recommend that the Department establish procedures to comply with federal participation of private school children requirements.

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

The following procedures were initiated in July 2009, as part of the 2008-09 NCLB consolidated application process, to ensure that equitable services are provided to non-public schools:

- *The State surveys private schools for their economically disadvantaged students.*
- *The State determines private school instructional service levels based on responses to the surveys.*

- *The State enters the private school's counts for economically disadvantaged student and the instructional service levels by SAU into its electronic NCLB application system.*
- *The LEA enters the total number of economically disadvantaged students from its Title IA participating attendance areas.*
- *The electronic NCLB application system calculates the percentage share for projects requiring equitable share proportions.*
- *The electronic NCLB application system has been programmed to apply this percentage share to a district level professional development project, required district level parent involvement set aside, or district summer school project.*
- *Whenever one of the above mentioned project sheets are created, the system brings in the percentage share amount, a private school budget line, and a project description narrative box. In addition to describing the district project, the LEA must also describe and budget for the private school's equitable share.*
- *The process outlined above will be evaluated annually to ensure that equitable services are appropriately provided to non-public schools, with adjustments made as needed.*

Contact: *Rachelle Tome, NCLB Title 1 Director, 624-6705*

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

(08-06) ***page E-29***

(08-07) ***page E-31***

(08-24) ***page E-58***

(08-18)

Title: Noncompliance with federal cash management requirements for programs not included in the Treasury-State Agreement

Prior Year Finding: 07-90
State Department: Administrative and Financial Services
State Bureau: Division of Financial and Personnel Services
Federal Agency: U.S. Department of Education
CFDA Title: Special Education Cluster
Child Nutrition Cluster
CFDA #: 84.027; 84.173; 10.553; 10.555; 10.556; 10.559
Federal Award #: H173A070115; 2007IN109744; 2007IN109844

Compliance Area: Cash management

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

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

Context: In our review, we noted the following:
- CFDA #84.173 – excess cash balances in nine of 12 months
- CFDA #10.553 – negative cash balances in all 12 months
- CFDA #10.556 – excess cash balances in all 12 months
- CFDA #10.559 – excess cash balances in five of 12 months; negative cash balances in five of 12 months

Cause:
- Staff turnover
- Inadequate monitoring to ensure program funds are spent within the allowable time frame
- Lack of specificity on the federal grant award document, resulting in the Child Nutrition cluster programs being incorrectly accounted for as one program

Effect:

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

Recommendation: We recommend that the Department establish procedures to monitor receipts and disbursements to ensure that these grant funds are spent within the allowable time frames. We further recommend that the Department account for the programs within the Child Nutrition Cluster as separate programs to facilitate compliance with federal cash management.

Management’s Response/Corrective Action Plan: *The Department of Administrative and Financial Services agrees with this finding. Corrective action will be completed as of July 1, 2009.*

1. *New procedures have been established to monitor receipts and disbursements for the Child Nutrition Lunch Cluster and Summer Programs.*
2. *There will be one Account Manager for the School Lunch and Summer programs. All Cash Draws and Receipts will be monitored by a management level staff member.*
3. *The budget amounts of the Lunch Cluster have been separated to distinguish the Major Program CMIA portion from the Non-Major program portion. A spreadsheet showing monthly manifest payments and draws has been incorporated into this process. All cash receipts will continue to have sufficient backup to show check date and payment amounts. All internal agency journal payments are processed and cash draws are based on final Journal approval date.*
4. *Manifests are entered through a BIE Interface system into AdvantageME. These payments are processed without programs. Cash is drawn according to the check date. A journal is processed to add programs. If a query is run by program it may show a negative balance until the journal is processed to add the program. This may have caused some of the negative balances in these programs. This journal will be processed as soon as backup is received from Education Child Nutrition staff.*
5. *The Federal draw down regulations rules and procedures for CFDA 84.173 were sent to the Account Manager.*
6. *Management staff will monitor all cash balances on a monthly basis to ensure that Federal draw down rules and procedures are being adhered to.*

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

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

(08-06) ***page E-29***

(08-07) ***page E-31***

(08-24) ***page E-58***

REHABILITATION SERVICES: VOCATIONAL REHABILITATION GRANTS TO STATES

(08-19)

Title: Client service payments not adequately monitored

Prior Year Finding: 07-30
State Department: Labor
State Bureau: Bureau of Rehabilitation Services
Federal Agency: U.S. Department of Education
CFDA Title: Rehabilitation Services – Vocational Rehabilitation Grants to States
CFDA #: 84.126
Federal Award #: H126A080085; H126A080026

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant Deficiency – Questioned Costs

Known Questioned Costs: $264

Likely Questioned Costs: $20,317
A sample of 60 payments amounting to $102,399 was selected on a haphazard basis. Likely questioned costs of $20,317 were determined by projecting known questioned costs to the population. The population and related sample were stratified by the dollar value of individual payments.

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

Condition: We reviewed 60 case services expenditures and noted the following:

- Two were made without adequate support (e.g. invoice, report, paid receipt)
- One did not have a secondary review signature

Context: The federal share of payments for client services was $6.2 million for the fiscal year.

Cause:

- Insufficient oversight
- Lack of written policies and procedures

Effects: Questioned costs and potential future questioned costs

Recommendation: We recommend that the Department continue to implement procedures to ensure independent approval of case service expenditures and to include adequate support for all expenditures. Also, as of July 2008, payments can not be made without two signatures.

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

The two expenditures made without adequate support were made prior to the May 2008 procurement procedures training. In one case an expenditure was made without adequate documentation on how transportation costs were calculated and in another case an expenditure was made without documenting if client received purchased supplies.

In June 2008 new procedures were implemented in ORSIS that require two electronic signatures for payments to be processed. In addition, all client manifest payments must be approved by a supervisor before payment. The one expenditure made without a secondary signature was made in November 2007 prior to the new protocols. No expenditures were found without a second signature after July 2008, which demonstrates that the new procedures are working.

Contact: *Arthur Jacobson, Assistant Director DVR, 623-7940*

(08-20)

Title: Cash management procedures need to be improved

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Security and Employment Service Center
Federal Agency: U.S. Department of Education
CFDA Title: Rehabilitation Services – Vocational Rehabilitation Grants to States
CFDA #: 84.126
Federal Award #: H126A080085; H126A080026

Compliance Area: Cash management

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement (31 CFR §205 Subpart B); Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Procurement (34 CFR 80 Subpart C)

Condition: The Department did not draw funds in accordance with federal requirements.

Context: We noted that in four of 12 months the program maintained excess cash on hand and in two of the months the average daily cash balance was a negative amount.

Cause:
- Lack of written policies and procedures
- Inadequate training of personnel

Effects:

- Excess federal cash retained may result in the federal government imposing more stringent cash management requirements on the State
- Negative cash balances may result in money being "temporarily loaned" to the federal program thereby resulting in an unnecessary interest cost to the State

Recommendation: We recommend that procedures be established and documented to ensure that federal cash on hand is being used at approximately the same time as program expenditures are incurred.

Management's Response/Corrective Action Plan: *The Security & Employment Service Center agrees with this finding.*

The monthly drawdown will be adjusted to reflect the amount of program income received from the Federal government. A monthly schedule for program income will be developed by the Financial Analyst responsible for the Bureau of Rehabilitation and forwarded to the Senior Accountant responsible for drawing funds from the Federal Payment Management System. We will be using the program income for expenditures before we draw additional funds from the Federal payment management system.

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

(08-21)

Title: Eligibility decisions not timely

Prior Year Finding: 07-31
State Department: Labor
State Bureau: Bureau of Rehabilitation Services
Federal Agency: U.S. Department of Education
CFDA Title: Rehabilitation Services – Vocational Rehabilitation Grants to States
CFDA #: 84.126
Federal Award #: H126A080085; H126A080026

Compliance Area: Eligibility

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

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

Context: In 19 out of 60 cases examined the eligibility decision was made late. For these 19 cases, the eligibility decision was made, on average, 32 days later than required.

Cause: Shortage of personnel

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

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

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

The ORSIS "time as applicant report", which alerts rehabilitation counselors of the impending 60 day eligibility determination limit, was implemented May 2006. Regional staff received training in the use of the new report plus the use of the special indicator to identify individuals who agree to an extension of time. The special indicator generates a case note documenting the agreement on the specific number of days eligibility is extended.

Seventeen of the identified 19 cases applied for services prior to the implementation of these ORSIS edits. There were only two cases that applied after May 2006 with more than 60 days for eligibility determination and did not have a documented extension of time.

This demonstrates that the May 2006 ORSIS tools are working. Eligibilities determined after this date are meeting the federal requirement. We will continue to monitor the timeliness of eligibility decisions to ensure federal regulation compliance.

Contact: *Arthur Jacobson, Assistant Director, DVR, 623-7940*

(08-22)

Title: State and federal procurement procedures are not being followed

Prior Year Finding: 07-32
State Department: Labor
State Bureau: Bureau of Rehabilitation Services
Federal Agency: U.S. Department of Education
CFDA Title: Rehabilitation Services – Vocational Rehabilitation Grants to States
CFDA #: 84.126
Federal Award #: H126A080085; H126A080026

Compliance Area: Procurement and suspension and debarment

REHABILITATION SERVICES: VOCATIONAL REHABILITATION GRANTS TO STATES

Type of Finding: Material Weakness/Material Noncompliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Procurement (34 CFR §80.36); Procedures Required by the State Bureau of Purchases

Condition: The Bureau of Rehabilitation Services (BRS) did not follow State procurement procedures, as required by federal regulations. In addition, BRS did not confirm that vendors were not suspended or debarred from selling goods or services to programs supported by federal funds.

Context: The standard contract used by BRS is not being used for fee-for-service vendors; therefore it does not appear that the BRS verifies that these vendors are suspended or debarred. Also, BRS does not follow the State's established procurement procedures.

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

Effects:
- Potential overpayment for goods and services
- Potential questioned costs related to payments to suspended or debarred parties

Recommendation: We recommend that the Bureau of Rehabilitation Services follow State procurement requirements, incorporate language into contracts in accordance with federal requirements and implement procedures to comply with federal suspension and debarment requirements. We noted that during fiscal year 2009, BRS has created a new Agreement to Purchase Services to include fee-for-service vendors which should address the contract language requirements. This new agreement includes the suspension and debarment language as an attachment.

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

BRS sought guidance from the Division of Purchases, and is in the process of implementing standard State of Maine (SOM) BP-54 contracts with all Community Rehabilitation Providers and establishing blanket contracts for professional services, education and specialized equipment purchased on behalf of DVR and DBVI clients. As part of this project plan, OIT resources are being utilized to address the interface requirements between ORSIS and AdvantageMe. It is anticipated that BRS will be in compliance with SOM procurement procedures by Fall 2009.

Contact: *Karen Fraser, SIQA Director,. 623-7961*

REHABILITATION SERVICES: VOCATIONAL REHABILITATION GRANTS TO STATES

(08-23)

Title: Quarterly financial reports not accurate

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Security and Employment Service Center
Federal Agency: U.S. Department of Education
CFDA Title: Rehabilitation Services – Vocational Rehabilitation Grants to States
CFDA #: 84.126
Federal Award #: H126A080085; H126A080026

Compliance Area: Reporting

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

Condition: The Department reported inaccurate expenditure amounts on the quarterly financial reports. Documentation to support these amounts could not be located.

Context: Expenditures did not reconcile to the amount reported on the Schedule of Expenditures of Federal Awards (SEFA) or the State's accounting system.

Causes:
- New accounting system
- Lack of written policies and procedures
- Lack of training
- No reconciliation of reported amounts

Effect: Federal government cannot rely on financial reports

Recommendation: We recommend that the Department reconcile expenditures reported on the quarterly reports and the SEFA to the amounts in the State's accounting system. Supporting documentation should be maintained for all filed reports.

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

In the future, SESC will reconcile the federal reports with the SEFA, prepare written policies and procedures for filing federal reports, and provide for a secondary review of the quarterly

federal reports. The written policies and procedures will be completed by October 1, 2009. The reconciliation process is underway for the fiscal year just ended.

Contact: *Robert Schenberger Jr. Managing Staff Accountant, 623-6723*

(08-24)

Title: Subrecipient cash management requirements not followed

Prior Year Finding: 07-27
State Department: Administrative and Financial Services
Education
State Bureau: Division of Financial and Personnel Services
Support Systems Team—Finance
Federal Agency: U.S. Department of Education
CFDA Title: Title I Grants to Local Educational Agencies
Special Education Cluster
Improving Teacher Quality State Grants
CFDA #: 84.010; 84.027; 84.173; 84.367
Federal Award #: S01070019A; H027A070109A; S367A070018A

Compliance Area: Cash management

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Payment (34 CFR §80.21)

Condition: The Department did not adequately monitor subgrantees to ensure that time was minimized between transfer of funds and disbursement.

Context: We reviewed quarterly cash reports for 40 subrecipients and noted the following:

- One was not properly identified as having excess cash on hand
- One that had excess cash on hand inappropriately received the next scheduled payment, contrary to the Department's policy

Cause: Staff turnover

Effect: Possible federal sanctions

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

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services agrees with this finding. Corrective action will be completed by August 1, 2009.*

1. *A list of all subrecipients that are on cash management hold for non-reporting and excess cash will continue to be sent out weekly to all program and account managers in the Department.*
2. *All cash management reports (EF-U-415) are received and logged in daily by one Staff Accountant. This Staff Accountant also audits each report. Having one staff member handling the Cash Management Reports will ensure that the excess cash and non-reporting list is updated correctly. The EF-U-415 Cash Management Report is filed on a quarterly basis for all subrecipients that are awarded federal funds. Period 1 is due 1/15 and covers 10/1-12/31; Period 2 is due 4/15 and covers 1/1-3/31; Period 3 is due 7/15 and covers 4/1-6/30; Period 4 is due 10/15 and covers 7/1-9/30. All periods are based on the federal fiscal year. All Cash Management Reports must contain all federal funds received and expenses incurred during the period in which they are reporting.*
3. *All second level approvals for manual grant payments will be done by the staff member that is handling Cash Management Reports. Since this staff member updates the Cash Management Hold List daily, any invoices that should not be processed will be held.*
4. *All checks to be written reports that are generated from the Grant Accounting System are checked against the weekly Cash Management Hold list. All subrecipients on this list do not receive their monthly payment and it is moved forward to the next month. The Grant Accounting System is handled by one staff member only to prevent errors. To ensure better controls a supervisor will also monitor all checks to be written reports a second time to make sure they are correct.*
5. *After further discussion with Department of Education the MEDEMS system will not be able to provide electronic Cash Management Reporting.*

There is still a possibility for human error in processing these reports. The two errors on this finding were caused by the human error component.

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

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

(08-07) ***page E-31***

(08-25)

Title: Payroll expenditures incorrectly charged to program

Prior Year Finding: 07-38
State Department: Health and Human Services
State Bureau: Center for Disease Control and Prevention
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Public Health Emergency Preparedness
CFDA #: 93.069
Federal Award #: 5U90TP116972-08

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant Deficiency – Questioned Costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225)

Condition: The Department did not have procedures in place to ensure that salaries and wages for employees who work on more than one program are properly distributed. No personnel activity reports or equivalent documentation were maintained to support the distributions. In addition, one employee whose compensation costs were charged 100% to the program, when interviewed, claimed to have worked only half time on the program.

Context: Total compensation costs for all the Center for Disease Control and Prevention employees that charged their time to various programs was approximately $1.8 million. Of this amount $1.55 million was charged to the Public Health Emergency Preparedness program.

Cause: Lack of knowledge of documentation requirements

Effect: Potential disallowed costs

Recommendation: We recommend that the Department institute procedures designed to ensure that payroll costs of employees who work on multiple programs are supported by personnel activity reports or equivalent documentation. If budgetary estimates are initially utilized, adjustments based on actual time worked must be prepared at least quarterly.

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

As of June 2009, the Centers for Disease Control and Prevention (CDC) had implemented the project and task function in the Maine State Time and Attendance Management System (MSTAMS). Once the Active Selection feature is added this fall, the system will allow each

employee to record their time in the appropriate grant account and time period. In addition, MSTAMS certifies the amount of time the employee worked in each grant.

Contact: *Kristine Perkins, Division Director, Public Health System, CDC, 287-8104*

(08-26)

Title: Noncompliance with earmarking requirements

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Center for Disease Control and Prevention
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Public Health Emergency Preparedness
CFDA #: 93.069
Federal Award #: 5U90TP116972-08

Compliance Area: Matching, level of effort, earmarking

Type of Finding: Material Weakness/Material Noncompliance

Known Questioned Costs: $474,138

Likely Questioned Costs: $474,138

Criteria: Grant Award

Condition: The Department did not provide documentation in support of having met earmarking requirements totaling $474,138. These earmarking requirements were associated with the following programs: Early Warning Infectious Disease Surveillance program for $122,283; the Cities Readiness Initiative for $200,000; the Real-Time Disease Detection program for $140,515 and Direct Assistance for $11,340.

Context: The Notice of Grant Award for the Public Health Emergency Preparedness program specifies certain amounts as earmarked for particular activities.

Cause: Accounting structure not designed to facilitate reporting of earmarked funds

Effect: Program funds may not be spent in accordance with earmarking requirements

Recommendation: We recommend that the Department develop procedures designed to ensure that funds are spent in accordance with earmarking requirements and that adequate accounting records are maintained to support compliance.

Management's Response: *The Department of Health and Human Services, Maine Center for Disease Control and Prevention (Maine CDC) agrees with the finding.*

PUBLIC HEALTH EMERGENCY PREPAREDNESS

As of August 8, 2007, the beginning of federal project period 2007-2008; the Maine CDC, Division of Public Health Systems (DPHS), Office of Public Health Emergency Preparedness (OPHEP) implemented a line item process for budgeting and tracking expenses of both U. S. Department of Health and Services preparedness cooperative agreements that provide ongoing funding to Maine. These include the Public Health Preparedness, and Hospital Preparedness Cooperative Agreements.

Account codes have been established for each of the focus areas within the projects including the two noted as earmarked requirements - with specific funding defined as separated from base funding on the Notice of Grant Award. All expenses are associated with a specific numbered line on the budget tracking form. As invoices are processed, the line to which the expense is associated is written on the invoice along with the account coding, then signed off by pre-defined program staff. All invoices, regardless of the program or focus area are then sent to OPHEP where the expense is logged into a spreadsheet and signed by the DPHS Director. Staffing limitations and turnover in State fiscal year 2008, caused delays in implementing this process, errors in processing, and did not allow for sufficient monitoring and oversight of this activity, so we were not able to provide sufficient evidence to show compliance with these requirements. However, in State fiscal year 2009 and going forward the CDC has made improvements to the process and staffing to ensure that funds are spent in accordance with earmarking requirements and that adequate accounting records are maintained to support compliance.

Contact: *Kristine Perkins, Division Director, Public Health Systems, CDC, 287-8104*

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

(08-70) ***page E-129***

(08-27)

Title: Unallowable transitional transportation benefits paid

Prior Year Finding: 07-41
State Department: Health and Human Services
State Bureau: Office of Integrated Access and Support
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Temporary Assistance for Needy Families
CFDA #: 93.558
Federal Award #: METANF08

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant Deficiency – Questioned Costs

Known Questioned Costs: $290,020

Likely Questioned Costs: $299,685
Known questioned costs plus benefits paid in excess of daily cap amount ($9,665)

Criteria: Maine Public Assistance Manual, Chapter V

Condition: When Temporary Assistance for Needy Families (TANF) clients become employed and no longer qualify for TANF basic assistance, they may be eligible for Transitional Transportation (TT) benefits. The Department paid some clients both basic assistance and TT benefits for the same time period. In addition, the Department paid TT benefits in excess of the $10 daily maximum.

Context:

- The Department paid both TANF basic assistance and TT benefits to 732 clients.
- The Department paid TT benefits in excess of the daily cap to 24 clients.
- TT benefits were paid for both the client and the client's child(ren).

Cause:

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

Effect: Overpayments to clients resulted in questioned costs

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

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

As of September 10, 2008, the Office of Integrated Access and Support implemented a training program consisting of written instructions and an oral presentation for eligibility workers. The training will enable the eligibility workers to correctly enter Transitional Transportation (TT) requests into the Automated Client Eligibility System (ACES). In addition, the training will eliminate duplicate TT requests.

Information Technology (IT) personnel have created a pop up screen in ACES to alert eligibility workers that TT funds are being paid. This will eliminate the payment of both TT and Temporary Assistance to Needy Families.

In addition, IT is adding various edit reports for program managers to pinpoint errors in claim forms.

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

(08-28)

Title: Eligibility determinations are not adequately supported

Prior Year Finding: 07-42
State Department: Health and Human Services
State Bureau: Office of Integrated Access and Support
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Temporary Assistance for Needy Families
CFDA #: 93.558
Federal Award #: METANF08

Compliance Area: Eligibility

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 42 USC 608(a)(8)

Condition: The Department is not consistently documenting that all clients are eligible to receive Temporary Assistance for Needy Families (TANF) benefits.

Context: In nine of 60 cases reviewed, the case file did not contain documentation supporting that "*the recipient has not been convicted of making fraudulent statements or representation with respect to place of residence in order to obtain assistance in two or more States at one time*".

Cause: The Department utilizes a printout from the Department's Automated Client Eligibility System (ACES) as the client's application. This printout did not include this statement as required by the eligibility requirements. Beginning in fiscal year 2008, the Department implemented procedures requiring caseworkers to document whether this requirement has been met in all clients' ACES case files. However, procedures were not followed in all instances.

Effect: Potential questioned costs resulting from ineligible clients

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

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

As of January 1, 2009, the Office of Integrated Access and Support (OIAS) started a training program for eligibility workers. The focus of the training is to increase the accuracy of claims forms. Also, the Automated Client Eligibility System (ACES) will not allow approval of eligibility if the criminal activity questions on the form have not been answered. This change occurred in December of 2008.

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

(08-29)

Title: Inaccurate financial reporting

Prior Year Finding: 07-40
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Temporary Assistance for Needy Families
CFDA #: 93.558
Federal Award #: METANF04; METANF05; METANF06;
METANF07; METANF08

Compliance Area: Reporting

Type of Finding: Material Weakness/Material Noncompliance

Known Questioned Costs: None

Likely Questioned Costs: None

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

Condition:

- Multiple lines on the State's ACF-196 financial report contained significant errors for federal fiscal years 2007 and 2008
- TANF financial reports going as far back as 2004 contain significant errors. The Department is aware of these errors and had not submitted revised reports as of the end of State fiscal year 2008.

Context:

- Reporting errors resulted in an overstatement of expenditures of $3.99 million in federal fiscal year 2007 and an understatement of expenditures of $4.02 million in 2008
- TANF transfers were understated by $625 thousand in federal fiscal year 2007 and overstated by $1.16 million in federal fiscal year 2008 (through the first three quarters reported)
- Material errors were noted in the federal fiscal year 2005 report

Cause:

- Inadequate supervisory review of submitted reports
- Staff turnover during the fiscal year was significant
- The Department made the decision not to revise these reports until they were aware of all errors that required amending

Effect:

- The Department did not have an adequate portrayal of the financial position of the TANF grant
- Programmatic decisions could be made based on inaccurate data

Recommendation: We recommend that Department implement a supervisory review process to ensure the accuracy of the report submissions. We also recommend that the Department continue to give priority to the review and revision of prior year reports as necessary.

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

The revisions of report errors in the federal fiscal year 2004 – 2007 were corrected in November, 2008. Report errors that affected the federal fiscal year 2008 were corrected in the report filed November, 2008. An error in the 2007 and 2008 reports is anticipated to be corrected in the second quarter of State fiscal year 2010.

In addition, checklists for the preparer and reviewer have been developed to provide a more thorough review of federal reports. The Program Fiscal Coordinator reviews all reports prior to submission of the ACF-196.

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

(08-30)

Title: Cash management requirements not consistently followed

Prior Year Finding: 07-92
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Temporary Assistance for Needy Families
CCDF Cluster
State Children's Insurance Program
Medicaid Cluster
CFDA #: 93.558; 93.575; 93.596; 93.767; 93.775; 93.777; 93.778
Federal Award #: 0802METANF; G-0801MECCDF;
05-0705ME5021; 05-0805ME5028

Compliance Area: Cash management

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

Condition: The Department did not comply with the terms of the 2008 Treasury-State Agreement (TSA) on cash management.

Context:
- Draws of federal cash were both earlier and later than the TSA prescribed
- Certain draws were not in accordance with the approved funding technique
- Some draws were made for expenditures that had not been incurred yet

Cause:
- Timing of draws is not consistently based on disbursement dates
- Lack of knowledge of cash management requirements
- Draws were based on pending journals that were either recorded much later or never recorded in the State's accounting system

Effect:
- The possibility of insufficient cash when federal funds are drawn late
- Excess federal cash on hand could result in an interest liability due the federal government

Recommendation: We recommend that the Department:
- Improve grant accountability so that program managers and accountants are able to comply with the terms of the Treasury-State Agreement
- Ensure draws are in accordance with their approved funding techniques
- Only draw federal funds for expenditures that have been incurred

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

During fiscal year 2009, written cash management policies and procedures were established. In addition, the 2009 Treasury-State Agreement was amended to align the TSA with the newly established cash management policies and procedures.

Because of the action taken, detailed above, current cash draws are in compliance with the TSA and the approved funding techniques. Any exceptions to early or late draws are now documented. In addition, all cash draws are based on expenditures queries.

Contact: *Jeff Miller, Financial Analyst, 287-1876*

(08-31)

Title: Inadequate support for federal cash transaction reports

Prior Year Finding: 07-94
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: State Children's Insurance Program
Medicaid Cluster
Temporary Assistance for Needy Families
CFDA #: 93.767; 93.775; 93.777; 93.778; 93.558
Federal Award #: 0805ME5021; 0805ME5R21; 0805MEMSEA; 0802METANF; 0805ME5028; 0805ME5048

Compliance Area: Reporting

Type of Finding: Material Weakness/Material Noncompliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments – Standards for financial management systems (45 CFR §92.20)

Condition: The Department does not consistently maintain adequate supporting documentation for amounts reported on the Federal Cash Transactions Reports (PSC 272). As a result, inadequate documentation was provided by DHHS for three of the six audited programs. Revenues reported for the Medicaid and SCHIP programs were materially incorrect. However, revenue errors related to the TANF program while significant were not material.

Context: We reviewed the reports for the quarters ending June 30, 2008 and September 30, 2007. We also compared total expenditures to the amounts reported for the fiscal year.

Cause: The Department did not consistently reconcile source information to amounts reported on the PSC 272 reports.

Effect: Amounts reported were not properly supported in three of the six programs tested

Recommendation: We recommend that the Department implement procedures to ensure that adequate support for the PSC-272 reports is maintained and reconciled to the applicable program expenditure reports. We noted that reconciliation procedures have been initiated in State fiscal year 2009.

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

As of the fourth quarter of State fiscal year 2009, Service Center personnel do a monthly reconciliation of the cash balance and cash draws to the AdvantageME system. This reconciliation is used to support the PSC 272 report.

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

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

(08-05) ***page E-27***

(08-44) ***page E-88***

(08-70) ***page E-129***

CHILD SUPPORT ENFORCEMENT

(08-32)

Title: Child support enforcement grant overdrawn

Prior Year Finding: 07-45
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U. S. Department of Health and Human Services
CFDA Title: Child Support Enforcement
CFDA #: 93.563
Federal Award #: 0804ME4004

Compliance Area: Cash management

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Rules and Procedures for Efficient Federal-State Funds Transfers (31 CFR §205)

Condition: The Child Support Enforcement program drew down federal funds in excess of reported expenditures by $1.2 million.

Context: Federal share of child support collections and draws of federal funds are used to fund federal grant expenditures, contributing to the complexity of managing federal cash.

Cause:
- Not all factors were considered when making draws
- Reconciliations were not timely

Effect: Federal government could impose more stringent cash management requirement on the program

Recommendation: We recommend that the Department perform more timely reconciliations in order to determine cash needs.

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

As of the fourth quarter of State fiscal year 2009, the grant draw process was revised by Service Center personnel to include a calculation of available federal collections prior to any grant draw. Draws are not made unless expenditures exceed the current cash balance and available collections. In addition, quarterly cash reconciliations have been implemented.

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

CHILD SUPPORT ENFORCEMENT

(08-33)

Title: Distribution of amount of State and federal share of collections incorrect

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Child Support Enforcement
CFDA #: 93.563
Federal Award #: 0804ME4004

Compliance Area: Reporting

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirement for Grants and Cooperative Agreements with State, Local, and Tribal Governments – Standards for Financial Management Systems; Matching and Cost Sharing (45 CFR §92.20; §92.24)

Condition: The Department did not properly distribute child support collections in the State's accounting system. Incorrect amounts were transferred to State and federal accounts.

Context:

- Transfers totaling $3 million of federal share of collections were posted to State accounts in error
- State share of collections of $1.8 million was not transferred to State accounts from the collections account

Cause:

- Inadequate accounting procedures
- Reconciliations were not performed timely to ensure that the proper amounts were transferred
- Complex accounting

Effect: Potential for inaccurate collections reports

Recommendation: We recommend that the Department implement procedures to ensure that State and federal share of collections are distributed properly. We further recommend that accounting adjustments be made to reflect the proper distributions.

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

As of the fourth quarter of State fiscal year 2009, Service Center personnel do a monthly reconciliation of the cash collections to the State and federal distribution accounts. A verification that the State and federal shares are distributed correctly is also completed.

In addition, accounting adjustments were made in the fourth quarter of State fiscal year 2009 to correct erroneous cash collection distributions.

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

(08-34)

Title: Case records not established within required timeframe

Prior Year Finding: 07-48
State Department: Health and Human Services
State Bureau: Office of Integrated Access and Support
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Child Support Enforcement
CFDA #: 93.563
Federal Award #: 0804ME4004

Compliance Area: Special tests and provisions

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Establishment of cases and maintenance of case records (45 CFR §303.2)

Condition: The Child Support Enforcement program did not establish case records within 20 calendar days of receipt of referral or application

Context: The program did not meet the 20 calendar day time frame in two of the 40 cases opened during the fiscal year that we reviewed.

Cause: Lack of staff resources

Effect: Failure to timely comply may adversely affect child support collections and case management

Recommendation: We recommend that the Department provide adequate resources to ensure that all case records are established within the required 20 day time frame.

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

As of May 2008, the Division of Support Enforcement and Recovery (DSER) implemented the IV-A/IV-D electronic interface between the eligibility programs and child support program. The interface increased the timeliness and accuracy of information needed to establish a case file. The system creates a daily case entry report for reviewing the case files. Currently, DSER is able to open cases in a timely fashion.

Contact: *Jerry Joy, Assistant Director, DSER, 287-2843*

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

(08-70) ***page E--129***

(08-35)

Title: Subrecipient monitoring procedures not adequate

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Division of Audit
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Child & Adult Care Food Program
Social Services Block Grant
CCDF Cluster
CFDA #: 10.558; 93.658; 93.667; 93.575; 93.596
Federal Award #: 4ME300302; 4ME300385; 4ME300310;
0801ME1401; 0801MESOSR; 0801MECCDF

Compliance Area: Subrecipient monitoring

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

Condition: The Health and Human Services (DHHS) audit division did not review audit reports from subrecipients that expended less than $100,000 in federal funds from DHHS but more than $500,000 in federal funds in total. The Department should review the single audits from subrecipients expending over $500,000 in federal funds regardless of the source or should obtain documentation to support that they expended less the $500,000 threshold.

Context: Thirty-seven out of 89 subrecipients expending less than $100,000 in federal funds from DHHS (including some non-major programs) had total expenditures exceeding $500,000. The 37 agencies in question received a low of $3,948 and a high of $45,315 from DHHS. Total DHHS funds not monitored totaled $574,946.

Cause: Misunderstanding of federal requirements

Effect: The Department would not be able to evaluate the planned corrective actions and issue management decisions related to subrecipient audit findings of DHHS programs.

Recommendation: We recommend that the Department develop procedures to determine the amount of total federal funds expended by subrecipients. In situations where subrecipients expend in excess of $500,000 in total federal funds we recommend that the Department obtain and review audit reports. For subrecipients expending less than $500,000 in total federal funds, we recommend that the Department obtain documentation to support this assertion.

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

The DHHS Division of Audit maintains a listing of all federal grants that pass-through the Department of Health and Human Services. In the past, the Division of Audit did not review OMB A-133 audit reports for sub recipients receiving less than $100,000 of federal funds from the Department of Health and Human Services. Beginning with the year ended June 30, 2008, the DHHS Division of Audit is now reviewing the OMB A-133 audit reports for all sub recipients who receive any pass through federal funding from the Department.

The Division of Audit has adopted procedures to determine whether agencies receiving any amount of federal funding from the Department are subject to the requirements of OMB Circular A-133. These procedures include obtaining a state wide report on payments to all Agencies receiving less than $100,000 of Department pass-through federal funding. Another procedure includes checking the Single Audit Database to determine whether single audits have been performed on any agency receiving less than $100,000 of Department pass-through funds. The Division of Audit has also implemented a procedure of inquiry of the Agency to determine whether the agency is subject to the provisions of OMB Circular A-133. All documentation regarding the procedures performed will be kept in the agency file at the Division of Audit.

Contact: *Caroll P. Thompson, CPA, Audit Manager, 287-2775*

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

(08-30) ***page E-67***

(08-44) ***page E-88***

(08-70) ***page E-129***

FOSTER CARE: TITLE IV-E
ADOPTION ASSISTANCE

(08-36)

Title: Payments made for unallowable activities

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office of Child and Family Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care - Title IV-E
CFDA #: 93.658
Federal Award #: 0801ME1401

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant Deficiency- Questioned Costs

Known Questioned Costs: $30,092

Likely Questioned Costs: $30,092

Criteria: 42 USC §675 and 45 CFR §1356.60

Condition: The Department did not ensure that maintenance payments were made for allowable activities.

Context: Payments for miscellaneous expenditures of $273,312 were coded to accounts designated for Foster Care - Title IV-E maintenance payments. Of this amount, $30,092 were identified as payments for unallowable activities, including legal fees, medical services and equipment, therapy, advertising, expert witness fees, tutoring, eye glasses, laboratory fees, interest payments, driving school, home studies and lodging.

Cause:
- Unfamiliarity with program requirements
- Lack of training

Effect:
- Payments made for unallowable activities
- Current and potential future questioned costs
- Noncompliance with program requirements

Recommendation: We recommend that the Department provide extensive training regarding invoice coding and allowable activities.

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

The Office of Child and Family Services (OCFS) is currently working on a training program for proper invoice coding and allowable activities for Foster Care and Adoptive Assistance programs. OCFS expects to have all training completed by the third quarter of State fiscal year 2010.

Contact: *Dan Despard, Director Child Welfare Policy, OCFS, 624-7950*

(08-37)

Title: Costs not properly charged or allocated

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care - Title IV-E, Adoption Assistance
CFDA #: 93.658; 93.659
Federal Award #: 0801ME1401; 0801ME1407

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

Type of Finding: Significant Deficiency – Questioned Costs

Known Questioned Costs: $200,646 (Adoption Assistance program)

Likely Questioned Costs: Undeterminable because the nature of the errors may not necessarily be applicable to each quarterly report.

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225); Requirements Applicable to Title IV-E (45 CFR §1356.60); 42 USC 674

Condition: The Department did not allocate expenditures relating to direct training and administration in relation to the benefit received. We noted the following:

- Certain allowable costs were not claimed
- Certain costs were charged to the incorrect IV-E program
- Unallowable costs were claimed

FOSTER CARE: TITLE IV-E
ADOPTION ASSISTANCE

Context:
- Foster Care training expenditures were improperly charged to the Adoption Assistance program. This resulted in Adoption Assistance being overcharged by $106,790 and Foster Care to be undercharged by $50,534.
- The Department claimed expenditures for the Adoption Assistance program that should have been allocated to both the Adoption Assistance and Foster Care programs. This resulted in Adoption Assistance to be overcharged by $1,146 and Foster Care to be undercharged by $1,374.
- The Department claimed maintenance payments to providers based on a reconciliation to an inaccurate financial report instead of using the adjusted expenditures per the subsidiary ledger (MACWIS). This resulted in Adoption Assistance to be overcharged by $1,747 and Foster Care to be overcharged by $12,476.
- The Department used an incorrect version of the quarterly cost allocation report to claim expenditures. This resulted in Adoption Assistance to be undercharged by $19,912 and Foster Care to be undercharged by $87,242.
- Incorrect factors were applied. Adoption Assistance was overcharged by $291.
- Training costs were incorrectly allocated between the programs. Adoption Assistance was overcharged by $110,584 and Foster Care was undercharged by $237,375.

Cause:
- Lack of communication between program and finance personnel
- Lack of training
- Improper account coding
- DHHS Indirect Cost Rate incorrectly applied
- Incorrect allocation of expenditures between two programs
- Incorrect use of factors used for allocating costs
- Direct costs reported as both direct and indirect
- Failure to consider all reportable expenditures

Effect:
- Costs claimed incorrectly
- Current and potential future questioned costs

Recommendation: We recommend that the Department:
- Enter all financial data into the accounting system
- Utilize account coding specific to individual programs
- Provide extensive training about account coding and the effects of miscoding
- Revise the Office of Child and Family Services' Cost Allocation Plan to ensure proper allocation of costs between the Title IV-E programs.

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

FOSTER CARE: TITLE IV-E
ADOPTION ASSISTANCE

The data not recorded on the State's books is comprised of items from the Maine Automated Child Welfare System (MACWIS). The Service Center will provide the correct amount as a reconciling item to the federal report from the accounting records.

Commencing with the fiscal year 2010, contract codes in all contracts have been expanded to allow for more specific coding to the individual programs. In addition, the Office of Child and Family Services is currently working on an extensive coding guide for Foster Care and Adoption Assistance Programs. This guide is expected to be complete in the fourth quarter of fiscal year 2010.

In the third quarter of fiscal year 2009, the Office of Child and Family Services has revised its cost allocation plan to ensure proper allocation of costs between the Title IV-E programs.

Contact: *Diane Williamson, Managing Staff Accountant, 287-6390*

(08-38)

Title: Office of Child and Family Services' Cost allocation plan contained errors

Prior Year Finding: 07-91
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care - Title IV-E; Adoption Assistance
CFDA #: 93.658; 93.659
Federal Award #: 0801ME1401; 0801ME1407

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

Condition: The Department did not fully comply with the Department of Health and Human Services' Office of Child and Family Services' revised cost allocation plan. Some allocated costs were incorrectly calculated because of a data entry error. In addition, some accounts have been incorrectly excluded.

FOSTER CARE: TITLE IV-E
ADOPTION ASSISTANCE

Context:

- The Foster Care and Adoption Assistance programs did not revise the fourth quarter expenditure reports because the program accountant was not notified that the fourth quarter OCFS earnings report changed.
- A data statistic was incorrectly entered and this caused the Foster Care program to be undercharged by $73,000.
- Journals are not processed to reclassify expenditures between the Foster Care program and the Adoption Assistance program as a result of the allocated costs.
- Incorrect percentages were used to calculate the General Fund share of Foster Care and Adoption Assistance programs' certain allocated costs. These programs need to reimburse the General Fund $915,000.
- The Office of Child and Family Services is not consistently coding expenditures. Expenditures for similar costs may be allocated differently depending on the coding used.

Cause:

- Lack of communication
- Failure to reconcile final receiver report expenditures to the State's accounting system

Effect:

- Inaccurate financial reports
- Cash shortages or overages
- Potential unallowable costs claimed

Recommendation: We recommend that the Department continue in its efforts to develop cost allocation plan procedures.

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

As of July 1, 2008, Service Center accountants are to be notified when changes are made to the final receiver reports/earnings reports. A review process has been instituted to ensure data is entered correctly. Service Center personnel will enter journals to reclassify expenditures between the Foster Care program and the Adoption Assistance program as a result of allocated costs. Adjustments have been made to correct the percentages used to calculate the General Fund share of Foster Care and Adoption Assistance programs certain allocated costs.

The Office of Child and Family Services (OCFS) is currently working on a training program for proper invoice coding and allowable activities for Foster Care and Adoptive Assistance programs.

Contact: *Donna Wheeler, Financial Analyst, 287-1860*

FOSTER CARE: TITLE IV-E
ADOPTION ASSISTANCE

(08-39)

Title: Procedures not in place to ensure cash management requirements are met

Prior Year Finding: 07-54
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care - Title IV-E, Adoption Assistance
CFDA #: 93.658; 93.659
Federal Award #: 0801ME1401; 0801ME1407

Compliance Area: Cash management

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

Condition: The Department did not have procedures in place to ensure that draws for administrative and training costs were made on an as needed basis. Revenue for administrative and training expenditures is drawn without taking the cash balance into consideration because each programs' share of the cash balance is not known. In addition, draws for "earned revenue" were sometimes initiated based on a need for cash rather determining the amount of actual expenditures allocable to the programs.

Context:

- Draws for administrative and training costs are based on invoices not accurately allocated between the two programs
- Cash balances at the program levels are not accurate
- Earned revenue journals that are often processed when the Child Welfare appropriation account is low on cash do not always have supporting documentation. Of the six earned revenue journals processed, five were unsupported by actual expenditures.

Cause:

- Cash balance is not taken into consideration when draws for administrative and training expenditures are processed
- A large percentage of administrative and training costs are processed through the OCFS cost allocation plan so cash needs have to estimated as the Title IV-E expenditures are subject to population percentages and a 50% financial participation rate. These administrative and training costs are generally paid under three different appropriation accounts which makes monitoring more difficult.

- Some draws are deposited into another appropriation account other than the one designated for Title IV-E
- The Department also uses percentages that do not correspond to the population percentages when calculating certain draw amounts from each of the Title IV-E programs
- The grants are reconciled after the end of the grant year, so excess cash would be returned if warranted, but the Department does not monitor the cash balance throughout the year at the program level
- Lack of communication between program and financial personnel
- Use of an earned revenue account

Effect:
- Likely non compliance with the federal cash management requirements
- Potential interest liability to the federal government

Recommendation: We recommend that the Department:
- Determine the amount of cash balance for each account within the appropriation and ask the Office of the State Controller to adjust the amount to actual on the State's accounting system
- Develop procedures to ensure that the actual cash balance is considered for administrative and training costs
- Utilize account coding specific to individual programs when possible

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

Beginning in the first quarter of fiscal year 2010, DHHS Service Center personnel will make an adjustment to allocate foster care and adoption assistance cash balances. Subsequently, this adjustment will be made on a quarterly basis.

In addition, commencing with the fiscal year 2010, contract codes in all contracts have been expanded to allow for more specific coding to the individual programs.

Contact: *Diane Williamson, Managing Staff Accountant, 287-6390*

FOSTER CARE: TITLE IV-E
ADOPTION ASSISTANCE

(08-40)

Title: Inadequate matching procedures

Prior Year Finding: 07-55
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care - Title IV-E, Adoption Assistance
CFDA #: 93.658; 93.659
Federal Award #: 0801ME1401; 0801ME1407

Compliance Area: Matching, level of effort, earmarking

Type of Finding: Significant Deficiency – Questioned Costs

Known Questioned Costs: $16,619 (Foster Care)

Likely Questioned Costs: Undeterminable

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments (45 CFR §92.24)

Condition: The Department does not track Title IV-E expenditures to ensure that the State satisfies matching requirements for direct administrative and training costs. Coding of training expenditures to the wrong account in the State's accounting system resulted in the misallocation of expenditures causing the non-federal match to be deficient.

Context: Ten out of 40 expenditures tested did not properly allocate costs among programs.

Cause:
- Match is based on erroneous information
- Lack of training and oversight

Effect:
- Questioned costs resulting from match deficiency
- Sources and uses of funds unclear

Recommendation: We recommend that the Department:
- Utilize account coding specific to individual programs when possible
- Review invoices thoroughly prior to coding
- Provide training on coding invoices

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

FOSTER CARE: TITLE IV-E
ADOPTION ASSISTANCE

All codes contained in 2010 contracts have been expanded to allow for more specific coding to the individual programs. In addition, in the third quarter of 2009, all unit codes were assigned a project number to allow for more specific coding. All personnel involved in coding training and direct administrative costs have been made aware of the expanded codes currently being utilized.

Contact: *Diane Williamson, Managing Staff Accountant, 287-6390*

(08-41)

Title: Lack of procedures to ensure payments are not made to suspended or debarred parties

Prior Year Finding: 07-57
State Department: Health and Human Services
State Bureau: Office of Child and Family Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care - Title IV-E
CFDA #: 93.658
Federal Award #: 0801ME1401

Compliance Area: Procurement and suspension and debarment

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Subawards to debarred and suspended parties (45 CFR §92.35)

Condition: The Department did not ensure that payments were not made to suspended or debarred parties.

Context: Twenty-five vendors received a total of $5.4 million. All 25 vendors were tested and six did not have the required certifications.

Cause:
- Staff turnover
- Inadequate procedures

Effect: Failure to comply with these program requirements could result in payments to vendors that have been suspended or debarred by the federal government. This could result in future questioned costs.

Recommendation: We recommend that the Department implement control procedures to ensure that suspension and debarment language is included in contracts, or that a certification is obtained from the vendor, or that the ELPS website is checked, for all vendors receiving greater than $25,000 in federal funds.

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

As of June 2009, suspension and debarment language is included in agreements and debarment forms are signed by providers. In addition, the ELPS website is also checked to verify vendors receiving more than $25,000 in federal funds.

Contact: *Christa Elwell, Director, Public Service Manager, Child and Family Services, 624-7989*

(08-42)

Title: State and federal procurement requirements not followed

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office of Child and Family Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care - Title IV-E
CFDA #: 93.658
Federal Award #: 0801ME1401

Compliance Area: Procurement and suspension and debarment

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements with State, Local, and Tribal Governments (45 CFR §92.36); State of Maine, Division of Purchased Policy Manual

Condition: The Department did not follow State procurement procedures as required by federal regulations.

Context: Twenty-two of the 29 contracts reviewed did not follow State procurement procedures

Cause:

- Outdated contracts
- Staff turnover

Effect: Potential future questioned costs

Recommendation: We recommend that the Department continue its efforts to update outdated contracts using State procurement policies.

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

As of June 2009, the Office of Child and Family Services has updated half of their treatment, therapy and residential contracts to comply with State procurement procedures. The contracts will comply completely with State procurement procedures in fiscal year ended 2010.

Contact: *Christa Elwell, Director, Public Service Manager, Child and Family Services, 624-7989*

(08-43)

Title: Inaccurate financial reports

Prior Year Finding: 07-56
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care - Title IV-E, Adoption Assistance
CFDA #: 93.658; 93.659
Federal Award #: 0801ME1401; 0801ME1407

Compliance Area: Reporting

Type of Finding: Material Weakness/Material Noncompliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements with State, Local, and Tribal Governments (45 CFR §92.20)

Condition: The Department did not submit accurate and complete expenditure reports for the Title IV-E programs (Foster Care and Adoption Assistance).

Context: We reviewed one of the quarterly reports submitted for the fiscal year

Cause:

- Incomplete written policies and procedures regarding reporting of expenditures
- Failure to reconcile reported expenditures to the accounting system
- Complex and outdated template used to prepare federal report
- Incorrect formulas in supporting schedules
- Lack of communication between program and financial personnel

Effect:

- Inaccurate financial information
- Potential questioned costs

Recommendation: We recommend that the Department:

- Improve the written procedures to enable the preparation of accurate financial reports
- Simplify the report template
- Reconcile the reports to the accounting system

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

In the third quarter of fiscal year 2009, written policies and procedures regarding reporting of expenditures for the Title IV-E programs was completed. In addition, formulas in supporting schedules were corrected in the second quarter of fiscal year 2009.

DHHS Service Center personnel are working to update the template used to prepare the federal report. It is anticipated that the updated template will be completed by June, 2010. In addition, Service Center personnel are working to establish a reconciliation process of the federal report to the accounting system. The major reconciling item is in-kind administrative expense. Policies and procedures regarding documentation of in-kind administrative expenditures will be completed by June, 2010.

Contact: *Diane Williamson, Managing Staff Accountant, 287-6390*

(08-44)

Title: Audit cost settlement process is not adequate

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Special Supplemental Nutrition Program for Women, Infants, and Children
Temporary Assistance for Needy Families
CCDF Cluster
Social Services Block Grant
CFDA #: 10.557; 93.558; 93.575; 93.596; 93.667
Federal Award #: 0801MECCDF; METANF08; 4ME700701;
4ME700742; ME-SOSR07; ME-SOSR08

Compliance Area: Subrecipient monitoring

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, §__.400(d) and §__.405(c)

Condition: The Department does not have adequate internal control procedures in place over the audit cost settlement process as indicated by the following:

- Neither accounts receivables nor accounts payables from providers were established on the State's accounting system for amounts resulting from audit closeouts.
- There is no periodic billing of or payment to providers for amounts attributed to accounts payables/accounts receivables.

Context:

- The Department had audit cost settlements of $3,697,896 resulting in receivables from subrecipients for FY 2008.
- The Department had audit cost settlements of $90,245 resulting in payables to subrecipients for FY 2008.

Cause:

- Staff turnover
- Operational restructuring

Effect: The Department may not collect all amounts due from providers or pay amounts due to providers.

Recommendation: We recommend that the Department continue with the implementation procedures to properly account for amounts attributed to accounts payables/accounts receivables from providers resulting from the audit cost settlement process for MaineCare along with continuation of planning phases for Social Services, and establish accounts payables/accounts receivables on the State's accounting system for amounts attributed to accounts payables/accounts receivables from providers.

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

As of the first quarter of State fiscal year 2010, Service Center personnel will enter the payments due to providers or the State in the AdvantageMe system. This information is sent to the Finance Recovery Team (FRT). The FRT tracks the receivables and makes the collections

Contact: *Diane Williamson, Managing Staff Accountant, 287-6390*

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

(08-30) ***page E-67***

(08-35) ***page E-74***

(08-70) ***page E-129***

(08-45)

Title: Waiver costs funded by incorrect program

Prior Year Finding: 07-68
State Department: Health and Human Services
State Bureau: Office of Integrated Access and Support
Office of MaineCare Services
Office of Child and Family Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: State Children's Insurance Program
CFDA #: 93.767
Federal Award #: 05-0705ME5028; 05-0805ME5028;
05-0705ME5021; 05-0805ME5021

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant Deficiency – Questioned Costs

Known Questioned Costs: $295,909
$295,909 is the federal share of total claims paid for ineligible persons ($398,209 at the blended enhanced federal medical assistance percentage (FMAP) rate of 74.31%)

Likely Questioned Costs: $295,909

Criteria: State of Maine Home and Community Based Services (HCBS) Waiver #0159.90, appendix C-1 Eligibility; Medicaid State Plan; SCHIP State Plan

Condition: The Department incorrectly paid for services for State Children's Insurance Program (SCHIP) clients under the HCBS Waiver program. SCHIP is not approved for participation in this waiver program.

Context: A HCBS Waiver participant should not have been determined eligible for the SCHIP program.

Cause: Unknown

Effect: Unallowable costs

Recommendation: We recommend that the Department establish a means to allow eligibility determination personnel to identify HCBS Waiver participants in the department's automated case management/eligibility systems.

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

Under the waiver, the SCHIP group eligible for the enhanced SCHIP rate is not one of the identified coverage groups. The finding is correct in that the Department should have billed Medicaid Title XIX, not SCHIP Title XXI. The financial eligibility for the client was correct; however, the waiver should have been billed as the client was medically eligible for the waiver and under the waiver we can only bill for specified Title XIX coverage groups.

The Department is transitioning to a Fiscal Agent effective the first quarter of calendar year 2010. The new claims system will be able to identify which funding sources to use. It will have the ability to identify the client as a Waiver recipient and claims associated with this type of eligibility will be mapped to the appropriate funding source.

Contact: *Beth Hamm, MaineCare Program Manager, 287-4076*

(08-46)

Title: Maine Claims Management System (MECMS) errors may result in local match (certified seed) not being met

Prior Year Finding: 07-61
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: State Children's Insurance Program (SCHIP)
CFDA #: 93.767
Federal Award #: 05-0605ME5021; 05-0705ME5021

Compliance Area: Matching, level of effort, earmarking

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Standards for Financial Management system (45 CFR §92.20)

Condition: Budgets for "certified seed" providers were not always appropriately charged. Furthermore, procedures were not in place to ensure that providers would not get paid for claims for which they did not provide the qualifying non-federal share.

Context:

- For payments made on behalf of SCHIP clients the amount shown in the certified seed amount field in MECMS is incorrect.
- The funding allocation process did not appropriately charge the non-federal share (seed) account.

- Approximately 35,000 claims or $4.5 million in corresponding federal share of claims did not include an offset to a non-federal account.
- We determined that the federal share of claims in our sample were calculated and paid correctly.

Cause: Errors in MECMS program logic and/or funding allocation process

Effect: When provider seed budgets are not charged as intended, providers can be paid the federal share of claims even after matching funds have been depleted, thus non federal match may not be met.

Recommendation: We recommend that the Department work with the MECMS developer (CNSI) to resolve the programming issues or funding allocation issues to ensure effective tracking of certified seed matching amounts.

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

The DHHS has contracted with Unisys as its fiscal agent. The implementation is expected to be complete in the first quarter of calendar year 2010. As part of this implementation budgets for certified seed providers will be charged correctly. And the providers will not be paid the federal share of claims after the matching funds have been depleted.

In addition, the Office of MaineCare Services will continue to work with the MECMS developer (CNSI) to resolve the programming issues or funding allocation issues to ensure effective tracking of certified seed matching amounts.

Contact: *Colin Lindley, Director, MaineCare Finance, 287-1855*

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

(08-30) ***page E-67***

(08-31) ***page E-68***

(08-47) ***page E-93***

(08-48) ***page E-94***

(08-49) ***page E-96***

(08-51) ***page E-99***

(08-53) ***page E-102***

(08-57) ***page E-107***

(08-59) ***page E-111***

(08-60) ***page E-113***

(08-70) ***page E-129***

MEDICAID CLUSTER

(08-47)

Title: Billing service contracts not compliant with regulations

Prior Year Finding: No
State Department: Health and Human Services
Education
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
State Children's Insurance Program
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-0705ME5028; 05-0805ME5028;
05-0605ME5021; 05-0705ME5021

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Prohibition against reassignment of provider claims **(**42 CFR §447.10)

Condition: School systems in Maine and the Maine Department of Education engage in percentage-based service contracts with Maine State Billing of Somersworth, New Hampshire. Payment provisions in the contracts are not in compliance with the Medicaid regulations that state:

> "Payment may be made to a business agent, such as a billing service or an accounting firm, that furnishes statements and receives payments in the name of the provider, if the agent's compensation for this service is:
> (1) Related to the cost of processing the billing;
> (2) Not related on a percentage or other basis to the amount that is billed or collected; and
> (3) Not dependent upon the collection of the payment."

Context: With few exceptions, all schools in Maine contract with Maine State Billing (MSB) to electronically submit Medicaid and State Children's Insurance Program (SCHIP) claims to the Office of MaineCare services. The Department of Education also contracts with MSB to submit claims on behalf of the unorganized territories.

Cause: The Office of MaineCare Services, the Department of Education, and school systems in Maine did not adequately consider the requirements of the regulations.

Effect: Noncompliance could result in disallowance of federal reimbursement.

Recommendation: We recommend that the Department of Education and school systems in Maine engage in contracts with MSB that comply with regulations.

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

Currently, the Office of MaineCare Services (OMS) makes payment for services billed at an approved rate. Checks are made payable to the applicable school system.

As of first quarter of State fiscal year 2010, OMS will work with the Department of Education to engage in contracts with Maine Billing Services that comply with regulations.

Contact: *Colin Lindley, Director of MaineCare Finance, 287-1855*

(08-48)

Title: Third party liability (TPL) data incomplete/ cost avoidance and recovery not maximized

Prior Year Finding: 07-67
State Department: Health and Human Services
State Bureau: Office of Integrated Access and Support
Office of MaineCare Services
Office of Child and Family Services
Breast and Cervical Health Program
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
State Children's Insurance Program
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-0705ME5028; 05-0805ME5028;
05-0705ME5021; 05-0805ME5021

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

Type of Finding: Significant Deficiency – Questioned Costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225); Standards for Program Operations (45 CFR §303); Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments – Standards for Financial Management Systems (45 CFR §92.20)

Condition: The Department does not fully comply with requirements to ensure Medicaid is the payor of last resort and that claims are net of all credits.

- DHHS offices including the Office of Integrated Access and Support (OIAS) and the Office of Child and Family Services (OCFS) routinely collect insurance and other information indicating potential third party payors from Medicaid applicants, but do not follow up on missing or incomplete information and do not pass all information obtained on to the Office of MaineCare Services (OMS), which is responsible for cost avoidance and recovery efforts. Depending on the form used, OIAS may not update third party liability (TPL) information when they redetermine applicants' eligibility.
- Health insurance information pertaining to children covered by parents' insurance policies was not properly transmitted to the TPL unit due to deficiencies in transmitting data between DHHS automated systems. These deficiencies impact all activity since the new automated claims management system, MECMS, went online in January 2005.
- Payments systems did not have and therefore did not use the TPL data for five of 120 randomly selected Medicaid paid claims examined. Although five instances were found in which OIAS records identified another insurer that payment system records did not, only two appeared as though cost avoidance for the program could have occurred, based on the specific claim type. The TPL unit also had the same other insurer information for two of these five, yet had failed to enter the information into MECMS (or MEPOPS) for reference during payment processing.
- One of 120 randomly selected SCHIP paid claims that we examined appeared as though cost avoidance activities should have occurred. In this instance, OMS records identified group coverage that OIAS records did not contain. TPL information for this client should have caused them to be excluded from SCHIP participation.

Context: The Department has responsibility to secure medical support information which should be available to the TPL unit for cost avoidance and recovery efforts.

Cause:

- Insufficient OIAS and OCFS policies and procedures to establish and enforce collection, recording and communication of TPL information within the Department
- The distinct separation of eligibility, payment, accounting and information technology functions within the Department impedes problem recognition and resolution

Effect: Third party liability unit efforts are impaired, resulting in Medicaid and SCHIP possibly incurring avoidable costs.

Recommendation: We recommend that the Department establish and enforce policies and procedures to ensure that third party insurance information is adequately collected, recorded and communicated so that insurance information is available for reference when client eligibility is determined or redetermined. We also recommend that the Department share among its own offices more responsibility with regard to the administration of Medicaid and SCHIP in the interest of cost avoidance and recovery to ensure that all data is available when claims are paid.

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

Currently, the Department's Office of Integrated Access and Support (OIAS) collects TPL information for all applicants on their application form and staff is instructed to enter this information on the eligibility system's (ACES) TPL screen. This data is transferred to the TPL unit for TPL purposes. Currently there is no electronic feed that comes back to OIAS from the TPL unit once TPL information is identified. However TPL is providing a monthly list of individuals with other health insurance so that we can enter this information into ACES if it has not yet been entered.

This problem will be eliminated as the Department transitions to a Fiscal Agent in the first quarter of calendar year 2010. The Fiscal Agent's system will provide an electronic feed that comes back to OIAS from the TPL unit once TPL information is identified.

In addition, the Office of Integrated Access and Support will continue to educate staff of the importance of gathering TPL information at both application and annual review.

Contact: *Bethany Hamm, MaineCare Program Manager, 287-4076*
Stefanie Nadeau, Director, Third Party Liability, 287-5875

(08-49)

Title: School Based Rehabilitation services billing and payment policy

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
State Children's Insurance Program
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-0705ME5028; 05-0805ME5028
05-0605ME5021; 05-0705ME5021

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant Deficiency – Questioned Costs

Known Questioned Costs: $3,976 (Medicaid)
$13,578 (SCHIP)

Likely Questioned Costs: Undeterminable

Criteria: MaineCare Benefits Manual §104.8; MaineCare Benefits Manual General Administrative Policies and Procedures §1.02 (D), 1.03 (M) and 1.03 (S)(2).

MEDICAID CLUSTER

Condition: An August 2007 MaineCare policy memo allows Maine schools to submit claims for School Based Rehabilitation services for all students with active Individual Education Plans (IEPs) who attended school at least one day during the month regardless of whether they received services during the month. This guidance and billing practice is inconsistent with the MaineCare Benefits Manual, which requires recipients to be present and receive services within the month in order for the provider to be reimbursed a monthly rate. Providers did not always maintain or retain records sufficient document the nature, scope and detail of the services/products provided to each individual MaineCare member.

Context: Of our random selection of 60 paid claims, ten were for School Based Rehabilitation services. Of these ten claims, six of the service providers (60 percent) did not provide any record of services rendered; four stated that no records were available.

The rate setting document produced by Maximus in 1997 states that under the per diem program being implemented that services will be reimbursable if the service is covered under the Medicaid State Plan, is authorized in an IEP, and was provided by an appropriate professional or other qualified staff. Thus, under the per diem or bundled rate setting methodology services must be rendered in order to be reimbursed.

In the fiscal year, the Medicaid and State Children's Insurance programs disbursed approximately $25.3 million in federal funds for School Based Rehabilitation services.

Cause: The Office of MaineCare Services policy did not adequately consider the provisions of the MaineCare Benefits Manual or the federal regulations.

Effect: Payment practices inconsistent with policy and regulations will result in a disallowance of claims.

Recommendation: We recommend that the Department establish payment practices that are consistent with the MaineCare Benefits Manual.

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

DHHS is moving School Based Rehabilitation services primarily to the sections that include Occupational, Physical, Speech and Hearing services. These services will be paid under fee for service. The rule will be effective as MIHMS go-live in the third quarter of State fiscal year 2010.

Contact: *Steve Davis, Director of Policy and Performance Division, 287-9371*

(08-50)

Title: Cost of care not properly deducted from nursing facility claims

Prior Year Finding: 07-63
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0705ME5028; 05-0805ME5028

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant Deficiency – Questioned Costs

Known Questioned Costs: $2,335
The amount of the cost of care (deductible) that the Maine Claims Management System (MECMS) deducted for the applicable service months in our sample of 20 claims was $8,757. The amount that should have been deducted was $12,445, a difference of $3,688 and an error rate of 4.2%. The federal share of the difference is (63.3% x 3,688) $2,335.

Likely Questioned Costs: $4,668,193
Projected by multiplying the total nursing home related expenditures of $174,952,267 by the dollar error rate (4.2%) from the sample at the blended federal financial participation rate (63.3%)

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225)

Condition: MECMS did not consistently deduct the Cost of Care assessment (the portion to be paid by the client) from payments to nursing homes. The Department of Health and Human Services deducted incorrect assessments for seven of 20 nursing home clients examined.

Context: The State pays nursing home providers for services to Medicaid clients. In some cases, the amount paid by the State should be reduced by an amount the nursing home should be collecting from the client.

Cause: Logic errors exist in the electronic information system. From the start of the MECMS development phase to the present, Office of MaineCare Services has created 35 change control forms that have noted Cost of Care issues relative to claims processing. The noted deficiencies varied from incorrect Cost of Care amounts being deducted to no Cost of Care being applied to both new and adjustment claims. System users identified the following as possible causes:

- Ineffective system edits
- Illogical programming language regarding claim pricing
- Unsound application patches
- Errors in the placement of decimals during processing

- Interface problems from the Automated Client Eligibility System to WELFRE/MECMS resulting in information not carrying over

Effect: Overpayment to providers

Recommendation: We recommend that the Department close all "open" change control forms regarding Cost of Care. We further recommend correction of the logical errors in the MECMS system and recovery of overpayments previously made to providers.

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

As of January 21, 2008, the Office of MaineCare Services (OMS) made a systematic adjustment to correct MECMS differences with regard to members cost of care being accurately deducted from claims. OMS is manually adjusting the claims for any over payment due to cost of care and will collect the overpayments.

In addition, the Department has contracted with HMS to do NF/PNMI audits to identify cost of care over payments.

Contact: *Stefanie Nadeau, Director of Claims, OMS, 287-5875*

(08-51)

Title: Reimbursement rate not adequately supported/Incorrect reimbursement rate paid to providers

Prior Year Finding: 07-72
State Department: Health and Human Services
State Bureau: Office of MaineCare Services/Rate Setting Unit
Federal Agency: Centers for Medicare and Medicaid Services
CFDA Title: Medicaid Cluster
State Children's Insurance Program
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-0705ME5028; 05-0805ME5028;
05-0705ME5021; 05-805ME5021

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

Type of Finding: Questioned Costs

MEDICAID CLUSTER

Known Questioned Costs: $258,073 (Medicaid) – Unsupported rate
$24,450 (SCHIP) – Unsupported rate
$77,651 (Medicaid) – Overpayment
$4,157 (SCHIP) - Overpayment

Likely Questioned Costs: Undeterminable

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

Condition: A test of paid claims revealed the following:

- Support for a reimbursement rate on behalf of a home based mental health claim paid to a single provider could not be located. The federal share of all payments made to this provider totaled $282,524
- From our sample population, we determined that one claim for routine follow up care was paid at the higher Maine Breast and Cervical Health Program (MBCHP) rate instead of the allowable Medicaid rate. This resulted in a difference of approximately $11 per claim. As a result, Medicaid was overcharged by approximately $77,651 (representing the federal share of 7,274 claims) and SCHIP by approximately $4,157 (representing the federal share of 330 claims).

Context: The Department's (DHHS) Rate Setting Unit is responsible for setting rates for a variety of health care categories within the Medicaid program. The reimbursement rates for 120 transactions were examined from 25 health care categories with total expenditures of $1.5 billion.

Cause:

- The bases for some rates were determined prior to the establishment of DHHS' Rate Setting Unit.
- For unknown reasons, it appears that the incorrect reimbursement rate was temporarily loaded into Maine Claims Management System for approximately 22 days in February of 2008

Effect:

- Noncompliance with cost principles
- Noncompliance with requirements that ensure that Medicaid is the payor of last resort

Recommendation: We recommend that the Department ensure:

- That the bases for all reimbursement rates be documented, referenced to the applicable federal/State regulations, and retained for audit purposes
- That OMS and DHHS' Rate Setting Unit determine the underlying cause for the MBCHP claims paid over the allowable Medicaid rate and make the necessary system correction(s)

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

The undocumented rate is for a service that has been repealed. The rate was set by program personnel prior to the rate setting unit. We are still reviewing the program files to identify the supporting documentation for the rate. The rate setting unit is in the process of establishing a tracking system for all rates set that will identify the source of the rate. Additionally the rate setting unit will require that documentation supporting rates is on file with the unit before rates are entered into the claims system. The tracking system is expected to be in place by the end of the 2010 fiscal year.

We are in the process of identifying how a rate is paid incorrectly. It appears that the rate for the MBCHP services was accidentally set for Medicaid and not corrected for three weeks. The rate setting unit will be establishing controls to make sure rates set are reviewed before being entered into the system. The review process will be established by the end of fiscal year 2010.

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

(08-52)

Title: Unpaid Katie Beckett premiums resulted in unallowable costs

Prior Year Finding: No
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Office of MaineCare Services
Office of Information Technology Services
Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0705ME5028; 05-0805ME5028;

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

Type of Finding: Significant Deficiency – Questioned Costs

Known Questioned Costs: $64,368
Federal share of the total unallowable claims ($101,688 at the blended federal medical assistance percentage (FMAP) rate of 63.3%)

Likely Questioned Costs: Undeterminable

Criteria: 42 CFR 441.302(b); 45 CFR 92.20; State Plan for Medicaid; 42 CFR §440 Provider Services; 42 CFR §447 Payments for Services; 42 CFR §435.1100 - §435.1102 Optional Coverage – Special Groups; 42 CFR §433 accounting, claims processing and supporting information systems

Condition: Premiums required for program participation were not paid or retroactively recovered for two of the three Katie Beckett clients we tested; therefore, related payments are not allowable under federal awards.

Context:
- Katie Beckett premiums must be paid for insurance coverage to be provided.
- $24,838,995 was charged to the program during the year (up to April 2008) for Katie Beckett clients.
- Of the 120 Medical claims we tested, three were for individuals eligible for the Katie Beckett program.

Cause: No method had been established to pay Katie Beckett premiums until April 2008.

Effect: Unallowable claims and noncompliance with rules pertaining to participation may result in a disallowance of claims.

Recommendation: We recommend that the Department takes steps to ensure that payment practices are consistent with the established requirements for program participation.

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

Beginning April 1, 2008, the Department began charging premiums for the Katie Beckett benefit. Before the Department could begin charging the premiums, the federal CMS regulations and Maine State law required the Department to meet with Katie Beckett families to discuss changes to the program, including the payment of premiums. (see 22 MRSA Section 3173-F)

Contact: *Beth Hamm, Manager, OIAS, 287-4076*

(08-53)

Title: Overpayments for free standing day habilitation services

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
State Children's Insurance Program (SCHIP)
CFDA #: 93.767; 93.775; 93.777; 93.778
Federal Award #: 05-0705ME5028; 05-0805ME5028;
05-0605ME5021; 05-0705ME5021

MEDICAID CLUSTER

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant Deficiency – Questioned Costs

Known Questioned Costs: $46,149 (Medicaid)
$2,571 (SCHIP)

Likely Questioned Costs: Undeterminable

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225)

Condition: The Maine Claims Management System (MECMS) did not have adequate limit controls to prevent providers from being reimbursed for Free Standing Day Habilitation (FSD) at greater than approved per diem rates.

Context:

- Total FSD claims paid were approximately $36 million
- One of the two FSD claims reviewed as part of our test of paid claims was paid at a higher rate than the approved per diem rate. The total claims paid to the provider in the sample was $960,940 of which the overpayment amount was $76,966

Cause:

- MECMS did not have adequate program logic in place to limit the amount paid to the approved per diem rate
- MECMS does not appear to be able to distinguish between hourly and daily units
- Providers did not understand or were inadequately trained on reimbursement policy and billing methods
- Reimbursement policy in the MaineCare Benefits Manual is ambiguous

Effect:

- Without adequate limit controls in MECMS, the system will continue to reimburse providers at higher than approved rates.
- Current and potential future questioned costs

Recommendation: We recommend that the Department clarify reimbursement policy and billing methods and ensure that MECMS has adequate limit controls in place.

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

The Department has drafted and plans to propose a new rule which will clarify and establish quarter hour rates for this service.

The issue of the higher than per diem rate has been corrected by the Office of MaineCare Services in MECMS. The provider was billing multiple units for one Service Day. FSD is a "daily" procedure code. When the Limits Initiative was deployed in July of 2008, Error Code 00480 was included. The edit logic for this code is: When professional (CMS 1500) claims are billed with procedure codes with a "Daily" unit type, the number of units should be equal to the

days billed. This error code is working appropriately. If processed today, the claims questioned in the audit would deny for 00480.

The Free Standing Day Habilitation providers are subject to audits for cost settlement purposes. This provider will be audited to determine the amount of overpayment or underpayment once the final cost report for their fiscal year has been submitted.

Contact: *Stefanie Nadeau, Director of Claims, 287-5875*

(08-54)

Title: Cost of care recoupments not credited to federal funds

Prior Year Finding: 07-62
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0705ME5028; 05-0805ME5028

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant Deficiency – Questioned Costs

Known Questioned Costs: $79,309 (total cost of care payments received for waiver clients multiplied by the blended federal medical assistance percentage rate [$125,291 x 63.3%])

Likely Questioned Costs: $79,309

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225)

Condition: The Department did not credit the federal government with a proportionate share of Cost of Care recoupments received in relation to the Home and Community Based Services Waiver program.

Context: Waiver recipients may be responsible for paying a portion of their cost of care. These recoupments which totaled $125,291 were all credited to the General fund.

Cause: Poor communication

Effect: Potential current and future disallowances

Recommendation: We recommend that the Department credit the federal program accounts for the appropriate share of Home and Community Based Services (HCBS) Waiver program recoupments.

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

As of the first quarter of State fiscal year 2010, MaineCare Finance will make the adjustment to credit the federal program accounts for the appropriate share of HCBS Waiver program recoupments. Procedures have been established to record the appropriate share of future payments in the federal program accounts.

Contact: *Richard Violette, Management Analyst, 287-4033*

(08-55)

Title: Payroll costs charged to Medicaid are overstated

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0705ME5028; 05-0805ME5028

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant Deficiency – Questioned Costs

Known Questioned Costs: $80,000

Likely Questioned Costs: $80,000

Criteria: Federal Matching and Administrative Provisions - Rates of FFP Administration (42 CFR §433.15)

Condition: Payroll charges relating primarily to the Division of Policy, the Provider Relations unit, and the Third Party Liability unit were not made in accordance with the federal participation rates (FFP). The federal government was charged 75% of these costs rather than the allowed amount of 50%. Also, human error involved in the preparation of an adjusting journal entry resulted in $7,000 of the $80,000 known and likely questioned costs.

Context: The federal government reimburses administration costs at varying levels of participation depending on the type of administrative activity.

Cause: Inadequate oversight of how employee positions were set up in the budget system and the need to prepare and properly review adjusting entries

Effect: The federal government may disallow these expenditures and recover the $80,000 in questioned costs.

Recommendation: We recommend that the Department increase oversight of how employee positions are set up in the budget system. We also recommend additional oversight when preparing adjusting journal entries.

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

During State fiscal year 2010, the employee position corrections will be addressed through the budget and legislative process. In the first quarter of State fiscal year 2010, MaineCare Finance will prepare the journal to correct the $7,000 error.

In addition, DHHS will establish a final review procedure of the personnel budget by the offices that maintain the appropriation to be charged.

Contact: *Colin Lindley, Director, MaineCare Finance, 287-1855*

(08-56)

Title: Payroll costs not properly charged

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0705ME5028; 05-0805ME5028

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant Deficiency – Questioned Costs

Known Questioned Costs: $619,000

Likely Questioned Costs: $619,000

Criteria: Claims for federal financial participation (45 CFR §95.517); Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225)

Condition: Payroll costs of $619,000 charged to the Medicaid program by the Division of Licensing and Regulatory Services were not included in the Cost Allocation Plan as an allocated cost and did not fulfill the cost accounting requirements of a direct cost as required by federal regulations.

Context: The Division of Licensing and Regulatory Services is responsible for the licensure of facilities serving both Medicaid and non-Medicaid clients.

Cause: The Division of Licensing and Regulatory Services is included in the fiscal year 2008 Cost Allocation Plan as a final receiver of allocated costs and is not included as an allocator of costs. The allocation made to Medicaid for the licensing of mental health facilities is not properly accounted for as a direct cost in accordance with federal regulations.

Effect: The federal government may disallow these expenditures.

Recommendation: We recommend that costs incurred by the Division of Licensing and Regulatory Services be accounted for as an allocated cost within the Cost Allocation Plan and in accordance with federal cost principles.

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

As of January 1, 2009, the Division of Licensing and Regulatory Services (DLRS) payroll charges were included in the State cost allocation plan. The DLRS payroll charges are supported in the State fiscal year 2009 cost allocation plan.

Contact: *Catherine Cobb, Director, DLRS, 287-2979*

(08-57)

Title: Incorrect client eligibility determinations

Prior Year Finding: 07-69
State Department: Health and Human Services
State Bureau: Office of Integrated Access & Support
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
State Children's Insurance Program (SCHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-0705ME5028; 05-0805ME5028;
05-0705ME5021; 05-0805ME5021

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

MEDICAID CLUSTER

Type of Finding: Significant Deficiency – Questioned Costs

Known Questioned Costs: $266,342 (SCHIP)
Total claims paid for ineligible persons ($358,420 at the blended enhanced federal medical assistance percentage (FMAP) rate of 74.31%)

Likely Questioned Costs: $1,000,000 (SCHIP)
Developed by multiplying the total SCHIP expenditures of $28.2 million by the sample error rate (5%) at the blended enhanced FMAP rate (74.31%)

Criteria: 42 CFR §431.10; 42 USC 1320b-7(d); 42 CFR §435.907 and §435.913; 42 CFR §435.910(g) and §435.920; 42 USC 1320b-7d; 42 CFR §435.916; State Plan for Medicaid and State Plan for SCHIP

Condition: The Department does not have adequate internal controls in place for the Medicaid and SCHIP programs to determine individual eligibility, to maintain records relevant to making eligibility determinations, or to charge the appropriate program for the associated costs of eligible individuals.

For SCHIP, all available third party liability information, such as private health insurance, is not correctly incorporated into the ACES eligibility determination system and is therefore not always appropriately considered when determining eligibility.

Context: A 12 month re-certification of client eligibility was not performed as required for three of the 120 Medicaid cases we tested (2.5% error rate). Five of the 120 cases tested (4.2% error rate) were incorrectly determined to be eligible because all five cases were over the income and/or asset limits for the program. Costs will not be questioned for the Medicaid program because only eligibility testing by the Medicaid Quality Control Unit can result in disallowance of costs by the federal agency.

SCHIP - Client eligibility was not correctly determined for six of the 120 SCHIP cases tested (5%). Three of the six, were eligible for Medicaid, rather than SCHIP. The last three cases failed to meet Cub Care rules regarding Other Group Insurance coverage because they were all eligible for other group insurance prior to the service date of the tested claims.

Cause:

- Administration of multiple federal and State programs within one entity, MaineCare, creates a lack of clarity regarding individual client eligibility for specific federal or State funded benefits
- The distinct segregation of essential eligibility, payment, accounting and information technology functions within the same Department causes a division of responsibility, which impedes problem recognition and resolution
- Complex methods used to classify the reasons that individuals are eligible
- No Department policy or procedures to synchronize retroactive changes in client eligibility to payment for services; lack of policy or limits regarding how far back to change eligibility status; ineffective communication between the Department's own offices and the Office of Technology; and deficient procedures regarding maintaining

documentation of eligibility determinations within the eligibility systems available for user reference

- Programming logic errors

Effect:

- Costs may be charged to an incorrect State or federal program
- Costs paid on behalf of ineligible individuals reduce funds available for those eligible
- Eligibility errors may result in significant noncompliance with federal regulations
- Current and possible future questioned costs

Recommendation: We recommend that the Department:

- Establish a means to adequately identify and track activities associated with the distinct federal and State funded programs
- More clearly define, support and coordinate the specific roles assigned to the different agencies and offices for all DHHS programs, including systems operations
- Establish a policy regarding retroactive determination of eligibility and align the costs to the affected programs
- Appropriately secure and maintain programming logic for all systems activity

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

Currently, the ACES eligibility system does capture third party liability information and will appropriately deny an individual for CubCare (SCHIP). At the time of application the questions regarding other health insurance are captured if the applicant conveys to the Department that they have other health insurance. If there is indication of other health insurance at the time of application it is recorded in the ACES system and considered when determining eligibility for the CubCare program. The Department has taken measures to appropriately close CubCare cases when TPL identifies the member has health insurance. This is done on a monthly basis as to reduce the potential for providing CubCare to children that have other health insurance.

As of State fiscal year 2010, the Department is transitioning to a Fiscal Agent. Once successfully implemented, any funding source issues outlined in this finding will be eliminated. The Department believes that once the transition has occurred, the recommendation to consistently and appropriately administer retroactive changes so that they will align costs to the affected programs will be accomplished. With the implementation of MIHMS ACES will be getting a direct feed from TPL for all individuals that have other health insurance which will help to eliminate the possibility of providing CubCare to individuals have other health insurance.

As of August 17, 2009, it is expected that the Maine Breast and Cervical Health (MBCHP) Program Screening Program and the Treatment Act eligibility screens will be added to the Automatic Client Eligibility System. This conversion will allow MBCHP staff ready access to reports summarizing all Treatment Act clients, their start date and their annual review status, which will eliminate any confusion on the current coverage status for each client.

In addition, responsibility for the twelve month recertification process for Treatment Act clients has been integrated into the job description for both the MBCHP Case Manager and the supervisor position of Comprehensive Health Planner II.

Contact: *Bethany Hamm, MaineCare Program Manager, 287-4076*

(08-58)

Title: Medicaid eligibility quality control procedures not met

Prior Year Finding: 07-73
State Department: Health and Human Services
State Bureau: Office of Integrated Access and Support
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0705ME5028; 05-0805ME5028

Compliance Area: Eligibility

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Sampling Plan and Procedures (42 CFR §431.814 (a) and (b))

Condition: The Department did not have an approved sampling plan as required by federal regulations.

Context: The sampling plan used by the Division of Quality Support of the Office of Integrated Access and Support to test program eligibility determinations was not approved by the Centers for Medicare and Medicaid Services (CMS). The Department has requested guidance from CMS and is waiting for information so that a revised plan can be resubmitted for approval.

Cause: Staff turnover

Effect: Noncompliance with federal regulations and possible federal sanctions

Recommendation: We recommend that the Department obtain the necessary guidance to develop a sampling plan that meets the standards required for approval.

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

MEDICAID CLUSTER

As of July 24, 2009, the Office of Integrated Access and Support, Division of Quality Assurance has submitted a sampling plan to the Center for Medicare and Medicaid Services (CMS). The plan is in compliance with CMS requirements. CMS approval is anticipated prior to August 1, 2009, in accordance with federal regulations that require approval at least sixty days before the beginning of the review period in which it is to be implemented.

Contact: *Michael Frey, Director, Division of Quality Assurance, OIAS, 287-7129*

(08-59)

Title: Basis for certification of public expenditures (certified seed) not supported

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
State Children's Insurance Program
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-0705ME5028; 05-0805ME5028;
05-0605ME5021; 05-0705ME5021

Compliance Area: Matching, level of effort, earmarking

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225); Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments – Matching or Cost Sharing (45 CFR 92.24); MaineCare Benefits Manual General Administrative Policies and Procedures, 1.03(M)

Condition: The amount of certified public expenditures (certified seed) submitted to the Department on "Certified Seed Rider A" forms is calculated by Maine State Billing (MSB), a service provider that submits claims for School Based Rehabilitation and Day Treatment on behalf of school systems. MSB's derivation of the amount of local funding is based on prior year claims history. Thus, the amount of certified public expenditures (local share of funds to be provided as matching funds) is not based on budgeted expenditures, cost analyses, or prior year actual expenditures. Rather, the amount is imputed based on the amount of federal reimbursement received from the prior year.

For certified seed provider schools that do not use the services of MSB, the Department of Education calculates the amount of certified seed. This amount is the total local share amount of

all special education services, rather than an estimate of the local share of the cost of providing services such as school based rehabilitation and day treatment.

Context: Certified Seed Rider A forms serve two purposes. The first purpose is for school superintendents to certify that local matching funds are available and will be spent to provide services that will be reimbursed by the federal government. The second purpose is to provide budget amounts to be entered into the State's accounting systems to cap the amount of federal reimbursement. When certified seed providers have "used" all of the budgeted amounts, claims are suspended. However, the seed providers need only submit additional Rider A forms in order to resume payment for suspended and subsequent claims.

Cause: The Department did not consider whether adequate procedures were in place to ensure that matching requirements are met.

Effect:

- Budgetary controls over reimbursement to certified seed providers will not be effective
- Non federal match may not be met resulting in a disallowance of the federal share of claims

Recommendation: We recommend that the Department, with the cooperation of the Department of Education, implement policies and procedures that will provide better accountability over certified public expenditures. When Maine Integrated Health Management System (MIHMS) is implemented, if MaineCare continues to use certified public expenditures as matching funds for services provided and billed individually by healthcare professionals in a school setting, then certified seed budgets should be based on historical costs supported by provider invoices.

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

As of the first quarter of State fiscal year ended 2010, the Office of MaineCare Services will work with the Department of Education to implement policies and procedures that will provide accountability over certified public expenditures. When MIHMS is implemented, in the third quarter of State fiscal year ended 2010, certified seed budgets will be based on historical costs supported by provider invoices.

Contact: *Colin Lindley, Director of MaineCare Finance, 287-1855*

MEDICAID CLUSTER

(08-60)

Title: Medicaid Management Information System procedures used to determine client counts not adequate

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office of Information Technology Services
Office of MaineCare Service
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
State Children's Insurance Program
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-0705ME5028; 05-0805ME5028;
05-0705ME5021; 05-0805ME5021

Compliance Area: Special tests and provisions

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments – Standards for Financial Management Systems (45 CFR 92.20(2))

Condition: The June 2008 case count reports provided for Medicaid Management Information Systems payment system contained 15,013 more cases than the eligibility system (WELFRE). This variance was not reconciled.

In an effort to identify reasons why the variance existed, we tested all 40 clients aged 102 to 107 and noted four clients that should have been closed prior to June 2008 because the clients were deceased. However we found no charges related to these clients.

Context: The Department of Health and Human Services (DHHS) uses three interconnected automated systems to determine client eligibility and assign client claims to the appropriate program for payment. Two DHHS offices, the Office of Integrated Access and Support and the Office of MaineCare Services, and the Department of Administrative and Financial Services' Office of Information Technology and an outside contractor are responsible for various aspects of the eligibility and payment processes.

Cause:

- Administration of multiple federal and State programs within one entity, MaineCare, creates a lack of clarity regarding individual client eligibility for specific federal or State funded benefits
- The distinct segregation of essential eligibility, payment, accounting and information technology functions within the same Department causes a division of responsibility, which impedes problem recognition, and resolution
- Office of MaineCare Services does not actively resolve client count discrepancies between the eligibility and payment systems
- The exchange of client data from the eligibility systems (accumulated centrally in WELFRE) to the payment systems (MECMS and MEPOPS); and later from the payment systems to the financial system (AdvantageME) is not always accurate or in agreement from system to system, which contributes to these administrative deficiencies

Effect:

- Eligibility errors may result noncompliance with federal regulations
- Possible unallowable costs

Recommendation: We recommend that the Department establish procedures to actively identify, compare and resolve client count discrepancies among the various payment and eligibility systems used for programs administered as MaineCare.

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

The Office of Information Technology Services and Office of MaineCare Services continues to actively identify, compare and resolve client count discrepancies. The implementation of the MIHMS application in the third quarter of State fiscal year 2010 will resolve the discrepancies among the various payment and eligibility systems.

***Contact:** Jim Lopatosky, Associate CIO for Applications, 624-8800*

(08-61)

Title: Noncompliance with Automatic Data Processing (ADP) risk analysis and system security review requirements

Prior Year Finding: 07-64
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Office of Information Technology
DHHS – Multiple Offices
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0705ME5028; 05-0805ME5028;

05-0705ME5048; 05-0805ME5048

Compliance Area: Special tests and provisions

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Automatic Data Processing Equipment and Services – Conditions for Federal Financial Participation (45 CFR §95.601; 45 CFR §96.621)

Condition: The Department of Health and Human Services (DHHS) has not fully complied with all of the ADP security requirements nor have they fully established a comprehensive program for conducting risk analyses of ADP systems. Although DHHS has not achieved full compliance with the requirements as of the end of fiscal year 2008, they have recently taken corrective action to develop and apply the needed assessment tools in compliance with recently established statewide system security policies.

Context: This requirement applies to all ADP systems used by State and local governments to administer programs covered under 45 CFR Part 95, Subpart F.

Cause: Lack of personnel and resources

Effect: Potential federal sanctions

Recommendation: A recommendation will not be made as the State has subsequently established a framework for system-specific risk analyses and security reviews in accordance with 45 CFR Part 95, Subpart F.

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

As of March 31, 2009, the Office of Information Technology (OIT) has established a comprehensive program for conducting risk analysis of Automated Data Processing (ADP) systems. In addition, system-specific security requirements based on standards governing security of federal ADP systems and information processing have been determined. Also, a system security review schedule has been implemented.

Contact: *Jim Lopatosky, Information Technology Director, 441-6731*

MEDICAID CLUSTER

(08-62)

Title: Untimely crediting of federal share of audit cost settlements and Program Integrity recoupments/No accounts receivable established for Program Integrity recoupments

Prior Year Finding: No
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Office of MaineCare Services
Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0705ME5028; 05-0805ME5028

Compliance Area: Special tests and provisions

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: State Fiscal Administration (42 CFR Part 433); Uniform Administrative Requirements for Grants and Cooperative Agreements for State, Local, and Tribal Governments – Financial Management Systems (45 CFR §92.20)

Condition: Procedures are not adequate to ensure that the federal government has been credited for their share of audit cost settlements and Program Integrity recoupments on a timely basis. We found that the federal share associated with 112 Program Integrity recoupments of $2,095,670 and 70 audit cost settlements of $1,285,759 were not credited to the federal government within the 60 day required timeframe. Furthermore, no accounts receivable balance was established on the State accounting records for Program Integrity amounts due.

Context: We reviewed 378 recoupment checks received during the fiscal year

Cause:
- Lack of established procedures regarding the routing, tracking and accounting for provider recoupments within the Department
- Documentation is not always sufficient to determine the reason for payments received

Effect:
- Noncompliance with financial management standards
- Ineffective accountability over payment recoveries
- Noncompliance with requirements mandating the timely crediting of the federal share of provider overpayments

Recommendation: We recommend that the Department establish consistent procedures for the routing, depositing, recording and tracking of checks received for deposit; develop procedures for crediting the federal share related to all Department recoupment efforts, including Program Integrity receipts on a timely basis; and establish an accounts receivable for all Program Integrity related recoupments.

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

As of March 5, 2009, a check log has been instituted for audit cost settlements and program integrity recoupments. The check log contains the date, name, provider ID, check number, amount and date of each check sent to Finance Recovery Team (FRT). The physical checks are sent by interoffice mail and the check log is sent electronically to FRT. The check logs are added to the master check log where the date checks are received, date of deposit and transaction numbers are recorded. The submitting offices have the ability to review the master check log.

In addition, the program integrity accounts receivable will be entered into the accounting system when the fiscal agent (Unisys) comes on line in the first quarter of calendar year 2010. FRT will manually track the accounts receivable and make the entries until the implementation of the fiscal agent

***Contact:** Richard Violette, Management Analyst, 287-4033*

(08-63)

Title: Services furnished to recipients not verified

Prior Year Finding: 07-78
State Department: Health and Human Services
State Bureau: Division of Program Integrity
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0705ME5028; 05-0805ME5028

Compliance Area: Special tests and provisions

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Program Integrity – Basis and Scope (42 CFR §455.1(a)(2))

Condition: The Department does not have a method to verify whether services reimbursed by Medicaid were actually furnished to recipients.

Context: The Department previously achieved compliance with this requirement by sending out Explanation of Medical Benefits (EOMB). The verification of recipient services via EOMBs has not been performed since the new claims processing system came online in January of 2005.

Cause: The Maine Claims Management System (MECMS) currently does not have the capability to generate EOMBs.

Effect: Providers could be reimbursed for services not actually rendered to program participants

Recommendation: We recommend that the Department develop a method to verify whether services reimbursed by Medicaid were actually furnished to program participants.

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

The Maine DHHS has contracted with Unisys as its fiscal agent. The implementation is expected to be complete in the first quarter of calendar year 2010. The system used by the fiscal agent has the capability to provide monthly explanation of medical benefits. The fiscal agent will issue monthly explanation of benefits beginning in the first quarter of 2010 and will continue to do so on a monthly basis thereafter.

Contact: *Marc Fecteau, Assistant Director of Program Integrity, 287-9280*

(08-64)

Title: Claims processing and information retrieval system lacking required functionalities

Prior Year Finding: 07-65
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Office of Information Technology
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0705ME5028; 05-0805ME5028;
05-0705ME5048; 05-0805ME5048

Compliance Area: Special tests and provisions

Type of Finding: Material Weakness/Material Noncompliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: State Fiscal Administration (42 CFR §433.10-§433.131); Section 11300 State Medicaid Manual

Condition: The Maine Claims Management System (MECMS), cannot currently perform all of its required functions and objectives. Four of six required subsystems are not fully functional.

The Recipient Subsystem does not contain the data necessary to support Third Party Liability recovery activities; however, the Claims Processing Subsystem can identify Third Party Liability and assure that Medicaid is the payor of last resort.

The Surveillance and Utilization Review Subsystem cannot:

- Develop a comprehensive statistical profile of health care delivery and utilization patterns established by provider and recipient participants
- Use computerized exception processing techniques to perform analyses and produce reports

The Management and Administrative Reporting Subsystem has limited ability to:

- Report information to assist management in fiscal planning and control. Some reports have been created outside of the Management and Administrative Reporting System by workarounds.
- Produce program data necessary to necessary to satisfy federal Medicaid reporting requirements
- Monitor third party avoidances and collections in accordance with State plan requirements

Although some upgrades have been made, examples of Claims Processing Subsystem problems that exist include the following:

- Some claims processed through the Fund Exception Matrix are not assigned an accounting string
- Inability to quantify duplicate payments made to providers
- Failed processing system edits as well as edits set to “ignore”
- Fund allocation failures
- An inordinate amount of claims in edits processing failure status
- Noncompliance with the current Health Insurance Portability and Accountability Act (HIPAA) claims format

Context: Medicaid is a $2.1 billion federally and State-funded program. MECMS is essential to its operation.

Cause: The Department of Health and Human Services (DHHS) converted to the new Medicaid Management Information System (MMIS) prematurely. The initial system breakdown can be attributed to the following:

- An inadequate system development effort
- Lack of a formal risk management process
- Lack of effective testing before going into production

- Procuring the services of a software vendor unfamiliar with the processing of medical claims

Effect: The persistent and unresolved claims processing system problems has compelled the State to procure the services of a fiscal agent to process Medicaid claims. In 2008, DHHS awarded Unisys a $179 million, seven-year, firm-fixed-price contract to provide a new MMIS to manage the Medicaid program. The new MMIS is scheduled to be implemented in February of 2010.

System problems initially caused hundreds of thousands of provider claims to suspend, resulting in providers not being paid. To provide cash flow to providers, the State issued estimated interim payments that were intended to approximate normal payments. The State is still attempting to reconcile the interim payments to actual claims and to reach agreements with the providers as to how much is still owed to them and to recover any amount overpaid. Some of the funds advanced to providers are never expected to be recovered; the State estimated that approximately $19.5 million might not be collectible.

Recommendation: We recommend that the Department:

- Work with the fiscal agent to implement a new MMIS with all of the required functionalities
- Continue the MECMS stabilization efforts currently in place
- Continue the formal recovery effort to recoup overpayments
- Implement the full complement of processing system cycle edits
- Continue to investigate the status of each providers unprocessed and suspended claims and determine their respective overpayment amounts, if any
- Obtain the required federal certification upon implementation of the new system

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

The DHHS has contracted with Unisys as its fiscal agent. The implementation is expected to be complete in the first quarter of calendar year 2010. The product Unisys provides is fully certified by the Centers for Medicare and Medicaid Services.

In addition, the Department will continue the MECMS stabilization efforts currently in place, the formal recovery effort to recoup overpayments and to investigate the status of each providers unprocessed and suspended claims and determine their respective overpayment amounts, if any.

Contact: *Stefanie Nadeau, Director of Claims, 287- 5875*
Marc Fecteau, Assistant Director, SURS, 287-9280

MEDICAID CLUSTER

(08-65)

Title: Procedures over deposits related to Medicaid recoveries need to be improved

Prior Year Finding: No
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Health and Human Services Service Center
Office of MaineCare Services
Division of Audit
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0705ME5028; 05-0805ME5028

Compliance Area: Special tests and provisions

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Title 5 MRSA §131

Condition: Controls over deposits for certain Medicaid related receipts are not sufficient:

- 82% of the deposits in our sample were not in compliance with statutory time requirements for depositing funds into State accounts
- Evidence to support that four checks (totaling $60,462) were deposited into State accounts could not be provided

Context:

- Maine statutes require immediate deposit of collections received by all State agencies
- We tested 384 checks totaling $9.4 million related to recoveries made by the Division of Audit and the Program Integrity Unit. Of the 384 tested, documentation was not maintained for four, or approximately 1% of the sample population.

Cause:

- Procedures in place over the check deposit process were not sufficient to ensure that deposits were made in a timely manner
- Checks are not registered upon receipt or tracked during processing to ensure deposits take place
- Documentation was not maintained to support all the deposits made

Effect:
- Potential loss of funds due to fraud
- Funds may be credited to the wrong account

Recommendation: We recommend that the Departments of Health and Human Services and Administrative and Financial Services immediately establish consistent procedures for submitting, depositing, recording and tracking deposits related to Program Integrity and Division of Audit recoveries. Furthermore, we recommend that an investigation be conducted to determine if the $60,462 in checks was deposited into State accounts.

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

As of March 5, 2009, a check log has been instituted for all offices that submit funds to the Finance Recovery Team (FRT). The check log contains the date, name, provider ID, check number, amount and date of each check sent to FRT. The physical checks are sent by interoffice mail and the check log is sent electronically to FRT. The check logs are added to the master check log where the date checks are received, date of deposit and transaction number are recorded. The submitting offices have the ability to review the master check log.

In addition the FRT will investigate the four checks that make up the $60,462 and determine their disposition by September 1, 2009.

Contact: *Richard Violette, Management Analyst, 287-4033*

(08-66)

Title: Inadequate surveillance and utilization review of Medicaid services

Prior Year Finding: 07-77
State Department: Health and Human Services
State Bureau: Division of Program Integrity
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0705ME5028; 05-0805ME5028

Compliance Area: Special tests and provisions

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

MEDICAID CLUSTER

Criteria: Utilization Control (42 CFR Part 456) Subpart B; MaineCare Benefits Manual (§1.18 and §1.19)

Condition: No Medicaid Management Information System (MMIS) subsystem is in place to ensure the ongoing evaluation, on a sample basis, of the need for and the quality and timeliness of Medicaid services. The current system is not adequately designed to accomplish the post-payment review process.

Context: Medicaid federal and State expenditures were approximately $2.1 billion in fiscal year 2008. Utilization controls are an important safeguard against the unnecessary or inappropriate use of Medicaid services.

Cause: The State's claims processing system is not fully functional and as a result is lacking a surveillance utilization review subsystem (SURS). The State is in the process of contracting with a fiscal agent to develop and operate a claims processing system.

Effect: Potential unnecessary or inappropriate use of Medicaid funds

Recommendation: We recommend that DHHS:

- Ensure that a SURS subsystem is incorporated as a required core MMIS subsystem
- Develop a port-payment review process that evaluates recipient utilization and provider service profiles and identify exception criteria
- Procure specialized software to allow the Division of Program Integrity to download and convert claims data for subsequent analytical purposes

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

The DHHS has contracted with Unisys as its fiscal agent. The implementation is expected to be complete in the first quarter of calendar year 2010. Included in the contract is a surveillance and utilization review component that has been fully certified by the Centers for Medicare and Medicaid Services. This component will allow for evaluation of recipient utilization, provider service profiles as well as the ability to identify exception criteria and subsequent analysis. The surveillance and utilization review component is expected to be fully operational upon implementation.

Contact: *Marc Fecteau, Assistant Director for Program Integrity, 287-9280*

(08-67)

Title: Drug Utilization Review Board's annual report lacking required information

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0705ME5028; 05-0805ME5028

Compliance Area: Special tests and provisions

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Annual Report (42 CFR §456.712)

Condition: The fiscal year 2008 Drug Utilization Review (DUR) annual report does not include a description of the nature and scope of the State's prospective drug review program, a description of the nature and scope of the State's retrospective DUR program, and clear statements of purpose that delineate the respective goals, objectives, and scopes of responsibility of the DUR and surveillance and utilization (SUR) functions.

Context: Each State must require its Drug Utilization Review (DUR) Board to prepare and submit an annual DUR report to the State Medicaid agency that contains information specified by the State. In turn, the State Medicaid agency must then prepare and submit, an annual report to the U.S. Department of Health and Human Services that incorporates both the DUR Board's report and other required information.

Cause: Unfamiliarity with requirements

Effect: Noncompliance with DUR reporting requirements

Recommendation: For reporting purposes, we recommend that the preparers of Maine's DUR Annual Report include all of the required information in accordance federal requirements.

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

As of FFY 2009, the Office of MaineCare Services will verify that the Drug Utilization Review (DUR) Boards annual report contains all required information. The report will include a description of the nature and scope of the State's prospective drug review program, a

description of the nature and scope of the State's retrospective DUR program and a clear statement of the purpose that delineates the respective goals, objectives and scope of responsibility of the DUR and surveillance and utilization function.

Contact: *Jennifer Cook, Pharmacy Unit Manager, 287-2705*

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

(08-05) ***page E-27***

(08-30) ***page E-67***

(08-31) ***page E-68***

(08-70) ***page E-129***

(08-68)

Title: Cost principles related to personal services not followed

Prior Year Finding: 07-82
State Department: Health and Human Services
State Bureau: Disability Determination Services
Federal Agency: Social Security Administration
CFDA Title: Disability Insurance/SSI Cluster
CFDA #: 96.001
Federal Award #: 0804MEDI00; 0704MEDI00

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225)

Condition: Payroll certifications were not obtained for all employees who worked solely on this program. Furthermore, certifications did not include coverage for the entire fiscal year.

Context: Payroll certifications did not include eight employees who worked solely on this program. Payroll certifications only covered the last six months of fiscal year 2008.

Cause: Misunderstanding of payroll certification requirements

Effect: Lack of support for salaries and wages charged to the program

Recommendation: We recommend that the Department implement better controls to ensure all employees who have worked for the Social Security Administration during the time period being certified are included as part of the certifications.

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

Effective January 1, 2008, the Director of Disability Determination has signed certifications on file for all employees who work on the SSDI/SSI programs. The certifications are updated every six months.

By July 1, 2009, a system will be implemented to ensure that all employees of DDS are certified.

Contact: *Scott Mack, Director, Disability Determination, 377-9501.*

(08-69)

Title: Noncompliance with suspension and debarment requirements

Prior Year Finding: 07-83
State Department: Health and Human Services
State Bureau: Disability Determination Services
Federal Agency: Social Security Administration
CFDA Title: Disability Insurance/SSI Cluster
CFDA #: 96.001
Federal Award #: 0804MEDI00; 0704MEDI00

Compliance Area: Procurement and suspension and debarment

Type of Finding: Material Weakness/Material Noncompliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Government-wide Debarment and Suspension – Non-procurement (20 CFR §436)

Condition: The Department did not include suspension and debarment certification language in all contracts or check the Excluded Parties Lists System (EPLS) website to determine that contractors were not excluded or disqualified.

Context: The Department entered into 14 contracts exceeding the $25,000 suspension and debarment threshold, totaling $1.1 million. These contracts should have included suspension and debarment language. Corrective action has been taken for contracts relating to the fiscal year 2009.

Cause: Starting in fiscal year 2007, contracts were sent out to providers by purchasing personnel, rather than program personnel. Purchasing personnel were not informed that suspension and debarment language must be included in the contracts. The Department was also unaware that the EPLS website could be checked to determine if the contractor was excluded or disqualified.

Effect: Potential payments to suspended or debarred parties, resulting in questioned costs

Recommendation: We recommend that the Department continue to implement the corrective action that was recently initiated.

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

DISABILITY INSURANCE/SSI CLUSTER

The contracts that were effective as of July 1, 2008 contained the suspension and debarment language required by 20 CFR §436. In addition, contracts are checked against the Excluded Parties List System to prevent payments to suspended or debarred parties.

Contact: *Scott Mack, Director, Disability Determination, 377-9501*

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

(08-70) ***page E-129***

(08-70)

Title: Costs not allocated in accordance with plan

Prior Year Finding: 07-91
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Food Stamp Cluster
Special Supplemental Nutrition Program for Women, Infants, and Children
Child and Adult Care Food Program
Public Health Emergency Preparedness
Immunization Grants
Temporary Assistance for Needy Families
CCDF Cluster
Child Support Enforcement
Social Services Block Grant
State Children's Insurance Program
Medicaid Cluster
Disability Insurance/SSI Cluster
CFDA #: 10.551; 10.561; 10.557; 10.558; 93.069; 93.268; 93.558; 93.575;
93.596; 93.563; 93.667; 93.767; 93.775; 93.777; 93.778; 96.001
Federal Award #: 4ME400401 (10.551); 4ME700701 (10.557); 4ME300302 (10.558); 5U90TP116972-08 (93.069); CCH122558-06 (93.268); 0802METANF (93.558); 0801MECCDF (93.675); 0804ME4004 (93.563); ME-SOSR08 (93.667); 07-05ME5021 (93.767); 0805ME5028; 0805ME5048 (93.778); 0804MEDI00 (96.001)

Compliance Area: Allowable costs/cost principles

Compliance Area: Significant Deficiency – Questioned costs

Known Questioned Costs: $2,364,580 (Medicaid Cluster)
$54,760 (Child Support Enforcement)

Likely Questioned Costs: $2,364,580 (Medicaid Cluster)
$54,760 (Child Support Enforcement)

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

Condition: The Department did not allocate all costs in compliance with the Department of Health and Human Services' new cost allocation plan. We noted the following issues:

- Some allocated costs were incorrectly calculated
- Some data statistics were incorrectly computed
- Some programs did not report allocated costs correctly
- Not all accounting staff utilized the final receiver reports or did not use final version of this report

- Incorrect federal financial participation rates were used during the reconciliation process
- Some costs were allocated between federal programs incorrectly
- Some costs were incorrectly excluded from the plan
- Some costs were not appropriately allocated between State and federal funds

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

- The Medicaid Cluster was overcharged approximately $2.4 million because a reconciling journal was not processed.
- Child Support Enforcement was overcharged approximately $55 thousand because costs were allocated incorrectly to that program instead of being charged fully to Medicaid.

Cause:

- Lack of communication and training
- Staff turnover
- Failure to reconcile final receiver report expenditures to the State's accounting records

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

- Inaccurate financial reports
- Cash shortages or overages
- Unallowable costs claimed
- Possible match deficiencies

Recommendation: We recommend that the Department continue in its efforts to develop a revised final receiver report that more accurately reflects the new cost allocation plan and current operations. We further recommend that data statistics entered are reviewed, cost allocation journals be processed timely and a standard procedure be established to ensure that the program accountants are notified of any revisions to final receiver reports.

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

As of July 1, 2008, Service Center personnel corrected the cost allocations. Statistical data that had been incorrectly computed was discontinued prior to fiscal year 2009. There is a training program in progress to clarify the information concerning reporting allocated costs correctly. The accounting staff is reconciling the final receiver reports to accounting records for grants that use receiver reports.

In addition, a review process has been instituted to ensure that federal financial participation rates are correct and costs are allocated between federal programs correctly.

All requests for new units are made through the Cost Allocation Administrator. The request includes a description of the unit and cost allocation method. Program personnel are reviewing the narratives on annual basis.

Contact: *Donna Wheeler, Financial Analyst, 287-1860*

(08-71)

Title: Cash management procedures need to be improved

Prior Year Finding: No
State Department: Defense, Veterans, and Emergency Management
State Bureau: Maine Emergency Management Agency
Federal Agency: U.S. Department of Homeland Security
CFDA Title: Disaster Grants- Public Assistance (Presidentially Declared Disasters)
CFDA #: 97.036
Federal Award #: FEMA1591DRME; FEMA1644DRME; FEMA1691DRME; FEMA1693DRME; FEMA1716DRME; FEMA1755DRME

Compliance Area: Cash management

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

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

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

Cause: Program personnel did not make reasonable estimates of the length of time it takes to process disbursements

Effect: Noncompliance with federal cash management requirements

Recommendation: We recommend that the Department establish additional procedures in conjunction with the Service Center to ensure that the timing of drawdowns is closer to the time that disbursements are made.

Management's Response/Corrective Action Plan: *The Department of Defense, Veterans and Emergency Management agrees with the finding.*

MEMA will continue to batch our PA invoices and request available funds needed to pay. MEMA will submit invoices to the Securities and Employment Service Center (SESC) for processing. However, delays in processing invoices for payments impact MEMA's ability to manage excess cash on hand. The SESC and the Controller's Office will work with MEMA to help keep delays in processing at a minimum.

Contact: *Ginnie Ricker, Deputy Director, 624-4471*

DISASTER GRANTS - PUBLIC ASSISTANCE

(08-72)

Title: Lack of procedures to ensure compliance with subrecipient monitoring requirements

Prior Year Finding: No
State Department: Defense, Veterans, and Emergency Management
State Bureau: Maine Emergency Management Agency
Federal Agency: U.S. Department of Homeland Security
CFDA Title: Disaster Grants- Public Assistance (Presidentially Declared Disasters)
CFDA #: 97.036
Federal Award #: FEMA1591DRME; FEMA1644DRME; FEMA1691DRME; FEMA1693DRME; FEMA1716DRME; FEMA1755DRME

Compliance Area: Subrecipient monitoring

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, §__.235(c) and §__.400(d)

Condition: Subrecipient audit reports were not submitted to Maine Emergency Management Agency (MEMA) in accordance with federal regulations

Context: Eight out of 86 subrecipients that were required to have Single Audits submitted the audit reports to MEMA after the deadline.

Cause: Procedures were not in place to ensure that subrecipients submit audit reports

Effect: Audit findings associated with this grant identified in a subrecipient's audit report would not be resolved

Recommendation: We recommend that the Department develop procedures to ensure that subrecipient Single Audit reports are submitted within the nine month timeframe required by federal regulations. In addition, the audit reports should be reviewed by MEMA staff for adequacy and resolution of any audit findings.

It should be noted that as of August 2008, MEMA has taken steps to correct this deficiency.

Management's Response/Corrective Action Plan: *The Department of Defense, Veterans and Emergency Management agrees and notes that effective August 2008, the agency has implemented processes to address this issue.*

DISASTER GRANTS - PUBLIC ASSISTANCE

A-133 reports for all municipalities are now on file and are tracked. MEMA also tracks entities that receive $500,000.00 or more from our agency and will ensure that A-133 reports are on file. The audit reports are reviewed for findings. Beginning in April 2009, MEMA has implemented a process to perform on-site desk reviews for all grants.

MEMA has procedures in place for authorizing payments to sub-recipients.

Contact: *Ginnie Ricker, Deputy Director 624-4471*

HOMELAND SECURITY CLUSTER

(08-73)

Title: Payroll costs not supported in accordance with federal regulations

Prior Year Finding: 07-84
State Department: Defense, Veterans, and Emergency Management
State Bureau: Maine Emergency Management Agency
Federal Agency: U.S. Department of Homeland Security
CFDA Title: Homeland Security Cluster
CFDA #: 97.067
Federal Award #: 2005-GE-T5-0053; 2006-GE-T6-0047; 2007-GE-T7-0055

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant Deficiency – Questioned Costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225)

Condition: The Maine Emergency Management Agency (MEMA) did not obtain semi-annual certifications for employees who work solely on the Homeland Security Grant. Furthermore, for employees working on multiple activities or cost objectives, payroll was inappropriately allocated based on budget estimates. MEMA did not reconcile and adjust the estimate to actual time worked.

Context:

- Payroll expenditures totaled $700,000 or seven percent of total grant expenditures
- Nine employees charged 100 % of their time to this program
- Payroll charges for four employees were allocated to more than one federal grant, based on budget estimates

Cause: Lack of understanding of federal cost principles related to support for salaries and wages

Effect: Unallowable payroll costs may be charged to the program resulting in future questioned costs

Recommendation: We recommend that the Department implement procedures to ensure that semi-annual certifications are obtained for employees who work solely on the Homeland Security Grant. We also recommend that payroll costs be allocated in accordance with federal cost principles for those individuals whose duties pertain to multiple activities or cost objectives.

Management's Response/Corrective Action Plan: *The Department of Defense, Veterans and Emergency Management agrees with the finding.*

MEMA has worked with the Department of Administrative and Financial Services to implement coding changes on the TAMS system and employees are now required to complete the project/tasks portion of their timesheets to identify hours worked on a particular program or activity. This provides certification as to which program is funding employee positions. As of July 2008, MEMA has required staff that are 100% allocated to a grant program to complete a certification

Contact: *Ginnie Ricker, Deputy Director 624-4471*

(08-74)

Title: Lack of procedures to ensure compliance with subrecipient monitoring requirements

Prior Year Finding: 07-88
State Department: Defense, Veterans, and Emergency Management
State Bureau: Maine Emergency Management Agency
Federal Agency: U.S. Department of Homeland Security
CFDA Title: Homeland Security Cluster
CFDA #: 97.067
Federal Award #: 2005-GE-T5-0053; 2006-GE-T6-0047; 2007-GE-T7-0055

Compliance Area: Subrecipient monitoring

Type of Finding: Significant Deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (28 CFR §66.26 and .37)

Condition: No procedures were in place to ensure that subrecipients with expenditures exceeding the federal threshold submitted an audit report. In addition, no procedures existed to ensure that audit reports were reviewed for adequacy or that management decisions on audit findings were issued within six months after receipt of the report. Furthermore, the letter used to communicate grant award information did not include the Catalog of Federal Domestic Assistance title, name of federal awarding agency or applicable compliance requirements.

Context: A total of $7.5 million in Homeland Security funds were passed through to subrecipients.

Cause: Misunderstanding of the applicability of federal administrative requirements

Effect: Noncompliance by a subrecipient may go undetected

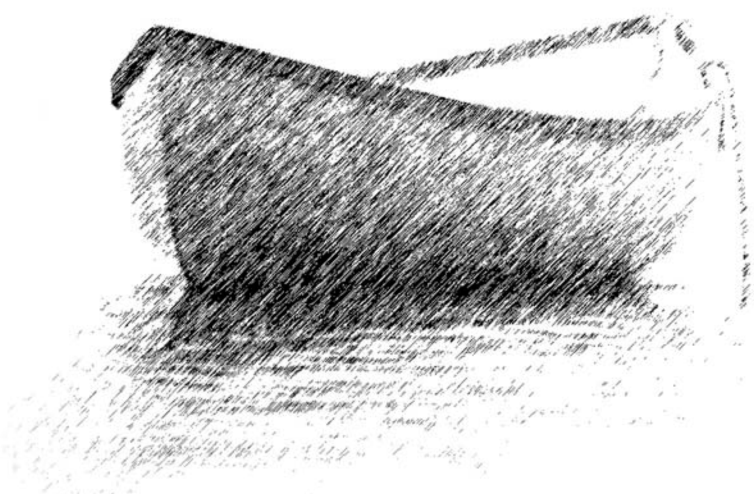
Recommendation: We recommend that the Department develop procedures to ensure that subrecipient Single Audit reports are obtained, reviewed and appropriate actions are taken.

Management's Response/Corrective Action Plan: *The Department of Defense, Veterans and Emergency Management agrees and notes that effective August 2008, the agency has implemented processes to address this issue.*

A-133 reports for all municipalities are now on file and are tracked. MEMA also tracks entities that receive $500,000 or more from our agency and will ensure that A-133 reports are on file. The audit reports are reviewed for findings. Beginning in April 2009, MEMA has implemented a process to perform on-site desk reviews for all grants.

MEMA has procedures in place for authorizing payments to sub-recipients.

Contact: *Ginnie Ricker, Deputy Director, 624-4471*



STATE OF MAINE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

Agency Legend

DAFS	Department of Administrative and Financial Services
DHHS	Department of Health and Human Services
DECD	Department of Economic and Community Development
DEP	Department of Environmental Protection
DOA	Department of Agriculture
DOE	Department of Education
DOL	Department of Labor
DOT	Department of Transportation
DVEM	Department of Defense, Veterans and Emergency Management

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
03-11	BIS/OIT Various	DAFS	Excess working capital reserve balance	$613,212	Corrected in FY08	Finding was not repeated
04-09	BIS/OIT Various	DAFS	Excess working capital reserve balance	$788,965	Corrected in FY08	Finding was not repeated
04-55	93.778	DHHS	Unallowable case management claim payments	$7,462	Awaiting final federal interpretation of requirements	Finding was not repeated
05-09	84.010, 84.027, 84.287	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY08	See 08-24 No further action warranted per OMB A-133 §315(b)(4)
05-12	84.126	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action taken in FY08	No further action warranted per OMB A-133 §315(b)(4)
05-14	93.268	DAFS	Inadequate controls to ensure compliance with cash management requirements	None	Corrective action taken in FY08	Finding was not repeated
05-16	93.268	DAFS	Inadequate controls to ensure accurate reporting of program expenditures; and non-compliance	None	Corrective action taken in FY08	Management Letter comment issued in FY08

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
05-18	93.558	DAFS	Inadequate controls to ensure accurate reporting of program expenditures; and non-compliance	None	Corrective action not completed in FY08	Finding was not repeated
05-19	93.558	DAFS	Inadequate controls to ensure accurate reporting of program expenditures; and non-compliance	None	Corrective action not completed in FY08	Finding was not repeated
05-21	93.563	DAFS	Inadequate controls to ensure accurate program accounting; and non-compliance with allowable costs requirements	None	Corrective action taken in FY08	Finding was not repeated
05-23	93.563	DAFS	Inadequate controls to ensure accurate accounting for program expenditures	None	Corrective action not completed in FY 08	See 08-38 & 08-70 No further action warranted per OMB A-133 §315(b)(4)
05-24	93.563	DAFS	Inadequate controls to ensure accurate reporting of program expenditures; and non-compliance with allowable costs requirements	$47,924	Corrective action taken in FY08	Finding was not repeated
05-25	93.575, 93.596	DAFS	Inadequate controls to ensure accurate financial reporting and reporting for the Schedule of Expenditures of Federal Awards	None	Corrective action taken in FY08	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
05-27	93.658, 93.659	DAFS	Inadequate controls to ensure accurate financial reporting; and non-compliance	$307,382	Corrective action not completed in FY08	See 08-43 No further action warranted per OMB A-133 §315(b)(4)
05-28	93.667	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action taken in FY08	Management Letter comment issued in FY08
05-31	93.775, 93.777, 93.778	DAFS	Inadequate controls to ensure a functional claims management system was in place	None	Corrective action not completed in FY08	See 08-64 No further action warranted per OMB A-133 §315(b)(4)
05-32	Various	DAFS	Inadequate controls to ensure that program draws were properly supported	None	Corrective action not completed in FY 08	See 08-31 No further action warranted per OMB A-133 §315(b)(4)
05-33	Various	DAFS	Inadequate controls over provider grant close-out and audit settlement process	None	Corrective action not completed in FY 08	Finding was not repeated
05-34	BIS/OIT Various	DAFS	Inadequate controls to ensure compliance with working capital reserve requirements; and non-compliance	$1,170,000	Corrected in FY08	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
05-35	Various	DAFS	Inadequate controls to ensure compliance with cost allocation principles; and non-compliance with allowable costs requirements	$1,065,582	Corrective action not completed in FY 08	See 08-38 & 08-70 No further action warranted per OMB A-133 §315(b)(4)
05-36	Various	DAFS	Inadequate controls to ensure compliance with cash management agreement; and inadequate support for program draws	None	Corrective action not completed in FY 08	See 08-30 No further action warranted per OMB A-133 §315(b)(4)
05-37	97.004	DVEM	Inadequate controls to ensure compliance with certification requirement for employees who work solely for one program	None	Corrective action not completed in FY 08	See 08-73 No further action warranted per OMB A-133 §315(b)(4)
5-39	97.004	DVEM	Inadequate controls to ensure compliance with subrecipient monitoring requirements - CFDA identification not on grant awards	None	Corrective action not completed in FY 08	See 08-74 No further action warranted per OMB A-133 §315(b)(4)
05-43	10.557	DHHS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
05-44	10.557	DHHS	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated
05-45	10.558	DHHS	Inadequate controls to ensure accurate financial reporting; and non-compliance	None	Corrective action not completed in FY08	Finding was not repeated
05-48	93.268	DHHS	Inadequate controls to ensure compliance with requirements for monitoring and certification of the vaccine inventory vendor; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated
05-49	93.268	DHHS	Inadequate controls to ensure compliance with requirements for monitoring providers' compliance with grant requirements; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated
05-50	93.558	DHHS	Inadequate controls to ensure accurate performance reporting; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated
05-51	93.563	DHHS	Inadequate controls to ensure compliance with requirements for timely establishment of case records; and non-compliance	None	Corrective action not completed in FY08	See 08-34 No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
05-55	93.775, 93.777, 93.778	DHHS	Inadequate procedures to identify allowable targeted case management services; and non-compliance with allowable cost requirements	$6,528	Awaiting final federal interpretation of requirements	Finding was not repeated
05-56	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure a functional claims mgmt system was in place; and non-compliance	None	Corrective action not completed in FY08	See 08-64 No further action warranted per OMB A-133 §315(b)(4)
05-57	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure compliance with allowable cost requirements; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated
05-60	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure compliance with State & federal automated data processing review requirements; and non-compliance	None	Corrective action not completed in FY08	See 08-61 No further action warranted per OMB A-133 §315(b)(4)
05-63	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure ongoing evaluation, by sampling, of the need for & quality & timeliness of Medicaid services; and non-compliance	None	Corrective action not completed in FY08	See 08-66 No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
05-65	Various	DHHS	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated
05-67	Various	DHHS	Inadequate controls to ensure appropriate exchange & analysis of income & eligibility verifications; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated
05-69	84.126	DOL	Inadequate controls to ensure compliance with allowable cost requirements	None	Corrective action not completed in FY08	See 08-19 No further action warranted per OMB A-133 §315(b)(4)
05-71	84.126	DOL	Inadequate controls to ensure compliance with requirements regarding eligibility determinations; and non-compliance	None	Corrective action not completed in FY08	See 08-21 No further action warranted per OMB A-133 §315(b)(4)
05-72	84.126	DOL	Inadequate controls to ensure compliance with program income requirements; and non-compliance	None	Corrective action not completed in FY08	Finding was not repeated
05-75	20.205	DOT	Inadequate controls to ensure compliance with Davis-Bacon Act requirements; and non-compliance	None	Corrective action not completed in FY 08	See 08-15 No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
06-07	Various	DAFS	Inadequate controls to ensure compliance with cost allocation principles; and non-compliance with allowable costs requirements	Not determinable	Corrective action not completed in FY 08	08-38 08-70
06-08	Various	DAFS	Inadequate controls to ensure compliance with cost allocation principles; and non-compliance with allowable costs requirements	$2,129,301	Corrective action not completed in FY 08	08-38 08-70
06-09	10.551, 10.561	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	$674,000	Corrective action taken in FY08	Finding was not repeated
06-10	Various	DAFS	Inadequate controls to ensure compliance with matching requirements; and non-compliance	Not determinable	Corrective action not completed in FY08	Finding was not repeated
06-13	10.557	DHHS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated
06-14	10.557	DHHS	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
06-15	10.558	DHHS	Inadequate controls to ensure sponsoring organizations' compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY 08	Finding was not repeated
06-16	10.558	DHHS	Inadequate controls to ensure accurate FNS-44 reports; and non-compliance	None	Corrective action not completed in FY08	Finding was not repeated
06-17	Various	DHHS	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated
06-19	20.205	DOT	Program funds used for unallowable costs	$49,359	Corrective action taken in FY08	Finding was not repeated
06-20	20.205	DOT	Inadequate controls to ensure compliance with Davis-Bacon requirements; and non-compliance	None	Corrective action not completed in FY 08	08-15
06-23	Various	DAFS	Inadequate controls to ensure compliance with subrecipient cash management requirements; and non-compliance	None	Corrective action not completed in FY08	08-24
06-25	84.027	DOE	Inadequate controls over monitoring of subrecipient maintenance of effort requirements	Not determinable	Corrective action taken in FY08	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
06-26	84.126	DOL	Inadequate controls to ensure compliance with allowable costs requirements; and non-compliance	None	Corrective action not completed in FY08	08-19
06-27	84.126	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective actions taken in FY08	Management Letter comment issued in FY08
06-28	84.126	DOL	Inadequate controls to ensure timely eligibility determinations	None	Corrective action not completed in FY08	08-21
06-29	84.126	DAFS	Inadequate controls to ensure compliance with program income requirements	None	Corrective action not completed in FY08	Finding was not repeated
06-31	93.044, 93.045, 93.053	DHHS	Inadequate controls to ensure compliance with allowable costs principles; and non-compliance	Not determinable	Corrective action taken in FY08	Finding was not repeated
06-32	93.044, 93.045, 93.053	DAFS	Non-compliance with cash management requirements	None	Corrective action taken in FY08	Finding was not repeated
06-33	93.044, 93.045, 93.053	DHHS	Inadequate controls to ensure accurate reporting; and non-compliance	None	Corrective action not completed in FY08	Finding was not repeated
06-34	93.044, 93.045, 93.053	DHHS	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	None	Corrective action not completed in FY08	Finding was not repeated
06-35	93.044, 93.045, 93.053	DHHS	Inadequate controls to ensure the accuracy of meal counts reported	None	Corrective action taken in FY08	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
06-36	93.268	DAFS	Inadequate controls to ensure accurate reporting; and non-compliance	None	Corrective action taken in FY08	Management Letter comment issued in FY08
06-37	Various	DAFS	Inadequate controls to ensure accurate SEFA reporting; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated
06-38	93.268	DHHS	Inadequate controls to ensure compliance with provider contract monitoring requirements; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated
06-39	93.268	DHHS	Inadequate controls to ensure compliance with requirements to obtain independent certification of vaccine security; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated
06-40	93.283	DHHS	Inadequate controls to ensure compliance with allowable costs principles; and non-compliance	Not determinable	Corrective action not completed in FY08	08-25
06-42	93.558	DAFS	Inadequate controls to prevent federal draws in excess of reported expenditures; and non-compliance	$929,000	Corrective action taken in FY08	Finding was not repeated
06-43	Various	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY 08	08-30

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
06-44	93.558	DHHS	Inadequate controls to ensure compliance with performance reporting requirements; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated
06-45	93.558	DAFS	Inadequate controls to ensure accurate reporting of grant expenditures and transfers; and non-compliance	None	Corrective action not completed in FY08	Finding was not repeated
06-46	93.563	DAFS	Inadequate controls to ensure compliance with allowable costs principles; and non-compliance	None	Corrective action not completed in FY 08	08-38 08-70
06-47	93.563	DAFS	Inadequate controls to ensure accurate reporting; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated
06-48	93.563	DHHS	Inadequate controls to ensure timely actions on case records; and non-compliance	None	Corrective action not completed in FY08	08-34
06-49	93.575, 93.596	DAFS	Inadequate controls to ensure accurate reporting; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated
06-51	93.658, 93.659	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY08	08-39
06-52	93.658, 93.659	DHHS	Inadequate controls to ensure compliance with suspension and debarment requirements; and non-compliance	None	Corrective action not completed in FY08	08-41

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
06-53	93.658, 93.659	DAFS	Inadequate controls to ensure accurate reporting; and non-compliance	$22,602	Corrective action not completed in FY08	08-43
06-55	93.667	DHHS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action taken in FY08	Management Letter comment issued in FY08
06-57	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure costs are allowable; and non-compliance	$130,912	Corrective action taken in FY08	Finding was not repeated
06-58	93.775, 93.777, 93.778	DHHS	Claims management system has inadequate controls to ensure costs are allowable; and non-compliance	$12,173	Corrective action taken in FY08	Finding was not repeated
06-59	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure costs are allowable; and non-compliance	Not determinable	Corrective action taken in FY08	Finding was not repeated
06-60	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure case management costs are allowable; and non-compliance	$27,870	Awaiting final federal interpretation of requirements	Finding was not repeated
06-61	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure compliance with eligibility requirements; and non-compliance	$112	Corrective action taken in FY08	Finding was not repeated
06-62	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure costs are allowable under waiver program; and non-compliance	Not determinable	Corrective action taken in FY08	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
06-63	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure costs are allowable under waiver program; and non-compliance	Not determinable	Corrective action taken in FY08	Finding was not repeated
06-64	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure costs are allowable; and non-compliance	$8	Corrective action taken in FY08	Finding was not repeated
06-65	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure compliance with information system security requirements; and non-compliance	None	Corrective action not completed in FY08	Finding was not repeated
06-66	93.775, 93.777, 93.778, 93.767	DAFS and DHHS	Inadequate controls to ensure compliance with eligibility requirements; and non-compliance	$5,111	Corrective action not completed in FY08	08-57
06-67	93.775, 93.777, 93.778	DHHS	Cost of Care not deducted from payments to nursing home providers	$117	Corrective action not completed in FY08	08-50
06-68	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure costs are allowable; and non-compliance	$23	Corrective action not completed in FY08	Finding was not repeated
06-69	93.775, 93.777, 93.778	DHHS	Inadequate procedures for identifying, investigating, and referring cases of suspected Medicaid recipient fraud	None	Corrective action completed in FY08	Finding was not repeated
06-70	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure that timely eligibility re-determinations are performed; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
06-71	Various	DAFS and DHHS	Inadequate controls to ensure compliance with eligibility requirements; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated
06-72	93.775, 93.777, 93.778, 93.767	DAFS and DHHS	Inadequate controls to ensure compliance with eligibility requirements	None	Corrective action taken in FY08	Finding was not repeated
06-73	93.775, 93.777, 93.778	DAFS and DHHS	Inadequate controls to ensure accurate client case counts, which are used for allocating costs	None	Corrective action not completed in FY08	Finding was not repeated
06-74	93.775, 93.777, 93.778, 93.767	DHHS	Federal written approval not obtained for period of availability extension given to providers	None	Corrective action taken in FY08	Finding was not repeated
06-77	93.775, 93.777, 93.778	DHHS	HCBS Waiver report data cannot be verified	None	Corrective action not completed in FY08	Finding was not repeated
06-78	93.775, 93.777, 93.778	DHHS	Incorrect coding of crisis intervention services	None	Corrective action taken in FY08	Finding was not repeated
06-79	93.775, 93.777, 93.778, 93.767	DHHS	Inadequate follow-up in cases of suspected fraud	None	Corrective action taken in FY08	Finding was not repeated
06-80	93.775, 93.777, 93.778, 93.767	DHHS	Controls do not ensure adequate program integrity, surveillance, and review	None	Corrective action not completed in FY08	08-66
06-81	93.775, 93.777, 93.778	DAFS and DHHS	Claims processing and information retrieval system deficient	None	Corrective action not completed in FY08	08-64

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
06-82	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure compliance with information system security requirements	None	Corrective action not completed in FY08	Finding was not repeated
06-83	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure compliance with automated data processing requirements; and non-compliance	None	Corrective action not completed in FY08	08-61
06-84	93.775, 93.777, 93.778	DHHS	Incomplete documentation of Individual Care Plans	None	Corrective action taken in FY08	Finding was not repeated
06-85	93.775, 93.777, 93.778	DHHS	Inadequate surveillance and utilization review of prescription drugs and supplies	$11	Corrective action taken in FY08	Finding was not repeated
06-86	93.889	DHHS	Inadequate controls to ensure compliance with allowable costs principles; and non-compliance	Not determinable	Corrective action not completed in FY08	Finding was not repeated
06-87	93.889	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY08	Finding was not repeated
06-88	93.889	DAFS	Inadequate controls to ensure compliance with period of availability requirements; and non-compliance	$1,901,456	Corrective action not completed in FY08	Finding was not repeated
06-89	93.889	DAFS	Inadequate controls to ensure accurate reporting; and non-compliance	None	Corrective action not completed in FY08	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
06-90	93.889	DAFS	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	None	Corrective action taken in FY08	Finding was not repeated
06-91	97.004, 97.067	DVEM	Payroll certifications not obtained	None	Corrective action not completed in FY 08	08-73
06-92	97.004, 97.067	DVEM	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY 08	Management Letter comment issued in FY08
06-93	97.004, 97.067	DVEM	Inadequate controls to ensure compliance with earmarking requirements; and non-compliance	$671,000	Corrective action not completed in FY 08	Finding was not repeated
06-94	97.004, 97.067	DVEM	Inadequate controls to ensure compliance with period of availability requirements; and non-compliance	$121,303	Corrective action not completed in FY 08	Finding was not repeated
06-96	97.004, 97.067	DVEM	Inadequate controls to ensure accurate reporting; and non-compliance	None	Corrective action not completed in FY 08	Finding was not repeated
06-97	97.004, 97.067	DVEM	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	None	Corrective action not completed in FY 08	08-74
06-98	97.036	DVEM	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	None	Corrective action not completed in FY 08	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
06-99	Various	DAFS	Inadequate controls over the administration of federal funds	None	Corrective action taken in FY08	Finding was not repeated
06-100	Various	DAFS	Inadequate support for Federal Cash Transaction Report	None	Corrective action not completed in FY 08	08-31
06-101	w/c funds 038, 045, 046	DAFS	Excess working capital reserves	$15,800,000	Corrected in FY08	Finding was not repeated
07-09	10.551, 10.561	DAFS	Cash management requirements not followed	None	Corrective action taken in FY08	Finding was not repeated
07-10	10.553, 10.555, 10.556, 10.559	DOE	Federal matching requirement not met	None	Corrective action taken in FY08	Finding was not repeated
07-11	10.553, 10.555, 10.556, 10.559	DOE	Subrecipient monitoring requirements not followed	None	Corrective action taken in FY08	Finding was not repeated
07-12	10.553, 10.555, 10.556, 10.559	DOE	Automated inventory record-keeping system is not being used	None	Corrective action taken in FY08	Finding was not repeated
07-13	10.557	DHHS	Noncompliance with cash management requirements	None	Corrective action taken in FY08	Finding was not repeated
07-14	10.557	DHHS	Subrecipient monitoring requirements not followed	None	Corrective action taken in FY08	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	**CFDA Number**	**Agency**	**Description**	**Questioned Costs**	**FY08 status (refer to auditee's complete Corrective Action Plan)**	**FY08 Repeat Finding**
07-15	10.558	DAFS	Inadequate internal controls over and non-compliance with cash management requirements	None	Corrective action not completed in FY 08	08-12
07-16	10.558	DHHS	Subrecipient cash management requirements not followed	None	Corrective action not completed in FY08	Finding was not repeated
07-17	17.268	DAFS and DECD	Allowable costs requirements not followed	None	Corrective action not completed in FY 08	Finding was not repeated
07-18	17.268	DAFS and DECD	Reporting requirements not followed	None	Corrective action not completed in FY 08	Finding was not repeated
07-19	17.268	DECD	Federal cash management requirements not followed	None	Corrective action not completed in FY 08	Finding was not repeated
07-20	17.268	DECD	Suspension and debarment requirements not followed	None	Corrective action not completed in FY 08	Finding was not repeated
07-21	17.268	DECD	Subrecipient monitoring requirements not followed	None	Corrective action not completed in FY 08	Finding was not repeated
07-22	20.205	DOT	Unallowable bond service fees charged	$48,395	Corrective action taken in FY08	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
07-23	20.205	DOT	Davis-Bacon requirements not followed	None	Corrective action not completed in FY 08	08-15
07-24	66.605	DEP and DOA	Payroll certifications not prepared in accordance with applicable cost principles	None	Corrective action taken in FY08	Finding was not repeated
07-25	66.605	DEP	Suspension and debarment requirements not followed	None	Corrective action taken in FY08	Finding was not repeated
07-26	66.605	DEP	Subrecipient monitoring requirements not followed	None	Corrective action taken in FY08	Finding was not repeated
07-27	84.010, 84.027, 84.173	DAFS and DOE	Subrecipient cash management requirements not followed	None	Corrective action not completed in FY08	08-24
07-28	84.027, 84.173	DOE	Subrecipient maintenance of effort requirements not monitored	Not determinable	Corrective action taken in FY08	Finding was not repeated
07-29	84.126	DOL	Mileage reimbursements not made in accordance with State policy and federal regulations	$1,248	Corrective action taken in FY08	Finding was not repeated
07-30	84.126	DOL	Client service payments not adequately monitored	None	Corrective action not completed in FY08	08-19
07-31	84.126	DOL	The timeliness of eligibility decisions needs to be improved	None	Corrective action not completed in FY08	08-21
07-32	84.126	DOL	State and federal procurement procedures are not being followed	None	Corrective action not completed in FY08	08-22

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
07-33	93.268	DHHS	Federal cash management requirements not followed	None	Corrective action taken in FY08	Management Letter comment issued in FY08
07-34	93.268	DAFS	Untimely reporting	None	Corrective action taken in FY08	Management Letter comment issued in FY08
07-35	93.268	DAFS	Program funds expended beyond period of availability	$49,381	Corrective action taken in FY08	Management Letter comment issued in FY08
07-36	93.268	DHHS	Inadequate monitoring procedures for for-profit providers	None	Corrective action taken in FY08	Finding was not repeated
07-37	93.268	DHHS	Monitoring certifications not obtained	None	Corrective action taken in FY08	Finding was not repeated
07-38	93.283	DHHS	Payroll costs not adequately supported	Not determinable	Corrective action not completed in FY 08	08-25
07-39	93.558	DAFS	Excessive computer costs charged	$303,000	Corrective action not completed in FY08	Finding was not repeated
07-40	93.558	DAFS	Report revisions not filed	None	Corrective action not completed in FY08	08-29
07-41	93.558	DHHS	Excessive benefits paid to TANF clients	$729	Corrective action not completed in FY08	08-27

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
07-42	93.558	DHHS	Eligibility determinations not adequately supported	None	Corrective action not completed in FY08	08-28
07-43	93.558	DHHS	Inaccurate performance reports	None	Corrective action taken in FY08	Finding was not repeated
07-44	93.563	DAFS	Payroll certifications not obtained	None	Corrective action taken in FY08	Finding was not repeated
07-45	93.563	DAFS	Child Support Enforcement grant overdrawn	$1,888,000	Corrective action not completed in FY08	08-32
07-46	93.563	DAFS	State match not monitored	None	Corrective action taken in FY08	Finding was not repeated
07-47	93.563	DAFS	Incorrect expenditures reported	None	Corrective action taken in FY08	Finding was not repeated
07-48	93.563	DHHS	Untimely case record establishment	None	Corrective action not completed in FY08	08-34
07-49	93.596	DHHS	Inadequate subrecipient monitoring	None	Corrective action taken in FY08	Finding was not repeated
07-50	93.575, 93.596	DAFS	Period of availability of grant funds not properly monitored	None	Corrective action taken in FY08	Finding was not repeated
07-51	93.575, 93.596	DAFS	Inaccurate financial reporting	None	Corrective action taken in FY08	Finding was not repeated
07-52	93.658	DHHS	Payments made on behalf of ineligible clients	$12,030	Corrective action taken in FY08	Management Letter comment issued in FY08

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
07-53	93.658, 93.659	DAFS	Title IV-E cost allocation plan not followed	$270,345	Corrective action not completed in FY08	Finding was not repeated
07-54	93.658, 93.659	DAFS	Federal cash management requirements not followed	None	Corrective action not completed in FY08	08-39
07-55	93.658, 93.659	DAFS	Inadequate matching procedures	None	Corrective action not completed in FY08	08-40
07-56	93.658, 93.659	DAFS	Inaccurate financial reports	None	Corrective action not completed in FY08	08-43
07-57	93.658, 93.659	DHHS	Lack of internal controls to ensure payments are not made to suspended or debarred parties	None	Corrective action not completed in FY08	08-41
07-58	93.659	DHHS	Unintentional changes in eligibility status	None	Corrective action not completed in FY08	Finding was not repeated
07-59	93.667	DAFS	Federal cash management requirements not followed	None	Corrective action taken in FY08	Management Letter comment issued in FY08
07-60	93.667	DAFS	Federal expenditure report not filed	None	Corrective action taken in FY08	Finding was not repeated
07-61	93.767	DHHS	Budgetary controls involving payments to certified seed providers are not effective	$18,523	Corrective action not completed in FY08	08-46

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
07-62	93.775, 93.777, 93.778	DAFS	Cost of Care payments not credited to federal funds	$146,385	Corrective action not completed in FY08	08-54
07-63	93.775, 93.777, 93.778	DAFS and DHHS	Cost of Care payments for nursing homes not credited to federal funds	$633	Corrective action not completed in FY08	08-50
07-64	93.775, 93.777, 93.778	DAFS and DHHS	Noncompliance with Automatic Data Processing risk analysis and system security review requirements	None	Corrective action not completed in FY08	08-61
07-65	93.775, 93.777, 93.778	DAFS and DHHS	Claims processing and information retrieval system deficient	None	Corrective action not completed in FY08	08-64
07-66	93.775, 93.777, 93.778, 93.767	DAFS and DHHS	Federal matching requirement not met	$17	Corrective action taken in FY08	Finding was not repeated
07-67	93.775, 93.777, 93.778, 93.767	DHHS	Third party liability data incomplete; cost avoidance and recovery not maximized	See 07-69	Corrective action not completed in FY08	08-48
07-68	93.775, 93.777, 93.778, 93.767	DAFS and DHHS	Waiver costs funded by incorrect program	$203,000	Corrective action not completed in FY08	08-45
07-69	93.775, 93.777, 93.778, 93.767	DHHS	Eligibility determinations incorrect	$35,238 $98,427	Corrective action not completed in FY08	08-57

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
07-70	93.775, 93.777, 93.778	DHHS	OMS unauthorized approval of non-timely claim filing	None	Corrective action taken in FY08	Finding was not repeated
07-71	93.775, 93.777, 93.778	DHHS	Payments exceed authorized amounts; insufficient claims payment controls	$5,455	Corrective action taken in FY08	Finding was not repeated
07-72	93.775, 93.777, 93.778	DHHS	Rates paid to Medicaid providers not adequately supported	None	Corrective action not completed in FY08	08-51
07-73	93.775, 93.777, 93.778	DHHS	Medicaid Eligibility Quality Control procedures not met	None	Corrective action not completed in FY08	08-58
07-74	93.775, 93.777, 93.778	DHHS	HCBS Waiver rates not supported and include unallowable costs	Not determinable	Corrective action taken in FY08	Finding was not repeated
07-75	93.775, 93.777, 93.778	DHHS	Katie Beckett clients not eligible	$225,882	Corrective action taken in FY08	Finding was not repeated
07-76	93.775, 93.777, 93.778	DHHS	Program eligibility determinations related to Adoption Assistance cases inadequate	$39,785	Corrective action taken in FY08	Management Letter comment issued in FY08
07-77	93.775, 93.777, 93.778	DHHS	Inadequate surveillance and utilization review of Medicaid services	None	Corrective action not completed in FY08	08-66
07-78	93.775, 93.777, 93.778	DHHS	No verification method for services furnished to recipients	None	Corrective action not completed in FY08	08-63

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
07-79	93.775, 93.777, 93.778	DHHS	Katie Beckett waiver requirements not met	Not determinable	Corrective action not completed in FY08	08-52
07-80	93.959	DAFS	Excess cash related to audit settlements	Not determinable	Corrective action not completed in FY08	Finding was not repeated
07-81	93.959	DAFS	Financial reports not submitted	None	Corrective action not completed in FY08	Finding was not repeated
07-82	96.001	DHHS	Cost principles related to personal services not followed	None	Corrective action not completed in FY08	08-68
07-83	96.001	DHHS	Noncompliance with suspension and debarment requirements	None	Corrective action not completed in FY08	08-69
07-84	97.004, 97.067	DVEM	Payroll costs are not supported in accordance with federal requirements	$57,000	Corrective action not completed in FY 08	08-73
07-85	97.004, 97.067	DVEM	Inadequate controls to ensure compliance with earmarking requirements	Not determinable	Corrective action not completed in FY 08	Finding was not repeated
07-86	97.004, 97.067	DVEM	Program funds expended beyond period of availability	$33,870	Corrective action not completed in FY 08	Finding was not repeated
07-87	97.004, 97.067	DVEM	Inaccurate financial reporting	None	Corrective action not completed in FY 08	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	CFDA Number	Agency	Description	Questioned Costs	FY08 status (refer to auditee's complete Corrective Action Plan)	FY08 Repeat Finding
07-88	97.004, 97.067	DVEM	Subrecipient monitoring requirements not followed	None	Corrective action not completed in FY 08	08-74
07-89	Various	DOE	Subrecipient monitoring efforts not effective	None	Corrective action not completed in FY08	08-07
07-90	Various	DAFS	Federal cash management requirements not followed	None	Corrective action not completed in FY08	08-06 08-18
07-91	Various	DAFS	Cost allocation plan not followed and allocated costs not properly reported	None	Corrective action not completed in FY08	08-38 08-70
07-92	Various	DAFS	Cash management requirements not consistently followed	None	Corrective action not completed in FY08	08-30
07-93	Various	DAFS	Inaccurate SEFA reporting	None	Corrective action taken in FY08	Finding was not repeated
07-94	Various	DAFS	Inadequate support for PSC-272 reports	None	Corrective action not completed in FY08	08-31
07-95	Various	DAFS	Administration of federal funds inadequate	None	Corrective action taken in FY08	Finding was not repeated
07-96	Various	DAFS	Federal share of excess reserves in Internal Service Fund not returned	$1,396,601	Corrected in FY08	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2008

Finding Number	**CFDA Number**	**Agency**	**Description**	**Questioned Costs**	**FY08 status (refer to auditee's complete Corrective Action Plan)**	**FY08 Repeat Finding**
07-97	Various	DAFS	Excess working capital reserves (Risk Mgmt Fund)	$275,000	Corrected in FY08	Finding was not repeated
07-98	Various	DAFS	Excess working capital reserves (Retiree Health Insurance Fund)	$15,142,659	Corrected in FY08	Finding was not repeated

Printed under appropriation 014 27A 006704