

7-31-2000

# Single Audit Report Fiscal Year Ended June 30, 1999

Maine Office of the State Auditor

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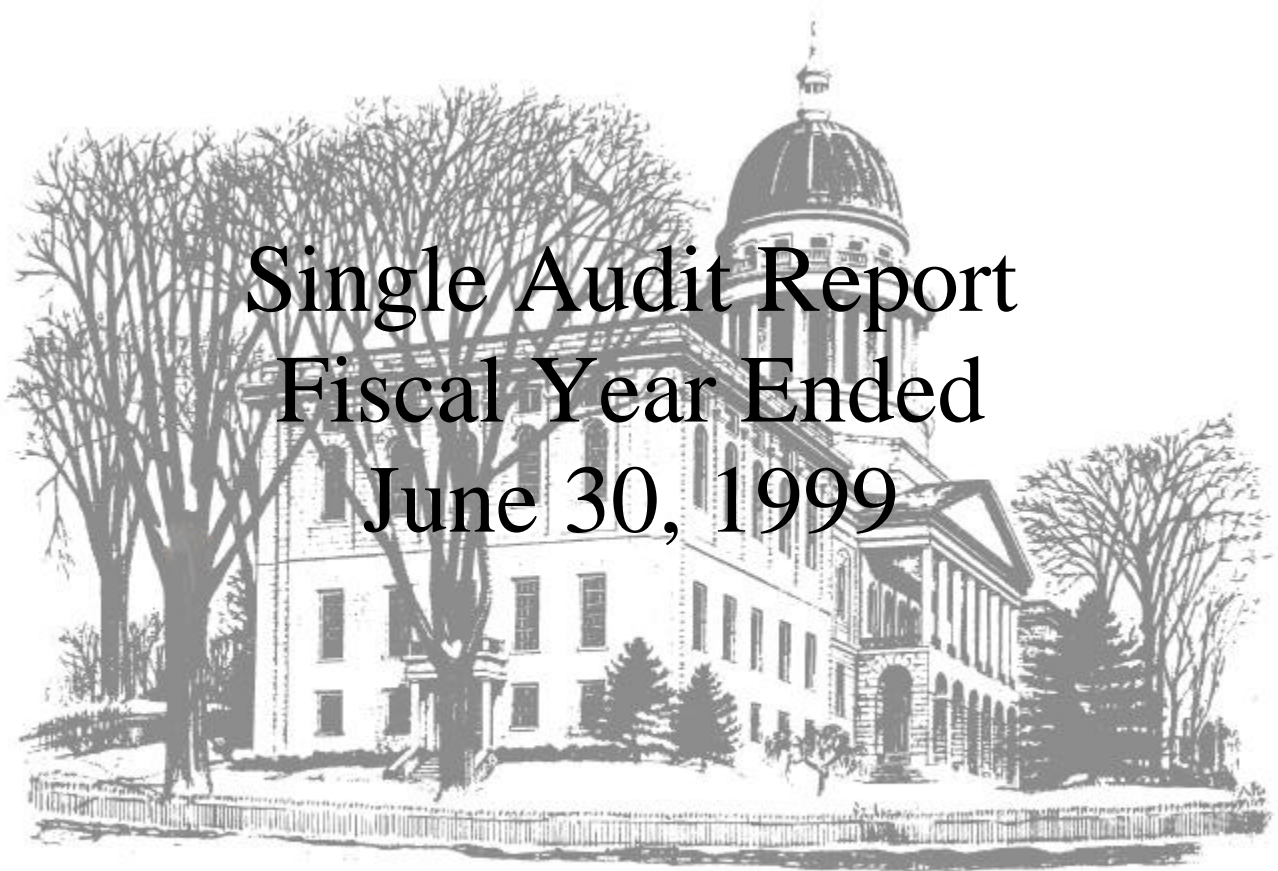
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# State of Maine



## Single Audit Report Fiscal Year Ended June 30, 1999

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



# STATE OF MAINE

## SINGLE AUDIT REPORT

### FOR THE YEAR ENDED JUNE 30, 1999

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**GAIL M. CHASE, CIA**  
STATE AUDITOR

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### **Letter of Transmittal**

Senator Mark Lawrence  
President of the Senate

Representative G. Steven Rowe  
Speaker of the House of Representatives

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

Mr. John Fisher, Manager  
National External Audit Review Center  
U.S. Department of Health and Human Services

We are pleased to submit the Single Audit of the State of Maine for the fiscal year ended June 30, 1999. This report complies with the State's audit requirements, including those placed upon the State as a condition for the receipt of approximately \$1.5 billion in federal funds. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; the requirements of the Single Audit Act Amendments of 1996; and the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

This document contains the following reports and schedules:

- Independent Auditor's Report
- Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*
- Report on Compliance With Requirements Applicable To Each Major Program, Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards in Accordance With OMB Circular A-133



- Schedule of Expenditures of Federal Awards
- Schedule of Findings and Questioned Costs
- Corrective Action Plan
- Summary Schedule of Prior Audit Findings

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

We would be pleased to respond to any questions or comments about the 1999 Single Audit of the State of Maine.

Respectfully submitted,

Gail M. Chase, CIA  
State Auditor

July 31, 2000

# EXECUTIVE SUMMARY

## **Introduction:**

The *Single Audit of the State of Maine* is a financial and compliance audit that fulfills State and Federal requirements. The audit is of the general-purpose financial statements of the State of Maine. These statements include all funds, organizations, institutions, agencies, departments and offices of the State, as well as eleven entities that meet the criteria for component units due to the significance of their operational or financial relationships with the State. To satisfy the needs of report users, and to be in compliance with federal regulation, the *Single Audit* is presented in three individual reports: the *Independent Auditor's Report*; the *Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*; and the *Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133*. There is also a separately issued management letter.

## **Results:**

Our audit resulted in a qualified audit opinion. Controls over accounting and financial management systems are not adequate to report some amounts or to support others. For certain federal programs, controls are insufficient to ensure compliance with program rules and regulations. There were instances of noncompliance with laws, rules or regulations that were not material either to the financial statements or to a major federal program. We found no instances of fraud, illegal acts or other irregularities.

## **Opinion:**

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

- Inadequate systems to report capital leases
- Omission of General Fixed Assets Account Group
- Inadequate disclosure of pension information

In our opinion, amounts reported on the Schedule of Expenditures of Federal Awards were fairly stated.

### **Financial Statement Controls and Compliance:**

We identified five reportable conditions relating to deficiencies in internal controls that could adversely affect the State's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These conditions are described in detail in the accompanying Schedule of Findings and Questioned Costs as items 99-01 through 99-05 and are as follows:

- Incomplete fixed assets records
- Inadequate internal control system to identify capital leases
- Inadequate accounts payable procedures
- Understatement of Lottery Prize Reserve Account
- Untimely clearing of bank account reconciling items

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

### **Federal Funds Controls and Compliance:**

We identified 23 reportable conditions relating to significant deficiencies in the design or operation of controls over compliance that could adversely impact the State's ability to administer a major federal program in accordance with the requirements of laws, regulations, contracts and grants. These conditions related to the following areas:

- Matching requirements
- Cash management requirements
- Accounting for and reporting of federal funds
- Expenditure of funds within the period of availability
- Earmarking requirements
- Cost allowability and allocation
- Eligibility of providers
- Retention of documentation to support expenditures
- Pass-through responsibilities
- Subrecipient monitoring
- Reconciliation of records

There were nine additional instances of noncompliance that are required to be reported in compliance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The reportable conditions and instances of noncompliance are identified as items 99-06 through 99-37 in the accompanying Schedule of Findings and Questioned Costs.

Fifteen of the deficiencies resulted in questioned costs that totaled \$3,225,614. Questioned costs represent the amount of federal financial assistance that we believe was not spent in compliance with program rules or regulations or that was insufficiently documented for us to determine compliance. The federal government may, or may not, disallow these costs and require reimbursement from the State.

**Other:**

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

**Conclusion:**

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





**GAIL M. CHASE, CIA**  
STATE AUDITOR

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DIRECTOR OF AUDITS

### **Independent Auditor's Report**

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

We have audited the accompanying general purpose financial statements of the State of Maine, as of and for the year ended June 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the State of Maine's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the discretely presented component units listed in Note 1, which represent 100 percent of the total assets and 100 percent of the total revenues of the component unit column, 100 percent of the changes in pension plan net assets and 100 percent of the assets and 100 percent of the revenues of the college and university component unit funds. We did not audit the financial statements of the Maine Governmental Facilities Authority, which represents .07 percent of the assets and .01 percent of the total revenues of the Special Revenue Fund Type. Those financial statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the discretely presented component units and for the Maine Governmental Facilities Authority, is based solely on the reports of the other auditors.

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

Because the State of Maine does not maintain adequate systems to identify, classify and report capital leases in conformity with generally accepted accounting principles, we were unable to satisfy ourselves regarding the amounts at which fixed assets (stated at \$44.9 million), and obligations under capital leases (stated at \$1.5 million) are recorded in the Internal Service Fund.

The general purpose financial statements referred to above do not include the General Fixed Assets Account Group which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the General Fixed Assets Account Group is not known.

The State's financial statements include pension information as audited by other auditors. The Statement of Changes in Pension Plan Net Assets is presented as if the Maine State Retirement System were the administrator of a single plan. Also, Notes 1 and 9 to the financial statements state that the System is the administrator of an agent, multiple-employer system. Further, Note 9 states that Maine State Retirement System management's interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries, and that the System is therefore regarded as administering a single plan for reporting purposes. The State's legal counsel does not agree with the accumulated assets representation. In our opinion, there is more than one pension plan and additional disclosure is required to conform with generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, except for the effect on the financial statements of the omission and representation described in the first preceding paragraph, the omissions described in the second preceding paragraph, and the effect of such adjustments, if any, as might have been determined to be necessary had records concerning capital leases been adequate (discussed in the third preceding paragraph), the general purpose financial statements referred to in the first paragraph (as included in the table of contents) present fairly, in all material respects, the financial position of the State of Maine, as of June 30, 1999, and the results of its operations and the cash flows of its proprietary fund types, nonexpendable trust funds and discretely presented component units, the changes in pension plan net assets, and the changes in fund balances and current funds revenues, expenditures, and other changes of the college and university funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we will issue our report dated January 31, 2000, on our consideration of the State of Maine's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts and grants.

As discussed in Note 19 to the financial statements, the State of Maine implemented Governmental Accounting Standards Board Statement No.32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.

The schedules of funding progress and employer contributions for the State retirement plan and the Participating Local District plan are not required parts of the basic financial statements but are

supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 3 to the financial statements, the fund balances of the General Fund, Special Revenue Fund, Expendable Trust Fund, and the retained earnings and contributed capital of the Internal Service Fund, have been restated. In addition, the fund balance and retained earnings of the Component Units have been restated.

Gail M. Chase, CIA  
State Auditor

January 31, 2000





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# **GENERAL PURPOSE FINANCIAL STATEMENTS**

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**June 30, 1999**  
**(Dollars in Thousands)**

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

Primary Government						
Proprietary Fund Types		Fiduciary Fund Types	Account Group	Total (Memorandum Only)		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Long-Term Obligations	Primary Government	Component Units	Reporting Entity
\$ 10,427	\$ 51,122	\$ 11,195	\$ -	\$ 431,369	\$ 549,195	\$ 980,564
-	1,817	2	-	21,885	15,563	37,448
-	-	72,339	-	459,752	7,497,594	7,957,346
-	-	-	-	7,330	-	7,330
-	-	183,363	-	183,363	-	183,363
-	-	43,726	-	44,061	597	44,658
-	-	217,934	-	217,934	-	217,934
2	-	26,852	-	302,255	-	302,255
-	-	-	-	159,232	923,937	1,083,169
6,618	-	-	-	7,860	2,044,036	2,051,896
-	-	-	-	-	33,865	33,865
8,552	966	-	-	80,407	97,596	178,003
8	9,776	3	-	20,033	9,686	29,719
-	-	-	-	-	35,300	35,300
2,984	5,041	-	-	28,404	4,972	33,376
54,807	44,914	-	-	99,721	381,053	480,774
-	-	-	-	1,405	-	1,405
311	457	22	-	5,719	69,765	75,484
-	-	-	606,533	606,533	-	606,533
<u>\$ 83,709</u>	<u>\$ 114,093</u>	<u>\$ 555,436</u>	<u>\$ 606,533</u>	<u>\$ 2,677,263</u>	<u>\$ 11,663,159</u>	<u>\$ 14,340,422</u>
\$ 7,176	\$ 4,673	\$ 503	\$ -	\$ 265,680	\$ 23,389	\$ 289,069
342	883	-	-	26,041	5,729	31,770
428	1,072	-	28,987	33,779	240	34,019
-	-	-	-	87,485	-	87,485
-	-	-	-	41,122	16,484	57,606
3,279	348	5,250	-	20,033	9,686	29,719
938	-	-	-	35,300	-	35,300
-	-	43,450	-	43,450	-	43,450
-	86,113	-	-	86,113	-	86,113
-	-	-	-	-	29,992	29,992
5,423	202	3,149	-	66,678	142,240	208,918
-	19,281	-	4,281	23,562	-	23,562
-	1,478	-	-	1,478	31	1,509
-	-	-	76,295	76,295	-	76,295
-	-	-	-	-	85,012	85,012
334	5,837	1,770	-	107,191	44,827	152,018
-	-	-	-	-	2,301	2,301
-	-	-	496,970	497,526	3,226,158	3,723,684
1,000	180	-	-	1,405	-	1,405
<u>18,920</u>	<u>120,067</u>	<u>54,122</u>	<u>606,533</u>	<u>1,413,138</u>	<u>3,586,089</u>	<u>4,999,227</u>
56,586	27,376	-	-	83,962	-	83,962
-	-	-	-	-	366,198	366,198
8,203	(33,350)	-	-	(25,147)	63,071	37,924
-	-	7	-	377,486	-	377,486
-	-	241,968	-	241,968	-	241,968
-	-	20,614	-	20,614	-	20,614
-	-	-	-	131,689	-	131,689
-	-	-	-	-	6,933,090	6,933,090
-	-	-	-	19,787	575	20,362
-	-	-	-	57,680	14,175	71,855
-	-	-	-	42,354	372,118	414,472
-	-	-	-	-	309,095	309,095
-	-	238,725	-	313,732	18,748	332,480
<u>64,789</u>	<u>(5,974)</u>	<u>501,314</u>	<u>-</u>	<u>1,264,125</u>	<u>8,077,070</u>	<u>9,341,195</u>
<u>\$ 83,709</u>	<u>\$ 114,093</u>	<u>\$ 555,436</u>	<u>\$ 606,533</u>	<u>\$ 2,677,263</u>	<u>\$ 11,663,159</u>	<u>\$ 14,340,422</u>

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

Fiscal Year Ended June 30, 1999  
(Dollars in Thousands)

	Primary Government						
	Governmental Fund Types				Fiduciary Fund Type		
	General	Special Revenue	Capital Projects	Expendable Trust	Total (Memorandum Only) Primary Government	Component Unit	Total (Memorandum Only) Reporting Entity
Revenues:							
Taxes	\$ 2,157,383	\$ 193,112	\$ -	\$ 127,283	\$ 2,477,778	\$ -	\$ 2,477,778
Assessments and Other Revenues	58,982	120,015	-	-	178,997	-	178,997
Federal Grants and Reimbursements	564	1,469,667	-	-	1,470,231	-	1,470,231
Service Charges	26,311	57,328	-	-	83,639	3,426	87,065
Received and Receivable from Institutions	-	-	-	-	-	72,921	72,921
Income from Investments	19,759	9,139	-	33,671	62,569	11,215	73,784
Net Increase in the Fair Value of Investments	-	-	-	3,006	3,006	(44)	2,962
Miscellaneous Revenues	120	50,344	3,378	19,381	73,223	3,814	77,037
Total Revenues	2,263,119	1,899,605	3,378	183,341	4,349,443	91,332	4,440,775
Expenditures:							
General Government	235,004	171,463	956	7,579	415,002	187,347	602,349
Economic Development	22,399	65,916	-	-	88,315	-	88,315
Education and Culture	799,748	96,587	14,205	-	910,540	-	910,540
Human Services	740,883	1,075,227	249	-	1,816,359	-	1,816,359
Labor	12,022	69,990	-	85,451	167,463	-	167,463
Natural Resources	43,713	55,545	12,542	-	111,800	-	111,800
Public Protection	21,482	59,785	826	-	82,093	-	82,093
Transportation	4,286	294,982	40,304	-	339,572	-	339,572
Debt Service:							
Principal Payments	57,235	23,440	-	-	80,675	26,357	107,032
Interest Payments	18,468	8,444	-	-	26,912	46,272	73,184
Total Expenditures	1,955,240	1,921,379	69,082	93,030	4,038,731	259,976	4,298,707
Revenues over (under) Expenditures	307,879	(21,774)	(65,704)	90,311	310,712	(168,644)	142,068
Other Financing Sources (Uses):							
Operating Transfers In	84,942	156,272	1,909	-	243,123	-	243,123
Operating Transfers Out	(153,533)	(20,027)	(5,192)	(6,802)	(185,554)	(12,952)	(198,506)
Bond Proceeds	-	10,350	71,285	-	81,635	229,510	311,145
Transfers from Component Units	1,287	-	-	-	1,287	-	1,287
Transfers to Component Units	(229,293)	(21,661)	(4,000)	-	(254,954)	-	(254,954)
Net Other Financing Sources (Uses)	(296,597)	124,934	64,002	(6,802)	(114,463)	216,558	102,095
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	11,282	103,160	(1,702)	83,509	196,249	47,914	244,163
Fund Balances at Beginning of Year (As Restated)	332,738	199,136	59,382	397,191	988,447	129,885	1,118,332
Fund Balances at End of Year	\$ 344,020	\$ 302,296	\$ 57,680	\$ 480,700	\$ 1,184,696	\$ 177,799	\$ 1,362,495

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

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

Fiscal Year Ended June 30, 1999  
(Dollars in Thousands)

	General Fund			Special Revenue Fund		
	Actual	Budget	Variance Favorable/ (Unfavorable)	Actual	Budget	Variance Favorable/ (Unfavorable)
Revenues:						
Taxes	\$ 2,170,663	\$ 2,075,661	\$ 95,002	\$ 210,503	\$ 216,974	\$ (6,471)
Assessments and Other Revenues	58,982	53,957	5,025	120,015	149,945	(29,930)
Federal Grants and Reimbursements	8,436	9,710	(1,274)	1,367,565	1,657,529	(289,964)
Service Charges	31,997	16,430	15,567	78,566	109,482	(30,916)
Miscellaneous Revenues	17,159	27,563	(10,404)	137,589	96,206	41,383
Total Revenues	<u>2,287,237</u>	<u>2,183,321</u>	<u>103,916</u>	<u>1,914,238</u>	<u>2,230,136</u>	<u>(315,898)</u>
Expenditures:						
General Government	311,876	337,458	25,582	151,154	222,902	71,748
Economic Development	36,942	38,596	1,654	64,455	93,766	29,311
Education and Culture	1,009,444	1,014,458	5,014	98,194	112,184	13,990
Human Services	723,358	751,508	28,150	1,114,993	1,217,749	102,756
Labor	12,603	15,927	3,324	69,405	115,229	45,824
Natural Resources	43,854	47,100	3,246	56,603	94,162	37,559
Public Protection	21,579	23,338	1,759	60,071	76,021	15,950
Transportation	4,286	4,580	294	325,914	456,768	130,854
Total Expenditures	<u>2,163,942</u>	<u>2,232,965</u>	<u>69,023</u>	<u>1,940,789</u>	<u>2,388,781</u>	<u>447,992</u>
Excess Revenues over (under) Expenditures	<u>123,295</u>	<u>(49,644)</u>	<u>172,939</u>	<u>(26,551)</u>	<u>(158,645)</u>	<u>132,094</u>
Other Financing Sources (Uses):						
Operating Transfers In	86,640	72,889	13,751	166,535	145,737	20,798
Operating Transfers Out	(153,533)	(140,122)	(13,411)	(21,227)	(9,522)	(11,705)
Net Other Financing Sources (Uses)	<u>(66,893)</u>	<u>(67,233)</u>	<u>340</u>	<u>145,308</u>	<u>136,215</u>	<u>9,093</u>
Excess Revenues and Other Sources over (under) Expenditures and Other Uses	56,402	\$ <u>(116,877)</u>	\$ <u>173,279</u>	118,757	\$ <u>(22,430)</u>	\$ <u>141,187</u>
Beginning Fund Balances	<u>445,892</u>			<u>247,643</u>		
Ending Fund Balances	\$ <u>502,294</u>			\$ <u>366,400</u>		

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



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

Fiscal Year Ended June 30, 1999  
(Dollars in Thousands)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Types	Total	Component
	Enterprise	Internal Service	Nonexpendable Trusts	(Memorandum Only)	Units
Operating Revenues:					
Charges for Services	\$ 225,871	\$ 132,126	\$ -	\$ 357,997	\$ -
Interest on Loans Receivable from Governmental Units	-	-	-	-	46,422
Income from Investments	-	-	856	856	35,384
Fair Value Increases (Decreases)	-	-	1,188	1,188	313
Interest Income from Mortgages and Notes	-	-	-	-	81,426
Grant Revenue from Other Governments	-	-	-	-	45,536
Federal Rent Subsidy Income	-	-	-	-	51,624
Reinsurance Recoveries - Guaranteed Student Loans	-	-	-	-	2,552
Miscellaneous Revenues	148	256	-	404	17,253
Total Operating Revenues	<u>226,019</u>	<u>132,382</u>	<u>2,044</u>	<u>360,445</u>	<u>280,510</u>
Operating Expenses:					
General Operations	167,825	101,508	-	269,333	20,929
Depreciation	2,936	9,097	-	12,033	391
Interest Expense	50	942	-	992	135,293
Grant Related Expenses	-	-	-	-	39,207
Federal Rent Subsidy Expense	-	-	-	-	51,624
Claims/Fees Expense	-	7,646	-	7,646	-
Miscellaneous Expenses	-	-	-	-	16,811
Total Operating Expenses	<u>170,811</u>	<u>119,193</u>	<u>-</u>	<u>290,004</u>	<u>264,255</u>
Operating Income (Loss)	<u>55,208</u>	<u>13,189</u>	<u>2,044</u>	<u>70,441</u>	<u>16,255</u>
Nonoperating Revenue (Expenses):	<u>1,205</u>	<u>1,891</u>	<u>-</u>	<u>3,096</u>	<u>325</u>
Income (Loss) before Operating Transfers	<u>56,413</u>	<u>15,080</u>	<u>2,044</u>	<u>73,537</u>	<u>16,580</u>
Transfers In (Out):					
Transfers In	2,859	-	-	2,859	-
Transfers Out	(60,428)	-	-	(60,428)	(1,141)
Transfers from Primary Government	-	-	-	-	44,420
Transfers to Primary Government	-	-	-	-	(1,287)
Total Operating Transfers	<u>(57,569)</u>	<u>-</u>	<u>-</u>	<u>(57,569)</u>	<u>41,992</u>
Income (Loss) before Extraordinary Item	<u>(1,156)</u>	<u>15,080</u>	<u>2,044</u>	<u>15,968</u>	<u>58,572</u>
Income (Loss) from Extraordinary Item:					
Loss on Bond Redemption	-	-	-	-	(1,466)
Net Income	<u>(1,156)</u>	<u>15,080</u>	<u>2,044</u>	<u>15,968</u>	<u>57,106</u>
Add: Depreciation of Fixed Assets Acquired from Contributed Capital	<u>2,323</u>	<u>338</u>	<u>-</u>	<u>2,661</u>	<u>-</u>
Increase (Decrease) in Retained Earnings/Fund Balances	1,167	15,418	2,044	18,629	57,106
Retained Earnings/Fund Balances at July 1, 1998 (As Restated)	<u>7,036</u>	<u>(48,768)</u>	<u>18,569</u>	<u>(23,163)</u>	<u>372,164</u>
Retained Earnings/Fund Balances at June 30, 1999	<u>\$ 8,203</u>	<u>\$ (33,350)</u>	<u>\$ 20,613</u>	<u>\$ (4,534)</u>	<u>\$ 429,270</u>
Contributed Capital at July 1, 1998 (As Restated)	54,394	27,330		81,724	
Add: Capital Contributions	4,515	384		4,899	
Less: Depreciation of Fixed Assets Acquired from Contributed Capital	<u>(2,323)</u>	<u>(338)</u>		<u>(2,661)</u>	
Contributed Capital at June 30, 1999	<u>\$ 56,586</u>	<u>\$ 27,376</u>		<u>\$ 83,962</u>	

The accompanying notes are an integral part of the financial statement



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

Fiscal Year Ended June 30, 1999  
(Dollars in Thousands)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Type	Total	Component Units
	Enterprise	Internal Service	Nonexpendable Trusts	(Memorandum Only)	
Cash Flows from Operating Activities:					
Net Income	\$ (1,156)	\$ 15,080	\$ 2,044	\$ 15,968	\$ 57,105
Adjustments to Reconcile Net Income to					
Net Cash Provided by Operating Activities:					
Investments and Other Income	-	-	(856)	(856)	(23,152)
Depreciation/Amortization	2,935	9,097	-	12,032	3,003
Amortization	-	-	-	-	439
Accretion on Capital Appreciation of Bonds	-	-	-	-	1,347
Net Increase in Fair Value of Investments	-	-	(1,188)	(1,188)	2,738
Interest on Bonds and Other Investments	-	-	-	-	68,193
Interest Income on Mortgages, Notes and Loans	-	-	-	-	(31,797)
Grants from Federal Government and Primary Government	-	-	-	-	(41,680)
Provision for Losses on Insured Commercial and Student Loans	-	-	-	-	(64)
Extraordinary Loss on Early Extinguishment of Bonds	-	-	-	-	33
Changes in Assets and Liabilities:					
Accounts Receivable	-	-	-	-	(220)
Other Receivable	383	1,558	-	1,941	464
Loans Receivable	1,201	-	-	1,201	(117,647)
Receivable Reserves	(535)	(2)	-	(537)	-
Due from Other Funds	(5)	(872)	-	(877)	-
Inventories	72	(663)	-	(591)	-
Accrued Interest Receivable from					
Governmental Units	-	-	-	-	30
Other Assets	(261)	171	(21)	(111)	(448)
Accounts Payable	962	(917)	-	45	3,812
Accrued Payroll	142	(142)	-	-	-
Compensated Absences	(43)	86	-	43	-
Due to Other Funds	1,873	(66)	-	1,807	-
Due to Component Unit	(286)	-	-	(286)	-
Deferred Revenue	(32)	2,592	-	2,560	3,246
Working Capital Payable	-	(106)	-	(106)	-
Claims and Judgments	-	(6,466)	-	(6,466)	-
Other Accrued Liabilities	(918)	(269)	21	(1,166)	2,468
Default Payments (Net of Recoveries) on Commercial and					
Student Loans	-	-	-	-	(1,089)
Principal Payments Received on Notes Receivable	-	-	-	-	10,959
Interest Received on Educational Loans	-	-	-	-	83,583
Disbursements for New Notes Receivable	-	-	-	-	(5,765)
Educational Loans Originated	-	-	-	-	(9,557)
Educational Loans Originated for Sale to Related Party	-	-	-	-	(53,707)
Sale of Educational Loans to Related Party	-	-	-	-	59,764
Increase in Amounts Held in State Revolving Loan Programs	-	-	-	-	2,091
Grant Program Funds Received (Disbursed)	-	-	-	-	(1,987)
Net Cash Provided by Operating Activities	\$ 4,332	\$ 19,081	\$ -	\$ 23,413	\$ 12,162

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

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

Fiscal Year Ended June 30, 1999  
(Dollars in Thousands)  
(continued)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Type	Total (Memorandum Only)	Component Units
	Enterprise	Internal Service	Nonexpend- able Trusts		
Cash Flows from Noncapital Financing Activities:					
Proceeds from Bonds & Notes Payable	\$ -	\$ -	\$ -	\$ -	\$ 282,216
Principal Paid on Bonds & Notes Payable	-	-	-	-	(180,480)
Interest Paid on Bonds & Notes Payable	-	-	-	-	(127,508)
Grant Receipts from Other Governments	-	-	-	-	46,185
Capital Contributions	-	234	-	234	-
Change in Retained Earnings	-	(315)	-	(315)	-
Miscellaneous Noncapital Financing Activities	-	-	-	-	(259)
Net Cash Provided by Noncapital Financing Activities	-	(81)	-	(81)	20,154
Cash Flows from Capital and Related Financing Activities:					
Proceeds from Bonds & Notes Payable	-	9,171	-	9,171	-
Additions to Land and Buildings	(5,459)	(11,014)	-	(16,473)	(100)
Principal Payments on Bonds and Notes	-	(6,111)	-	(6,111)	-
Obligations under Capital Leases	-	1,478	-	1,478	-
Capital Contributions	4,515	150	-	4,665	-
Net Cash Provided by Capital and Related Financing Activities	(944)	(6,326)	-	(7,270)	(100)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	-	-	-	-	289,905
Purchase of Investments	-	-	(1,691)	-	(318,059)
Income Received from Investments	-	-	857	857	32,667
Miscellaneous Activities	-	-	-	-	(729)
Net Cash Provided by Investing Activities	-	-	(834)	(834)	3,784
Increase (Decrease) in Cash and Cash Equivalents	3,388	12,674	(834)	15,228	36,000
Cash and Cash Equivalents at Beginning of Year	7,039	40,265	929	48,233	263,127
Cash and Cash Equivalents at End of Year	10,427	52,939	95	63,461	299,127
Reconciliation to the Combined Balance Sheet:					
Add: Agency Funds	-	-	10,712	10,712	
Expendable Trust Funds	-	-	390	390	
Component Unit Amounts Other Than Proprietary Funds	-	-	-	-	265,631
Cash and Cash Equivalents at End of Year	\$ 10,427	\$ 52,939	\$ 11,197	\$ 74,563	\$ 564,758

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

Fiscal Year Ended June 30, 1999  
(Dollars in Thousands)

Additions:	
Investment Income:	
Interest	\$ 87,654
Dividends	21,190
Net Appreciation in the Fair Value of Investments	595,394
Less: Investment Expenses	<u>(12,122)</u>
Net Investment Income	<u>692,116</u>
Contributions:	
Members	112,687
State and Local Agencies	<u>299,694</u>
Total Contributions	<u>412,381</u>
Total Additions	<u>1,104,497</u>
Deductions:	
Benefits Paid	325,989
Refunds and Withdrawals	19,157
Administrative Expenses	7,615
Other	<u>602</u>
Total Deductions	<u>353,363</u>
Net Increase	751,134
Net Assets Held in Trust for Pension Benefits:	
Beginning of Year	<u>6,181,956</u>
End of Year	<u>\$ 6,933,090</u>

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

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

For the Fiscal Year Ended June 30, 1999  
(Dollars in Thousands)

	Current Funds			Endowment and Similar Funds	Plant Funds	Total (Memorandum Only)
	Unrestricted	Restricted	Loan Funds			
Revenues and Other Additions:						
Unrestricted Current Fund Revenues	\$ 208,972	\$ -	\$ -	\$ -	\$ -	208,972
Government Grants and Contracts - Restricted	-	59,541	544	-	2,977	63,062
Private Gifts, Grants and Contracts - Restricted	-	23,023	290	3,093	3,901	30,307
Endowment Income - Restricted	-	3,629	13	388	-	4,030
Investment Income - Restricted	-	1,034	30	-	1,500	2,564
Interest Income on Loans Receivable	-	-	986	-	5	991
Unrealized Gains on Investments	100	9	112	9,782	-	10,003
Expended for Plant Facilities	-	-	-	-	24,300	24,300
Other Additions	-	6,303	2	-	551	6,856
Total Revenues and Other Additions	209,072	93,539	1,977	13,263	33,234	351,085
Expenditures and Other Deductions:						
Educational and General Expenditures	331,444	109,564	-	2,363	-	443,371
Auxiliary Enterprise Expenditures	52,919	6	-	-	-	52,925
Administrative and Collection Costs	-	-	1,273	162	4	1,439
Interest on Indebtedness	-	-	-	-	3,630	3,630
Disposal of Plant Assets	-	-	-	-	453	453
Expended for Plant Facilities	-	-	-	-	6,830	6,830
Write Down of Asset Values	-	-	42	-	26,530	26,572
Total Expenditures and Other Deductions	384,363	109,570	1,315	2,525	37,447	535,220
Transfers Among Funds - Additions (Deductions):						
Mandatory:						
Principal and Interest	(5,951)	-	-	-	5,951	-
Loan Fund Transfers	(176)	-	176	-	-	-
Restricted Resources Allocated	834	(4,006)	6	243	3,166	243
Nonmandatory Transfers from Plant	(5,030)	(68)	-	(12)	5,349	239
Nonmandatory Transfers to Endowment	(27)	(201)	-	(15)	-	(243)
Transfers from Primary Government	184,066	20,384	-	-	4,800	209,250
Other Deductions	(239)	-	-	-	-	(239)
Total Transfers	173,477	16,109	182	216	19,266	209,250
Net Increase (Decrease) for the Year	(1,814)	78	844	10,954	15,053	25,115
Fund Balance June 30, 1998	43,336	24,737	38,626	95,536	309,562	511,797
Fund Balance June 30, 1999	\$ 41,522	\$ 24,815	\$ 39,470	\$ 106,490	\$ 324,615	\$ 536,912

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

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

For the Fiscal Year Ended June 30, 1999  
(Dollars in Thousands)

	Unrestricted	Restricted	Total
Revenues:			
Tuition and Fees	\$ 116,030	\$ 287	\$ 116,317
Federal Appropriations	200	5,621	5,821
Federal Grants and Contracts	688	53,816	54,504
Private Gifts, Grants and Contracts	2,776	22,988	25,764
Endowment Income	398	3,769	4,167
Sales and Services of Auxiliary Enterprise	59,342	-	59,342
Other Income	29,638	7,158	36,796
Total Current Fund Revenues	209,072	93,639	302,711
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	130,807	12,288	143,095
Research	13,723	26,319	40,041
Public Service	17,080	18,401	35,481
Academic Support	46,219	4,911	51,130
Student Services	34,332	2,222	36,554
Institutional Support	46,951	420	47,371
Operational and Maintenance of Plant	32,000	233	32,233
Scholarships and Fellowships	10,331	44,703	55,034
Total Expenditures	331,443	109,497	440,940
Mandatory Transfers:			
Principal and Interest	3,974	-	3,974
Loan Fund	176	-	176
Total Mandatory Transfers	4,150	-	4,150
Total Educational and General	335,593	109,497	445,090
Auxiliary Enterprises:			
Expenditures	52,919	6	52,925
Mandatory Transfer for Principal and Interest	1,976	-	1,976
Total Auxiliary Enterprises	54,895	6	54,901
Total Expenditures and Mandatory Transfers	390,488	109,503	499,991
Other Transfers and Additions (Deductions):			
Excess of Restricted Receipts over Transfers to Revenues	-	(95)	(95)
Net Allocation of Resources (to) from Other Funds	(4,462)	(4,276)	(8,738)
Transfer from Primary Government	184,064	20,385	204,449
Other Deductions	-	(72)	(72)
Total Transfers and Additions	179,602	15,942	195,544
Net Increase (Decrease) in Fund Balance	\$ (1,814)	\$ 78	\$ (1,736)

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

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**NOTES TO  
THE GENERAL  
PURPOSE  
FINANCIAL  
STATEMENTS**

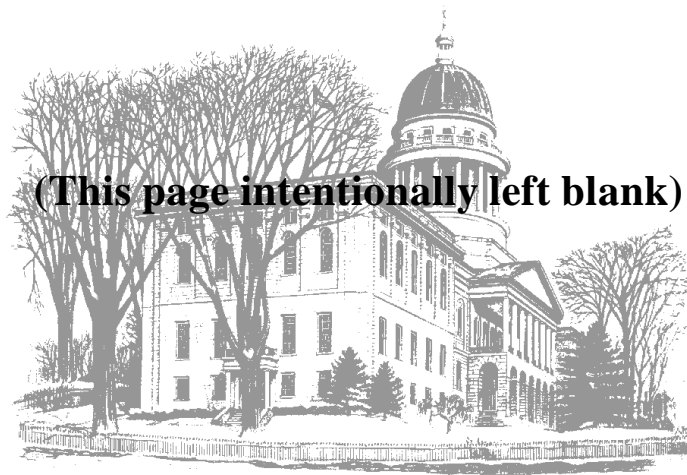
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# STATE OF MAINE

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# Notes to the Financial Statements

## For The Fiscal Year Ended June 30, 1999

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Maine have been prepared under guidelines established by generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), with certain exceptions. The financial statements do not include the General Fixed Assets Account Group or the reporting of capital leases.

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

GASB Statement No. 14, *The Financial Reporting Entity*, defines financial accountability. The criteria for determining financial accountability include the following: 1) appointment of a voting majority of an organization's governing authority and either the ability of the primary government to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government; or 2) the organization is fiscally dependent on the primary government, or the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

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

The Authority 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 in the State. The Authority is included in the Special Revenue Fund type.

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

***Governmental Type***

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

***Proprietary Types***

*The Finance Authority of Maine* was created in 1983 to provide commercial financing and loan guarantees to Maine businesses and to provide educational financing to Maine students and their parents. Additionally, the Authority provides financial and other services for the Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Agricultural Marketing Loan Fund Board, the Occupational Safety Program Fund Board, and the Small Business Enterprise Growth Fund Board. The Governor appoints the 15 voting members of the Authority.

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

*The Maine Educational Loan Authority* was created in 1988 to grant educational loans primarily using funds acquired through issuance of long-term bonds payable. There are seven voting members of the Authority, five of whom are appointed by the Governor. The Authority's fiscal year ends on December 31.

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

*The Maine Municipal Bond Bank* is authorized to issue bonds to provide funds to counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations within the State. The Bond Bank has a Board of five commissioners, three of whom must be residents of the State and appointed by the Governor.

*The Maine State Retirement System* is the administrator of an agent multiple-employer public employee retirement system. It provides pension, death, and disability benefits to its members, which include employees of the State, some public school employees, and employees of approximately 250 local municipalities and other public entities in Maine. The Board has seven voting members, four of whom are appointed by the Governor. Due to the nature and significance of the public employee retirement system to the State, exclusion would cause the State's financial statements to be misleading or incomplete.

### ***Colleges and Universities***

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

*The University of Maine System* is the State University. In 1968 all existing units of the State college system (Orono, Portland, Augusta, and the Law School) were merged by the 103<sup>rd</sup> Legislature. The result was the creation of the consolidated University of Maine System with a single Board of Trustees. The System now consists of seven campuses, the Maine Public Broadcasting Network, and a central administrative office. The educational and general portion of the total enterprise is supported by two sources, a State appropriation that makes up 34.3 percent of the total operations of the system, University revenues (primarily tuition and fees) that make up 28.8 percent, restricted gifts and grants and income from auxiliary enterprises make up the remaining 36.9 percent of the budget.

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

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

The component units' financial information included in the reporting entity has been reformatted to conform to the accounting classifications used by the State. Condensed financial statement information for each component unit included in the component units column in the general purpose financial statements is presented in Note 13, Segment Information. Some of the component units eliminate intrafund activity, some do not.

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

Loring Development Authority of Maine  
PO Box 457  
Limestone, ME 04750-0457

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

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 Educational Loan Authority  
PO Box 409  
Augusta, ME 04332

Maine Maritime Academy  
Castine, ME 04420

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

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

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

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

University of Maine System  
107 Maine Avenue  
Bangor, ME 04401

### ***Related Organizations***

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

## **B. FUND ACCOUNTING**

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

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

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

The financial activities of the State of Maine are classified in three fund categories, one account group, and component units, as described below. The fund categories include Governmental Funds, Proprietary Funds, and Fiduciary Funds. The account group is the General Long-Term Obligations Account Group. The General Fixed Assets Account Group is not reported.

### **Fund Types**

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

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

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

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

2. Proprietary Funds account for the State's ongoing activities that are similar to those found in the private sector.

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

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

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

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

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

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

#### Account Group

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

#### Component Units

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

1. *Current Funds* account for unrestricted funds, over which the governing Boards retain full control in achieving the Institutions' purposes, and for restricted funds, which may be used only in accordance with externally restricted purposes. The funds do not show the results of operations or the net income or loss for the period.
2. *Loan, Endowment, and Agency Funds* account for assets for which the Institutions act in a fiduciary capacity.
3. *Plant Funds* account for institutional property acquisition, renewal, replacement, and debt service.

### **C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Governmental Funds and Expendable Trust Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means earned and collected or expected to be collected within the current period or soon enough thereafter (within 12 months for individual income taxes, or within 60 days for all other revenues) to be used to pay liabilities of the current period. Property taxes are recognized as revenue in the year for which they are levied, provided the "available" criterion is met.

Property taxes are assessed by the State Tax Assessor on properties located in the Unorganized Territories of Maine and on telecommunications personal properties statewide. Property taxes levied during the current fiscal year for the subsequent period are recorded as deferred revenue during the current year. Such taxes are levied by April 1. Prepayment of one-half of the telecommunications tax is due on June 1 and all other property taxes are due on October 1. Formal collection procedures begin on November 1. Unpaid property taxes become a lien on March 15 of the fiscal year for which they are levied.

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

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

Agency Fund assets and liabilities are reported using the modified accrual basis of accounting. They are custodial in nature and do not measure results of operations or have a measurement focus.

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

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

#### **D. CASH AND CASH EQUIVALENTS, AND INVESTMENTS**

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

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

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

#### **E. UNEMPLOYMENT DEPOSITS WITH UNITED STATES TREASURY**

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

## **F. RESTRICTED DEPOSITS**

Restricted deposits represent funds that have been invested in Certificates of Deposit at various financial institutions within the State. The financial institutions lend these deposits to local commercial and agricultural enterprises to foster economic growth in Maine.

## **G. RECEIVABLES**

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

## **H. INTERFUND TRANSACTIONS**

Numerous transactions are made between funds to finance operations, provide services, and acquire or construct assets. To the extent that certain transactions between funds were not completed as of June 30, 1999, interfund receivables or payables have been recorded. Receivables and payables resulting from transactions between funds are classified as "Due from Other Funds" or "Due to Other Funds" on the balance sheet.

The Bureau of Alcoholic Beverages and Lottery Operations is statutorily required to transfer all net earnings to the General Fund. For fiscal year 1999, these transfers totaled \$59.2 million.

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

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

## **I. INVENTORIES**

The costs of materials and supplies of the Governmental Funds are reported as expenditures when purchased. Food stamps are stated at coupon value and any unexpended balances at fiscal year end are reported as inventory and deferred revenue in the Special Revenue Fund. Revenues and corresponding expenditures are recognized when the food stamps are issued.

Inventories of materials and supplies in the Proprietary Funds are determined by physical counts and by perpetual inventory systems. Proprietary Fund inventories are stated at cost or average cost, except for those of the Bureau of Alcoholic Beverages, which are maintained on a current replacement cost basis. Although this basis is not in conformity with GAAP, it does not result in a material misstatement.

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

## **J. FIXED ASSETS**

For Governmental Funds, fixed asset acquisitions are recorded as expenditures in the acquiring fund. Infrastructure assets such as highway curbs, bridges, and lighting systems are not capitalized. Fixed asset acquisitions of Proprietary Funds are accounted for in the acquiring fund and stated net of accumulated depreciation. Depreciation is recorded on a straight-line basis over the assets' estimated useful lives, which are 10-40 years for buildings and improvements, including the Portland dry-dock and 2-25 years for equipment. No interest has been capitalized on self-constructed assets, as non-capitalization of interest does not have a material effect on the financial statements.

Fixed assets of component units are capitalized upon purchase and depreciated over the estimated useful lives of the assets. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are 3–100 years for structures and improvements, and 3–25 years for equipment, furniture, fixtures and vehicles. The Maine Maritime Academy does not record depreciation, which is allowed by governmental accounting standards.

## **K. TAX REFUNDS PAYABLE**

Tax refunds payable primarily represent amounts owed to taxpayers because of overpayments of their 1998 calendar year tax liabilities. Tax refunds are accrued based on payments and estimates.

## **L. CLAIMS PAYABLE**

Claims payable represent workers' compensation and other claims payable at June 30, 1999. These include actual claims submitted, as well as actuarially determined claims incurred but not reported. The actuarially determined claims liability is discounted and presented at net present value.

## **M. DEFERRED REVENUE**

Revenue that does not meet the "availability" criterion for recognition in the current period is classified as deferred revenue. Resources received by the government before it has a legal claim to them are also included as deferred revenue. In subsequent periods, when the revenue recognition criterion is met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet, and revenue is recognized. Deferred revenue reported in the General Fund is comprised of property tax assessments on telecommunications equipment, sales and income taxes. Deferred revenue in the Special Revenue Fund is primarily for food stamps not yet issued.

## **N. DUE FROM/TO OTHER GOVERNMENTS**

At June 30, 1999, amounts Due from/to Other Governments represent amounts receivable from or payable to municipalities or the federal government. Due to Other Governments are primarily amounts owed to municipalities for Municipal Revenue Sharing and the federal government for Medicaid cost recoveries from providers. Municipal Revenue Sharing and Medicaid cost recoveries are recorded in the Special Revenue Fund. Due from Other Governments represents primarily federal grants receivable for Medicaid claims, other Human Services Programs, and federal grants receivable for transportation-related expenditures. Due from Other Governments in the component units column represents money due from other governments for grants or owed for retirement benefits.



## **O. COMPENSATED EMPLOYEE ABSENCES**

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

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

## **P. OTHER ACCRUED LIABILITIES**

Other liabilities of the Governmental Funds consist primarily of amounts owed to providers for medical services and a cash overdraft on June 30, 1999. The liability for medical services includes an estimate of provider claims for services provided but not billed as of the State's fiscal year end, net of anticipated recoveries. The cash overdraft resulted from the bank failing to debit the State's checking account for daily investments totaling \$49.1 million, of which \$17 million was corrected at June 30, 1999. This caused the balances available for investment to be overstated by \$32 million. The bank then processed the previous day's transactions with the current day investments causing the account to be overdrawn.

Contractor retainage is included in Other Accrued Liabilities of the Special Revenue Fund.

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

## **Q. LONG-TERM OBLIGATIONS**

### **Primary Government**

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

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

### **Component Units**

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

## **R. FUND BALANCES**

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

Reserved for Continuing Appropriations - identifies appropriations and encumbrances that the Legislature has specifically authorized to be carried into the next fiscal year if unexpended. The State's use of encumbrance accounting is more fully described in Note 2 – Budgetary Process.

Reserved for Unemployment Benefits - identifies amounts reserved for payment of unemployment compensation.

Reserved for Nonexpendable Trusts - identifies the nonexpendable amount of the trust principal.

Reserved for Rainy Day Fund – identifies amounts reserved for potential operating deficits or other emergencies. The maximum amount this fund may carry, by law, is six percent of the total General Fund revenues received in the immediately preceding year.

Reserved for Pension Benefits – identifies amounts reserved by the Maine State Retirement System for the payment of pension benefits.

Reserved for Debt Service - identifies amounts held by fiscal agents to fund future debt service obligations.

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

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

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

## **S. TOTAL COLUMN - MEMORANDUM ONLY**

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

## **T. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS**

In December 1998, GASB issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources such as most taxes, grants and private donations. In a nonexchange transaction, a government gives or receives value without directly receiving or giving equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. The principal issue addressed in this Statement is the timing of recognition of nonexchange transactions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2000. The State will implement this Statement for the year ending June 30, 2001.

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This statement establishes new financial reporting requirements for State and local governments. It establishes that the basic financial statements and required supplementary information (RSI) for general purpose financial statements should consist of Management's Discussion and Analysis, Basic Financial Statements and Required Supplementary Information. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2001. The State will implement this Statement for the year ending June 30, 2002.

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

## **NOTE 2 - BUDGETARY PROCESS**

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

Once passed and signed, the budget becomes the financial plan for the next biennium. It includes proposed expenditures for all departments and agencies, interest and debt redemption charges, and expenditures for capital projects to be undertaken and executed during each fiscal year. The budget also includes anticipated revenues and any other means of financing expenditures. In 1995, the Revenue Forecasting Committee was established. In fiscal year 1998, a law was passed that requires the State Budget Officer to use the revenue projections of the Revenue Forecasting Committee in preparing the General Fund and Highway Fund revenue and expenditure forecasts.

Budgetary control is maintained at the program and line category level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers. Except in specific instances, only the Legislature may transfer appropriations between departments. Increases in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget. In order to provide sufficient funding for several programs during the year ended June 30, 1999 supplemental appropriations of \$145.7 million were required for the General Fund.

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

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

### Budget to GAAP Reconciliation

June 30, 1999

(Dollars in Thousands)

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Fund Balances - Non-GAAP Budgetary Basis	\$ <u>502,294</u>	\$ <u>366,400</u>
<b>Basis Differences</b>		
Revenue Accruals/Adjustments:		
Taxes Receivable	128,597	(2,648)
Intergovernmental Receivables	-	159,157
Other Receivables	13,461	25,996
Due from Other Funds	1,975	3,566
Other Assets	(17,908)	(33,185)
Deferred Revenues	<u>(75,762)</u>	<u>(2,208)</u>
Total Revenue Accruals/Adjustments	<u>50,363</u>	<u>150,678</u>
Expenditure Accruals/Adjustments:		
Accounts Payable	(72,600)	(152,985)
Due to Other Governments	(104)	(41,122)
Accrued Liabilities	(24,720)	(15,999)
Due to Other Funds	(5,365)	(3,252)
Due to Component Units	(19,654)	(1,666)
Tax Refunds Payable	<u>(87,485)</u>	<u>-</u>
Total Expenditure Accruals/Adjustments	<u>(209,928)</u>	<u>(215,024)</u>
<b>Perspective Differences</b>		
Amounts reported in the Debt Service Fund on the budgetary basis and in the General Fund on the GAAP basis	<u>1,291</u>	<u>-</u>
<b>Entity Differences</b>		
Blended Component Unit included in the Special Revenue Fund on the GAAP basis but not on the budgetary basis	<u>-</u>	<u>242</u>
Fund Balances - GAAP Basis	\$ <u>344,020</u>	\$ <u>302,296</u>

### NOTE 3 - FUND BALANCE AND RETAINED EARNINGS RESTATEMENTS

The restatements of fund balances/retained earnings as of June 30, 1998 are as follows:

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

<u>Fund</u>	<b>Fund Balance/Retained Earnings as Previously Reported, June 30, 1998</b>	<b>Increase (Decrease) for Restatement</b>	<b>Fund Balance/Retained Earnings as Restated, July 1, 1998</b>
General Fund	\$315,205	\$17,533	\$332,738
Special Revenue Fund	209,264	(10,128)	199,136
Internal Service Funds	(50,686)	1,918	(48,768)
Expendable Trust Funds	217,545	179,646	397,191
Component Units:			
Governmental Types	197,213	(67,328)	129,885
Proprietary Types	367,860	4,304	372,164

The General Fund has been restated to reflect additional corporate income tax accruals for the prior year and to recognize prior period Medicaid reimbursements in the appropriate fund.

The Special Revenue Fund has been restated to recognize prior period Medicaid reimbursements in the appropriate fund and to properly reflect assets of a blended component unit that had previously been reported as assets held in trust.

The Internal Service Funds have been restated primarily for prior year depreciation on contributed capital.

The Expendable Trust Funds have been restated because the State of Maine implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* in Fiscal Year 1999. As a result, the Deferred Compensation Plan Fund, reported as an Agency Fund in previous fiscal years, was reclassified as an Expendable Trust Fund in fiscal year 1999. Expendable Trusts have also been restated to reflect the accrual of unemployment compensation taxes received within 60 days of year end, and to recognize the liability for escheat property claims in accordance with GASB Statement No. 21.

The component unit (proprietary type) fund balance has been restated to reflect the adoption by MSHA of Statement No. 31 of the Governmental Accounting Standards Board (GASB 31) *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. GASB 31 requires investments held by Governmental entities to be reported on the balance sheet at fair value, with changes in fair value being recognized in the statement of revenues, expenses and changes in fund balances. Additionally, MHHEFA (governmental type) fund balances have been restated because amounts held in the debt service reserve funds are no longer considered funds held in trust, but rather a reduction in the amounts due from institutions.

Contributed Capital for the Internal Service Funds has been restated (dollars in thousands) from \$29,565, as previously reported at June 30, 1998, to \$27,330 at July 1, 1998 to record prior year depreciation on contributed assets.

#### **NOTE 4 - DEFICIT FUND BALANCES/RETAINED EARNINGS**

One Internal Service Fund, the Workers' Compensation Fund, had deficit Retained Earnings for the fiscal year ended June 30, 1999. The deficit of \$75.4 million in the Workers' Compensation Fund reflects accruals for actuarially determined claims payable.

#### **NOTE 5 - DEPOSITS AND INVESTMENTS**

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

The Treasurer of State may invest funds that exceed current obligations, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services, and the consent of the Governor. Approved investments include bonds, notes, other obligations of the United States that mature not more than 24 months from the date of investment, repurchase agreements secured by obligations of the United States that mature within the succeeding 24 months, prime commercial paper, tax-exempt obligations, banker's acceptances, or shares of an investment company registered under the Federal Investment Company Act of 1940 if the investments of the company are limited to obligations of the United States or repurchase agreements secured by obligations of the United States.

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

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

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

#### **DEPOSITS**

Deposits with financial institutions are classified as to collateral risk into three categories. Category 1 is the amount of State deposits that are fully insured or collateralized with securities held by the State or its agent in the State's name. Category 2 is the amount of deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. Category 3 is the amount of deposits that are not collateralized or insured. Deposits of the Reporting Entity at June 30, 1999 are as follows:

**Primary Government - Deposits**

June 30, 1999

(Dollars in Thousands)

	<b>Category 1</b>	<b>Category 2</b>	<b>Category 3</b>	<b>Bank Balance</b>	<b>Carrying Amount</b>
Cash and Cash Equivalents	\$ 1,629	\$ 900	\$ 19,021	\$ 21,550	\$(24,352)
Cash with Fiscal Agent	-	-	21,885	21,885	21,885
Restricted Deposits	<u>810</u>	<u>-</u>	<u>6,520</u>	<u>7,330</u>	<u>7,330</u>
Total	<u>\$ 2,439</u>	<u>\$ 900</u>	<u>\$ 47,426</u>	<u>\$ 50,765</u>	<u>\$ 4,863</u>

**Component Unit - Deposits**

June 30, 1999

(Dollars in Thousands)

	<b>Category 1</b>	<b>Category 2</b>	<b>Category 3</b>	<b>Bank Balance</b>	<b>Carrying Amount</b>
Cash and Cash Equivalents	\$ 107,456	\$ 686	\$ 15,888	\$ 124,030	\$113,080
Cash with Fiscal Agent	-	-	15,563	15,563	15,563
Restricted Deposits	<u>90</u>	<u>-</u>	<u>728</u>	<u>818</u>	<u>818</u>
Total	<u>\$ 107,546</u>	<u>\$ 686</u>	<u>\$ 32,179</u>	<u>\$ 140,411</u>	<u>\$ 129,461</u>

**INVESTMENTS**

Investments are classified to indicate the level of risk assumed by the State. Category 1 consists of investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 are those investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the State's name. Investments of the Primary Government at June 30, 1999 are as follows:

**Primary Government - Investments**

June 30, 1999

(Dollars in Thousands)

	<b>Category 1</b>	<b>Category 2</b>	<b>Category 3</b>	<b>Fair Value</b>
U.S. Government and Agency Obligations	\$ 345,450	\$ 3,510	\$ 11,229	\$ 360,189
Repurchase Agreements	52,807	-	-	52,807
Commercial Paper	444,877	-	-	444,877
Corporate Bonds and Notes	-	3,064	5,907	8,971
Equity Securities	-	13,134	34,685	47,819
Other	<u>-</u>	<u>810</u>	<u>-</u>	<u>810</u>
Totals	<u>\$ 843,134</u>	<u>\$ 20,518</u>	<u>\$ 51,821</u>	915,473
Deposits with U.S. Treasury				217,934
Deferred Compensation Plan Assets				183,363
Assets Held in Trust				<u>44,061</u>
Total Investments – Primary Government				<u>\$ 1,360,831</u>

## 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.

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

Investments of the discretely presented component units at June 30, 1999 are as follows:

### Component Units - Investments

June 30, 1999

(Dollars in thousands)

	Category 1	Category 2	Category 3	Fair Value
Cash and Cash Equivalents	\$ 923	\$ 145,131	\$ 4,029	\$ 150,083
U.S. Government and Agency Obligations	586,463	142,076	6,800	735,339
Repurchase Agreements	207,860	21,115	1,296	230,271
Commercial Paper	49,651	-	-	49,651
Corporate Bonds and Notes	365,315	-	24,437	389,752
Equity Securities	1,523,617	-	73,135	1,596,752
Common and Collective Trusts	4,559,866	-	-	4,559,866
Other	<u>10,433</u>	<u>204,549</u>	<u>6,195</u>	<u>221,177</u>
Totals	<u>\$ 7,304,128</u>	<u>\$ 512,871</u>	<u>\$ 115,892</u>	<u>\$7,932,891</u>

## NOTE 6 - RECEIVABLES

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

### Primary Government - Receivables

June 30, 1999

(Dollars in Thousands)

	Taxes	Due from Other Governments	Loans	Other Receivables	Allowance for Uncollectibles	Net Receivables
General Fund	\$ 380,078	\$ -	\$ 1	\$ 40,306	\$ (133,077)	\$ 287,308
Special Revenue Funds	29,535	159,232	1,241	44,676	(15,228)	219,456
Trust and Agency Funds	36,591	-	-	-	(9,739)	26,852
Internal Service Funds	-	-	-	967	(1)	966
Enterprise Funds	<u>2</u>	<u>-</u>	<u>7,991</u>	<u>8,686</u>	<u>(1,507)</u>	<u>15,172</u>
Subtotal	<u>446,206</u>	<u>159,232</u>	<u>9,233</u>	<u>94,635</u>	<u>\$ (159,552)</u>	<u>549,754</u>
Less: Allowance for uncollectibles	<u>(143,951)</u>	<u>-</u>	<u>(1,373)</u>	<u>(14,228)</u>		<u>-</u>
Net Receivables	<u>\$ 302,255</u>	<u>\$ 159,232</u>	<u>\$ 7,860</u>	<u>\$ 80,407</u>		<u>\$ 549,754</u>



**Component Units - Receivables**

June 30, 1999

(Dollars in Thousands)

	<u>Other Governments</u>	<u>Loans and Notes</u>	<u>Other Types</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivables</u>
Maine Health & Higher Education					
Facilities Authority	\$ -	\$ 829,221	\$ 4,896	\$ (471)	\$ 833,646
Maine Municipal Bond Bank	905,182	-	1,241	-	906,423
Maine State Housing Authority	1,903	1,155,147	-	-	1,157,050
Maine Education Loan Authority	-	41,543	461	(405)	41,599
Loring Development Authority	707	-	230	-	937
University of Maine System	6,771	16,079	29,179	-	52,029
Maine State Retirement System	9,374	-	57,740	-	67,114
Finance Authority of Maine	-	33,983	2,026	(119)	35,890
Maine Maritime Academy	-	2,845	351	(195)	3,011
Maine Technical College System	-	-	-	-	1,745
Subtotal	923,937	2,078,818	97,869	<u>\$ (1,190)</u>	3,099,434
Less: Allowance for Uncollectibles	-	(917)	(273)	-	-
Net Receivables	<u>\$ 923,937</u>	<u>\$ 2,077,901</u>	<u>\$ 97,596</u>		<u>\$ 3,099,434</u>

**NOTE 7 - INTERFUND TRANSACTIONS**

**Due from/Due to Other Funds and Component Units**

Due from Other Funds are amounts owed to one State fund by another for goods sold or services received. Similarly, Due from Component Units are amounts owed to the State by a component unit. The following is a summary of amounts due from and due to other funds and component units:

**Primary Government - Due to/Due from Other Funds**

June 30, 1999

(Dollars in Thousands)

<u>Fund Type</u>	<u>Due From</u>	<u>Due To</u>	<u>Working Capital Receivable</u>	<u>Working Capital Payable</u>
General Fund	\$ 5,509	\$ 5,469	\$ 1,078	\$ -
Special Revenue Fund	4,737	5,687	327	225
Enterprise Fund	8	3,279	-	1,000
Internal Service Fund	9,776	348	-	180
Trust and Agency Funds	3	5,250	-	-
Total	<u>\$ 20,033</u>	<u>\$ 20,033</u>	<u>\$ 1,405</u>	<u>\$ 1,405</u>

**Component Units - Due From/Due To**

June 30, 1999

(Dollars in Thousands)

	<b><u>Due From Primary Government</u></b>	<b><u>Due To Component Units</u></b>
<b><u>Primary Government</u></b>		
<b>General Fund:</b>		
University of Maine System	\$ -	\$ 2,252
Maine State Retirement System	-	19,654
<b>Special Revenue Funds:</b>		
University of Maine System	-	2,977
Maine Technical College System	-	404
Maine State Housing Authority	-	936
<b>Capital Project Funds:</b>		
Maine Municipal Bond Bank	-	3,600
University of Maine System		4,539
<b>Enterprise Funds:</b>		
Finance Authority of Maine	-	938
 <b><u>Component Units</u></b>		
<b>Maine State Housing Authority:</b>		
Special Revenue Funds	936	-
<b>Maine Municipal Bond Bank:</b>		
Capital Projects Funds	3,600	-
<b>Finance Authority of Maine:</b>		
Enterprise Funds	938	-
<b>Maine Technical College System:</b>		
Special Revenue Funds	404	-
<b>University of Maine System:</b>		
General Fund	2,252	-
Special Revenue Funds	2,977	-
Capital Projects Funds	4,539	-
<b>Maine State Retirement System:</b>		
General Fund	<u>19,654</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 35,300</u></b>	<b><u>\$ 35,300</u></b>

**NOTE 8 - FIXED ASSETS**

The following schedules detail fixed assets that are recorded in the Proprietary Funds and discretely presented component units:

**Proprietary Funds - Fixed Assets**

June 30, 1999

(Dollars in Thousands)

	<b><u>Enterprise Funds</u></b>	<b><u>Internal Service Funds</u></b>
Land	\$ 5,520	\$ 243
Buildings	25,141	5,310
Equipment	41,483	118,941
Improvement other than buildings	7,548	66
Construction in progress	3,123	-
Less: Accumulated depreciation	<u>(28,008)</u>	<u>(79,646)</u>
Total fixed assets	<b><u>\$ 54,807</u></b>	<b><u>\$ 44,914</u></b>

**Component Units - Fixed Assets**

June 30, 1999

(Dollars in Thousands)

	<u><b>Totals</b></u>
Land and Buildings	\$ 421,868
Equipment	144,607
Improvements Other Than Buildings	13,623
Assets Under Capital Leases	196
Library Books	3,615
Construction in Process	16,751
Less: Accumulated Depreciation	<u>(219,607)</u>
Total Fixed Assets	<u>\$ 381,053</u>

**NOTE 9 - MAINE STATE RETIREMENT SYSTEM****PLAN DESCRIPTION**

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

The System provides pension, death, and disability benefits to its members, which include employees of the State, public school employees who are defined by Maine law as teachers for whom the State is the employer for retirement contribution purposes, and employees of approximately 250 local municipalities and other public entities in Maine, each of which contracts for participation in the System under provisions of relevant statutes. At June 30, 1999, the membership consisted of:

Active vested and nonvested members	49,765
Terminated vested participants	1,859
Retirees and benefit recipients	<u>28,509</u>
Total	<u>80,133</u>

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

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

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

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

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

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

#### **FUNDING POLICY**

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

The State of Maine is required to remit 25% of its budgetary surplus at the end of its fiscal year to the System, in order to reduce any unfunded pension liability for State employees and teachers. Accordingly, for the year ended June 30, 1999 the System recorded \$18.8 million in additional contributions from the State of Maine as due from primary government at June 30, 1999.

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 1999 for participating entities are as follows:

<u>State:</u>	
Employees <sup>1</sup>	7.65-8.65%
Employer	16.68%
<u>Teachers:</u>	
Employees	7.65%
Employer	19.30%
<u>Participating Local Entities:</u>	
Employees	6.5%
Employer <sup>1</sup>	4.7-19%

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

#### **ANNUAL PENSION COST AND NET PENSION OBLIGATION**

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

Net Pension Obligation (Dollars in thousands)	
Annual required contribution	\$252,856
Interest on net pension obligation	7,643
Adjustment to annual required contribution	<u>(5,049)</u>
Annual pension cost	255,451
Contributions made	<u>274,702</u>
Increase (decrease) in net pension obligation	(19,251)
Net pension obligation beginning of year	<u>95,546</u>
Net pension obligation end of year	<u>\$ 76,295</u>

Analysis of Funding Progress (Dollars in thousands)			
<u>Year</u>	<u>Annual Pension Cost</u>	<u>Percentage Covered</u>	<u>Net Pension Obligation</u>
1999	\$ 255,451	107.54%	\$ 76,295
1998	241,007	101.96%	95,546
1997	220,876	106.39%	100,274

The annual required contribution for the current year was determined as part of the June 30, 1999 actuarial valuation using the entry age normal cost method based on a level percentage of covered payrolls. The actuarial assumptions included (a) 8% return on investments and (b) projected salary increases of 5.5% to 9.5% per year, including inflation of 5.5%. The assumptions include post retirement benefit increases of 4% per annum. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a closed 25-year period from June 30, 1998. For participating local districts, either the level percentage of payroll method or the level dollar method is used, depending on plan structure, status of the participating local district, nature of the unfunded liability (i.e., separate or pooled) and the amount of the unfunded liability. Amortization periods range from 2 years to 28 years.

## **COMPONENT UNIT PENSION DESCRIPTION**

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

Employer contributions met actuarially determined contribution requirements.

## **OTHER PLANS**

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

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

LDA and FAME have Simplified Employee Pension Plans. MSHA has a defined contribution plan created under the provisions of the Internal Revenue Code Section 401(a).

## **NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS**

### **POST RETIREMENT HEALTH CARE BENEFITS**

The State of Maine funds health care benefits for most retirees. Pursuant to 5 M.R.S.A., § 285, most retired State employees and Legislators, and retired employees of the Maine Turnpike Authority, the Maine Technical College System, the Maine Maritime Academy, and the Maine State Retirement System are eligible for this benefit. Specifically excluded (5 M.R.S.A., § 285 1-B) are members of the Maine Municipal Association and the Maine Teachers Association, and employees of counties and municipalities and their instrumentalities.

The State pays 100 percent of post retirement health insurance premiums for retirees who were first employed before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than 5 years participation to 100 percent for retirees with 10 or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Retirees eligible for Medicare are covered under supplemental insurance policies. The retiree must pay for Medicare Part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees who are not eligible for Medicare includes basic hospitalization, supplemental major medical and prescription drugs, and costs for treatment of mental health, alcoholism, and substance abuse.

Retiree health care benefits have been funded on a pay-as-you go basis. For retired State employees, the State estimated the total amount necessary to pay health insurance premiums. This amount resulted in an employer contribution rate (4.76 percent for the 1999 fiscal year) that is applied against current employee payrolls. The amounts contributed were reported as expenditures/expense in each of the various funds. For retired teachers, the State estimated the total annual amount necessary to pay its 25 percent share of health insurance premiums. This amount, less any accumulated funds remaining from prior years' estimates, is appropriated and reported as expenditures in the General Fund. Effective January 1, 1999, the State pays 30 percent of health insurance premiums for retired teachers, rather than 25 percent. Benefits for retired teachers are addressed in 20-A M.R.S.A., § 13451 et seq. Contributions resulting from both sources are accumulated in and reported as revenue of the Retiree Health Insurance Internal Service Fund. The State's share of the premium expense is paid from that fund when retiree payrolls are processed. The State's management has proposed funding retiree healthcare benefits using rates which have been developed actuarially beginning in the 2000-2001 biennium.

As of July 1, 1998, there were 7,257 retired eligible State and Technical College employees and 5,902 retired teachers. In the 1999 fiscal year, the State paid into the Retiree Health Insurance Fund \$20.1 million for retired employees and \$3.8 million for retired teachers. Premium charges paid were \$15.6 million and \$3.3 million, respectively. Overall fund equity increased by \$6.3 million, to \$18.6 million at June 30, 1999. In Fiscal Year 1999, the State had an actuarial study done and the amount of the liability for current and future retirees, as of July 1, 1998, was \$583 million. This includes benefits for 14,292 current retirees as well as 39,727 currently active employees expected to retire in the future. It does not consider employees not yet hired as of July 1, 1998.

#### **POST RETIREMENT LIFE INSURANCE BENEFITS**

The Maine State Retirement System (MSRS) provides certain life insurance benefits for retirees who, as active employees, participated in the Group Life Insurance Program for a minimum of 10 years. Payments of claims are made by the MSRS from a fund containing a percentage of the life insurance premiums of active State employees and teachers, plus earnings on the investments of the fund. In addition to the cost of claims, the State pays a monthly retention fee to a life insurance company. Retired State employee claims totaled \$1.5 million and retired teacher claims totaled \$1.2 million for the fiscal year ended June 30, 1999. The number of participants eligible to receive benefits at fiscal year end cannot be readily determined.

### **NOTE 11 - LONG-TERM OBLIGATIONS**

#### **PRIMARY GOVERNMENT**

The State records its liability for bonds in the General Long-Term Obligations Account Group (GLTOAG). The State has also included in the GLTOAG, \$10.4 million in notes payable, and \$17.6 million in bonds issued by the Maine Governmental Facilities Authority, a blended component unit. Payment of the bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature. Debt issued by the Authority is not debt of the State or any political subdivision within the State and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. Other general long-term obligations recognized by the State are its compensated employee absences and its obligations under Certificates of Participation and other financing arrangements. Payments for these liabilities will be made from the Governmental Funds.

#### **GENERAL OBLIGATION BONDS**

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

In June 1999, the State issued \$71.3 million of general obligation bonds, \$54.4 million of which will be repaid from the General Fund and \$16.9 million of which will be repaid from the Special Revenue Fund.

Changes in general obligation bonds during the fiscal year are as follows:

#### **Primary Government - Changes in General Obligation Bonds**

June 30, 1999

(Dollars in Thousands)

	Balance July 1, 1998	Additions	Retirements	Adjustments	Balance June 30, 1999
General Obligation Debt:					
General Fund	\$ 337,575	\$ 54,385	\$ 57,235	\$ -	\$ 334,725
Special Revenue Fund	158,755	16,900	23,440	(950)	151,265
Self Liquidating	720	-	90	-	630
Total	<u>\$ 497,050</u>	<u>\$ 71,285</u>	<u>\$ 80,765</u>	<u>\$ (950)</u>	<u>\$ 486,620</u>

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

**Future Debt Service on General Obligation Bonds**

June 30, 1999

(Dollars in Thousands)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 83,470	\$25,002	\$108,472
2001	81,255	20,393	101,648
2002	76,925	16,053	92,978
2003	71,760	11,839	83,599
2004	49,270	8,491	57,761
Thereafter	<u>123,940</u>	<u>15,827</u>	<u>139,767</u>
Total	<u>\$486,620</u>	<u>\$97,605</u>	<u>\$584,225</u>

**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, 1999, general obligations bonds authorized and unissued totaled \$46.5 million. The Maine Governmental Facilities Authority, a blended component unit, may not issue securities in excess of \$168 million outstanding at any one time except for the issuance of certain revenue refunding securities. The Legislature may increase this limit as necessary to meet the Authority's needs.

**BOND ANTICIPATION NOTES**

Two Bond Anticipation Note issues were issued during fiscal year 1999, \$5.7 million in August 1998 and \$33.7 in January 1999. The \$5.7 million was paid off at the time of the second issue. Interest rates ranged from 3.5 to 5.5%. There were no BAN's outstanding at June 30, 1999.

The BAN's were issued as a temporary financing vehicle for new projects that were ultimately financed with bond issuance proceeds. The BAN's are backed by the full faith and credit of the State.

The State, through its component unit, Maine Governmental Facilities Authority, entered into a \$25 million revolving credit agreement on October 30, 1998. At June 30, 1999, there was an outstanding amount of \$10.4 million that was included in the General Long-Term Obligations Account Group. The amount due was paid in full on September 1, 1999 when bonds of \$86.9 million were issued (see Note 18 - Subsequent Events).

**CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS**

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



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

**Changes in General Long-Term Obligations**

June 30, 1999

(Dollars in Thousands)

	<u>Bonds</u>	<u>Notes</u>	<u>COP's and other Financing Arrangements</u>	<u>Compensated Absences</u>	<u>Net Pension Obligation</u>	<u>Total</u>
Balance, July 1, 1998	\$497,050	\$ -	\$6,137	\$27,887	\$95,546	\$626,620
Issuances	71,285	10,350		-	-	81,635
Payments	80,765	-	1,856	-	-	82,621
Other Increase (Decrease)	<u>(950)</u>	<u>-</u>	<u>-</u>	<u>1,100</u>	<u>(19,251)</u>	<u>(19,101)</u>
Balance, June 30, 1999	<u>\$486,620</u>	<u>\$10,350</u>	<u>\$4,281</u>	<u>\$28,987</u>	<u>\$ 76,295</u>	<u>\$606,533</u>

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

**Certificates of Participation and Other Financing Arrangements**

June 30, 1999

(Dollars in Thousands)

<u>Outstanding July 1, 1998</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding June 30, 1999</u>
\$16,221	\$ 9,489	\$6,429	\$19,281

Debt service on COP's and other financing arrangements are presented in the following table:

**Debt Service on Certificates of Participation and Other Financing Arrangements**

June 30, 1999

(Dollars in Thousands)

Fiscal Year Ending June 30,	<u>Minimum Payments</u>	
	<u>Governmental Funds</u>	<u>Internal Service Funds</u>
2000	\$ 2,081	\$ 8,401
2001	1,940	4,913
2002	216	3,854
2003	182	2,001
2004	182	692
Thereafter	<u>21</u>	<u>1,105</u>
Total Minimum Payments	4,622	20,966
Less: Amount Representing Interest	<u>341</u>	<u>1,685</u>
Present Value of Future Minimum Payments	<u>\$ 4,281</u>	<u>\$19,281</u>

**OBLIGATIONS UNDER CAPITAL LEASES**

At June 30, 1999, the State was not able to identify, classify and report capital leases in conformity with generally accepted accounting principles. As a result, the required financial statement reporting and the related disclosures applicable to capital and operating leases are not presented.

**Component Units** - Bonds outstanding for the component units are as follows:

**Component Unit Bonds Outstanding**

June 30, 1999

(Dollars in Thousands)

	<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Maturity Dates</u>
Maine Municipal Bond Bank	General Tax-Exempt Fund Group	3.00 - 9.75%	\$ 825,698	1990- 2028
	Sewer and Water Fund Group	2.75 - 7.30%	75,281	1991 - 2018
	Special Obligation Taxable Fund Group	6.10 - 10.25%	<u>3,070</u>	1991 - 2009
Subtotal			904,049	
University of Maine System	1993 Series A Revenue Bonds	2.30 - 5.20%	10,565	1994 - 2008
	1993 Series B Refunding Bonds	3.15 - 5.50%	13,920	1995 - 2020
	1998 Series A Revenue Bonds	3.95 - 5.00%	<u>28,535</u>	2000 - 2024
Subtotal			53,020	
Maine State Housing Authority	Mortgage Purchase Program	2.75 - 9.25%	1,251,590	1999 - 2037
	Mortgage Acquisition Program	6.20 - 7.15%	5,289	1999 - 2011
	Housing Finance Revenue Program	3.95 - 6.30%	<u>41,614</u>	1999 - 2030
Subtotal			1,298,493	
Maine Health and Higher Education Facilities Authority	General Bond Resolution	4.50 - 7.75%	50,805	1986 - 2025
	Reserve Fund Resolution	2.5 - 6.50%	755,900	1992 - 2030
	Medium Term Financing Reserve Fund Resolution	4.0 - 8.25%	5,930	1993 - 2003
	Taxable Reserve Fund Resolution	7.03 - 9.35%	<u>102,985</u>	1994 - 2016
Subtotal			915,620	
Finance Authority of Maine	Construction bonds	1.0 - 6.29%	1,226	1999 - 2025
Maine Educational Loan Authority	Educational Loan Revenue Bonds	3.80 - 7.75%	50,273	1999 - 2027
Other	Revenue and Building Construction Bonds	2.60 - 10.00%	<u>3,477</u>	1999 - 2023
Total			<u>\$3,226,158</u>	

Maturities of principal for component units are as follows.

# Component Units Principal Maturities

June 30, 1999

(Dollars in Thousands)

## Fiscal Year Ending

June 30 (December 30  
for MSHA, MELA)

	<u>FAME</u>	<u>MELA</u>	<u>MMA</u>	<u>MTCS</u>	<u>MMBB</u>	<u>UM</u>	<u>MSHA</u>	<u>MHHEFA</u>	<u>Totals</u>
1999	\$	\$ 2,200	\$ -	\$ -	\$ 73,230	\$ -	\$ 15,375	\$	\$ 90,805
	-							-	
2000	51	2,140	76	85	74,400	2,185	18,495	30,780	128,212
2001	52	1,965	81	85	78,085	2,135	20,445	30,625	133,473
2002	52	2,140	80	85	69,425	2,210	23,615	32,705	130,312
2003	53	2,065	79	85	66,015	2,200	29,450	33,925	133,872
2004	54	-	84	85	63,620	2,205	-	33,380	99,428
Thereafter	964	39,763	2,745	58	504,440	43,090	1,191,113	754,205	2,536,378
Less amounts deferred or unamortized	-	-	(151)	-	(25,166)	(1,005)	-	-	(26,322)
Total Principal Payments	<u>\$1,226</u>	<u>\$50,273</u>	<u>\$2,994</u>	<u>\$483</u>	<u>\$904,049</u>	<u>\$53,020</u>	<u>\$1,298,493</u>	<u>\$915,620</u>	<u>\$3,226,158</u>

## NOTE 12 - SELF-INSURANCE

### A. RISK MANAGEMENT

The State maintains several types of self-insurance plans and accounts for them in an Internal Service Fund. This coverage includes property, vehicle, boat and aircraft, tort, civil rights, employee bonds, and police professionals.

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

Commercial insurance has been purchased for losses that exceed the following limits: buildings, \$1 million per occurrence subject to a \$2 million annual aggregate, after which a \$100,000 per occurrence retention applies; boat hulls, \$100,000; aircraft, \$50,000; and boat liability, \$10,000. Aircraft liability is insured from the first dollar.

At June 30, 1999, \$3.5 million was reported as the present value of the estimated claims payable for the State's self-insurance plan. This was calculated based on a 5 percent yield on investments. The non-discounted amount was \$3.8 million.

### Risk Management Fund Changes in Claims Payable

June 30, 1999

(Dollars in Thousands)

	<u>1999</u>	<u>1998</u>
Liability at beginning of year	\$3,135	\$3,135
Current year claims and changes in estimate	2,673	1,741
Claims payments	<u>2,289</u>	<u>1,741</u>
Liability at end of year	<u>\$3,519</u>	<u>\$3,135</u>

## 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 \$730 thousand for the fiscal year ended June 30, 1999.

## C. WORKERS' COMPENSATION

Workers' compensation is accounted for in an Internal Service Fund. Interfund premiums are treated as quasi-external transactions. Each State agency is charged a premium based on the number of employees to be covered plus an added amount to reduce the unfunded liability. The Legislature, Legislative Council, and Law Library employees are self-insured for workers' compensation purposes. The State assumes the full risk of all claims filed for workers' compensation. Claims liabilities are actuarially determined based on estimates of the ultimate cost of claims, including future claim adjustment expenses that have been incurred but not reported and claims reported but not settled. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the balance of claims and judgments liabilities during fiscal 1999 were as follows:

### Workers' Compensation Fund Changes in Claims Payable

June 30, 1999

(Dollars in Thousands)

	<u>1999</u>	<u>1998</u>
Liability at Beginning of Year	\$ 89,445	\$ 51,878
Current Year Claims and Changes in Estimates	5,357	50,660
Claims Payments	<u>12,134</u>	<u>13,093</u>
Liability at End of Year	<u>\$ 82,668</u>	<u>\$ 89,445</u>

Based on actuarial calculations as of June 30, 1999, the State is liable for unfunded claims, and incurred but not reported claims, of approximately \$94.7 million. The discounted amount is \$82.7 million and was calculated based on a 4.25 percent yield on investments.

## D. DISABILITY

State law allows confidential employees who become temporarily disabled to receive 66.67 percent of their salary for up to 335 calendar days. There were a total of 987 confidential employees at June 30, 1999. The expenditure amount for this benefit cannot be determined.

## NOTE 13 - SEGMENT INFORMATION - ENTERPRISE FUNDS AND COMPONENT UNITS

### PRIMARY GOVERNMENT

The State has nine enterprise funds that have been created to provide various services to the general public and are described below:

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

The *Lottery Fund* was established to account for all operations of the Maine State Lottery. This includes the Tri-State Lotto Commission, which was established in 1985, and is a joint venture between the States of Maine, New Hampshire, and Vermont. The Commission is authorized and empowered to promulgate rules and regulations

regarding the conduct of lottery games, including the price or prices of tickets, the number and size of prizes for winning tickets, and the licensing of agents.

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

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

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

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

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

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

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

#### Segment Information

June 30, 1999

(Dollars in Thousands)

	State Lottery Bureau	Bureau of Alcoholic Beverages	Transportation Related	Agriculture Related	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues	\$147,548	\$73,778	\$3,240	\$364	\$1,089	\$226,019
Depreciation Expense	18	408	2,396	54	58	2,936
Operating Income (Loss)	39,123	20,856	(4,225)	(370)	(177)	55,207
Net Nonoperating Revenues	486	6	181	518	14	1,205
Net Income (Loss)	(75)	118	(1,420)	382	(162)	(1,157)
Operating Transfers in (out)	(39,684)	(20,744)	2,624	235	-	(57,569)
Additions (Deletions) to Property, Plant and Equipment	11	822	4,593	36	(3)	5,459
Total Assets	8,449	9,000	55,519	10,223	518	83,709
Total Long-Term Liabilities	-	1,000	-	-	-	1,000
Total Liabilities	8,508	8,992	263	1,002	155	18,920
Total Equity	(59)	8	55,255	9,221	364	64,789
Net Working Capital	(112)	(128)	2,516	1,695	377	4,348
Current Capital Contributions	-	-	4,515	-	-	4,515

#### COMPONENT UNITS

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

**Component Units Condensed Balance Sheet**

June 30, 1999

(Dollars in Thousands)

	<u>LDA</u>	<u>MELA</u>	<u>FAME</u>	<u>MHHEFA</u>	<u>MSHA</u>	<u>MMBB</u>	<u>MSRS</u>	<u>MMA</u>	<u>MTCS</u>	<u>U of ME</u>	<u>Total</u>
<b>Assets:</b>											
Cash	\$ 2,157	\$ 2,245	\$ 63,078	\$ 76,357	\$ 231,616	\$31	\$ 100,835	\$ 103	\$ 2,980	\$ 85,355	\$ 564,759
Investments	-	8,634	16,209	201,431	134,249	213,969	6,801,102	16,002	13,122	92,875	7,497,595
Due from primary government	-	-	937	-	936	3,600	19,654	-	404	9,768	35,300
Due from other governments	707	-	-	-	1,903	905,182	9,373	-	-	6,771	923,937
Loans and notes receivable	-	41,138	33,865	829,001	1,155,147	-	-	2,670	-	16,079	2,077,901
Other receivables	230	461	2,026	4,646	-	1,241	38,085	328	1,745	29,179	97,596
Fixed assets	55	-	250	5,031	737	1,056	917	37,992	61,230	273,785	381,053
Other assets	<u>9</u>	<u>258</u>	<u>114</u>	<u>9,045</u>	<u>24,399</u>	<u>39,533</u>	<u>-</u>	<u>5,259</u>	<u>1,483</u>	<u>4,918</u>	<u>85,018</u>
<b>Total assets</b>	<u>\$ 3,159</u>	<u>\$52,737</u>	<u>\$116,480</u>	<u>\$ 1,125,511</u>	<u>\$ 1,548,987</u>	<u>\$ 1,164,613</u>	<u>\$ 6,989,620</u>	<u>\$ 62,356</u>	<u>\$ 80,964</u>	<u>\$ 518,733</u>	<u>\$ 11,663,159</u>
<b>Liabilities:</b>											
Accounts payable	65	31	2,828	579	2,273	1,051	6,594	588	1,597	7,783	23,389
Due to other governments	1,463	-	6,619	-	5,687	2,704	-	-	-	11	16,484
Deferred revenues	151	715	1,026	234	33,922	-	-	114	737	7,928	44,827
Amounts held under state loan programs	-	-	85,012	-	-	-	-	-	-	-	85,012
Bonds and notes payable	-	50,273	1,226	915,620	1,298,493	904,049	-	2,994	483	53,020	3,226,158
Other accrued liabilities	<u>254</u>	<u>1,087</u>	<u>1,112</u>	<u>31,279</u>	<u>31,507</u>	<u>25,158</u>	<u>49,937</u>	<u>3,021</u>	<u>11,357</u>	<u>35,507</u>	<u>190,219</u>
<b>Total Liabilities</b>	<u>1,933</u>	<u>52,106</u>	<u>97,823</u>	<u>947,712</u>	<u>1,371,882</u>	<u>932,962</u>	<u>56,531</u>	<u>6,717</u>	<u>14,174</u>	<u>104,249</u>	<u>3,586,089</u>
<b>Equity:</b>											
Retained Earnings:											
Reserved	-	-	-	-	171,036	195,162	-	-	-	-	366,198
Unreserved	1,226	631	18,657	-	6,069	36,489	-	-	(1)	-	63,071
Reserved for debt service	-	-	-	-	-	-	-	-	-	575	575
Net investment in plant	-	-	-	-	-	-	-	34,855	56,181	218,059	309,095
Reserved for pension benefits	-	-	-	-	-	-	6,933,090	-	-	-	6,933,090
Other reservations	-	-	-	171,137	-	-	-	12,727	7,237	195,192	386,293
Unrestricted/unreserved	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,662</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,056</u>	<u>3,373</u>	<u>657</u>	<u>18,748</u>
<b>Total Equity</b>	<u>1,226</u>	<u>631</u>	<u>18,657</u>	<u>177,799</u>	<u>177,105</u>	<u>231,651</u>	<u>6,933,090</u>	<u>55,638</u>	<u>66,790</u>	<u>414,484</u>	<u>8,077,070</u>
<b>Total Liabilities and Equity</b>	<u>\$ 3,159</u>	<u>\$52,737</u>	<u>\$ 116,480</u>	<u>\$ 1,125,511</u>	<u>\$ 1,548,987</u>	<u>\$ 1,164,613</u>	<u>\$ 6,989,620</u>	<u>\$ 62,356</u>	<u>\$ 80,964</u>	<u>\$ 518,733</u>	<u>\$ 11,663,159</u>

**Component Unit Statement of Revenues, Expenses, and  
Changes in Retained Earnings/Fund Balances**

June 30, 1999  
(Dollars in Thousands)

	<u>LDA</u>	<u>MELA</u>	<u>FAME</u>	<u>MSHA</u>	<u>MMBB</u>	<u>Total</u>
Operating revenues	\$ 4,360	\$ 4,636	\$ 15,124	\$ 183,140	\$ 73,250	\$ 280,510
Operating expenses	<u>4,419</u>	<u>4,067</u>	<u>27,896</u>	<u>171,640</u>	<u>56,233</u>	<u>264,255</u>
Operating income (loss)	(59)	569	(12,772)	11,500	17,017	16,255
Non-operating revenues (expenses)	-	-	471	(146)	-	325
Extraordinary Loss	-	(33)	-	(1,433)	-	(1,466)
Transfers from primary government	414	-	15,155	3,687	25,164	44,420
Transfers to primary government	-	-	(504)	-	(783)	(1,287)
Other Operating Transfers (Net)	-	-	(1,141)	-	-	(1,141)
Net income (loss)	355	536	1,209	13,608	41,398	57,106
Retained Earnings, July 1, 1998 (as restated)	<u>871</u>	<u>94</u>	<u>17,447</u>	<u>163,498</u>	<u>190,254</u>	<u>372,164</u>
Retained Earnings, June 30, 1999	<u>\$ 1,226</u>	<u>\$ 630</u>	<u>\$ 18,656</u>	<u>\$ 177,106</u>	<u>\$ 231,652</u>	<u>\$ 429,270</u>

**NOTE 14 - JOINT VENTURES**

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

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

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

The Commission has designated that 50 percent of its operating revenue be aggregated in a common prize pool. A prize award liability is established when the winning ticket number is selected. If no winning ticket is selected, the available jackpot is carried over to the following drawing. The Tri-State Lotto Compact requires that prizes not claimed within one year from the date of the drawing be forfeited. All expired unclaimed prizes are credited to future prize pools. The Commission funds its jackpots through annuity contracts purchased from insurance companies and zero-coupon U.S. Government Treasury Strips.

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

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

As of and for the fiscal year ended June 30, 1999, the following selected financial information was reported in the audited financial statements of the Tri-State Lotto Commission:

**Tri-State Lotto Commission**

June 30, 1999

(Dollars in Thousands)

Current Assets	\$ 42,772
Noncurrent Assets	<u>219,948</u>
Total Assets	<u>\$262,720</u>
Current Liabilities	\$ 35,557
Long-term Liabilities	<u>206,879</u>
Total Liabilities	<u>242,436</u>
Designated Prize Reserves	4,996
Unrealized Gain on Investments Held for Installment	
Prize Obligations	<u>15,288</u>
Total Retained Earnings	20,284
Total Liabilities and Retained Earnings	<u>\$262,720</u>
Total Revenue	\$ 79,603
Total Expenses	\$ 52,100
Allocation of Funds to Member States	\$ 28,077
Increase in Retained Earnings	\$ (5,154)

<p><b>NOTE 15 - RELATED PARTY TRANSACTIONS</b></p>
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**PRIMARY GOVERNMENT**

General Obligation Bonds of the State include \$630,000 of self-liquidating bonds of the Maine Veterans' Home. The State issues the bonds and the Maine Veterans' Home remits to the State the debt service as it comes due.

**RELATED ORGANIZATIONS**

The State provided appropriations to two related organizations. The Maine Science and Technology Foundation received an appropriation of \$3.2 million, and the Maine School of Science and Mathematics received an appropriation of \$1.6 million.

The State receives transfers in the amount of the annual operating surplus from the Maine Turnpike Authority under the Sensible Transportation Act of 1991. The Legislature has defined operating surplus within the Maine Turnpike Authority statute to be the total operating revenues of the Authority after money has been set aside to pay reasonable operating expenses and to meet the requirements of any resolution authorizing bonds. The Authority, with the concurrence of the Maine Department of Transportation, has established the operating surplus at \$4.7 million annually. The payment of debt service costs in connection with the issuance of the Series 1996 Special Obligation Bonds is considered to constitute payment of the operating surplus for the year 1999.

**COMPONENT UNITS**

The University of Maine Foundation (Foundation) is an independent non-profit organization and, accordingly, its financial statements are not consolidated with those of the University. Total gifts and income received by the University from the Foundation during fiscal years ending June 30, 1999 and 1998 were approximately \$3.1 million and \$2.6 million, respectively. The reported fair market value of the Foundation's assets at June 30, 1999 and 1998 were approximately \$106.6 million and \$86.9 million, respectively.



The Maine Educational Loan Authority (Authority) acts as an originating lender for a federal loan program for loans ultimately sold to the Maine Educational Loan Marketing Corporation, a related party. The funds necessary to originate the loans are made available to the Authority by Maine Educational Services (another related party) through advances under a revolving credit agreement. The funds are advanced normally for a one day period. The educational loans are sold at face value plus a fifty basis point premium. In 1998 and 1997, approximately \$53.7 million and \$49.6 million, respectively, of educational loans were originated by the Authority and purchased by MELMAC as described above. The Authority received approximately \$269 thousand and \$248 thousand in 1998 and 1997, respectively, in loan premiums from MELMAC.

The advances provided to the Authority by Maine Educational Services are subject to a revolving credit agreement between these two parties. The maximum amount that the Authority can borrow from Maine Educational Services at any given time is \$2 million.

## **NOTE 16 - COMMITMENTS AND CONTINGENCIES**

### **FEDERAL GRANTS**

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

### **MUNICIPAL SOLID WASTE LANDFILLS**

Title 38 M.R.S.A., §1310-F, establishes within the Department of Environmental Protection (DEP) a cost-sharing program for the closure and remediation of municipal solid waste landfills that pose an actual or potential hazard to the environment and public health. The State's obligation to provide cost sharing to municipalities is subject to the availability of general obligation bond funds approved for that purpose. During the 1999 fiscal year, \$5.4 million of general obligation bond funds were expended for solid waste landfill closure projects.

After January 1, 2000, the State will be not be liable for the costs relating to the closure of municipal solid waste landfills, except, the Commissioner may make grants or payments up to 30% if they are incurred pursuant to an alternative closure schedule approved by DEP prior to January 1, 2000. Reimbursement applications received and approved by DEP total \$3.4 million. Remediation funding, subject to the availability of funds, will continue for 90% of the cost of remediation of municipal solid waste landfills. As of June 30, 1999 DEP has recognized that, in the future, some post closure investigation and remediation activities may be necessary at some landfills that will require State funds. DEP has not estimated the amount of these potential costs.

### **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 \$11-14 million through the year 2003. This consists of approximately \$8-10 million for State-owned facilities and approximately \$6 million for the State's share, under a cost sharing arrangement, for municipal facilities. The amount of the commitment has been reduced since FY 98 due to PL 1999, c. 387.

### **POLLUTION ABATEMENT PROGRAM**

Title 38 M.R.S.A. §411 establishes within DEP a cost-sharing program for pollution abatement projects. Subject to funding by the Legislature and the approval of the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. During the 1999 fiscal year, \$2.6 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 1999 amounts encumbered for pollution abatement projects totaled \$7.2 million, and general obligation bonds authorized for these

projects, but not yet encumbered or expended, totaled \$7.4 million. At June 30, 1999, DEP estimates the total cost (federal, State, and local) of future projects to be \$281 million.

#### **TREATMENT OF WASTEWATER FROM THE STATE'S CORRECTIONAL FACILITIES**

At June 30, 1999, the Department of Corrections (DOC) had a contractual commitment with the Warren Sanitary District to provide treatment of wastewater from the State's correctional facilities located in Warren, Maine. Under the terms of the agreement, the DOC is required to make annual payments to the District for the DOC's prorated share of capital costs, debt service, and operation and maintenance costs. Fiscal year 1999 expenditures totaled \$385 thousand. The agreement with the District shall be in effect for as long as the DOC uses the wastewater treatment facility. If the DOC ceases its use, the agreement is in effect until (a) the DOC has paid off its share of the local capital costs of the project and (b) another user acceptable to the Warren Sanitary District assumes the DOC's share of the operations and maintenance costs.

#### **CONSTRUCTION COMMITMENTS**

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. This portion represents the subsidy for debt service resulting from local outstanding indebtedness for school construction and renovation projects. As of June 30, 1999, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled \$698.5 million.

At June 30, 1999, the Department of Transportation had contractual commitments of approximately \$86.1 million for construction of various highway projects. The State's share of that amount is expected to be approximately \$15.7 million. Funding for these future expenditures is expected to be provided from federal funds, State funds, and bond proceeds.

#### **TOBACCO SETTLEMENTS**

On November 23, 1998, Maine along with 49 other states and jurisdictions agreed to an out of court settlement with certain Participating Tobacco Manufacturers (PM's) to recover smoking related Medicaid costs. The PM's agreed to pay \$206 billion to the 50 states. In return, the states have agreed to relinquish claims to further damages resulting from Medicaid costs. Maine's percentage of the total settlement payment is 0.7693505%, which equals \$1.58 billion. Annual payments (2000 and thereafter) will fluctuate subject to various adjustments and litigation offsets and are contingent on the passage and enforcement of a State statute imposing economic conditions on the PM's. This settlement will result in an ongoing revenue stream to the State, which will continue into perpetuity.

As compensation, the PM's have also agreed to pay \$8.6 billion to the 50 states and jurisdictions for their contribution to the overall settlement. These payments are subject to the adjustments referred to above. Maine's share equals approximately \$114 million and will be received in ten annual payments beginning in 2008.

#### **CONSTITUTIONAL OBLIGATIONS**

Article 9, § 14-A, C, and D of the Maine State Constitution provides that the State may insure the payment of mortgage loans for industrial, manufacturing, fishing, agricultural and recreational enterprises; mortgage loans for the acquisition, construction, repair and remodeling of houses owned or to be owned by members of two tribes on several Indian reservations; and mortgage loans to resident Maine veterans of the Armed Forces of the United States, including loans to a business organization owned in whole or in part by a resident Maine veteran. The aggregate of these obligations, at any one time, may not exceed \$90 million, \$1 million, and \$4 million, respectively. At June 30, 1999, loans outstanding pursuant to these authorizations are \$17 million, less than \$1 million, and \$1.3 million, respectively. The State has not paid, nor does it expect to pay, any amounts as a result of these authorizations as of June 30, 1999.

Article 8, § 2, of the Maine State Constitution provides that the State may secure funds, through the issuance of bonds authorized by the Governor, for loans to Maine students attending institutions of higher education. The amount of bonds issued and outstanding shall not at any one time exceed \$4 million in the aggregate. The State has not paid, nor does it expect to pay, any amount as a result of this authorization as of June 30, 1999.

## 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 Moral Obligations as of June 30, 1999.

### Moral Obligation Bonds

June 30, 1999

(Dollars in Thousands)

<u>Issuer</u>	<u>Bonds Outstanding</u>	<u>Required Debt Reserve</u>	<u>Obligation Debt Limit</u>	<u>Legal Citation</u>
Finance Authority of Maine	\$ 245,844	\$ 36,441	\$777,000	10 MRSA § 1032, 1053
Maine Educational Loan Authority	49,870	2,541	50,000	20-A MRSA § 11424
Maine Municipal Bond Bank	929,215	109,277	No Limit	30-A MRSA § 6006
Maine Health and Higher Education Facilities Authority	864,815	63,176	No Limit	22 MRSA § 2075
Loring Development Authority	-	-	100,000	5 MRSA § 13080-N
Maine State Housing Authority	<u>1,353,632</u>	<u>99,602</u>	1,650,000	30-A MRSA § 4906
Total	<u>\$3,443,376</u>	<u>\$311,037</u>		

## NOTE 17 - LITIGATION

The State of Maine, its units and employees are parties to numerous legal proceedings, many of which normally occur in governmental operations. In the opinion of the Attorney General and other legal counsel representing the State, in all of the cases listed, except in the Consent Decrees and the allocation of pension costs, the State or its agencies or employees have valid defenses, and that, even if liability is found, the damages awarded will be far less than the amounts sought. Other than the pension case, the Attorney General is unaware of any case in which it is both probable that the State will incur liability and that the amount of such liability can be reasonably estimated to exceed \$1 million. In any given case, however, it is possible that the State could incur a large judgment against it.

*Bates v. Peet, et al.*, is a class action suit that was settled in 1990 by a Consent Decree, applicable to the mental health and mental retardation services provided by the Department of Mental Health and Mental Retardation. On September 7, 1994, the Superior Court found the defendants in contempt for their failure to live up to certain of the obligations contained in the Decree. On March 8, 1996, the Court found that the defendants had not purged themselves of the contempt previously found in the September 1994 order. A receivership was imposed but was stayed on condition that the defendants complied with further milestones by October 31, 1996. On February 8, 1997, the Court determined that the defendants had substantially complied with the terms of the March 8, 1996, order and therefore purged themselves of civil contempt. However, the defendants remain under the obligations of the underlying Consent Decree, which may result in costs to the State that cannot be determined at this time.

*Consumer Advisory Board, et al., v. Glover, et al.*, was the Consent Decree entered into September 28, 1994. This is the former Pineland Consent Decree and is now officially called the Community Consent Decree. The Department of Mental Health, Mental Retardation and Substance Abuse Services filed a motion to terminate the consent decree in July of 1998, and the parties are now engaged in negotiations to attempt to bring about a negotiated end to this 20-year old decree. The U.S. District Court is considering an order terminating this case, though possibly with several conditions. It is possible that additional funds could be required as a result of further court orders.

*New Hampshire v. Maine.* The Attorney General has advised us that the State of New Hampshire is preparing to file a lawsuit in the U.S. Supreme Court contending that the Kittery Shipyard is actually located in New Hampshire. The Attorney General believes that if such a suit is filed, the State of Maine will prevail.

*State of Maine v. Shalala.* On May 5, 1998, the HHS Departmental Appeals Board ruled against the State on its appeal with respect to the proper allocation of pension contribution costs between the State and federal government. This cost to the State is approximately \$7 million, plus interest of \$50 thousand per month. The State filed an appeal in the U.S. District Court, which has now affirmed the Board's ruling. The State is in the process of paying the \$7 million judgment, but has filed a notice of appeal to the First Circuit Court of Appeals regarding the interest.

*Alden v. State.* This case involves claims by probation officers against the State for violations of the federal Fair Labor Standards Act. The State has successfully defended this suit before the Supreme Court of the United States on the grounds of the State's sovereign immunity under the 11<sup>th</sup> Amendment. There is legislation pending which would waive the State's immunity and allow the suit to proceed. The outstanding claims, interest and attorney fees would be well over \$1 million.

*Nancy Blanchard v. State of Maine Department of Transportation and John Melrose.* In this case, the Plaintiff seeks to have the court declare unconstitutional the Department's taking of her property by eminent domain. The Department awarded \$600 thousand to the Plaintiff at the time of the taking. If the court upholds the taking, the Plaintiff has indicated that she will contest this award and seek at least an additional \$600 thousand as just compensation. If Plaintiff prevails, she will also seek compensation from the Department for the temporary deprivation of her property and for attorney's fees, which may total in excess of \$1.5 million.

*George West Waste Oil Sites.* There are four George West waste oil sites that are in the litigation process. The four sites are Wells, Plymouth, Casco and Ellsworth. The State of Maine Department of Transportation has officially resolved its liability at the Wells site. The potential liability for all state agencies that are responsible at the remaining sites could exceed \$1 million.

*Kvorjak v. State of Maine Department of Labor.* This suit is brought under the Americans with Disabilities Act by a former employee who sought the accommodation of being allowed to work at home. The Plaintiff seeks damages of almost \$2 million, which includes economic damages, punitive damages, and compensatory damages. The State believes it has substantial defenses, and has filed a motion for summary judgment, which is pending.

*System Automation v. State of Maine* is a potential breach of contract action involving the preparation of a database system to keep track of licensing data for boards. The Plaintiff seeks over \$2 million in damages. The State believes it has substantial defenses and has filed counterclaims.

*Bloom v. Crook* is a federal court suit including claims of sex discrimination and civil rights violations. It arises out of the dismissal of an Assistant District Attorney. Plaintiff's claims theoretically could exceed \$1 million.

*Exxon Mobil* is a tax case involving \$2.7 million relating to foreign corporate tax issues. Legal counsel cannot predict the outcome of this case.

There are also numerous workers' compensation claims 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.

## **NOTE 18 - SUBSEQUENT EVENTS**

### **PRIMARY GOVERNMENT**

On September 1, 1999, the State, through its blended component unit, Maine Governmental Facilities Authority, issued \$86.9 million Bonds for the purpose of improvements to State facilities. The bonds mature from 2000 – 2019, and carry interest rates ranging from 4.5% to 5.625%.

In December, 1999 and January, 2000 Maine received the first of its annual payments from certain Participating Tobacco Manufacturers (PM's) to recover smoking related Medicaid costs as part of an out of court settlement. In return, the State has agreed to relinquish claims to further damages resulting from Medicaid costs. The total amount Maine has received, to date, is \$35.8 million. Annual payments will fluctuate subject to various adjustments and litigation offsets, and will result in an ongoing revenue stream to the State, which will continue into perpetuity.

On February 1, 2000, the State, through its Central Fleet Management Internal Service Fund, issued a \$4 million Certificate of Participation for the purchase of vehicles.

### **COMPONENT UNITS**

Effective September 18, 1999, the State Legislature authorized the University of Maine System to borrow up to \$25 million to fund capital improvements to support research and development in the system. The financing agreement may not exceed 15 years in duration and the interest rate may not exceed 6%.

On January 26, 1999, MELA issued \$14 million of Educational Loan Revenue Bonds, with an initial rate of 3.28%, and maturity date of June 1, 2029.

On February 23, 1999, the Maine State Housing Authority issued \$15 million in bonds, with interest rates ranging between 4.05% and 5.25%, maturing from 2018 - 2032. They also issued \$80 million in bonds on March 24, 1999, with interest rates ranging between 4.15% and 5.3%, maturing from 2012 - 2032. On March 24, 1999, they redeemed, at a premium, \$3.7 million of bonds with interest rates between 8.2% and 8.3%, and maturing between 2008 and 2020.

## **NOTE 19 - ACCOUNTING CHANGES**

For the fiscal year ended June 30, 1999, the State of Maine adopted GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*.



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# **REQUIRED SUPPLEMENTARY INFORMATION**

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## 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, 1999	\$4,881,389,092	\$7,053,934,465	\$2,172,545,373	69.2%	\$1,209,804,594	179.6%
June 30, 1998	\$4,325,864,097	\$6,706,620,152	\$2,380,756,055	64.5%	\$1,165,614,285	204.2%
June 30, 1997	\$3,678,447,543	\$6,223,290,581	\$2,544,843,038	59.1%	\$1,123,165,516	226.6%

### Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
1999	\$252,856,506	\$274,702,404	108.6%
1998	\$237,246,612	\$245,734,184	103.6%
1997	\$216,474,520	\$235,001,023	108.6%



<b>Required Supplementary Information – Participating Local District Plan</b>
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### 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, 1999	\$1,354,840,239	\$1,278,819,201	\$(76,021,038)	105.9%	\$233,507,942	-32.6%
June 30, 1998	\$1,066,810,947	\$1,147,652,930	\$80,841,983	93.0%	\$223,525,533	36.2%
June 30, 1997	\$924,525,993	\$1,068,530,453	\$144,004,460	86.5%	\$218,447,415	65.9%

### Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
1999	\$24,991,863	\$24,991,863	100.0%
1998	\$29,053,376	\$29,053,376	100.0%
1997	\$32,852,635	\$32,852,635	100.0%

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

### **Basis of Presentation**

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

### **Actuarial Assumptions and Methods:**

The information in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, June 30, 1999, is as follows:

#### **Funding Method**

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

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

#### **Asset Valuation Method**

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

#### **Amortization**

The unfunded actuarial liability is amortized on a level percentage of payrolls over a legislatively enacted 25 year closed period from June 30, 1998.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 1998 are as follows:

**Investment Return** – 8% per annum, compounded annually

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

**Mortality Rates** – Active State employee members and active participating local entity members – UP 1994 Tables; Active teacher members – 85% of UP 1994 Tables; Non-disabled State employee retirees and non-disabled participating local entity retirees – GAM 1971 Tables; Non-disabled teacher retirees – GAM 1971 Tables set back two years; All current recipients of disability benefits – 1964 Commissioners Disability Table; All disability benefit recipients who begin to receive benefits in 1999 and thereafter – RPA 1994 Table for pre-1995 Disabilities.

**Post Retirement Benefit Increases** – 4% per annum

**Group Life Plan:**

The Group Life Insurance Program administered by the System provides for a life insurance benefit for active members equal to a member's annual base compensation as defined by statute. Upon retirement, life insurance coverage in the amount of the member's average final compensation is provided with a reduction of 15% per year until the greater of 40% of the average final compensation of \$2,500 is reached. To be covered in retirement, retirees must have participated in the Group Life Program for a minimum of ten years. Premiums are remitted to the System by the employer. The State pays a premium rate of \$0.30 per \$1,000 of coverage per month for state employees. Teachers and employees of participating local districts pay a premium rate of \$0.22 and \$0.46 per \$1,000 of coverage per month, respectively; some or all of which may be deducted from employees' compensation as per individual agreements with employees. Assumptions used to determine the actuarial liability are the same as for the pension plan. At June 30, 1999 and 1998, the plan had the following actuarially determined liabilities:

	(In millions)	
	<u>1999</u>	<u>1998</u>
Actuarial Liabilities:		
Active Members	\$ 47.4	\$ 42.6
Retired Members	<u>33.5</u>	<u>36.4</u>
 Total	 <u>\$ 80.9</u>	 <u>\$ 76.5</u>

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

### **Basis of Presentation**

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

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Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 1998 are as follows:

**Investment Return** – 8% per annum, compounded annually

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

**Mortality Rates** – Active State employee members and active participating local entity members – UP 1994 Tables; Active teacher members – 85% of UP 1994 Tables; Non-disabled State employee retirees and non-disabled participating local entity retirees – GAM 1971 Tables; Non-disabled teacher retirees – GAM 1971 Tables set back two years; All current recipients of disability benefits – 1964 Commissioners Disability Table; All disability benefit recipients who begin to receive benefits in 1999 and thereafter – RPA 1994 Table for pre-1995 Disabilities.

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	(In millions)	
	<u>1999</u>	<u>1998</u>
Actuarial Liabilities:		
Active Members	\$ 47.4	\$ 42.6
Retired Members	<u>33.5</u>	<u>36.4</u>
 Total	 <u>\$ 80.9</u>	 <u>\$ 76.5</u>





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

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

We have audited the financial statements of the State of Maine, as of and for the year ended June 30, 1999, and have issued our qualified report thereon dated January 31, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Maine Educational Loan Authority, the Maine Governmental Facilities Authority, and the Maine Health and Higher Education Facilities Authority were not audited in accordance with *Government Auditing Standards*.

Compliance

As part of obtaining reasonable assurance about whether the State of Maine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We also noted certain immaterial instances of noncompliance, which we have reported to management of the State of Maine in a separate letter dated June 9, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Maine's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Maine's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions

are described in the accompanying Schedule of Findings and Questioned Costs as items 99-01 through 99-05.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 99-01, 99-02 and 99-03 to be material weaknesses. We also noted other matters involving the internal control over financial reporting which we have reported to management of the State of Maine in a separate letter dated June 9, 2000.

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

Gail M. Chase, CIA  
State Auditor

January 31, 2000





GAIL M. CHASE, CIA  
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the State of Maine with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1999. The State of Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Maine's management. Our responsibility is to express an opinion on the State of Maine's compliance based on our audit.

The State of Maine's general-purpose financial statements include the operations of the following component units: the Maine State Retirement System, the Maine Technical College System, the University of Maine System, the Maine Maritime Academy, the Finance Authority of Maine, the Maine State Housing Authority, the Maine Educational Loan Authority, the Loring Development Authority, the Maine Governmental Facilities Authority, the Maine Health and Higher Education Facilities Authority and the Maine Municipal Bond Bank. 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, 1999. Our audit, described below, did not include the operations of these component units because the component units engaged other auditors.

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

that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Maine's compliance with those requirements.

In our opinion, the State of Maine complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999. 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 99-06, 99-10, 99-13, 99-15 through 99-17, 99-20 through 99-23, 99-30, 99-31, and 99-34 through 99-36.

### Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Maine's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 99-07 through 99-12, 99-14, 99-15, 99-17 through 99-19, 99-24 through 99-33, 99-36 and 99-37.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

## Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the State of Maine as of and for the year ended June 30, 1999, and have issued our qualified report thereon dated January 31, 2000. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying *Schedule of Expenditures of Federal Awards* is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

Gail M. Chase, CIA  
State Auditor

June 09, 2000  
(Except for the *Schedule of Expenditures of Federal Awards* as to which the date is January 31, 2000)



**State of Maine**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended June 30, 1999**

<b>Federal Department</b>	<b>Federal Catalog Number</b>	<b>Program Title</b>	<b>State Agency</b>	<b>Expenditures 1999</b>
<b>Major Sub-Division</b>				
<b>U.S. Department of Agriculture</b>				
<b>Direct Federal Programs</b>				
Animal & Plant Health Inspection Service	10.025	Plant and Animal Disease, Pest Control and Animal Care	Agriculture	9,497
Animal & Plant Health Inspection Service	10.025	Plant and Animal Disease, Pest Control and Animal Care	Conservation	7,600
Agricultural Marketing Service	10.162	Inspection Grading and Standardization	Agriculture	551,633
<b>Food &amp; Nutrition Service</b>	<b>10.557</b>	<b>Special Supplemental Nutrition Program for W.I.C.</b>	<b>Human Services</b>	<b>12,623,690</b>
Food & Nutrition Service	10.558	Child Care and Adult Care Food Program	Human Services	9,921,262
Food & Nutrition Service	10.560	State Administrative Expenses for Child Nutrition	Human Services	206,473
Food & Nutrition Service	10.560	State Administrative Expenses for Child Nutrition	Education	384,778
Food & Nutrition Service	10.564	Nutrition and Education Training Programs	Education	20,876
Food & Nutrition Service	10.572	WIC Farmer's Market Nutrition Program (FMNP)	Human Services	17,347
Food & Nutrition Service	10.574	Team Nutrition Grants	Education	44,432
Forest Service	10.664	Cooperative Forestry Assistance	Conservation	2,415,162
Forest Service	10.652	Forestry Research	Conservation	43,000
<b>Agriculture, Food Stamp Cluster</b>				
Food & Nutrition Service	10.551	Food Stamps	Human Services	90,479,907
Food & Nutrition Service	10.561	State Administrative Matching Grants for Food Stamp Program	Human Services	7,189,719
<b>Agriculture, Child Nutrition Cluster</b>				
Food & Nutrition Service	10.553	School Breakfast Program	Education	3,015,508
Food & Nutrition Service	10.555	National School Lunch Program	Education	15,490,522
Food & Nutrition Service	10.556	Special Milk Program for Children	Education	115,746
Food & Nutrition Service	10.559	Summer Food Service Program for Children	Education	780,264
<b>Agriculture, Emergency Food Assistance Cluster</b>				
<b>Food &amp; Nutrition Service</b>	<b>10.568</b>	<b>Emergency Food Assistance Program (Administration)</b>	<b>Agriculture</b>	<b>216,938</b>
<b>Food &amp; Nutrition Service</b>	<b>10.569</b>	<b>Emergency Food Assistance Program (Commodities)</b>	<b>Agriculture</b>	<b>1,149,202</b>
<b>Non-Cash Federal Programs</b>				
Food & Nutrition Service	10.550	Food Distribution Program (Commodities)	Education	2,844,530
Food & Nutrition Service	10.570	Nutrition Program for the Elderly (Commodities)	Human Services	551,898
<b>Total U.S. Department of Agriculture Federal Programs</b>				<b>148,079,984</b>

**U.S. Department of Commerce**

<b>Direct Federal Programs</b>				
Economic Development Administration	11.302	State & Urban Planning Program, Mature & Dominant Industries	Economic Dev	96,823
Economic Development Administration	11.307	Special Economic Devt and Adjust Assistance Program	Economic Dev	150,000
National Oceanic & Atmospheric Administration	11.405	Anadromous Fish Conservation Act Program	Marine Resource	144,780
National Oceanic & Atmospheric Administration	11.407	Interjurisdictional Fisheries Act of 1986	Marine Resource	150,012
National Oceanic & Atmospheric Administration	11.419	Coastal Zone Management Administration Awards	State Planning	1,364,196
National Oceanic & Atmospheric Administration	11.419	Coastal Zone Management	Environment	797,202
National Oceanic & Atmospheric Administration	11.420	Coastal Zone Management Estuarine Research Reserves	Conservation	13,606
National Oceanic & Atmospheric Administration	11.427	Fisheries Dev & Utiliz R & D Grants and Coop Agreements	Marine Resource	38,930
National Oceanic & Atmospheric Administration	11.452	Unallied Industry Projects	Marine Resource	31,112
National Oceanic & Atmospheric Administration	11.472	Unallied Science Program	Salmon Comm	337,047
National Oceanic & Atmospheric Administration	11.472	Unallied Science Program	Marine Resource	43,950
National Oceanic & Atmospheric Administration	11.474	Atlantic Coastal Fisheries Cooperative Management Act	Marine Resource	166,049
<b>Pass Through Federal Programs</b>				
National Oceanic & Atmospheric Administration (through the State Planning Office)	11.419	Coastal Zone Management Administration Awards	Marine Resources	166,969
National Oceanic & Atmospheric Administration (through the State Planning Office)	11.419	Coastal Zone Management Administration Awards	State Planning	605,033
National Oceanic & Atmospheric Administration (through the State Planning Office)	11.419	Coastal Zone Management Administration Awards	Attorney General	72,142
National Oceanic & Atmospheric Administration (through the Island Institute)	11.440	Research In Remote Sensing of the Earth & Environment	Marine Resources	325,699
<b>Total U.S. Department of Commerce Federal Programs</b>				<b>4,503,550</b>

**U.S. Department of Defense**

<b>Direct Federal Programs</b>				
Office of the Chief Engineers	12.113	State Memo of Agree Prog for the Reimb of Tech Services	Environment	470,106
Office of the Chief of Naval Research	12.300	Basic and applied Scientific research	Conservation	158
National Guard Bureau	12.400	State National Guard	Defense	1,190,385
<b>National Guard Bureau</b>	<b>12.401</b>	<b>National Guard Military Operations &amp; Maintenance Projects</b>	<b>Defense</b>	<b>10,984,964</b>
US Army Corps/Eng	12.999	Unknown	Agriculture	746
<b>Total U.S. Department of Defense Federal Programs</b>				<b>12,646,359</b>

**State of Maine**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended June 30, 1999**

<b>Federal Department</b>	<b>Federal Catalog Number</b>	<b>Program Title</b>	<b>State Agency</b>	<b>Expenditures 1999</b>
<b>Major Sub-Division</b>				
<b>U.S. Department of Housing and Urban Development</b>				
<b>Direct Federal Programs</b>				
Federal Housing Commissioner	14.174	Housing Development Grants	Transportation	8,603
Community Planning & Development	14.228	Community Development Block Grants / State's Program	Economic Dev	17,812,035
Community Planning & Development	14.235	Supportive Housing	Mental Health	579,345
<b>Community Planning &amp; Development</b>	<b>14.238</b>	<b>Shelter Plus Care</b>	<b>Mental Health</b>	<b>1,544,417</b>
Housing and Urban Development	14.999	Innovative Homeless Program	Mental Health	
<b>Total U.S. Department of Housing and Urban Development Federal Programs</b>				<b>19,944,400</b>
<b>U.S. Department of the Interior</b>				
<b>Direct Federal Programs</b>				
U.S. Fish & Wildlife Service	15.600	Anadromous Fish Conservation	Salmon Comm	212,159
U.S. Fish & Wildlife Service	15.605	Sportfish Restoration	Marine Resource	737,477
U.S. Fish & Wildlife Service	15.605	Sportfish Restoration	Inland Fisheries	1,612,740
U.S. Fish & Wildlife Service	15.611	Wildlife Restoration	Inland Fisheries	1,986,394
U.S. Fish & Wildlife Service	15.612	Rare and Endangered Species Conservation	Inland Fisheries	58,825
U.S. Fish & Wildlife Service	15.615	Cooperative Endangered Species Conservation Fund	Conservation	12,223
U.S. Fish & Wildlife Service	15.616	Clean Vessel Act	State Planning	30,920
Geological Survey	15.808	Geological Survey - Research and Data Acquisition	Conservation	25,718
National Park Service	15.904	Historic Preservation Fund - Grants in Aid	Historic Preserv	474,078
National Park Service	15.916	Outdoor Recreation: Acquisition, Development, & Planning	Conservation	6,220
U.S. Fish & Wildlife Service	15.FFC	North American Wetlands Conservation Act	Inland Fisheries	98,005
<b>Total U.S. Department of the Interior Federal Programs</b>				<b>5,254,759</b>
<b>U.S. Department of Justice</b>				
<b>Direct Federal Programs</b>				
Drug Enforcement Administration	16.005	Public Education on Drug Abuse - Information	Public Safety	79,820
Office of Justice Programs	16.510	Bureau of Justice Statistics, Maine Statistical Analysis Center	Corrections	27,348
Office of Juvenile Justice & Delinquency Prevention	16.523	Juvenile Accountability Incentive Block Grants	Corrections	3,427
Office of Juvenile Justice & Delinquency Prevention	16.541	Juvenile Justice & Delinquency Prevention: Special Emphasis	Correction	530,143
Office of Juvenile Justice & Delinquency	16.549	Part E State Challenge Activities	Correction	8,999
Bureau of Justice Statistics	16.554	National Criminal History Improvement Program	Correction	134,200
Bureau of Justice Statistics	16.554	National Criminal History Improvement Program	Public Safety	295,704
National Institute of Justice	16.560	Justice Research, Dev. & Eval. Project Grants	Public Safety	77,869
Bureau of Justice Assistance	16.575	Crime Victim Assistance	Human Services	1,380,864
<b>Bureau of Justice Assistance</b>	<b>16.579</b>	<b>Byrne Formula Grant Program</b>	<b>Public Safety</b>	<b>1,958,838</b>
<b>Bureau of Justice Assistance</b>	<b>16.579</b>	<b>Byrne Formula Grant Program</b>	<b>Judicial Branch</b>	<b>67,729</b>
Corrections Program Office	16.586	Violent Offender Incarc & Truth in Sentencing Incentive Grants	Corrections	408,923
Bureau of Justice Assistance	16.588	Violence Against Women - Formula Grants	Public Safety	874,864
Office of Justice Programs	16.589	Rural Domestic Violence & Child Victim Enf. Grant Program	Human Services	89,311
Bureau of Justice Assistance	16.592	Local Law Enforcement Block Grants Program	Public Safety	519,529
Office of Justice Programs	16.598	State Identification Systems Grant Program	Public Safety	141,171
Bureau of Justice Assistance	16.606	State Criminal Alien Assistance Program	Correction	96,140
Office of Community Oriented Policing Services	16.710	Public Safety Partnership & Community Policing Grants	Public Safety	27,281
Office of Juvenile Justice & Delinquency Prevention	16.727	Enforcing Underage Drinking Laws Program	Mental Health	176,055
US Customs	16.999	Unknown	Public Safety	4,463
NE State Police	16.999	Unknown	Public Safety	4,632
<b>Pass Through Federal Programs</b>				
<b>Bureau of Justice Assistance (through the State Dept. of Public Safety)</b>	<b>16.579</b>	<b>Byrne Formula Grant Program</b>	<b>Attorney General</b>	<b>608,504</b>
<b>Bureau of Justice Assistance (through the State Dept. of Public Safety)</b>	<b>16.579</b>	<b>Byrne Formula Grant Program</b>	<b>Corrections</b>	<b>353,563</b>
<b>Bureau of Justice Assistance (through the State Dept. of Public Safety)</b>	<b>16.579</b>	<b>Byrne Formula Grant Program</b>	<b>Mental Health</b>	<b>(9,400)</b>
<b>Bureau of Justice Assistance (through the State Dept. of Public Safety)</b>	<b>16.579</b>	<b>Byrne Formula Grant Program</b>	<b>Judicial</b>	<b>212,164</b>
Office of Justice Programs (through Cumb. County)	16.585	Drug Discretionary Grant Program	Attorney General	47,754
Office of Justice Programs (through the State Dept. of Public Safety)	16.588	Violence Against Women - Formula Grant	Attorney General	295,622
Office of Justice Programs (through the State Dept. of Public Safety)	16.588	Violence Against Women - Formula Grant	Judicial	45,012
Corrections Program Office (through the State Dept. of Public Safety)	16.593	Residential Substance Abuse Treatment for State Prisoners	Corrections	2,691
Office of Justice Programs (through Corrections)	16.606	State Criminal Alien Assistance Program	Corrections	51,673
<b>Total U.S. Department of Justice Federal Programs</b>				<b>8,514,893</b>

**State of Maine**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended June 30, 1999**

<b>Federal Department</b>	<b>Federal Catalog Number</b>	<b>Program Title</b>	<b>State Agency</b>	<b>Expenditures 1999</b>
<b>Major Sub-Division</b>				
<b>U.S. Department of Labor</b>				
Direct Federal Programs				
Bureau of Labor Statistics	17.002	Labor Force Statistics	Labor	943,941
Bureau of Labor Statistics	17.005	Compensation and Working Conditions Data	Labor	55,836
Employment & Training Administration	17.202	Cert of Foreign Workers for Temp Agr Employment	Labor	479,867
Employment & Training Administration	17.207	Employment Services	Labor	6,443,387
<b>Employment &amp; Training Administration</b>	<b>17.225</b>	<b>Unemployment Insurance</b>	<b>Labor</b>	<b>104,602,875</b>
Employment & Training Administration	17.235	Senior Community Service Employment Program	Human Services	507,440
Employment & Training Administration	17.245	Trade Adjustment Assistance Workers	Labor	4,296,818
<b>Employment &amp; Training Administration</b>	<b>17.246</b>	<b>Employment &amp; Training Assistance Dislocated Workers</b>	<b>Labor</b>	<b>7,096,858</b>
Employment & Training Administration	17.249	Employment Services and Job Training - Pilot Programs	Labor	141,008
Employment & Training Administration	17.249	Employment Services and Job Training - Pilot Programs	Education	270,000
<b>Employment &amp; Training Administration</b>	<b>17.250</b>	<b>Job Training Partnership Act</b>	<b>Labor</b>	<b>7,773,836</b>
Employment & Training Administration	17.253	Welfare-to-Work Grants to States and Localities	Labor	1,073,927
Occupational Safety & Health Administration	17.504	Consultation Agreements	Labor	264,674
Mine Health and Safety Administration	17.600	Mine Health and Safety Grants	Labor	46,596
Office of the Asst Sec for Veterans' Emplmnt & Trng	17.801	Disabled Veterans Outreach Program	Labor	467,080
Office of the Asst Sec for Veterans' Emplmnt & Trng	17.802	Veterans Employment Program	Labor	679,541
Office of the Asst Sec for Veterans' Emplmnt & Trng	17.804	Local Veterans Employment Representative Programs	Labor	437,463
Total U.S. Department of Labor Federal Programs				<u>135,581,147</u>
<b>U.S. Department of Transportation</b>				
Direct Federal Programs				
United States Coast Guard	20.005	Boating Safety Financial Assistance	Inland Fisheries	703,234
<b>Federal Highway Administration</b>	<b>20.205</b>	<b>Highway Planning and Construction</b>	<b>Financial Serv</b>	<b>111,391</b>
<b>Federal Highway Administration</b>	<b>20.205</b>	<b>Highway Planning and Construction</b>	<b>Transportation</b>	<b>122,666,339</b>
Federal Highway Administration	20.218	Motor Carrier Safety Assistance Program	State	68,722
Federal Highway Administration	20.218	Motor Carrier Safety Assistance Program	Public Safety	168,309
Federal Highway Administration	20.219	National Recreational Trails Funding Program	Conservation	128,843
Federal Railroad Administration	20.308	Local Rail Freight Assistance	Transportation	359,679
Federal Transit Administration	20.505	Federal Transit Technical Studies Grants	Transportation	182,853
<b>Federal Transit Administration</b>	<b>20.509</b>	<b>Public Transportation for Nonurbanized Areas</b>	<b>Transportation</b>	<b>2,445,864</b>
Federal Transit Administration	20.513	CAP Assistance Program for Elderly Persons & Disabl Pers	Transportation	392,088
National Highway Traffic Safety Administration	20.600	State & Community Highway Safety	Transportation	64,930
National Highway Traffic Safety Administration	20.600	State & Community Highway Safety	Public Safety	822,116
National Highway Traffic Safety Administration	20.600	State & Community Highway Safety	Human Services	72,872
Federal Transit Administration, Federal Transit Capital Cluster				
Federal Transit Administration	20.500	Federal Transit Capital Improvement Grants	Transportation	571,107
Federal Transit Administration	20.507	Federal Transit Capital and Operating Asst Formula Grts	Transportation	1,241,628
Pass Through Federal Programs				
<b>Federal Highway Administration</b>	<b>20.205</b>	<b>Highway Planning and Construction</b>	<b>Marine Resources</b>	<b>7,773</b>
(through the State Department of Transportation)				
Total U.S. Department of Transportation Federal Programs				<u>130,008,748</u>
<b>Equal Employment Opportunity Commission</b>				
Direct Federal Programs				
Equal Employment Opportunity Commission	30.002	Empl Discr - St & Loc - Fair Empl Pract Agcy Contracts	Human Rights	212,671
Total Equal Employment Opportunity Commission Federal Programs				<u>212,671</u>
<b>General Services Administration</b>				
Direct Federal Programs				
Office of the Secretary	39.003	Donation of Federal Surplus Property	Financial Services	1,546,404
Total General Services Administration Federal Programs				<u>1,546,404</u>
<b>National Foundation on the Arts &amp; the Humanities</b>				
Direct Federal Programs				
National Endowment for the Arts	45.025	Promotion of the Arts - Partnership Agreements	Arts Commission	441,090
National Endowment for the Arts	45.026	Promotion of the Arts - Leadership Initiatives	Arts Commission	21,000
National Endowment for the Humanities	45.149	Promo of the Humanities-Div of Presv and Access	State Library	71,354
Institute of Museum & Library Services	45.301	Institute of Museum and Library Services	State Museum	46,124
Total National Foundation on the Arts & the Humanities Federal Programs				<u>579,568</u>

**State of Maine**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended June 30, 1999**

<b>Federal Department</b>	<b>Federal Catalog Number</b>	<b>Program Title</b>	<b>State Agency</b>	<b>Expenditures 1999</b>
<b>Major Sub-Division</b>				
<b>National Science Foundation</b>				
Direct Federal Programs				
National Science Foundation	47.050	Geosciences EPSCoR	Conservation	1,703
<b>Total National Science Foundation Federal Programs</b>				<b>1,703</b>
<b>U.S. Department of Veterans Affairs</b>				
Direct Federal Programs				
Veterans Benefit Administration	64.101	Burial Expenses Allowance for Veterans	Defense	126,153
<b>Total U.S. Department of Veterans Affairs Federal Programs</b>				<b>126,153</b>
<b>U.S. Environmental Protection Agency</b>				
Direct Federal Programs				
Office of Air & Radiation	66.032	State Indoor Radon Grants	Human Services	145,630
Office of Water	66.419	Water Pollution Control: State/Interstate Program Support	Human Services	53,339
Office of Water	66.419	Water Pollution Control: State/Interstate Program Support	Environment	25,706
Office of Water	66.420	Water Pollution Control-State & Local Manpower Dvlpmnt	Environment	48,330
Office of Water	66.432	State Public Water System Supervision	Human Services	911,464
Office of Water	66.433	State Underground Water Source Protection	Environment	12,452
Office of Water	66.454	Water Quality Management Planning	Environment	114,233
Office of Water	66.460	Nonpoint Source Implementation Grants	Agriculture	46,974
Office of Water	66.460	Nonpoint Source Implementation Grants	Environment	242,649
Office of Water	66.461	Wetlands Protection - State and Tribal Development Grants	Agriculture	3,135
Office of Water	66.461	Wetlands Protection - State and Tribal Development Grants	Conservation	133,098
Office of Water	66.461	Wetlands Protection - State and Tribal Development Grants	Environment	18,345
Office of Water	66.461	Wetlands Protection - State and Tribal Development Grants	State Planning	135,553
Office of Water	66.463	Ntl Pollutant Discharge Elimination Sys Rel St Prog Grnts	Environment	56,485
Office of Ground Water and Drinking	66.468	Capitalization Grants For Drinking Water State Revolving Fund	Conservation	16,124
Office of Research & Development	66.501	Air Pollution Control Research	State Planning	12,646
Office of Administration	66.605	Performance Partnership Grants	Environment	4,057,523
Office of Administration	66.605	Performance Partnership Grants	Agriculture	275,830
Office of Administration	66.606	Surveys, Studies, Investigations and Special Purpose Grants	Environment	545,468
Office of Enforcement & Compliance Assurance	66.700	Pesticides Enforcement Program	Agriculture	21
Office of Enforcement & Compliance Assurance	66.708	Pollution Prevention Grants Program	Environment	33,767
Office of Solid Waste & Emergency Response	66.802	Superfund State Site-Specific Cooperative Agreements	Environment	233,458
Office of Solid Waste & Emergency Response	66.804	State Underground Storage Tanks Program	Environment	19,737
Office of Solid Waste & Emergency Response	66.805	Leaking Underground Storage Tank Trust Fund Program	Environment	531,698
Office of Solid Waste	66.808	Solid Waste Management Assistance	Environment	6,660
Office of Solid Waste & Emergency Response	66.809	Superfund State Core Program Cooperative Agreements	Environment	245,076
Office of Solid Waste & Emergency Response	66.810	CEPP Technical Assistance Grants Program	Environment	18,775
Office of Solid Waste & Emergency Response	66.811	Brownfield Pilots Cooperative Agreements	State Planning	32,939
Office of Resources Management	66.925	State/EPA Data Management Financial Assistance Program	Environment	17,921
Office of Administration	66.999	Federal Overhead Account	Environment	488,621
<b>Total U.S. Environmental Protection Agency Federal Programs</b>				<b>8,483,657</b>
<b>Nuclear Regulatory Commission</b>				
Direct Federal Programs				
Nuclear Regulatory Commission	77.001	Radiation Control-Training Assistance & Advis Counseling	Human Services	16,234
<b>Total Nuclear Regulatory Commission Federal Programs</b>				<b>16,234</b>
<b>U.S. Department of Energy</b>				
Direct Federal Programs				
U.S. Department of Energy	81.039	National Energy Information Center	State Planning	3,817
Office of Energy Efficiency and Renewable Energy	81.041	State energy Program	State Planning	10,529
U.S. Department of Energy	81.410	State Energy Program	Economic Dev	779,396
U.S. Department of Energy	81.999	Non Federal Expenditures	State Planning	20,357
<b>Total U.S. Department of Energy Federal Programs</b>				<b>814,099</b>



**State of Maine**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended June 30, 1999**

<b>Federal Department</b>	<b>Federal Catalog Number</b>	<b>Program Title</b>	<b>State Agency</b>	<b>Expenditures 1999</b>
<b>Major Sub-Division</b>				
<b>Federal Emergency Management Agency</b>				
<b>Direct Federal Programs</b>				
Federal Emergency Management Agency	83.011	Hazardous Materials Training Program for the Implementation of the SARA of 1986	Defense	46,885
Federal Emergency Management Agency	83.105	Community Assistance Program - St Supp Services Element	State Planning	129,255
Federal Emergency Management Agency	83.505	State Disaster Preparedness Grants	Defense	45,462
Federal Emergency Management Agency	83.534	Emergency Management - State and Local Assistance	Defense	1,077,855
Federal Emergency Management Agency	83.535	Mitigation assistance	Defense	211,939
Federal Emergency Management Agency	83.539	Crisis Counseling	Defense	71,844
Federal Emergency Management Agency	83.543	Individual and Family Grants	Defense	104,263
<b>Federal Emergency Management Agency</b>	<b>83.544</b>	<b>Public Assistance Grants</b>	<b>Defense</b>	<b>11,275,508</b>
Federal Emergency Management Agency	83.548	Hazard Mitigation Grant	Defense	1,613,777
Federal Emergency Management Agency	83.999	Maine Emergency Management	Inland Fisheries	130,130
<b>Pass Through Federal Programs</b>				
<b>Federal Emergency Management Agency</b> <b>(through the Department of Defense)</b>	<b>83.544</b>	<b>Public Assistance Grants</b>	<b>Corrections</b>	<b>14,591</b>
<b>Federal Emergency Management Agency</b> <b>(through the Department of Defense)</b>	<b>83.544</b>	<b>Public Assistance Grants</b>	<b>Conservation</b>	<b>105,889</b>
<b>Federal Emergency Management Agency</b> <b>(through the Department of Defense)</b>	<b>83.544</b>	<b>Public Assistance Grants</b>	<b>Inland Fisheries</b>	<b>106,687</b>
<b>Federal Emergency Management Agency</b> <b>(through the Department of Defense)</b>	<b>83.544</b>	<b>Public Assistance Grants</b>	<b>Transportation</b>	<b>2,298,136</b>
<b>Total Federal Emergency Management Agency Federal Programs</b>				<b>17,232,221</b>

**U.S. Department of Education**

<b>Direct Federal Programs</b>				
U.S. Department of Education	84.002	Adult Education - State Grant Program	Education	1,530,579
<b>U.S. Department of Education</b>	<b>84.010</b>	<b>Title I Grants to Local Educational Agencies</b>	<b>Education</b>	<b>28,834,094</b>
U.S. Department of Education	84.011	Migrant Education - Basic State Grant Program	Education	4,327,666
<b>U.S. Department of Education</b>	<b>84.027</b>	<b>Special Education - Grants to States</b>	<b>Education</b>	<b>19,137,832</b>
U.S. Department of Education	84.029	Special Education - Personnel Development & Parent Trng	Education	124,175
U.S. Department of Education	84.034	Public Library Services	State Library	637,508
U.S. Department of Education	84.048	Vocational Education - Basic Grants to States	Education	5,218,817
U.S. Department of Education	84.051	National Vocational Education Research	State Library	208,144
U.S. Department of Education	84.086	Special Education-Program for Severely Disabled Children	Education	48,005
<b>U.S. Department of Education</b>	<b>84.126</b>	<b>Rehabilitation Serv-Vocational Rehab Grants to States</b>	<b>Labor</b>	<b>12,895,969</b>
U.S. Department of Education	84.161	Rehab Services-Client Assistance Program	Labor	111,025
U.S. Department of Education	84.162	Immigrant Education	Education	76,287
U.S. Department of Education	84.168	Eisenhower Professional Development - National Activities	Education	11,264
U.S. Department of Education	84.169	Independent Living - State Grants	Labor	291,750
<b>U.S. Department of Education</b>	<b>84.173</b>	<b>Special Education - Preschool Grants</b>	<b>Education</b>	<b>2,411,525</b>
U.S. Department of Education	84.177	Independent Living Services for Older Individuals Who are Blind	Labor	162,283
<b>U.S. Department of Education</b>	<b>84.181</b>	<b>Spec Educ Grants for Infants &amp; Families with Disabilities</b>	<b>Education</b>	<b>1,703,741</b>
U.S. Department of Education	84.185	Byrd Honors Scholarships	Education	171,000
U.S. Department of Education	84.186	Safe and Drug Free Schools & Community - State Grants	Education	51,420
U.S. Department of Education	84.186	Safe and Drug Free Schools & Community - State Grants	Mental Health	505,581
U.S. Department of Education	84.187	Supported Employment Services for Indiv. With Severe Disab	Labor	484,083
U.S. Department of Education	84.194	Bilingual Education Support Services	Education	97,586
U.S. Department of Education	84.196	Education for Homeless Children and Youth	Education	138,762
U.S. Department of Education	84.213	Even Start - State Educational Agencies	Education	549,685
U.S. Department of Education	84.216	Capital Expenses	Education	7,000
U.S. Department of Education	84.218	State School Improvement Grants	Education	415
U.S. Department of Education	84.224	State Grants for Assistive Technology	Education	312,047
U.S. Department of Education	84.243	Tech-Prep Education	Education	572,253
U.S. Department of Education	84.263	Rehab Training - Experimental & Innovative Training	Labor	81,223
U.S. Department of Education	84.264	Rehab. Training-Continuing Education	Labor	44,045
U.S. Department of Education	84.276	Goals 2000 - St & Loc Education Systemic Impr Grants	Education	2,146,444
U.S. Department of Education	84.278	Career Opport 2000 - St wide School to Work Opportunities	Education	1,126,361
U.S. Department of Education	84.278	Vocational Education - Cooperative Demonstration	Labor	263,068
U.S. Department of Education	84.281	Eisenhower Professional Development State Grants	Education	1,291,056
<b>U.S. Department of Education</b>	<b>84.298</b>	<b>Title VI - Innovative Education Program Strategies</b>	<b>Education</b>	<b>1,659,343</b>
U.S. Department of Education	84.314	Even Start - Statewide Family Literacy Program	Education	13,515
U.S. Department of Education	84.318	Technology Literacy Challenge Fund Grants	Education	2,377,268
U.S. Department of Education	84.332	Comprehensive School Reform Demonstration	Education	8,668
<b>Pass Through Federal Programs</b>				
U.S. Department of Education (through the State Dept. of Education)	84.002	Adult Education - State Grant Program	Corrections	34,109
U.S. Department of Education (through the State Dept. of Education)	84.002	Adult Education - State Grant Program	Mental Health	450
U.S. Department of Education (through the State Dept. of Education)	84.011	Migrant Education - Basic State Grant Program	Corrections	20,630
U.S. Department of Education (through the State Dept. of Education)	84.012	Educationally Deprived Children - State Administration	Corrections	104,137
U.S. Department of Education (through the State Dept. of Education)	84.013	Title I Program for Neglected and Delinquent Children	Corrections	30,061
<b>U.S. Department of Education</b> (through the State Dept. of Education)	<b>84.027</b>	<b>Special Education Grants to States</b>	<b>Corrections</b>	<b>50,662</b>

**State of Maine**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended June 30, 1999**

<b>Federal Department</b>	<b>Federal Catalog Number</b>	<b>Program Title</b>	<b>State Agency</b>	<b>Expenditures 1999</b>
<b>Major Sub-Division</b>				
<b>U.S. Department of Education (continued)</b>				
U.S. Department of Education (through the State Dept. of Education)	84.048	Vocational Education - Basic Grants to States	Corrections	43,172
U.S. Department of Education (through the State Dept. of Mental Health)	84.186	Safe and Drug Free Schools & Community - State Grants	Corrections	29,277
U.S. Department of Education (through the State Dept. of Education)	84.186	Safe and Drug Free Schools & Community - State Grants	Mental Health	1,972,059
U.S. Department of Education (through the State Dept. of Education)	84.281	Eisenhower Professional Development State Grants	Corrections	2,116
Office of Elementary and Secondary Education (through the State Dept. of Education)	84.298	Innovative Education Program Strategies	Corrections	2,353
<b>Total U.S. Department of Education Federal Programs</b>				<b>91,920,513</b>
<b>National Archives and Records Administration</b>				
National Archives & Records Administration	89.001	National Archives Reference Service: Historical Research	Historical Records	35,002
<b>Total National Archives and Records Administration Federal Programs</b>				<b>35,002</b>
<b>U.S. Department of Health and Human Services</b>				
<b>Direct Federal Programs</b>				
Administration on Aging	93.041	Spc Prg/Agng-Ttl VII, Ch 3-Pro /Prev of Eld Abu, Neg & Expl	Human Services	19,580
Administration on Aging	93.042	Spc Prg/Agng-Ttl VII, Ch 2-Long Term Ombudsman	Human Services	22,242
Administration on Aging	93.043	Spc Prg/Agng-Ttl III, Part F-Disease Prev & Hlth Prom Ser	Human Services	97,906
Administration on Aging	93.044	Spc Prg/Agng-Ttl III, Part B-Grnt for Supt Serv & Sen Ctrs	Human Services	1,611,138
Administration on Aging	93.045	Spc Prg/Agng-Ttl III, Part C-Nutrition Services	Human Services	2,880,833
Administration on Aging	93.046	Spc Prg/Agng-Ttl III, Part D-In-Home Serv for Frail Oldr Ind	Human Services	56,623
Administration on Aging	93.048	Spc Prg /Agng-Ttl IV, Trng, Res & Discret Proj & Prog	Human Services	20,000
Substance Abuse & Mental Health Service Adm	93.104	Comp Comm M. H. Svcs for Child w/Ser Emot Disturb	Mental Health	1,146,414
Health Resources & Services Adm	93.110	Maternal & Child Health Federal Consolidated Programs	Human Services	384,889
Centers for Disease Control and Prevention	93.116	Proj Grnts and Coop Agreements for Tuberculosis Cont Prog	Human Services	177,139
Substance Abuse & Mental Health Service Adm	93.125	Mental Health Planning and Demonstration Projects	Mental Health	(7,157)
Health Resources & Services Adm	93.130	Primary Care Serv-Res Coor & Dev Primary Care Off	Human Services	143,932
Centers for Disease Control and Prevention	93.136	Injury Prevention & Control Research-St & Com Based Progs	Human Services	134,222
Substance Abuse & Mental Health Service Adm	93.150	Projects for Assistance in Transition from Homelessness	Mental Health	195,705
Health Resources & Services Adm	93.165	Grants for State Loan Repayment	Human Services	171,780
Health and Human Services	93.179	ME MHSIP Project	Mental Health	(50)
Centers for Disease Control and Prevention	93.184	Disabilities Prevention	Human Services	55,431
Health & Human Services	93.194	Community Prevention Coalitions (Partnership) Demonstration Grant	Mental Health	286,057
Centers for Disease Control and Prevention	93.197	Childhood Lead Poisoning Prevention Projects	Human Services	287,996
Substance Abuse & Mental Health Service Adm	93.230	Consolidated Knowledge Dev. & Application Program	Mental Health	294,029
Health Resources & Services Administration	93.235	Abstinence Education	Human Services	163,404
SAMHSA	93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies	Human Services	2,462
Office of the Secretary	93.239	State Medicaid Fraud Control Units	Human Services	19,508
<b>Centers for Disease Control and Prevention</b>	<b>93.268</b>	<b>Childhood Immunization Grants</b>	<b>Human Services</b>	<b>5,227,521</b>
National Institutes of Health	93.279	Drug Abuse Research Programs	Mental Health	120,406
Centers for Disease Control and Prevention	93.283	Centers for Disease Control & Prev-Inv & Tech Asst	Human Services	549,670
Centers for Disease Control and Prevention	93.393	Cancer Cause & Prevention Research	Human Services	786,282
National Institutes of Health	93.399	Cancer Control	Human Services	102
Administration for Children & Families	93.556	Family Preservation and Support Services	Human Services	694,854
<b>Administration for Children &amp; Families</b>	<b>93.558</b>	<b>Temporary Assistance for Needy Families</b>	<b>Human Services</b>	<b>64,841,756</b>
<b>Office of Child Support Enforcement</b>	<b>93.563</b>	<b>Child Support Enforcement</b>	<b>Human Services</b>	<b>11,907,199</b>
Office of Refugee Settlement	93.566	Refugee and Entrant Asst - State Administered Prog	Human Services	462,830
Administration for Children & Families	93.569	Community Services Block Grant	Human Services	2,624,014
Office of Community Services	93.571	Community Services Block Grant Discretionary Awards	Human Services	10,863
<b>Administration for Children &amp; Families</b>	<b>93.575</b>	<b>Child Care and Development Block Grant</b>	<b>Human Services</b>	<b>9,057,498</b>
Administration for Children & Families	93.576	Refugee and Entrant Assistance - Discretionary Grants	Human Services	97,623
Administration for Children & Families	93.586	State Court Improvement Program	Off of the Courts	96,639
<b>Administration for Children &amp; Families</b>	<b>93.596</b>	<b>Child Care Mandatory &amp; Matching Funds of Child Care/Dev</b>	<b>Human Services</b>	<b>7,959,925</b>
Administration for Children & Families	93.600	Head Start	Human Services	85,135
Administration for Children & Families	93.601	Child Support Enforcement Demonstrations & Special Projects	Human Services	17,206
Administration for Children & Families	93.630	Development Disabilities Basic Supp & Advocacy Grants	Mental Health	403,163
Administration for Children & Families	93.643	Children's Justice Grants to States	Human Services	67,530
Administration for Children & Families	93.645	Child Welfare Services: State Grants	Human Services	1,208,782
Administration for Children & Families	93.658	Foster Care-Title IV-E	Human Services	29,483,909
Administration for Children & Families	93.659	Adoption Assistance	Human Services	4,678,403
<b>Administration for Children &amp; Families</b>	<b>93.667</b>	<b>Social Services Block Grant</b>	<b>Human Services</b>	<b>10,199,918</b>
Administration for Children & Families	93.669	Child Abuse & Neglect: State Grants	Human Services	221,848
Administration for Children & Families	93.671	Family Violence Prev & Serv: Grts to St and Indian Tribes	Human Services	316,650
Administration for Children & Families	93.674	Independent Living	Human Services	661,760
Health Care Financing Administration	93.767	State Children's Insurance Program	Human Services	3,639,057
Health Care Financing Administration	93.779	Health Care Financing Resch, Demo & Evaluations	Human Services	161,238
Health Resources and Services Adm	93.913	Grants to States for Operation of Offices of Rural Health	Human Services	52,562
Health Resources and Services Adm	93.917	HIV Care Formula Grants	Human Services	861,187
<b>Centers for Disease Control and Prevention</b>	<b>93.919</b>	<b>Coop Agrmt/St-Based Comp Brst &amp; Cerv Cancer Cont Prog</b>	<b>Human Services</b>	<b>1,505,680</b>

**State of Maine**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended June 30, 1999**

<b>Federal Department</b>	<b>Federal Catalog Number</b>	<b>Program Title</b>	<b>State Agency</b>	<b>Expenditures 1999</b>
<b>Major Sub-Division</b>				
<b>U.S. Department of Health and Human Services (continued)</b>				
Centers for Disease Control and Prevention	93.938	Coop Ag-Sch Hlth Prg/Pvt the Spd of HIV & Oth Imp Hlth Prb	Education	435,865
Centers for Disease Control and Prevention	93.940	HIV Prevention Activities - Health Department Based	Human Services	1,511,920
Centers for Disease Control and Prevention	93.944	HIV/AIDS Surveillance	Human Services	47,450
Health Resources and Services Adm	93.951	Demo Grts to St with Respect to Alzheimer's Disease	Human Services	240,855
Public Health Service II	93.958	Block Grants for Community Mental Health Services	Mental Health	1,330,278
<b>SAMHSA</b>	<b>93.959</b>	<b>Block Grants for Prevention &amp; Treatment of Substance Abuse</b>	<b>Mental Health</b>	<b>5,648,819</b>
Centers for Disease Control and Prevention	93.977	Preve Health Serv-Sexually Transmitted Diseases Cont Grt	Human Services	218,853
Centers for Disease Control and Prevention	93.988	Coop Agrmnt for St Based Diabetes Control Programs	Human Services	296,341
Centers for Disease Control and Prevention	93.991	Preventive Health & Health Services Block Grant	Human Services	1,517,600
Health Resources and Services Adm	93.994	Maternal & Child Health Services Block Grant to States	Human Services	3,478,922
Health and Human Services	93.999	State Demands & Needs Assessment Studies: Alcohol & Other Drugs	Mental Health	294,423
Health and Human Services	93.999	Statistical Projects	Human Services	290,387
Health and Human Services	93.999	Tobacco Compliance Checks	Human Services	255,741
<b>Health &amp; Human Services, Medicaid Cluster</b>				
<b>U.S. Department of Health and Human Services</b>	<b>93.775</b>	<b>State Medicaid Fraud Control Units</b>	<b>Attorney General</b>	<b>245,076</b>
<b>U.S. Department of Health and Human Services</b>	<b>93.777</b>	<b>St Survey &amp; Cert of Health Care Providers &amp; Suppliers</b>	<b>Human Services</b>	<b>1,399,233</b>
<b>U.S. Department of Health and Human Services</b>	<b>93.778</b>	<b>Medical Assistance Program</b>	<b>Human Services</b>	<b>765,136,773</b>
<b>Pass Through Federal Programs</b>				
Administration on Aging (through the State Dept. of Human Services)	93.045	Special Programs for the Aging: Title III, Part C: Nutrition Serv	Attorney General	26,351
Administration for Children & Families (through the State Dept. of Human Services)	93.560	Fam Sup Pmt to St - Asst Pmt(Aid to Fam w/ Dep Child)	Attorney General	177,948
Office of Child Support Enforcement (through the State Dept. of Human Services)	93.563	Child Support Enforcement	Attorney General	1,042,772
Office of Child Support Enforcement (through the State Dept. of Human Services)	93.563	Child Support Enforcement	Judicial	648,382
Administration for Children & Families (through the State Dept. of Human Services)	93.597	Grants to States for Access & Visitation	Judicial Branch	75,654
<b>Administration for Children &amp; Families</b> (through the State Dept. of Human Services)	<b>93.667</b>	<b>Social Services Block Grant</b>	<b>Mental Health</b>	<b>1,080,914</b>
<b>Administration for Children &amp; Families</b> (through the State Dept. of Human Services)	<b>93.667</b>	<b>Social Services Block Grant</b>	<b>Attorney General</b>	<b>506,887</b>
Administration for Children & Families (through the State Dept. of Human Services)	93.669	Child Abuse and Neglect State Grants	Mental Health	108,863
<b>Health Care Financing Administration (HCFA)</b> (through the State Dept. of Human Services)	<b>93.778</b>	<b>Medical Assistance Program</b>	<b>Mental Health</b>	<b>532,270</b>
<b>SAMHSA</b> (through the State Dept. of MHMSAS)	<b>93.959</b>	<b>Block Grants for Prevention &amp; Treatment of Substance Abuse</b>	<b>Human Services</b>	<b>118,969</b>
Centers for Disease Control (through the State Dept. of Human Services)	93.991	Preventive Health & Health Services Block Grant	Education	29,202
Centers for Disease Control and Prevention (through the State Dept. of Human Services)	93.991	Preventive Health & Health Services Block Grant	Public Safety	241,396
Health Resources & Services Administration (through the State Department of Human Services)	93.994	Maternal & Child Health Services Block Grant to the States	Education	119,989
Unknown	93.999	Training	Mental Health	135,390
<b>Total U.S. Department of Health and Human Services Federal Programs</b>				<b>953,358,816</b>
<b>Corporation for National and Community Services</b>				
<b>Direct Federal Programs</b>				
Corporation for National and Community Services	94.003	State Commissions	State Planning	177,901
Corporation for National and Community Services	94.004	Learn & Serve America-School & Com Based Prog	Education	87,428
Corporation for National and Community Services	94.006	AmeriCorps	State Planning	585,385
Corporation for National and Community Services	94.006	AmeriCorps	Labor	575,133
Corporation for National and Community Services	94.009	Training and Technical Assistance	State Planning	97,956
<b>Total Corporation for National and Community Services Federal Programs</b>				<b>1,523,803</b>
<b>Social Security Administration</b>				
<b>Direct Federal Programs</b>				
<b>Social Security</b>	<b>96.001</b>	<b>Disability Insurance</b>	<b>Human Services</b>	<b>6,338,364</b>
<b>Total Social Security Administration Federal Programs</b>				<b>6,338,364</b>
<b>Total State Expenditures of Federal Awards</b>				<b>1,546,723,048</b>



**STATE OF MAINE**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 1999**

**1. Purpose of the Schedule**

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

Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations requires the Schedule.

**2. Significant Accounting Policies**

- A. *Reporting Entity* - The reporting entity is defined in Note 1 to the State's general purpose financial statements (GPFS). The accompanying Schedule includes all federal financial assistance programs of the State of Maine reporting entity for the fiscal year ended June 30, 1999, with the exception of the component units identified in Note 1 to the GPFS. The component units engaged other auditors.
- B. *Basis of Presentation* – The information in the accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133.
- 1) Federal Awards – Pursuant to the Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133, federal award is defined as federal financial assistance and federal cost-reimbursement contracts that non-federal agencies receive directly or indirectly from federal agencies or pass-through entities. Federal financial assistance is defined as assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other assistance. Accordingly, non-monetary federal assistance, including food stamps and food commodities, is included in federal financial assistance and, therefore, is reported on the Schedule of Expenditures of Federal Awards. Federal financial assistance does not include direct federal cash assistance to individuals.
  - 2) Type A and Type B Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 established the levels of expenditures to be used in defining Type A and Type B federal financial assistance programs. Type A programs for the State of Maine are those programs that equal or exceed \$4.64 million in expenditures, distributions, or issuances for the year ended June 30, 1999. Programs audited as major programs are in bold print in the accompanying schedule.
- C. *Basis of Accounting* - The information presented in the Schedule of Expenditures of Federal Awards is presented primarily on the cash basis of accounting, which is consistent with the other Federal grant reports. The Special Revenue Funds for the General Purpose Financial Statements are reported on the modified accrual basis of accounting. Consequently, the schedule's data may not be directly traceable to the financial statements.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONT.)

### 3. Program Information

- A. Department of Education - Food Distribution Program (CFDA 10.550): The reported total of federal financial assistance represents the value of food commodities distributed to various schools, institutions, and other qualifying entities. The value of inventory as of June 30, 1999 was \$79,928.
- B. Department of Human Services - Food Stamps (CFDA 10.551): The reported total of federal financial assistance represents the value of food coupons issued. The value of inventory as of June 30, 1999 was \$20,378,079.
- C. Department of Human Services – Childhood Immunization Grant (CFDA 93.268): The reported total of federal financial assistance represents \$1,522,018 for administrative costs and \$3,705,503 for the value of vaccines disbursed. The value of inventory as of June 30, 1999 was \$2,130,148.
- D. Department of Agriculture - Temporary Emergency Food Assistance - Food Commodities (CFDA 10.569): The value of inventory at June 30, 1999 was \$679,974.
- E. Department of Administrative and Financial Services - Donated Federal Surplus Personal Property (CFDA 39.003): Distributions are reported at fair market value. The value of inventory as of June 30, 1999 was \$1,231,245.
- F. Department of Conservation - Federal Excess Personal Property (no CFDA number): During fiscal year 1999 the state received property with an original acquisition cost of \$2.7 million from the U.S. Department of Agriculture. The title has not transferred to the state and the amount is not recorded on the Schedule of Expenditures of Federal Awards.
- G. Department of Defense, Veterans and Emergency Management - National Guard Military Operations & Maintenance Projects (CFDA 12.401): The amount recorded as expenditures includes \$3,503,248 of in-kind expenditures.

### 4. Unemployment Insurance Program

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

State Funds	\$ 86,112,152
Federal Funds	<u>18,490,723</u>
Total	<u>\$104,602,875</u>

**State of Maine**  
**Schedule of Expenditures of Federal Awards**  
**Fiscal Year Ended June 30, 1999**

**Legend of State Agency Abbreviations**

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





# STATE OF MAINE

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### FOR THE YEAR ENDED JUNE 30, 1999

#### Section I - Summary of Auditor's Results

##### Financial Statements:

Type of auditor's report issued:	<u>Qualified</u>	
Internal control over financial reporting:		
• Material weaknesses identified?	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>
• Reportable conditions identified that were not considered to be material weaknesses?	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>
• Noncompliance material to financial statements noted?	YES <input type="checkbox"/>	NO <input checked="" type="checkbox"/>

##### Federal Awards:

Internal control over major programs:		
• Material weaknesses identified?	YES <input type="checkbox"/>	NO <input checked="" type="checkbox"/>
• Reportable conditions identified that were not considered to be material weaknesses?	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>

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

Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>
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##### Identification of Major Programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
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##### Emergency Food Assistance Cluster

10.568	Emergency Food Assistance Program (Administrative Costs)
10.569	Emergency Food Assistance Program (Food Commodities)

##### JTPA Cluster

17.246	Employment and Training Assistance - Dislocated Workers
17.250	Job Training Partnership Act

##### Special Education Cluster

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

# STATE OF MAINE

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### FOR THE YEAR ENDED JUNE 30, 1999

**Identification of Major Programs (continued):**

**Child Care Cluster**

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

**Medicaid Cluster**

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

**Other Programs**

10.557	Special Supplemental Nutrition Program for Women Infants and Children
12.401	National Guard Military Operations Maintenance (O&M) Projects
14.238	Shelter Plus Care
16.579	Byrne Formula Grant Program
17.225	Unemployment Insurance
20.205	Highway Planning and Construction
20.509	Public Transportation for Urbanized Areas
83.544	Public Assistance Grants
84.010	Title I Grants to Local Educational Agencies
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
84.181	Special Education – Grants for Infants and Families with Disabilities
84.298	Title VI – Innovative Education Program Strategies
93.268	Childhood Immunization Grants
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.667	Social Services Block Grant
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs
93.959	Block Grants for Prevention and Treatment of Substance Abuse
96.001	Social Security – Disability Insurance

Dollar threshold used to distinguish between type A    **\$4,640,169**  
and type B programs

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

**STATE OF MAINE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 1999**

**Section II - Financial Statement Findings**

**DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

**(99-01) Bureau of Accounts and Control**

**Finding:** General Fixed Assets Account Group not presented (Prior Year Finding)

The financial statements of the State of Maine do not include the General Fixed Assets Account Group that is required to be presented by Generally Accepted Accounting Principles and by *Governmental Accounting and Financial Reporting Standards*. This omission results in a qualification to the audit opinion.

Although considerable progress has been made in identifying and recording land, buildings and equipment owned by the state, additional effort is necessary to identify all qualifying assets and to appropriately value those assets.

**Recommendation:**

Title 5 MRSA §1541 requires the Department of Administrative and Financial Services, Bureau of Accounts and Control, to maintain an official statewide system for fixed assets for all state agencies, and to update and reconcile it annually. Also, *Governmental Accounting and Financial Reporting Standards* require that governmental fund fixed assets be accounted for in the General Fixed Assets Account Group. Although considerable progress has been made in identifying and recording land, buildings and equipment owned by the state, additional effort is necessary to appropriately value those assets.

**Auditee Response/Corrective Action Plan:**

*The Bureau of Accounts and Control has developed and implemented a statewide fixed asset system as part of the MFASIS system. Therefore, we believe we are in compliance with the statutory requirements mentioned in the finding. We will also present the general fixed assets account group as part of the fiscal year 2001 financial report. The Bureau has committed sufficient resources and is now working with the Department of Conservation and Inland Fisheries & Wildlife to properly identify their fixed assets in a manner that will facilitate both the proper valuations and also a sufficient audit trail for those assets.*

## DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

**(99-02) Bureau of Accounts and Control**  
**Division of Financial and Personnel Services**  
**Bureau of General Services**

**Finding:** Inadequate internal control system to identify, classify and report leasing transactions  
(Prior Year Finding)

The State of Maine does not identify, evaluate, and report leasing transactions in accordance with Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, of the Financial Accounting Standards Board (FASB).

This and subsequent FASB statements establish financial accounting and reporting for leases. The standard requires determination of whether a lease is a capital or operating lease. Financial accounting for capital leases requires the reporting of an asset (and, in proprietary fund types, accumulated depreciation and depreciation expense) and an obligation, and the disclosure of future minimum lease payments for a five-year period. Operating leases require the disclosure of leasing arrangements, as well as future minimum lease payment requirements for a five-year period.

The Division of Financial and Personnel Services and the Bureau of General Services are currently working on a project to evaluate the leases recorded in an Internal Service Fund. For the current year, the rent expense recorded in the accounting system totaled approximately \$63 million. The amount of the rent expense that can be attributed to transactions associated with internal service funds is approximately \$21 million. The Bureau of Accounts and Control requires each agency to report any significant leasing transactions at the end of the fiscal year.

The amount of an adjustment needed to record the assets and obligations of capital leasing transactions was not determined, or recorded in the financial statements. The required disclosures of capital and operating leases were not made in the notes to the financial statements. The audit opinion on the financial statement was qualified for this departure from generally accepted accounting principles.

**Recommendation:**

We recommend that the State implement the procedures necessary to evaluate leasing transactions, so that they may be reported and disclosed in accordance with the standards.

## DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

### **Auditee Response/Corrective Action Plan:**

*We agree with the recommendation that necessary procedures be implemented to evaluate leasing transactions in order to report and disclose leasing information in accordance with the standards.*

*It should be noted that the Division of Financial and Personnel Services (DFPS) does report all leasing arrangements. DFPS has created a database that will automate the management, classification, accounting, and billing of the Lease Property Fund. This database will organize data in a way that helps us evaluate which leases are capital and which are operating. Once that determination is made, we will then record the leases appropriately on the financial statements.*

*Work on this database is nearing completion. Manual entry of old leases and some data gathering work is required of BGS. We expect to be in compliance for FY00's audit.*

### **(99-03) Bureau of Accounts and Control**

#### **Finding:** Accounts Payable procedures inadequate (Prior Year Finding)

The process used to identify and report amounts payable by the State is inadequate. It does not provide reasonable assurance that a material misstatement may occur and not be detected within a timely period in the normal course of operations. Testing disclosed that significant and material accounts payable were not recorded on the State's financial statements. We proposed audit adjustments of \$21.1 million for the General Fund and \$18.3 million for the Special Revenue Fund.

There is a lack of clearly written procedures to guide agency accounting personnel so that they can consistently identify and report accounts payable amounts to the Bureau of Accounts and Control.

Significant payments are made based on external interface and batch payment systems. These payments are not intended to be part of the year-end automated accrual process. However, no alternate automated system was in place to ensure the accrual of all external interface and batch system payments. We noted several instances where no accrual was made.

#### **Recommendation:**

We recommend that the Bureau of Accounts and Control develop procedures to consistently identify, value and record amounts owed by the State.

## DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

### **Auditee Response/Corrective Action Plan:**

*We agree that the accounts payable process could be improved. For fiscal year 2000, the Bureau will conduct meetings with agencies to clarify the accounts payable process. In addition, the accrual indicator field will be a required field for all payments for FY2000.*

### **(99-04) Division of Financial and Personnel Services**

#### **Finding:** Understatement of Lottery Prize Reserve account

The Lottery Prize Reserve account was understated at fiscal year-end by \$1.6 million because of numerous calculation errors and the inclusion of negative balances for a significant number of games. Consequently, the financial statements and transfers to the General Fund were adjusted by \$1.6 million.

We also note that the Division of Financial and Personnel Services has instituted a policy to accelerate transfers, calculated on a game by game basis, to the General Fund. Although this policy provides adequate cash flows to pay prizes, it understates the recorded liability.

#### **Recommendation:**

We recommend that the Division monitor the calculation of the prize reserve for mathematical accuracy and to ensure that the financial statement liability is not understated. We further recommend that the Division assess the adequacy of the calculation so that the accelerated transfers are not overly aggressive.

### **Auditee Response/Corrective Action Plan:**

*We appreciate the audit discovery regarding the arithmetical mistake in the calculation of the Lottery Prize Reserve. That calculation error did cause an understatement in the Reserve balance. As noted, this calculation error has been corrected and the Reserve has been appropriately funded.*

*We agree with the auditor's recommendation to review the rate at which the Prize Reserve is amortized. At this point, we believe that the current rate is appropriate, and that the reserve is adequately funded to pay claims. Also, going forward, no individual games will carry negative month end balances.*

## OFFICE OF THE TREASURER OF STATE

### (99-05) Office of the Treasurer of State

**Finding:** Untimely bank reconciliations and untimely clearing of reconciling items (Prior Year Finding)

Bank reconciliations for the State's 36 demand deposit accounts were not performed timely and included numerous reconciling items, some of which had been outstanding for extended periods.

Bank reconciliations for the period ending June 30, 1999 were not completed for all of the demand deposit accounts until October 1999. There was a net total of \$10.9 million of reconciling adjustments that consisted of bank deposits that have not been recorded on the Controller's records and recording errors in the Office of the Treasurer's records, as well as bank debit and credit memos. The financial statements were adjusted for those reconciling items that had not been recorded on the Controller's records.

We examined reconciliations of five of the largest accounts and tested 65 outstanding reconciling items. Thirty cleared on subsequent reconciliations, but an average of seven weeks was required for those items to clear. The remaining 35 uncleared items were outstanding an average of 42 weeks at the time of audit.

The Office's ability to resolve outstanding reconciling items in a timely manner is affected by how promptly other agencies submit cash receipt statements, and also by the volume and the age of the reconciling items. Approximately \$1.3 million in deposits of federal funds has not been recorded in the State's accounting system. The items were received prior to June 30, 1998.

### **Recommendation:**

In addition to more timely reconciliations and faster resolution of outstanding items, we recommend that the Office of the Treasurer of State institute procedures and policies to clear older and smaller unrecorded receipts more efficiently.

### **Auditee Response/Corrective Action Plan:**

*Although the June 30, 1999 reconciliation status was less than ideal, the Office of the Treasurer of State has made great strides in the timeliness of bank reconciliations despite inadequate staffing and changes in personnel. Progress is now measured through a newly devised monitoring system where the reconciliation status of each account is monitored, rated and compared on a monthly basis. The Bank Account Reconciliation Tracking System (BARTS) was implemented during FY 1999 and is maintained today. In addition to recording the timeliness of reconciliations, unresolved items are rated based on the length of time outstanding and the oldest items are counted monthly.*

## OFFICE OF THE TREASURER OF STATE

*Treasury personnel (3 persons and the Treasury Fiscal Assistant) involved in (35+) account reconciliations have created the 'Recon Group' which attempts to meet monthly to discuss reconciliation consistency and efficiency. All reconciliations are currently completed in Microsoft Excel (rather than the previous manual way) in a standardized format with improved documentation. A centralized location of all bank reconciliations is available to reconcilers to assist in identification of transposed account transactions.*

*Treasury has been working collaboratively with other State Agencies on the design of an electronic cash receipt system. The Treasury Automated Management Information System (TAMIS) will originate with Cash Receipt entries at the State Agency level, continue via electronic transmission to the MFASIS accounting system and the Treasury database, and result in automated reconciliations after comparison to a daily electronic transmission of deposit data from the banks. Recently Treasury completed an RFP process for banking services and the new contract includes the development and implementation of this electronic Cash Receipt system. Upon implementation of this system, revenues would be recorded in the MFASIS accounting system in a more timely fashion (potentially same day) and bank reconciliations would be mechanically completed on a daily basis. Treasury personnel would then be able to devote the time necessary to resolve variances between the electronic Cash Receipt entries from State Agencies and transactions from the banks. Deputy Treasurer Marc A. Cyr or Treasury Fiscal Assistant Holly A. Maffei may be contacted about this corrective action. The target date for the electronic cash receipt system is July 1, 2001.*



**STATE OF MAINE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 1999**

**Section III - Federal Award Findings and Questioned Costs**

**DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

**(99-06) Division of Financial and Personnel Services**

**CFDA#:** Various

**Questioned Costs:** \$697,257

Federal Award Number: Various

**Finding:** Excess working capital and disbursements not in compliance (Prior Year Finding)

The State of Maine provides health care benefits for most retirees using the pay-as-you-go method. The Retiree Health Insurance Internal Service Fund is used to collect funds for, and to pay health insurance premiums on behalf of, retired state employees, retired teachers and retirees of other participating ancillary groups. At June 30, 1999, the Fund balance was \$18.6 million, an increase of \$6.3 million from the preceding year.

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment C, Section G 2, restricts allowable working capital in Internal Service Funds. Generally, working capital in excess of 60 days for cash expenses for normal operations is considered excessive. The Fund disbursed \$19.1 million for normal operations in fiscal year 1999. At June 30, 1999, working capital available exceeded that allowed by \$15.4 million. The Fund had working capital sufficient for eleven months rather than two.

Sections 11(f) 1, 5, and 6 of OMB Circular A-87 restrict allowable charges for post-retirement health benefit plans financed on a pay-as-you-go method to actual payments to retirees and their beneficiaries. Post retirement health benefit costs must be paid either to: (a) an insurer or other benefit provider as current year costs or premiums, or (b) an insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing postretirement benefits to retirees and other beneficiaries.

Federal funds contributed 15.53 percent of the 1999 fiscal year \$4.5 million excess revenue paid to the fund on behalf of retired state employees. We therefore question \$697,257, the federal share of funds paid in excess of those paid to insurers for state retirees.

## DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

The State is investigating moving from a pay-as-you-go basis to an actuarial basis and is working with the Cost Allocation Division of the U.S. Department of Health and Human Services to resolve questioned costs. Although an actuarially determined liability was determined at June 30, 1999, there were no Legislative changes enacted in fiscal year 1999 to fund the employer's contributions on an actuarial basis. Also, were the State to move to an actuarial basis, other disclosures would be required by Government Accounting Standards Board Statement No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*. The State remained on a pay-as-you-go basis.

### **Recommendation:**

We recommend that, if the pay-as-you-go method is retained, federal funds be disbursed as required to avoid future questioned costs and that working capital comply with federal ceilings.

### **Auditee Response/Corrective Action Plan:**

*The finding and recommendations prepared by the auditor has been discussed with the Division of Cost Allocation of the Department of Health and Human Services. We have agreed to a resolution to the finding. They understand that as of July 1, 1999 the State of Maine established an Internal Service Fund to account for the cost of retiree health benefits. Balances in the fund are to be used to begin the process of funding the accrued liability. Future rates set for the Retiree Health Benefits Program will include a factor for the amortization of the unfunded liability in accordance with generally accepted actuarial principles.*

*The State of Maine recognizes the need to ensure that this program is put on a sound actuarial basis. In response to the recognition of the requirement, the Legislature approved supplemental funding for the reserve in Chapter 731, PL2000.*

## DEPARTMENT OF AGRICULTURE

### (99-07) Office of Policy, Planning, Legislation and Information Services

Emergency Food Assistance Program

**CFDA#:** 10.568/10.569

**Questioned Costs:** None

U.S. Department of Agriculture

Federal Award Number: Various

#### **Finding:** Inadequate subrecipient monitoring process

The Department of Agriculture did not monitor subrecipients of the Emergency Food Assistance Program, as required by 7 CFR §251.10(e) and the Department's Distribution Plan approved by the U.S. Department of Agriculture. A total of \$1,309,190, or 96% of the grant, was disbursed to 11 Community Action Program agencies and two other organizations.

#### **Recommendation:**

We recommend that the Department of Agriculture comply with all subrecipient monitoring requirements.

#### **Auditee Response/Corrective Action Plan:**

*The Department failed to create a quarterly monitoring self-report to be completed by the voluntary feeding programs as stated in the Approved Distribution Plan. The USDA has approved an exception to the numerical monitoring requirements by allowing a "limited schedule of monitoring visits." These visits were limited to problem organizations and distribution sites.*

*Since 92% of the expenditures were passed through to the community action programs and the programs they administer, the Department will work with the CAP agencies and the USDA to have approved in the next State Distribution Plan a monitoring process that is similar to the one mentioned in the current plan with the subcontracting agency responsible for the annual review of the EFOs and the distribution sites. The Department will propose that the quarterly monitoring reports will be sent to us in order to ensure compliance. The CAP agencies now have their own EFO monitoring plans, but the Department has not been receiving reports from them on their review findings. This new method will allow the CAP agencies to continue the review process and with the reports sent to the Department, it will ensure that the requirements are being met.*

## DEPARTMENT OF AGRICULTURE

### (99-08) Office of Policy, Planning Legislation and Information Services

Emergency Food Assistance Program

**CFDA#:** 10.569

**Questioned Costs:** None

U.S. Department of Agriculture

Federal Award Number: Various

**Finding:** Noncompliance with recordkeeping requirements, and inadequate documentation to support the Schedule of Expenditures of Federal Awards

The Maine Department of Agriculture did not adequately comply with the requirements of 7 CFR §250.16 to maintain accurate and complete records of the receipt, distribution or disposal, and inventory of donated foods. While the Department retained individual shipping documents, it did not summarize them or use them to report amounts distributed.

The Department calculated the food distributions reported on the Schedule of Expenditures of Federal Awards (SEFA) by subtracting the fiscal year end 1999 inventory from the 1998 ending inventory and adding the 1999 receipts. We tested the calculation of ending inventory amounts for eleven commodity items using the same methodology, and found discrepancies in eight of the eleven. Agency distribution totals also did not agree with totals of records maintained by a commercial storage facility used by the program.

Because the Department did not prepare adequate documentation of distributions, federal expenditures reported on the SEFA could be misstated.

### **Recommendation:**

We recommend that the Department comply with federal recordkeeping requirements and prepare documentation to support the SEFA.

### **Auditee Response/Corrective Action Plan:**

*Record keeping and documentation for the Emergency Food Assistance program of the Department of Agriculture Food and Rural Resources in the past was done without the aid of spreadsheets or databases, with all the inventory calculations being done manually. This is a slow and time-consuming process. All of the necessary records have been kept, but the summaries and reports have not been easily generated. We have started to introduce computerized record keeping capabilities into TEFAP and are just changing over to a new system that will better address the record keeping and reporting requirements. This will allow easier compliance with the federal regulations to assure proper documentation in support of the Schedule of Expenditures of Federal Awards.*

# DEPARTMENT OF DEFENSE, VETERANS AND EMERGENCY MANAGEMENT

## (99-09) Military Bureau

### Department of Public Safety Administrative Services Division

National Guard Operations and Management Projects

**CFDA#:** 12.401

**Questioned Costs:** None

U.S. Department of Defense

Federal Award Number: DAHA17-99-2-100x

#### **Finding:** Accounting procedures inadequate (Prior Year Finding)

The Military Bureau of the Department of Defense, Veterans and Emergency Management uses the General, Federal Expenditure, and Special Revenue Funds interchangeably. The Bureau charges expenditures either to the General Fund or to a federal expenditure account, depending on which account has available allotment, rather than in accordance with federal cost sharing ratios contained within the appendix of the *Cooperative Agreement*. The Bureau requests appropriate federal reimbursement; however, it bases reimbursement requests on individual invoices. There is no correlation between the amount of expenditures made from the Federal Expenditures Fund and the amount of federal reimbursement received. When a reimbursement is received, the Bureau and its accounting service center at the Department of Public Safety credit revenue to the Federal Expenditure Fund, regardless of which fund incurred the expenditure. No transfers are made to correctly record the expenditure and the reimbursement. This distorts official State accounting records and renders budgetary controls ineffective. Crediting the Federal Expenditure Fund gives the appearance of excess federal cash on hand. The accounting procedures also affect the Bureau's ability to comply with matching and cash management requirements, and to provide accurate federal expenditure data for the Schedule of Expenditures of Federal Awards.

Government accounting standards (GASB *Codification of Governmental Accounting and Financial Reporting Standards* Section 1800.103b) requires that reimbursements for amounts paid from one fund and later charged to another should be recorded as a reduction of expenditures in the first fund. Also, 32 CFR §33.20(a), *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, requires grant funds to be expended and accounted for in accordance with a State's procedures for its own funds. Fiscal control and accounting procedures of the State must be sufficient to permit preparation of required reports and permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

## **DEPARTMENT OF DEFENSE, VETERANS AND EMERGENCY MANAGEMENT**

Because neither the Bureau nor the service center at the Department of Public Safety has a process to determine total expenditures, by fund, for which the State has received federal reimbursement, we were unable to determine the extent of interfund coding. Grant expenditures reflected in the federal expenditure account totaled \$7.5 million. General Fund expenditures totaled \$ 2 million.

Reimbursement provisions for the grant are highly complex. Although current staff is knowledgeable about reimbursement terms and conditions, there is no summary of those provisions. The ability of the Bureau, and the State of Maine, to obtain correct reimbursement amounts could be affected should there be a change in personnel.

In addition, federal revenue drawn for the Military Construction Grant (CFDA# 12.400) was credited to the same account as revenue drawn for the cooperative agreement.

### **Recommendation:**

We recommend that both the Bureau and the service center review accounting procedures, and record transactions in the appropriate fund.

We recommend that both the Bureau and the service center revise procedures for recording federal reimbursements, and record reimbursements in the Federal Expenditure Fund. We also recommend that the Bureau document its processes for both charging and receiving reimbursement, so that a change in personnel will not have negative consequences.

We further recommend that both the Bureau and the service center comply with the requirements of GASB *Codification* Section 1800.103b and 32 CFR §33.20(a).

### **Auditee Response/Corrective Action Plan:**

- 1) All program managers will utilize new Reporting ORGS and project numbers to forecast and track reimbursements from all outside sources.*
- 2) The Public Safety administrative center will conduct a quarterly review of the Treasury reports to search for and verify the recipient of all anticipated revenues and reimbursements.*
- 3) DVEM will utilize the newly developed accounting structure to code transactions and will perform a quarterly reconciliation of the Cooperative Agreements to verify accuracy of current modifications and proper allocation of expenditures and resources.*

## DEPARTMENT OF DEFENSE, VETERANS AND EMERGENCY MANAGEMENT

### (99-10) Military Bureau

National Guard Military Operations and Maintenance Projects

**CFDA#:** 12.401

**Questioned Costs:** \$54,110

U.S. Department of Defense

Federal Award Number: DAHA17-99-2-100x

**Finding:** Failure to contribute required State matching funds (Prior Year Finding)

The Department of Defense, Veterans and Emergency Management did not contribute State matching funds for certain federally supported activities, quantified by appendix to cooperative agreement documents, as follows:

**Appendix 2:** The Department did not meet any part of a \$13,643 match required for Army National Guard Environmental Resources Management. Therefore, all of the \$40,735 federal contribution associated with the match is questioned.

**Appendix 21:** The Department contributed only \$429,409 of a required \$433,867 match for Air National Guard Facilities Operations and Maintenance. Because accounting personnel were not informed of a modification to the cooperative agreement, they were unaware that the match requirement was increased by \$2,500 subsequent to the end of the fiscal year. Also, \$1,958 in expenditures reported as a matching contribution was paid from federal, rather than State, funds. The federal contribution associated with the \$4,458 unmet match, and therefore a questioned cost, is \$13,375.

Questioned costs associated with \$18,101 in unmet match contributions total \$54,110.

### **Recommendation:**

We recommend that the Department, and its accounting service center at the Department of Public Safety, monitor all matching requirements to ensure that the match is met. We also recommend that modifications to matching requirements be communicated to the appropriate accounting personnel.

### **Auditee Response/Corrective Action Plan:**

*1) The Department will request the appropriate level of funding from the legislature to fully fund the state share requirements. Upon receipt of adequate State funding, we will ensure the proper account is cited for the personnel expense.*

## DEPARTMENT OF DEFENSE, VETERANS AND EMERGENCY MANAGEMENT

*If additional funding is not attained through the legislative process, the Department will re-examine the funding priorities and determine if alternate revenue sources (014) should be used, or if elimination of other costs is required.*

*2) All Military Bureau Program Managers, including the Air National Guard, will receive intense training during the FY02/03 Budget preparation process. Particular attention will be given to the impact of increased Federal revenues on the State budget and the State's inability to provide additional funds.*

### **(99-11) Military Bureau**

#### **Department of Public Safety Administrative Services Division**

National Guard Operations and Management Projects  
**CFDA#:** 12.401

**Questioned Costs:** None

U.S. Department of Defense  
Federal Award Number: DAHA 17-99-2-100x

#### **Finding:** Data incomplete and inaccurate (Prior Year Finding)

The Administrative Services Division of the Department of Public Safety submitted incomplete and inaccurate expenditure data for inclusion in the State of Maine Schedule of Expenditures of Federal Awards (SEFA). The Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires entities expending federal awards to be able to provide reasonable assurance that financial statements are reliable.

Prior to adjustment, the Department reported a total of \$7,481,716, the amount of federal expenditures recorded in the grant's account. The amount reported was not accurate because of the following:

- Audit work identified in-kind assistance of \$3.5 million, which had not been reported. Neither the Department of Public Safety nor the Department of Defense, Veterans and Emergency Management had records to support the amount of in-kind assistance expended. The accounting records for in-kind assistance are not maintained within the State accounting system, but rather are maintained as part of the federal military database within the United States Property and Fiscal Office (USPFO) and at the Maine National Air Guard headquarters located in Bangor, Maine.



## DEPARTMENT OF DEFENSE, VETERANS AND EMERGENCY MANAGEMENT

- Payroll expenditures of \$239,095 that were included in the SEFA could not be documented as costs of the federal grant. Reimbursement from the federal government was neither requested nor received.
- The Department reported indirect costs of \$35,487 that were included in the Federal Expenditure Fund. However, Section 5-4 of *Grants and Cooperative Agreements* of the National Guard states that indirect costs, as defined in OMB Circular A-87, *Cost Principles for State and Local Governments*, are unallowable. The Department did not request federal reimbursement for these charges.

### **Recommendation:**

The Department of Public Safety should accurately report both cash expenditures and the expenditures of in-kind assistance to the State Controller's office for inclusion on the SEFA.

### **Auditee Response/Corrective Action Plan:**

- 1) *Public Safety will coordinate the annual submission of the Schedule of Expenditures of Federal Awards with the Military Bureau Cooperative Agreements Manager to determine the appropriate data required. The newly proposed accounting structure will simplify the assimilation of this data.*
- 2) *The USPFO for Maine will compare the State data with the federal accounting reports to verify accuracy, prior to submission to the Bureau of Accounts and Control.*

### **(99-12) Military Bureau**

**Department of Public Safety  
Division of Administrative Services**

National Guard Military Operations and Maintenance Projects  
**CFDA#:** 12.401

**Questioned Costs:** None

U.S. Department of Defense  
Federal Award Number: DAHA17-99-2-100x

## DEPARTMENT OF DEFENSE, VETERANS AND EMERGENCY MANAGEMENT

**Finding:** Noncompliance with cash management requirements (Prior Year Finding)

The Department of Public Safety held federal funds for a period of one to 56 days prior to disbursement, for Appendix #23 (*Air National Guard Security Guard Activities*) and for Appendix #24 (*Air National Guard Fire Protection Activities*). Eleven drawdowns were tested.

Title 31 CFR §205.20 states:

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

### **Recommendation:**

We recommend that the Department draw cash to be available as close as is administratively feasible to the actual outlay for direct program costs.

### **Auditee Response/Corrective Action Plan:**

- 1) The Department will instruct the affected individuals to develop a written management process for eliminating excessive delays in expending federal cash. This group will include representatives of the Army and Air National Guards, the Military Bureau Financial Manager, and a representative of the Administrative Services Division at the Department of Public Safety.*
- 2) The Military Bureau Financial Manager will review the latest version of NGR 5-1/NGI 63-101 to determine if the language concerning advance payments to the State have been changed to reflect the U.S. Treasury Department directive, and changes due to EFT Appropriate action will be taken based on the findings.*

### **(99-13) Maine Emergency Management Agency**

Public Assistance Grants

**CFDA#:** 83.544

**Questioned Costs:** \$101,634

Federal Emergency Management Agency

Federal Award Number: FEMA-1143-DR-ME; FEMA-DR-1198-ME

## DEPARTMENT OF DEFENSE, VETERANS AND EMERGENCY MANAGEMENT

### **Finding:** Errors in payments to subrecipients

The Maine Emergency Management Agency (MEMA) paid incorrect amounts for disaster relief to two subrecipients. Of 33 files for which final payments were made:

- (1) The final closeout payment made to one municipality included an overpayment of \$64,915, of which \$54,308 represented the federal share of the grant. MEMA personnel had not recorded an April 1998 payment on the spreadsheet that is used to track payments.
- (2) The final closeout payment to a second municipality resulted in the federal share being overstated and the State share being understated by \$47,326. Documentation supported the payment, but not its allocation to the federal share of the grant.

### **Recommendation:**

We recommend that MEMA personnel compare its information to that of the State's accounting system before making closeout payments to subrecipients.

### **Auditee Response/Corrective Action Plan:**

- (1) Overpayment of \$64,915 to one municipality is being corrected. They have been sent a letter of collection and this agency is waiting for reimbursement.*
- (2) A journal voucher has been generated and entered into the State accounting system to reverse the use of federal funds instead of State funds to the other municipality. The journal will be accepted in July 2000 when state allotment is allocated.*

*In the future the agency will review each file closely to determine actual final closeout payments due to respective subrecipients to prevent this from happening again.*

## DEPARTMENT OF EDUCATION

### (99-14) Bureau of Special Services

Special Education-Preschool Grants

Special Education-Grants for Infants and Families with Disabilities

**CFDA#:** 84.173/84.181

**Questioned Costs:** None

U.S. Department of Education

Federal Award Number: H173A980115

H181A980023

#### **Finding:** Federal compliance not ensured

The Department of Education did not require the Child Development Services System (CDS) to obtain an entity-wide audit in accordance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Due to the unique organizational structure of CDS, it was not clear that an audit of the state-level education unit was required. CDS received \$4.1 million of federal grant funds in fiscal year 1999.

CDS was established by the Legislature as a body corporate and politic. The system is defined by statute as consisting of “regional sites organized as intermediate education units or as private nonprofit corporations, one state-level intermediate education unit and the Interdepartmental Coordinating Council for Early Intervention advisory board” (20A MRSA § 7724). Although the regional sites receive audits in compliance with OMB A-133, as appropriate to their respective sizes, the state-level intermediate education unit does not.

The state-level unit has an independent accounting system and a separate bank account from those of the State. The unit is not subject to the usual Departmental monitoring and administrative controls. The Department does not receive monitoring reports on the unit. Compliance with cash management and period of availability requirements is not ensured. Of ten allotments of federal funds to the unit, five were held on deposit for a week or more. Its account is not subject to the Department's federal Grant Administration and Payment System. That system ensures that period of availability requirements are met. We did not extend our procedures to the unit's separate accounting system.

If the unit is to be considered a part of the State, and not a subrecipient, internal controls should be integrated with those of the State in general. The unit's independent accounting system precludes reliance on financial, administrative, and compliance controls of the State and of the Department of Education.

## DEPARTMENT OF EDUCATION

### **Recommendation:**

We recommend that the Department determine whether the unit is a part of the State government or a subrecipient and implement accounting, control, and compliance policies appropriate to its determination.

### **Auditee Response/Corrective Action Plan:**

*As an entity functioning under the supervision of the Commissioner, the CDS State Office has its single audit requirement as a part of the Department. CDS engages a separate auditor for fiscal review. Due to our management reporting structure and the fact that the CDS regional site contracts are with the Department of Education, not CDS, the state level office does not qualify as a true subrecipient. Rather, it is a component of the Department. A memo from the Commissioner of the Department of Education to the Commissioner of the Department of Finance, written on September 25, 1989, details the fiscal structure and operating procedures for the CDS System. This structure was approved by the Commissioner of Finance on April 6, 1990. These documents were provided during the audit of the Department in the past several weeks. An additional memo, dated June 20, 1996, indicates that the Maine Department of Audit believed that the CDS State Office is covered under the State Single Audit. Therefore, as these documents reflect, we have sought and received guidance from the State Controller regarding our status.*

## DEPARTMENT OF HUMAN SERVICES

### (99-15) Bureau of Child and Family Services

Social Services Block Grant

**CFDA#:** 93.667

**Questioned Costs:** \$3,921

U.S. Department of Health and Human Services

Federal Award Number: G-9801MESOSR, G-9901MESOSR

**Finding:** Funds not spent in accordance with earmarking requirements

The Department of Human Services did not expend Social Services Block Grant funds of \$2.5 million, received from the Temporary Assistance for Needy Families (TANF) Block Grant, only for those eligible. According to 42 USC 604(d)(3)(b), TANF funds are only to be used for children or their families whose income is less than 200 percent of the federal poverty level. The Department was unaware of the restriction.

Four of 60 recipients tested were not eligible. Eligibility could not be determined for an additional eight recipients. We question \$3,921, the amount paid to the four ineligible recipients. We determined likely questioned costs of \$109,088 as follows. We applied the sample dollar error rate, which we obtained by dividing the amount of the four transactions by the total amount of the 60 items sampled, to the entire population, resulting in likely questioned costs of \$88,688. We then applied the error rate of the indeterminable transactions, using the same methodology, to the entire population. Because it is not likely that all eight transactions would have been ineligible, we then multiplied the result by 7.7 percent, the known error rate (4/52), to obtain additional likely questioned costs of \$20,400.

### **Recommendation:**

We recommend that the Department expend funds only for eligible recipients.

### **Auditee Response/Corrective Action Plan:**

*An incident report (IR) will be filed with Maine Automated Child Welfare Information System (MACWIS) to develop an accounting method to be able to only charge to this account, expenditures for Foster Care(IV-E) eligible clients.*

## DEPARTMENT OF HUMAN SERVICES

### (99-16) Bureau of Child and Family Services

Child Care Mandatory and Matching Funds of the Child Care and Development Fund

**CFDA#:** 93.596

**Questioned Costs:** \$28

U.S. Department of Health and Human Services

Federal Award Numbers: G9801MECCDF/G-9901MECCDF

**Finding:** Payment to provider in excess of authorized rates (Prior Year Finding)

The Department of Human Services made a payment to a day care provider in excess of the amounts established in the State Supportive Services Plan.

We found one error of \$28 out of the 60 payments that were tested. If the ratio of this cost to the total test population of \$7,274 is applied to the total population of \$7,609,141, the result would be likely questioned costs of \$29,288.

### **Recommendation:**

We recommend that the Department make payments to day care providers in accordance with the State plan.

### **Auditee Response/Corrective Action Plan:**

*The Department makes every effort to make correct payments to child care providers. However, errors do occur, and in the scenario stated above, that error rate is 1.6%*

### (99-17) Bureau of Child and Family Services

#### Division of Financial Services

Child Care and Development Block Grant

**CFDA#:** 93.575

**Questioned Costs:** \$80,850

U.S. Department of Health and Human Services

Federal Award Numbers: G9801MECCDF/G-9901MECCD2

**Finding:** Payroll costs not equitably distributed (Prior Year Finding)

## DEPARTMENT OF HUMAN SERVICES

The Department of Human Services charged payroll costs of \$80,850 to the Child Care and Development Block Grant for two employees who perform administrative duties for several federal and/or State programs. We question the total payroll charges for those employees.

The Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State and Local Governments*, allows costs to be charged to a federal program only to the extent of the benefit received.

### **Recommendation:**

We recommend that the Department allocate salaries and fringe benefits to programs based on the benefit received.

### **Auditee Response/Corrective Action Plan:**

*The State's current budget system does not allow individual staff positions to be charged against more than one federal and/or State program. The employees whose salaries are cited in this finding are staff within the Office of Child Care and Head Start and the Bureau of Child & Families' Financial Manager whose job activities extend beyond the Child Care & Development Fund.*

*The Department is currently reviewing all of its cost allocation procedures, and will be implementing a cost allocation plan for the various State-funded and federally-funded staff in the Community Services Center who perform multi-program functions.*

*Also, the Bureau of Child & Families' Financial Manager's position is no longer being charged against the Child Care & Development Fund.*

### **(99-18) Bureau of Child and Family Services Division of Financial Services**

Child Care and Development Block Grant

Child Care Mandatory and Matching Funds of the Child Care and Development Fund

**CFDA#:** 93.575/93.596

**Questioned Costs:** None

U.S. Department of Health and Human Services

Federal Award Number: G-9901MECCD2/G-9901MECCDF



## **DEPARTMENT OF HUMAN SERVICES**

### **Finding:** Inaccurate financial data and noncompliance with grant reporting requirements

The Department of Human Services does not have controls in place to ensure accurate reporting of some federal grant expenditures. The Department submitted inaccurate expenditure information to be included in the Schedule of Expenditures of Federal Awards (SEFA), as follows:

Expenditures of the Child Care and Development Block Grant were reported to be \$10,482,242 rather than \$9,057,498. The variance was due to not including a large credit, and inconsistent recording of many expenditures.

Expenditures of the Child Care Mandatory and Matching Funds of the Child Care and Development Fund were reported to be \$11,697,003 rather than \$7,959,925. The variance was primarily due to the Department incorrectly including General Fund matching expenditures on the SEFA.

The Department failed to comply with specific reporting requirements, as follows:

The Department did not file separate quarterly financial reports for each block grant award by fiscal year, as required by the reporting instructions for the grants.

The Department reported Child Care Administration expenditures of \$56,675 rather than \$290,967.

The Department did not report any “earmarked” expenditures, as required by the grant. At least \$387,521 was expended in earmarked funds.

### **Recommendation:**

We recommend that the Department review and reconcile all amounts that are reported for inclusion in the Schedule of Expenditures of Federal Awards. We further recommend that the Department amend any reports that contain incorrect data, and that the Division of Financial Services coordinate with the Bureau of Child and Family Services to ensure consistent coding of expenditures. Finally, we recommend that the Division and Bureau comply with all reporting requirements.

### **Auditee Response/Corrective Action Plan:**

*The Department’s Division of Financial Services will amend the reports that contain incorrect data. The Division will also work with the Community Services Center to clearly identify funds within the multiple account numbers designated to the Child Care & Development Fund for all future reporting.*

## DEPARTMENT OF HUMAN SERVICES

### (99-19) Bureau of Family Independence

Medical Assistance Program

**CFDA#:** 93.778

**Questioned Costs:** None

U.S. Department of Health and Human Services

Federal Award Number: 9905-ME5028

9805-ME5028

**Finding:** Inadequate controls over compliance with Medicaid eligibility quality control requirements

#### Error Rates

Since 1997, the State's Quality Assurance Unit has not provided the Health Care Financing Administration (HCFA) with required error calculation reports. In the absence of these reports, HCFA cannot be assured that the State of Maine's error rate is below the three-percent threshold. Although the State of Maine has attempted to calculate payment error rates, the prescribed statistical formula is not used.

Section 431.865 of 42 CFR requires each State to have a payment error rate no greater than three percent, or be subject to a disallowance of federal financial participation. State payment error rate means the ratio of erroneous payments for medical assistance to total expenditures for medical assistance.

A letter issued by the Medicaid Bureau Director of the Washington, D.C. office of HCFA directed each State to calculate this error rate and submit it with other aggregated information. The letter also required States to calculate the error rate by using a statistical formula contained in Part 7, Chapter 2, Appendix A of the *State Medicaid Manual*.

#### Sampling Plan

The State did not submit a Basic Medicaid Eligibility Quality Control (MEQC) sampling plan to HCFA for approval, as required by 42 CFR §431.814. In addition, the State's unapproved Positive MEQC sampling plan did not appear to contain the following components required in the *State Medicaid Manual*:

- the sample size
- the accuracy and completeness of the sample selection lists
- the number of items on the sample selection lists
- the expected number of cases to be selected
- a detailed description of the procedures used in selecting the sample review cases

## DEPARTMENT OF HUMAN SERVICES

### **Recommendation:**

We recommend that the Quality Assurance Unit:

1. provide HCFA with past due error rate information,
2. calculate MEQC error rates using the prescribed statistical formula,
3. submit a sampling plan to HCFA for approval, and
4. include all the information required by the *State Medicaid Manual*.

### **Auditee Response/Corrective Action Plan:**

*The Bureau of Family Independence's Quality Control unit will begin gathering all information associated with the errors for submission to HCFA. A sampling plan will be included with the interval submission to HCFA and will contain all components required by the State Medicaid Manual. The error rate will be calculated using the prescribed statistical formula.*

### **(99-20) Bureau of Family Independence/Regional OMB Operations**

Medical Assistance Program

**CFDA#:** 93.778

**Questioned Costs:** \$26,160

U.S. Department of Health and Human Services

Federal Award Number: 9905-ME5028

9805-ME5028

**Finding:** Documentation to support participant eligibility not located

Two of 40 case files that were examined did not document eligibility of family members to receive benefits of the Medical Assistance Program. Payments of \$26,160 were made to the two individuals in 1999. These questioned costs were not projected because the family members were not a part of the original sample. A third file also lacked documentation of eligibility, but no claims were submitted for this individual.

Title 42 CFR §431.10 requires the Department to determine eligibility for participation in the program.

### **Recommendation:**

We recommend that the Bureau retain sufficient documentation to support eligibility determinations.

## DEPARTMENT OF HUMAN SERVICES

### **Auditee Response/Corrective Action Plan:**

*The Bureau of Family Independence will be implementing several activities to improve the documentation in case files. They are as follows:*

- 1. Centralized Eligibility Training for all new Family Independence Specialists will begin July 10, 2000. This training will provide policy training on all eligibility programs administered by the Bureau of Family Independence including Medicaid;*
- 2. In addition to the Centralized Eligibility Policy Training, all new Family Independence Specialists will complete a Learning-At-Work curriculum which includes case file management and documentation; and*
- 3. The Bureau of Family Independence during federal fiscal years 2000 and 2001 will be developing and implementing a new Automated Client Eligibility System that will include case data management, eligibility and case documentation for all benefit programs including Medicaid administered by the Bureau.*

*Furthermore, the State's Quality Assurance Unit will continue to require that lack of documentation to support eligibility will be noted for the cases selected for sampling. A corrective action memo will continue to be forwarded to the appropriate Regional office stating the review findings and the lack of documentation.*

### **(99-21) Bureau of Health**

Supplemental Food Program for Women, Infants and Children

**CFDA#:** 10.557

**Questioned Costs:** \$52,393

U.S. Department of Health and Human Services

Federal Award Number: 1F9701

1F8701

### **Finding:** Excess payroll costs charged to the program

The Division of Technology Services of the Department of Human Services charged salaries to the Supplemental Food Program for Women, Infants and Children (WIC) without the knowledge or authorization of the program director. One hundred percent of the salaries of certain employees who provided technical services to multiple programs was charged to the WIC program.

Office of Management and Budget Circular A-87, *Cost Principles for State and Local Governments*, allows payroll costs to be charged to a federal program only to the extent of the benefit received. We question \$52,393, the amount that could not be documented by the Division of Technology Services.

## DEPARTMENT OF HUMAN SERVICES

### **Recommendation:**

We recommend that the Department of Human Services charge only allowable payroll costs to the federal program.

### **Auditee Response/Corrective Action Plan:**

*The Department of Human Services concurs with this audit finding that salaries for two positions were improperly charged to the WIC Program. These charges will be journaled out of the WIC Program and charged to the Department's Office of Management and Budget. The journal will be completed in July of 2000. These two positions will be transferred in the next Legislative session.*

### **(99-22) Bureau of Health**

Cooperative Agreement of State-Based Comprehensive Breast and Cervical Cancer Program

**CFDA#:** 93.919

**Questioned Costs:** \$99,627

U.S. Department of Health and Human Services

Federal Award Number: U57/CCU110977-05

### **Finding:** Insufficient matching funds

The Bureau of Health did not meet match requirements of the federal grant by \$292,701. Of this amount, \$272,183 that was reported as matching funds did not meet the requirements of 45 CFR §92.24 for third-party in-kind contributions. Those standards allow contributions to qualify as matching funds only if they result in an increase of services provided under the contract or in cost savings to the grantee.

The Bureau included two sources of matching funds that do not meet the standards. The first was \$12,691 of services provided on behalf of the program that the providing physicians did not bill within the allowable period of one year. The Bureau reported the unbilled services as contributions, although the providers made no intentional donation. The Bureau intends to include a provision in new contracts stating that any services unbilled within the period of one year will be considered a donation to the program. The second was \$259,492 that resulted from the difference between the rates at which primary care physicians are contractually reimbursed and the rates used by Blue Cross and Blue Shield to reimburse the same types of service. This differential was included in the approved contract between the State of Maine and the Centers for Disease Control and Prevention (CDC), and program personnel stated that guidance for the methodology was provided by the CDC at the inception of the grant.

## DEPARTMENT OF HUMAN SERVICES

In addition, the Bureau did not meet the September 30, 1999 match contribution by \$20,518. The Bureau estimated that procedures occurring prior to that date, but not billed within the allowable period, would be sufficient to meet the match.

We question \$99,627, the amount of federal grant funds associated with the shortfall of \$20,518 and unbilled services of \$12,691. Per 42 USC §300L, \$3 of federal grant funds are earned for every \$1 of required match. We do not question federal funds associated with the \$259,492, due to the guidance of the CDC and the inclusion of the rate differential in the approved contract.

### **Recommendation:**

We recommend that the Bureau of Health utilize match sources as defined in 45 CFR § 92.24, and meet those requirements by the end of the federal fiscal year. We further recommend that the Bureau obtain a decision from the federal cognizant agency regarding allowability of the rate differential.

### **Auditee Response/Corrective Action Plan:**

*The Department of Human Services does not fundamentally concur with this audit finding. The methodology in question used for the third part in-kind contribution has been in place since the inception of the program and was deemed appropriate by the granting agency based on the interpretation of the regulations at that time. The Department has, in good faith, followed this guidance in each subsequent grant period. We defer to the cognizant agency to determine if this is appropriate. At this point in time no corrective action will be made pending review.*

### **(99-23) Bureau of Health**

Immunization Grants

**CFDA#:** 93.268

**Questioned Costs:** \$363,364

U.S. Department of Health and Human Services  
Federal Award Number: CCH1044B2

### **Finding:** Unallowable expenditure

The Department of Human Services charged \$363,364 of payroll and other costs to the Immunization Program rather than to the Medicaid EPSDT Program. The Office of Management and Budget Circular A-87, *Cost Principles for State and Local Governments*, allows costs to be charged to a federal program only to the extent of the benefit received.

## DEPARTMENT OF HUMAN SERVICES

### **Recommendation:**

We recommend that the Department charge the costs of salary and fringe benefits to programs based on actual time worked. Also, we recommend that the Immunization Program be reimbursed \$363,364 from the Medicaid program funds.

### **Auditee Response/Corrective Action Plan:**

*The Centers for Disease Control and Prevention is currently reviewing this issue to make a determination as to whether they will allow these charges in the Immunization Program. The Department will respond to the audit once this review is completed.*

### **(99-24) Bureau of Medical Services**

Medical Assistance Program

**CFDA#:** 93.778

**Questioned Costs:** None

U.S. Department of Health and Human Services

Federal Award Number: 9905-ME5028

9805-ME5028

### **Finding:** Provider information not obtained or maintained

The Bureau of Medical Services did not request or obtain required disclosures from program providers. Also, the Bureau did not ensure that information in provider files is current.

The Bureau must require providers to disclose facility ownership and control information (42 CFR §455.104). This requirement relates to all Medicaid providers other than an individual practitioner or group of practitioners. The Bureau does not ask for this information in its current agreements with providers.

If a provider fails to provide the required disclosures, the Bureau is not allowed to approve an agreement and must terminate any existing agreement. Also, payments to such a provider are not eligible for federal financial participation.

In fiscal year 1999, approximately \$650 million dollars in federal funds were disbursed to Medicaid providers. Although approximately 75% of providers are individual or group practitioners, the majority of medical payments are made to providers such as hospitals and nursing facilities, which are subject to the disclosure requirement.

## DEPARTMENT OF HUMAN SERVICES

All 25 provider files that were sampled did not contain the ownership information required by 42 CFR §455.104. We found the required disclosures for 16 of the providers in Medicare General Enrollment forms on file at the Division of Licensing and Certification. However, the Medicaid program did not ask for or receive the information.

One of the 25 files did not contain a provider agreement, as required by 42 CFR §431.107. Four files had old versions of the provider agreement that did not ask about criminal convictions, as required by 42 CFR §455.106.

### **Recommendation:**

To avoid withholding or denial of federal funds, we recommend that the Bureau revise the provider agreement form to include the disclosure requirements of 42 CFR §455. We further recommend that the Bureau maintain and update the provider files as necessary.

### **Auditee Response/Corrective Action Plan:**

*The Bureau of Medical Services is in the process of revising the Medicaid enrollment information form in order to obtain the required disclosure information from providers. We have a copy of the Medicare enrollment form and will incorporate these changes into the Medicaid form.*

*In addition, BMS staff will begin a process of updating the provider files. Every enrolled Medicaid provider will receive a new provider enrollment information form and provider agreement for completion and return. This will address any missing provider agreements as well as any question about criminal convictions. As you know, the provider files are in long-term storage as they are “contaminated.” BMS staff will be creating new files for each enrolled provider.*



## DEPARTMENT OF LABOR

### (99-25) Office of Administrative Services

Unemployment Insurance, Employment and Training Assistance, JTPA

**CFDA#:** 17.225/17.246/17.250

**Questioned Costs:** None

U.S. Department of Labor

Federal Award Number: IT-GU-VI-50/A-6703-8-00-87-50

**Finding:** Accounting systems not reconciled (Prior Year Finding)

The Maine Department of Labor does not reconcile federal expenditures recorded on its internal accounting and reporting system (DOLARS) to the statewide accounting system (MFASIS). All expenditures are made through MFASIS, but the Department uses DOLARS to charge direct costs and indirect costs to federal programs, as well as to provide data for federal financial reports. The Department received 25 federal grants in fiscal year 1999. Expenditures for the grants totaled \$62 million.

Use of two systems affects the recording, allocating and reporting of federal funds as follows:

- 1) Transactions are separately coded and entered into the two systems, each of which has a unique account code structure. Given this duplication, and the use of approximately 1000 fund ledgers for DOLARS transactions, data entry errors are inevitable.
- 2) The Department maintains a master file of each employee's hourly rate and benefit package on DOLARS, which must be updated for any changes for approximately 750 employees. This duplicates data maintained by the State's human resources and payroll functions, and increases the likelihood of errors being committed and erroneous information being allocated and reported.
- 3) Department personnel identify prior period coding errors and create adjustments to correct them. However, some of these adjustments may not be entered into either system. Some of these adjustments may be due to timing differences and may have cleared in subsequent periods.

The Common Rule, Section 20, *Standards for Financial Management Systems*, states:

A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State...must be sufficient to permit preparation of reports required...and permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

We note that at June 2000, some reconciliation work for CFDA 17.246 and 17.250, for the fiscal year ended June 30, 1999, has been completed. Not all reconciling items have been researched to determine the appropriate resolution.

## DEPARTMENT OF LABOR

### **Recommendation:**

In order to ensure compliance with federal regulations, accurate financial reporting, and effective management review of allocated expenditures, we recommend that the Department reconcile federal revenue and expenditures recorded on DOLARS to that recorded on MFASIS for each federal grant, on a monthly basis and prior to preparing any federal or State financial reports.

### **Auditee Response/Corrective Action Plan:**

*Contact Person: Rose M. Bailey, OAS*

*The OAS agrees with the finding and is making progress in researching and clearing the identified reconciling items, as well as being aggressively engaged in the completion of all outstanding reconciliations. Our expectation is to make all reconciliations current during the SFY 2001 period.*

### **(99-26) Office of Administrative Services**

Various

**CFDA#:** Various

**Questioned Costs:** None

U.S. Department of Labor

Federal Award Number: Various

### **Finding:** Noncompliance with Cash Management Improvement Act

The Maine Department of Labor did not draw down federal funds in accordance with the terms of the Cash Management Improvement Act agreement between the State of Maine and the U.S. Department of Treasury, as follows:

- 1) For the Unemployment Insurance grant (CFDA #17.225), the Department used the required prorated method to draw funds for the personal services portion of administrative costs. However, it did not use that method for the non-personal services portion. In addition, the funds were ordered for deposit on the day payroll was recorded on the accounting system, rather than on the average day of clearance, as required by the agreement.
- 2) The Department drew funds for indirect costs for the Job Training Partnership Act grant (CFDA #17.250) and for the Rehabilitation Services Basic Support grant (CFDA #84.126) based on an internal allocation system. The agreement requires that funds for those grants be drawn based on an approved indirect cost rate that is applied to certain direct costs of the previous month.

## DEPARTMENT OF LABOR

### **Recommendation:**

We recommend that the Department comply with all cash draw requirements of the Cash Management Improvement Act agreement, or request that the Department's methods be included in the agreement.

### **Auditee Response/Corrective Action Plan:**

*Contact Person: Rose M. Bailey, OAS*

*The OAS agrees with the finding. We are currently working closely with the Maine State Treasurer's Office to develop procedures that would allow MDOL to comply with the respective agreements. Further, to establish consistency in all MDOL CMIA agreements, effective July 1, 1999, the Indirect Costs Proportionate Share method was eliminated from the agreement.*

# DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION AND SUBSTANCE ABUSE SERVICES

## (99-27) Bureau of Mental Health

Shelter Plus Care

**CFDA#:** 14.238

**Questioned Costs:** None

U.S. Department of Housing and Urban Development

Federal Award Numbers: ME06C93-1181

ME06C94-0026

ME06C95-0020

**Finding:** Noncompliance with cash management requirements

The Department made disbursements an average of 17 days after funds were drawn for the Shelter Plus Care program. There were 39 drawdowns made during fiscal year 1999.

Title 31 CFR §205.20 requires that requests for cash advances be timed for immediate cash disbursement needs.

### **Recommendation:**

The Department should minimize the time between the day the funds are drawn and the day payment checks are issued.

### **Auditee Response/Corrective Action Plan:**

1. *Scott Pratt, Director of Accounting will be responsible for corrective action.*
2. *The Department is now aware of the requirement that cash advances to the State be timed for immediate cash disbursement needs and will make an effort to significantly decrease the time between the day the funds are drawn down and the day payment checks are issued.*

*The Department will immediately take corrective action for drawdowns to be done in State Fiscal Year 2001.*

## DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION AND SUBSTANCE ABUSE SERVICES

### (99-28) Bureau of Mental Health

Shelter Plus Care

**CFDA#:** 14.238

**Questioned Costs:** None

U.S. Department of Housing and Urban Development

Federal Award Numbers: ME06C93-1181

ME06C94-0026

ME06C95-0020

### **Finding:** Late filing of annual reports

The Department consistently filed annual reports to the U.S. Department of Housing and Urban Development (HUD) much later than the deadline established by 24 CFR §85.40(b)(1), which is 90 days after the end of the reporting period. As a result, HUD has periodically suspended the Department's ability to receive grant funds until the reports were filed.

### **Recommendation:**

To avoid suspension of grant funds, annual progress reports should be filed within 90 days after the end of the grant year.

### **Auditee Response/Corrective Action Plan:**

*Persons responsible for corrective action: Sheldon Wheeler, Scott Pratt*

#### *Corrective action planned:*

*The Department will create a matrix detailing all Shelter Plus Care grants, including their respective Annual Progress Report due dates, and distribute this information both internally and to the Central Administrative Agency to ensure the timely submission of Annual Progress Reports.*

#### *Anticipated completion date:*

*The anticipated completion date is August 31, 2000. The matrix will be updated as significant modifications to the Shelter + Care grants occur.*

## DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION AND SUBSTANCE ABUSE SERVICES

### (99-29) Bureau of Mental Health

Shelter Plus Care

**CFDA#:** 14.238

**Questioned Costs:** None

U.S. Department of Housing and Urban Development

Federal Award Numbers: ME06C93-1181

ME06C94-0026

ME06C95-0020

### **Finding:** Inadequate subrecipient monitoring

The Department is not adequately monitoring subrecipient activities as required by 24 CFR §582.400.

The Department did not identify the federal program or its CFDA number in a contract with the subrecipient grant administrator. Also, the contract did not specify what the administrator's monitoring responsibilities were. Because the administrator provides the funds to local administrative agencies, it is particularly important that the administrator's responsibilities are clearly defined.

The Department does not have a monitoring plan to ensure that its subrecipients are complying with regulations. The Department does not require subrecipients to submit periodic financial or narrative reports that can be used to monitor compliance. On-site visits to the grant administrator reportedly occur but were not documented by an agenda or results of the on-site review.

### **Recommendation:**

We recommend that the Department include all identifying federal award information and specific program compliance requirements, including responsibility for subrecipient monitoring, in its contracts.

We further recommend that the Department prepare a subrecipient monitoring plan, to include requirements for periodic reports from subrecipients and documented on-site visits.

### **Auditee Response/Corrective Action Plan:**

*Persons responsible for corrective action: Sheldon Wheeler, Scott Pratt*

## DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION AND SUBSTANCE ABUSE SERVICES

### *Corrective action planned:*

- I. The Department will require the following documentation on all monthly reports, regarding Shelter Plus Care, from the Subrecipient: Project Number, Project Name, CDFA #, and Federal Awarding Agency (HUD).*
- II. The Department will modify the existing contracts with the Central Administrative Agency, to include the following provisions:*
  - a. The existing regional contracts which currently include both a State funded Program and the Federally funded Shelter Plus Care program will be segregated.*
  - b. Compliance with specific Shelter Plus Care regulations will include a new monthly reporting format to become effective September 1, 2000.*
  - c. Additional provisions will include specific responsibilities of the Central Administrative Agency and its monitoring of funds that are passed through to the Local Administrative Agencies.*
- III The Department will develop a subrecipient monitoring plan to include elements already addressed. Additionally, the monitoring plan will include both a format and a time table for periodic on-site reviews of the Central Administrative Agency.*

### *Anticipated Completion Date:*

*The anticipated completion dates for the above action plans vary, as some portions have already been addressed. The Department plans to utilize its 1% Administrative Shelter Plus Care fee as per OMB circular A-87 to address the establishment and operation of these processes. It may be necessary to receive approval from HUD for utilization of the Administrative fee for such purposes before such action is completed and continued on an ongoing basis.*

*The target completion date of Corrective Action Plan I will be September 1, 2000*

*The target completion date of Corrective Action Plan II will be July 1, 2001*

*The target completion date of Corrective Action Plan III will be December 31, 2000*

### **(99-30) Office of Substance Abuse**

#### **Substance Abuse Prevention and Treatment Block Grant**

**CFDA#:** 93.959

**Questioned Costs:** \$1,138,041

U.S. Department of Health and Human Services  
Federal Award Number: 97 B1 ME SAPT-01

## DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION AND SUBSTANCE ABUSE SERVICES

### **Finding:** Late obligation of grant funds (Prior Year Finding)

The Office of Substance Abuse did not obligate \$1,138,041 of the Substance Abuse Prevention and Treatment Block Grant by the end of the federal fiscal year in which the funds were first allotted, as required by 45 CFR §96.14. The funds should have been obligated by September 30, 1997; although \$934,610 was obligated in the quarter ending December 31, 1997, \$203,431 was not obligated until June 30, 1998.

Late obligation was due to late issuance of subrecipient contracts. Although re-obligation of funds is allowable, the Office could not document that this had been done.

### **Recommendation:**

We recommend that the Office of Substance Abuse obligate all Block Grant funds within the period allowed. If amounts are re-obligated, the Office should maintain documentation to support compliance with federal regulations.

### **Auditee Response/Corrective Action Plan:**

Contact Person: Jeffrey Toothaker

*The Office of Substance Abuse is continuing to improve its ability to obligate Block Grant funds in the required time period. Significant improvement was made in the subsequent year.*

### **(99-31) Office of Substance Abuse**

Substance Abuse Prevention and Treatment Block Grant

**CFDA#:** 93.959

**Questioned Costs:** \$48,314

U.S. Department of Health and Human Services

Federal Award Number: 97 B1 ME SAPT-01

### **Finding:** Amounts reported as expended not supported (Prior Year Finding)

The Office of Substance Abuse reported cash drawdowns and expenditures of \$48,314 more than was supported by State accounting records for the federal fiscal year 1997 Substance Abuse Prevention and Treatment Block Grant. Of the \$48,314 questioned, \$30,000 was a duplicate item. The fiscal staff of the Office believes the remaining \$18,314 to have been expended for program purposes, but not within the period of availability.



## DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION AND SUBSTANCE ABUSE SERVICES

We note that subsequent to the period under audit, the Office began using grant report categories within the State's accounting system that will allow expenditures to be associated with a specific grant award.

### **Recommendation:**

We recommend that the Office of Substance Abuse continue using the grant report categories to ensure that all grant funds are expended within the period of availability.

### **Auditee Response/Corrective Action Plan:**

*Contact Person: Jeffrey Toothaker*

*The Office of Substance Abuse is continuing to improve our monitoring of Block Grant expenditures, including use of report categories. Our goal is to maintain a clear record that properly tracks specific grant expenditures.*

### **(99-32) Office of Substance Abuse**

Substance Abuse Prevention and Treatment Block Grant  
**CFDA#:** 93.959

**Questioned Costs:** None

U.S. Department of Health and Human Services  
Federal Award Number: 98 B1 ME SAPT-01

### **Finding:** Noncompliance with cash management requirements

The Office of Substance Abuse did not have controls in place to minimize the time elapsed between its draw of federal funds and the expenditure of those funds by its subgrantees, as required by 31 CFR §205, 45 CFR §92 and U.S. Treasury Circular 1075.

## **DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION AND SUBSTANCE ABUSE SERVICES**

We tested contract payments to 40 subrecipients and found:

1. Contracts with subrecipients provide for quarterly payments rather than for immediate cash needs.
2. When subrecipients reported excess balances, the Office continued to make scheduled payments.
3. In two quarters, the Office paid subrecipients earlier than was agreed to in the contracts. We found 53 payments, totaling \$1.8 million, that were paid an average of 16 days earlier than agreed.
4. The Quarterly Cash Reimbursement forms provide that revenues and expenditures be reported rather than cash receipts and disbursements. The actual amount of cash on hand was not reported.

### **Recommendation:**

We recommend that the Office of Substance Abuse Services:

1. make monthly rather than quarterly payments to the larger providers,
2. withhold payments to a subrecipient that holds excess cash,
3. make payments according to the contract schedule and require a written request for earlier payment, and
4. revise the Quarterly Cash Reimbursement form to include a report of cash received , cash disbursed, and cash on hand.

### **Auditee Response/Corrective Action Plan:**

Contact Person: Jeffrey Toothaker

*The Office of Substance Abuse (OSA) agrees that monitoring of payments to sub recipients needs to be improved.*

1. *OSA will revise the subrecipient quarterly Financial Report to reflect actual cash received and cash expenditures.*
2. *Payments to subrecipients will be amended if cash balance is excessive.*
3. *OSA will evaluate the impact of monthly payments to subrecipients.*

*OSA has taken steps to ensure that payments are made in accordance with the payment schedule as stated in the contract.*

## **DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION AND SUBSTANCE ABUSE SERVICES**

### **(99-33) Office of Substance Abuse**

Substance Abuse Prevention and Treatment Block Grant

**CFDA#:** 93.959

**Questioned Costs:** None

U.S. Department of Health and Human Services

Federal Award Number: 98 B1 ME SAPT-01

### **Finding:** Weaknesses in subrecipient monitoring procedures (Prior Year Finding)

The Office of Substance Abuse did not follow federal regulations, and its established procedures, for monitoring subrecipient activity. The Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart D § .400 (d)(3) requires each pass-through agency to monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and contracts or grant agreements. The Office of Substance Abuse requires its subrecipient provider agencies to submit narratives and financial reports each month. The contract administrators of the Office are expected to use a tracking form to indicate that they have received, reviewed and approved the reports. Of 40 subrecipients that were tested, 9 had not submitted reports and 22 submitted reports late. We found no indication that the Office attempted to obtain the missing reports. We also found that the files of two of the 40 subrecipients included no tracking form, and that 22 included incomplete forms.

### **Recommendation:**

We recommend that the Office comply with federal regulations by following its established procedures to indicate the receipt, review and approval of the subrecipient reports. We further recommend that the Office investigate and resolve any noncompliance with its requirements.

### **Auditee Response/Corrective Action Plan:**

*Contact Person: Jeffrey Toothaker*

*The Office of Substance Abuse will adhere to our procedures to track and monitor subrecipient financial and narrative report. When reports are not filed, or filed late, the tracking form will document contacts made with the agency and action taken.*

## DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION AND SUBSTANCE ABUSE SERVICES

### (99-34) Office of Substance Abuse

Substance Abuse Prevention and Treatment Block Grant

**CFDA#:** 93.959

**Questioned Costs:** \$453,655

U.S. Department of Health and Human Services

Federal Award Number: 97 B1 ME SAPT-01

**Finding:** Unobligated expenditures not in period of availability

The Office of Substance Abuse expended \$453,655 of unobligated funds, mostly for payroll costs, after the period in which the funds were available for expenditure. If the funds had been obligated by September 30, 1997, the expenditures would have been allowable.

Although the grant period began October 1996, funds were not made available to the Office until August 1997. Because budgeted payroll costs do not constitute obligations in accordance with the definition used by Health and Human Services, the Office could not use the grant award for its intended purpose by the September 30 deadline for expenditure of unobligated funds.

### **Recommendation:**

We recommend that the Office work with the Substance Abuse and Mental Health Services Administration to determine a solution that will allow compliance with period of obligation and expenditure requirements. Possible solutions may include a change in the grant period or approval to expend the unobligated funds in the second year of the grant period.

### **Auditee Response/Corrective Action Plan:**

*Contact Person: Jeffrey Toothaker*

*The Office of Substance Abuse (OSA) has been expending Block Grant funds for OSA salaries and related expenses beyond the first year of the Block Grant for several years. OSA contends that the State Budget constitutes an obligation and thereby fulfills the compliance requirement. Recent conversations with the Substance Abuse and Mental Health Services Administration (SAMSHA) indicate that these expenditures are not considered obligations and need to be restricted to the first year of the grant as stated in the finding. OSA will work with SAMSHA and appropriate State personnel to develop a plan to ensure that unobligated grant funds are expended in the first year of the grant or develop an alternative plan that is acceptable to SAMSHA.*

## DEPARTMENT OF PUBLIC SAFETY

### (99-35) Bureau of Highway Safety

Byrne Formula Grant Program

CFDA#: 16.579

Questioned Costs: \$53,483

U.S. Department of Justice

Federal Award Number: Various

**Finding**: Excess payroll costs charged to program and no certification for employees working solely for program

The payroll costs of three Department of Public Safety employees were charged entirely to the Byrne Formula Grant Program. According to activity reports, 36% of the total was attributable to other activities. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State and Local Governments*, allows payroll costs to be charged to a Federal program only to the extent of the benefit received. We therefore question wages and fringe benefits of \$30,462.

The Byrne Formula Grant Program was also charged with payroll costs of a fourth employee, a portion of which was attributable to other U.S. Department of Justice programs. The employee's activity reports do not distinguish between different Department of Justice programs, so we question the entire \$23,021 payroll cost charged to the Byrne grant.

In addition, ten employees of the Department who worked solely for the Byrne Formula Grant Program during fiscal year 1999 did not submit semi-annual certifications, as required by OMB Circular A-87.

### **Recommendation**:

We recommend that the Department charge payroll costs to the Byrne Formula Grant Program only to the extent that work is performed for the program. We also recommend that certifications be prepared for employees who work solely for one Federal program.

### **Auditee Response/Corrective Action Plan**:

*We will make the necessary adjustments to correct the payroll charges as noted and we will prepare certifications for employees who work solely for one federal grant.*

## DEPARTMENT OF TRANSPORTATION

### (99-36) Bureau of Project Development

Highway Planning and Construction

CFDA#: 20.205

Questioned Costs: \$52,777

US Department of Transportation

Federal Award Number: Unknown

#### **Finding**: Inadequate controls over Locally Administered Projects

The Maine Department of Transportation (MDOT) does not have adequate internal controls in place to ensure that Locally Administered Projects are administered in accordance with the Federal Highway Administration (FHWA) or local agreements.

Title 23 United States Code §106 allows the State of Maine to assume responsibilities for design, plans, specifications, estimates, right-of-way certification statements, contract awards and inspection/final acceptance of the vast majority of federal-aid projects.

The MDOT entered into an agreement for a Locally Administered Project with a municipality in 1999. Problems with the administration of the project included:

1. State right-of-way charges were made to the project, although no State participation was authorized.
2. State administrative costs were charged to the construction project rather than to the State administrative project.
3. The reimbursement to the municipality for federal participation costs was calculated by using a federal participation rate of 80% rather than 80.28%, and was based on \$239,273 in participating dollars rather than the \$200,500 limit agreed to in the Local Project Agreement.
4. The MDOT project administrator failed to provide the MDOT federal funds administrator a copy of the final contract award. Data from the award document would have been entered into the PROMIS, a system for tracking and controlling project activity. As of April 6, 2000, the federal funds administrator was unaware that the project had started, although it was completed in July 1999.
5. Once data was entered into the PROMIS system, the Department determined that there had been an overpayment to the municipality of \$52,777.

## DEPARTMENT OF TRANSPORTATION

### **Recommendation:**

We recommend that the Maine Department of Transportation comply with all federal regulations and grant agreements.

### **Auditee Response/Corrective Action Plan:**

*Brad Foley, Assistant Highway Engineer, Highway Design Division, is the contact person responsible for the corrective action plan. The finding cites “inadequate oversight of Locally Administered Projects.” Additional staffing and assignment of specific roles for administration coordination and oversight of all LPs will occur as part of the Bureau’s reorganization. A Bureau Process Action Team provided recommendations in November 1998 that included establishment of a “Local Project Coordinator” position within the Bureau. An FJA for such a position was approved by the Department of Human Resources staff in October 1999. Establishment of that position and related positions to respond to this demonstrated need now await finalization of Bureau support staff needs as implementation of the new Bureau organization proceeds this summer. Appropriate staff should be in place by year’s end, in time to pick up with 2001 projects and the new 2002-2003 Biennial Transportation Improvement Program. In the meantime, more attention will be given by both preconstruction and construction project managers to ensure timely and accurate financial transactions in both direction on locally administered projects.*

### **(99-37) Office of Passenger Transportation**

Formula Grants for Other Than Urbanized Areas

**CFDA#:** 20.509

**Questioned Costs:** None

U.S. Department of Transportation

Federal Award Number: ME-18-X021/ME-18-X022

### **Finding:** Noncompliance with federal cash management procedures

The Maine Department of Transportation provided funds to subrecipients from 26 to 102 days prior to disbursement by the subrecipients to vendors. The three disbursements totaled \$834,400, one third of the total grant expenditures.

*Uniform Administrative Requirements for Grants and Cooperative Agreements, issued by the Office of Budget and Management, Subpart C §21(b), requires the State to minimize the time elapsing between the transfer of the funds and their disbursement by a subrecipient, in accordance with Treasury regulations contained in 31 CFR Part 205.*

## DEPARTMENT OF TRANSPORTATION

### **Recommendation:**

We recommend that the Department establish controls to ensure compliance with federal regulations regarding subrecipient cash management procedures.

### **Auditee Response/Corrective Action Plan:**

*We concur with the finding and recommendation. OPT will ensure payments to a subrecipient's or contractor's request for reimbursement is not issued more than one week in advance of expected expenditures. Additionally, checks for vehicles not delivered on schedule will be stored in the MDOT safe until inspection and acceptance of the vehicles.*



**STATE OF MAINE  
CORRECTIVE ACTION PLAN  
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**Finding Number: 98-01**

**Department of Administrative and Financial Services**

**Bureau of Accounts and Control**

**Contact Person: Terry Brann**

**Telephone Number: (207) 287-4607**

**Finding:** Accounts payable procedures inadequate (Prior Year Finding)

**Corrective Action Plan:**

1. We agree that the instructions for fiscal year 1998 were not as clear as possible and some incorrect guidance was given. We have revised the instructions for fiscal year 1999 and believe that the accounts payable documentation provided to agencies will bring clarity and accuracy to agency reporting.
2. We agree that the accounting system does not currently identify invoices that should be prorated between accounting periods. However, we do not believe these amounts would be significant. We will analyze sample transactions and further evaluate this situation during the next fiscal year.
3. We agree that it was not clear whether interface systems could use the accrual indicator. We are currently in the process of meeting with personnel from those interfacing agencies and believe we have developed methods to accumulate the payable data for fiscal year 1999 for those significant systems.
4. We do not agree with the statement that the State does not independently verify the amounts due to the component units. The amounts reported in the component unit financial statements were opined on by independent auditors. In addition, we did verify a sample of the significant amounts and at the time did not find any material discrepancies.

**Finding Number: 98-02**

**Department of Administrative and Financial Services**

**Division of Financial and Personnel Services/Bureau of Accounts and Control**

**Contact Person: Ed Karass**

**Telephone Number: (207) 287-4500**

**Finding:** Inadequate internal control system to identify capital leases (Prior Year Finding)

**Corrective Action Plan:**

We agree with the recommendation. Our work in this area is nearly complete. We should be in compliance for FY 99's audit.

**STATE OF MAINE  
CORRECTIVE ACTION PLAN  
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**Finding Number: 98-03**

**Department of Administrative and Financial Services**

**Bureau of Accounts and Control**

**Contact Person: Terry Brann**

**Telephone Number: (207) 287-4607**

**Finding:** Fixed asset records incomplete (Prior Year Finding)

**Corrective Action Plan:**

We agree with the finding. We are in the process of recording all historical information related to fixed assets for the State and intend to have the information completed for the fiscal year 1999 audit.

**Finding Number: 98-04**

**Department of Administrative and Financial Services**

**Bureau of Alcoholic Beverages and Lottery**

**Contact Person: Ed Karass**

**Telephone Number: (207) 287-4500**

**Finding:** No assurance of adequate internal controls

**Corrective Action Plan:**

The Bureau conducted a SAS Audit last year and intends to do this annually. While we are late in our procurement of audit services we are presently contracting to have such an Audit performed as recommended by the State Auditor and will be on a timely schedule moving forward.

**Finding Number: 98-05**

**Department of Administrative and Financial Services**

**Maine Revenue Services**

**Contact Person: Jerome Gerard**

**Telephone Number: (207) 624-7854**

**Finding:** Inadequate segregation of duties (Prior Year Finding)

**STATE OF MAINE  
CORRECTIVE ACTION PLAN  
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**Corrective Action Plan:**

MRS will segregate duties by having the supervisor in the EFT unit handle all taxpayer contacts regarding the setting up of a taxpayer for fund transfers while her assistant handles the related accounting functions. To further strengthen MRS' controls over this area, materials sent to taxpayers who apply for EFT processing will instruct the taxpayer to verify the state's bank account number for EFT by checking MRS' web page. MRS will contact other entities that use EFT to determine what internal controls they use in ensuring adequate safeguarding for this area. Every reasonable effort will be made to employ better controls in MRS' EFT process.

MRS has begun to implement some of the aforementioned reforms and will continue to develop and refine "controls" throughout fiscal year 2000.

**Finding Number: 98-06**  
**Department of Administrative and Financial Services**  
**Division of Financial and Personnel Services**  
**Contact Person: Ed Karass**  
**Telephone Number: (207) 287-4500**

**Finding:** Working capital excessive, disbursements not in compliance, and account structure inadequate (Prior Year Finding)

**Corrective Action Plan:**

The authorization to establish a proper internal service fund was granted by the Legislature in Section B-4, Chapter 16, Public Law, 1999. The working capital will be adjusted to reflect the allowable 60 day reserve authorized by OMB Circular A-87.

The Department has retained the services of a qualified actuary to examine the program. The results of the actuary's work demonstrate that there are no excess balances from any participating fund or charges levied any participating fund.

**Finding Number: 98-07**  
**Department of Human Services**  
**Bureau of Child and Family Services**  
**Contact Person: Jeannette Talbot**  
**Telephone Number: (207) 287-5060**

**Finding:** Accounts payable amounts overstated

**STATE OF MAINE  
CORRECTIVE ACTION PLAN  
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**Corrective Action Plan:**

Previously, the Bureau of Child & Family Services manually processed monthly contract payments a month in advance to their social services agencies. This would lead to this accounts payable overstatement when going from one fiscal year to another. Currently, Maine Automated Child Welfare Information System (MACWIS) automatically processes these invoices the same month they are due which will alleviate this situation.

**Finding Number: 98-08**  
**Department of Labor**  
**Office of Administrative Services**  
**Contact Person: Rose Bailey**  
**Telephone Number: (207) 287-1276**

**Finding:** Allowance account for uncollectible receivables not properly estimated (Prior Year Finding)

**Corrective Action Plan:**

The OAS has adopted the procedure that a reserve for uncollectible receivables will be established using the Unemployment Compensation Receivable report (TXAM) for receivables that are older than the most current calendar year. The appropriate journal entries were made reflecting this change for the period ending June 30, 1999.

**Finding Number: 98-09**  
**Department of Labor**  
**Office of Administrative Services**  
**Contact Person: Rose Bailey**  
**Telephone Number: (207) 287-1276**

**Finding:** Accounting systems not reconciled (Prior Year Finding)

**Corrective Action Plan:**

OAS concurs with the finding. As stated, the reconciliation process is in various stages of completion. The OAS feels confident that in the State fiscal year 2000, current reconciliation and adjusting entries will be completed within the following monthly accounting cycle. With the assistance of the contractor, all other reconciliations are expected to be completed by January 31, 2000.

**STATE OF MAINE  
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As regard to options recommended by the Department of Audit and as stated during an oral interview, OAS and OIP had already examined the options presented by the Department of Audit regarding dual data entry and time and attendance. To eliminate redundancy, development and implementation of enhancements to DOL's current system was suspended pending the outcome of the State's Time and Attendance and Budget RFP's.

**Finding Number: 98-10**  
**Department of Transportation**  
**Bureau of Finance and Administration**  
**Contact Person: Gregory Shea**  
**Telephone Number: (207) 287-2641**

**Finding:** Overstatement of accounts payable accruals

**Corrective Action Plan:**

We concur, the Department of Transportation will review the procedures for accruals to insure they are captured and reported correctly for the next fiscal year.

**Finding Number: 98-11**  
**Office of the Treasurer of State**  
**Contact Person: Marc Cyr**  
**Telephone Number: (207) 287-2771**

**Finding:** Untimely clearing of reconciling items (Prior Year Finding)

**Corrective Action Plan:**

With thousands of transactions to monitor each month, resolution of unreconciled items is a continuous and unending process in the Treasurer's Office. At the end of each fiscal year there are always agencies that do not submit cash receipts to Treasury in time to book all cash transactions into the old year records. Of the \$13 million of unrecorded deposits referred to in the audit findings, \$7,000,000 was a single deposit on 6/30/98 that was not identified and posted until 7/14/98. Another \$5,000,000 was a second deposit of funds for which no cash receipt was received by cutoff time. Although dependent on the efforts of other agencies to improve this, Treasury will make every effort to identify these sooner in the future.

**STATE OF MAINE  
CORRECTIVE ACTION PLAN  
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**Finding Number: 98-12**

**Department of Defense, Veterans and Emergency Management**

**Military Bureau**

**Contact Person: CPT Dwaine Drummond**

**Telephone Number: (207) 626-4225**

**Finding:** Failure to match with State funds

**Corrective Action Plan:**

The finding is a legitimate concern. The State share of Appendix 2 to the Master Cooperative Agreement has historically been funded by depositing State funds into the 013 Federal Reimbursement account. While the influx of cash into the 013 Federal Reimbursement account provides a means to meet the State share, the Department has not adequately documented all these transitions.

1. The Department (Central Admin Services) will compile all necessary data to accurately determine the status of the required State matching funds.
2. Based on this determination, the Department will undertake any additional corrective actions as appropriate.

Anticipated Completion Date: 1 December 1999

**Finding Number: 98-13**

**Department of Defense, Veterans and Emergency Management**

**Military Bureau**

**Contact Person: CPT Dwaine Drummond**

**Telephone Number: (207) 626-4225**

**Finding:** Noncompliance with suspension and debarment certification and bonding requirements

**Corrective Action Plan:**

I concur with this finding. OMB Circular A-133 provides guidance on the preparation and execution of contracts of \$100,000 or more. The department has complied on all non-service (i.e. repair and constriction contracts), but failed to include the required clauses in service contracts.

**STATE OF MAINE  
CORRECTIVE ACTION PLAN  
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Although, the Site Manager requested proof of bonding, the contractor deferred the issue to her attorney. Subsequently, the Department determined that legal action was not feasible, as the contract was due to expire in August of the current year.

1. The Department will ensure that all contracts of \$100,000 or more in value will include all required clauses, per OMB Circular A-133.
2. The Department has added the subject clauses to its electronic media copy of the standard contract and provisions, and will make distribution to all affected personnel.
3. Future contractors will be required to provide the proof of bonding prior to execution by the approving authority.

Anticipated Completion Date: 1 September 1999

**Finding Number: 98-14**

**Department of Defense, Veterans and Emergency Management**

**Military Bureau**

**Contact Person: CPT Dwaine Drummond/Roland Leach**

**Telephone Number: (207) 626-4225/(207) 624-7045**

**Finding:** Cash management procedures

**Corrective Action Plan:**

I concur with the finding. The Department recognizes the requirement to efficiently manage Federal dollars, in accordance with NGR 5-1 and NGI 63-101. Due to the recent institution of electronic payment, the State has received funds in a more timely manner than previously was possible. The State must make adjustments to the Advance payment program to ensure compliance.

1. The Department will consolidate requests for advances at the proposed Office of Cooperative Agreements in order to provide maximum oversight and minimize excess cash on hand.
2. CPT Drummond will coordinate with the USPFO for Maine, to determine the appropriate format for submission of Advance Payment Plans and requests for payments under the approved plans.

**STATE OF MAINE  
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3. The ability for the State to pay all invoices and requisitions for payment, without utilizing the 013 account is questionable at best. The National Guard Bureau will authorize advance payment against 100% reimbursable categories only. All other categories of federal support must utilize the reimbursement process.

Anticipated Completion Date: 1 October 1999: Actions 1 & 2, 1 July 2000: Action 3

**Finding Number: 98-15**

**Department of Defense, Veterans and Emergency Management  
Military Bureau**

**Contact Person: CPT Dwaine Drummond/Roland Leach**

**Telephone Number: (207) 626-4225/(207) 624-7045**

**Finding:** Incorrect Schedule of Expenditures of Federal Awards (Prior Year Finding)

**Corrective Action Plan:**

I concur with the finding. DVEM has not previously qualified under the Single Audit Act for review due to the total value of the grant. The Loring Rebuild Center increased the grant value to \$8,283,114 for fiscal year 98. Personnel at the Department of Public Safety, and DVEM had not collaborated on grant-related issues, prior to submission of the Schedule of Expenditures of Federal Awards. Confusion on reportable categories led to the submission of inaccurate data.

1. Public Safety will coordinate the annual submission of the Schedule of expenditures of Federal Awards with the OCA manager to determine the appropriate data required.
2. The USPFO for Maine will review the data, prior to submission to the Bureau of Accounts and Controls.

Anticipated Completion Date: 1 January 2000

**Finding Number: 98-16**

**Department of Education**

**Bureau of Compensatory Education**

**Contact Person: Susan Griffin**

**Telephone Number: (207) 287-4485**

**Finding:** Noncompliance with period of availability requirement



**STATE OF MAINE  
CORRECTIVE ACTION PLAN  
FOR THE FISCAL YEAR ENDED JUNE 30, 1998**

**Corrective Action Plan:**

As recommended by the auditor, the Office of Compensatory Education has requested the return of \$13,999 from the subrecipient in question. This amount, when received by the Department, will be returned to the U.S. Department of Education. The Office of Compensatory Education does maintain internal policies and procedures to monitor the 27 month period of grant availability, and believes this oversight was a one time occurrence. This finding should not be repeated in subsequent years.

**Finding Number: 98-17**  
**Department of Education**  
**Bureau of Compensatory Education**  
**Contact Person: Susan Griffin**  
**Telephone Number: (207) 287-4485**

**Finding:** Compliance with comparability requirements not reviewed

**Corrective Action Plan:**

Title I program staff discovered the comparability question was inadvertently omitted in the "LEA Documentation" section of the Coordinated IASA Program Pre-Review Report when the report was updated for FY'98. The pre-review report was immediately revised and the comparability question added when the omission was brought to their attention.

In the future, it will be the responsibility of Title I program staff to ensure findings receiving corrective action do not continue to recur in subsequent years and that corrective action is completed in an appropriate manner or in a manner consistent with applicable federal regulations.

**Finding Number: 98-18**  
**Department of Education**  
**Bureau of Compensatory Education**  
**Contact Person: Susan Griffin**  
**Telephone Number: (207) 287-4485**

**Finding:** Eligible children count not verifiable

**STATE OF MAINE  
CORRECTIVE ACTION PLAN  
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**Corrective Action Plan:**

Title I program staff will request subsidiary data from subrecipients on a timely basis. The data will be maintained in the Migrant Education Office as backup to support the number of eligible migratory children reported to the U.S. Department of Education pursuant to Title I, Part C, Section 1304(C)(7) of ESEA.

**Finding Number: 98-19**  
**Department of Education**  
**Bureau of Special Services**  
**Contact Person: Susan Griffin**  
**Telephone Number: (207) 287-4485**

**Finding:** Excessive grant funds applied to administrative costs (Prior Year Finding)

**Corrective Action Plan:**

Currently, individual account managers in Finance are monitoring federal programs to ensure federal funds are allocated in accordance with federally mandated thresholds. This prior year finding was corrected in August, 1998(FY'99) after the close of FY'98 when it was brought to our attention. The finding, therefore, was not and could not be corrected during FY'98.

**Finding Number: 98-20**  
**Department of Education**  
**Bureau of Special Services**  
**Contact Person: Susan Griffin**  
**Telephone Number: (207) 287-4485**

**Finding:** Local educational agency maintenance of effort not monitored

**Corrective Action Plan:**

The Office of Special Services has implemented policies and procedures to monitor subrecipient maintenance of effort, however, a lack of adequate personnel resources had not allowed more frequent monitoring to occur as recommended by the auditor. Existing staff will continue to monitor maintenance of effort on a regular basis by comparing current year expenditures with prior year expenditures and to analyze various fluctuations in expenditures from year to year to ascertain whether subrecipients are complying with the supplement versus supplant provision of the federal regulations. Subrecipients in non-compliance with the maintenance of effort requirement will be contacted based on the results of those analyses.

**STATE OF MAINE  
CORRECTIVE ACTION PLAN  
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**Finding Number: 98-21**

**Department of Human Services**

**Bureau of Child and Family Services**

**Contact Person: Jeannette Talbot**

**Telephone Number: (207) 287-5060**

**Finding:** Payroll costs not equitably distributed

**Corrective Action Plan:**

The Auditing, Contracting & Licensing Service Center is implementing a cost allocation plan for several positions in the Service Center in SFY 2000. All state and federally funded contract staff responsible for childcare service contracts are included in the cost allocation plan. Cost allocated staff are required to complete a separate time sheet that delineates all of their work activities and the appropriate percentage of the cost to be applied to each funding source for each activity.

**Finding Number: 98-22**

**Department of Human Services**

**Bureau of Child and Family Services**

**Contact Person: Conrad Thibault**

**Telephone Number: (207) 287-5060**

**Finding:** Expenditures made to child day care providers with expired licenses

**Corrective Action Plan:**

The Auditing, Contracting & Licensing Service Center's childcare licensing process has been automated in the Department's MACWIS system. The automated system produces a report of providers who are due for renewal 90 days prior to the expiration of current licenses/certifications. Providers are mailed renewal packages at that time to afford them adequate time to submit their licensing/certification renewal.

The Auditing, Contracting & Licensing Service Center's Licensing Division will revise the form letter that accompanies renewal packages by October 1, 1999 to alert providers that future Child Care and Development Fund payments may be affected by late submission of renewal applications.

The Auditing, Contracting & Licensing Service Center will also request a modification to the MACWS system to alert the system's Contract Payment Module of overdue renewal applications for contracted child care programs.

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**Finding Number: 98-23**  
**Department of Human Services**  
**Bureau of Child and Family Services**  
**Contact Person: Jeannette Talbot**  
**Telephone Number: (207) 287-5060**

**Finding:** Payments to providers in excess of authorized rates

**Corrective Action Plan:**

Instruction has been provided to all staff who authorize Child Care and Development Fund childcare payments. The Service Center will issue an Action Transmittal by October 1, 1999 to all staff who authorize Child Care and Development Fund child care payments reiterating the requirement to adhere to the market rates. Copies of child care market rates also will be provided to all staff who process Child Care and Development Fund payments as an additional control on adhering to the market rate maximum payment rates.

**Finding Number: 98-24**  
**Department of Human Services**  
**Bureau of Child and Family Services**  
**Contact Person: Jeannette Talbot/Robert Nadeau**  
**Telephone Number: (207) 287-5060**

**Finding:** Insufficient supporting documentation

**Corrective Action Plan:**

The Department will maintain documentation to support all expenditures beginning immediately.

**Finding Number: 98-25**  
**Department of Human Services**  
**Bureau of Child and Family Services**  
**Contact Person: Jeannette Talbot**  
**Telephone Number: (207) 287-5060**

**Finding:** Payments to unlicensed foster care homes

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**Corrective Action Plan:**

The Bureau strives to have children placed only in licensed homes however, there are situations in which the child (adolescents) self place and the home chooses not to become licensed. In situations where a licensed home does not get its application in on time, the Bureau will develop a follow-up mechanism to call and remind the foster parent. Even in such situations, the circumstances are reviewed by Central Office staff by a request for approval of an unlicensed placement.

**Finding Number: 98-26**  
**Department of Human Services**  
**Bureau of Child and Family Services**  
**Contact Person: Jeannette Talbot**  
**Telephone Number: (207) 287-5060**

**Finding:** Pass-through responsibilities not met and missing Quarterly Financial Reports

**Corrective Action Plan:**

Missing Quarterly Reports:

The Service Center will issue an Action Transmittal by October 1, 1999 to all contract agencies reiterating the requirement to adhere to the requirement and schedule for submission of financial reports, and the payment penalties for non adherence.

The Service Center's management will review the feasibility of utilizing the MACWIS system to monitor timely submission of provider financial reports by October 1, 1999.

Contract Financial Reports are now maintained in a central file by the Planning & Research Associate who oversees the contract payment system, thus reducing the possibility of misplacing the reports. The summary information on the Financial Reports is also entered into the electronic contract payment system. The Service Center will be requesting a "system enhancement" to the contract payment system to flag contracts with delinquent financial Reports when payments are being authorized.

Inaccurate CFDA#:

The Service Center's Financial Manager will issue a Memorandum to all Contract Unit staff with all applicable CFDA numbers, and will issue a Memorandum to the Contract Services Unit Manager to ensure that CFDA numbers are corrected prior to contract approval.

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**Finding Number: 98-27**

**Department of Human Services**

**Various Bureaus**

**Contact Person: Thomas Randall/Warren Bartlett/Reinhold Bansmer**

**Telephone Number: (207) 624-5335/(207) 287-1868/(207) 287-3201**

**Finding:** Noncompliance with suspension and debarment requirements

**Corrective Action Plan:**

The Department of Human Services concurs with this finding and has included in Rider "C" of all the agreements/contracts a statement concerning debarment and suspensions..

**Finding Number: 98-28**

**Department of Human Services**

**Various Bureaus**

**Contact Person: Pat Shaw**

**Telephone Number: (207) 287-1855**

**Finding:** Noncompliance with cash management requirements

**Corrective Action Plan:**

The Department of Human Services agrees that cash drawdowns should be as close as administratively feasible to the actual cash outlay. Every effort will be made to be in compliance with the Federal regulations concerning cash drawdowns.

**Finding Number: 98-29**

**Department of Human Services**

**Bureau of Health**

**Division of Financial Services**

**Bureau of Child and Family Services**

**Contact Person: Jeannette Talbot**

**Telephone Number: (207) 287-5060**

**Finding:** Noncompliance with earmarking requirements

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**Corrective Action Plan:**

The Department of Human Services does not concur with this audit finding. The Auditing, Contracting and Licensing Service Center did expend \$32,282 for Victims of Sexual Offenses through the regular grant process with the various agencies throughout the state. The details are on file in the Auditing, Contracting and Licensing Center.

**Finding Number: 98-30**  
**Department of Human Services**  
**Audit, Contracting and Licensing Service Center**  
**Contact Person: Susan Harlor/Margaret Semple**  
**Telephone Number: (207) 287-5060**

**Finding:** Payroll costs not equitably distributed

**Corrective Action Plan:**

The position in question is in the Bureau of Child & Family Services. The Bureau management will designate a Bureau account to allocate the position to, and initiate a transfer of expenses for SFY 1999 and FY 2000. A Part II State Budget request will be submitted to the 2000 Legislative session to formally assign the position to a Bureau of Child & Family Services account effective July 1, 2000.

**Finding Number: 98-31**  
**Department of Human Services**  
**Division of Financial Services**  
**Contact Person: Pat Shaw**  
**Telephone Number: (207) 287-1855**

**Finding:** Federal share of provider overpayments not calculated correctly, refunds not reported timely (Prior Year Finding)

**Corrective Action Plan:**

The Department of Human Services does not concur with all the elements of this finding. The policy referred to in the finding is a HCFA policy concerning using the Federal matching rates that were in effect during the period when the overpayment occurred. These calculations were applied on refunds relating to nursing homes, nursing MR's, hospitals, ICF-MR's and Development Training Facilities only. All other types of providers were not included in these

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calculations because they represented a small portion of payments to providers. This exclusion has been acceptable to HCFA due to the issue of materiality.

The issue of timeliness in reporting overpayments to HCFA via the HCFA report is misleading because of two factors. Firstly, all overpayments are credited to the appropriate accounts on a monthly basis, and overpayments are not reported in a timely manner. Since all overpayments are credited back to the appropriate accounts on a monthly basis, we feel that we are meeting the 60-day rule for overpayments.

The last two issues are related in that they both deal with boarding home services and PNMI's. The Bureau of Medical Services provides the Division of Financial Services information from the Maine Medicaid Information System regarding overpayments. BMS has an adjusting unit that determines what the appropriate breakdown should be. This action is performed after the fact.

The Bureau of Medical Services is in the process of acquiring a new Medicaid system which will provide a much better automated process to handle a myriad of problems including those in this finding.

**Finding Number: 98-32**  
**Department of Human Services**  
**Division of Financial Services**  
**Contact Person: Jeff Pettengill**  
**Telephone Number: (207) 287-1857**

**Finding:** No supporting documentation for claimed program expenditures

**Corrective Action Plan:**

The Department of Human Services agrees that it should only claim those expenditures for which there is supporting documentation. The authorization for these adjustments to the expenditures came in the form of a verbal request from the program manager. In the future, the account manager will maintain documentation supporting adjustments to accounting records made in the preparation of Financial Status Reports.



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**Finding Number: 98-33**  
**Department of Human Services**  
**Division of Financial Services**  
**Contact Person: Carol Bean**  
**Telephone Number: (207) 287-2473**

**Finding:** Undocumented transfer, administrative expense and maintenance of effort amounts

**Corrective Action Plan:**

The Department of Human Services concurs with the audit finding regarding administrative and maintenance of effort expenditures. DHS will record and retain documentation used to satisfy maintenance of effort requirements for federal fiscal year 97. DHS will compile and retain supporting documentation for administrative expenditures and compile maintenance of effort worksheets for federal fiscal year 97 and provide to Department of Audit before 10/30/99.

**Finding Number: 98-34**  
**Department of Human Services**  
**Division of Financial Services**  
**Contact Person: Pat Shaw**  
**Telephone Number: (207) 287-1855**

**Finding:** Unsupported disbursement information reported to the federal government (Prior Year Finding)

**Corrective Action Plan:**

The Department of Human Services agrees that the information on the PMS-272 Reports should be supported by disbursements that are documented. However, some of the information isn't available at the time of the submission of the PMS-272 Report. In order to provide the most complete cash disbursement info estimates are used for a few programs that haven't submitted final quarterly reports. Every effort is made to report the actual disbursements, and we will endeavor to improve on the reporting process. The Division of Financial Services has added another Account Manager position to the staff, which will help in attaining this goal.

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**Finding Number: 98-35**  
**Department of Human Services**  
**Division of Financial Services**  
**Contact Person: John Mower**  
**Telephone Number: (207) 287-1868**

**Finding:** Schedule of expenditures of federal awards not complete and/or inaccurate

**Corrective Action Plan:**

The Department of Human Services, Division of Financial Services, concurs with this audit finding. The Department will exercise greater care in preparing the SEFA for SFY 99. The size and complexity of the Department's accounting structure has led to reconciliation difficulties, but a format will be created to link MFASIS expenditures with SEFA figures. Other deficiencies are due to lack of information in preparing this new SEFA form the last 2 years. Sometimes, as in this case, we have to rely on an audit finding as guidance.

As for Item #13, it is difficult to reference multiple cost centers on the current SEFA format. The Department distributes administrative costs via a cost allocation plan, which distorts the accounting data when reporting on the SEFA report.

**Finding Number: 98-36**  
**Department of Human Services**  
**Division of Financial Services**  
**Contact Person: Burnell D. Bouchard**  
**Telephone Number: (207) 287-2377**

**Finding:** Inadequate internal accounting controls associated with the allocation of direct costs to federal grant programs

**Corrective Action Plan:**

The Department of Human Services, Division of Financial Services, concurs with this audit finding. The Division will be hiring a new staff person whose responsibility will be the Department's direct and indirect cost allocation plans. Included in this responsibility will be assuring that all schedules will be verified for accuracy and completeness and that the schedules be reconciled to the State's accounting records quarterly and also routinely review and approve supporting schedules. The focus of this position will be to centralize all cost allocation functions.

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**Finding Number: 98-37**  
**Department of Human Services**  
**Division of Financial Services**  
**Contact Person: Burnell D. Bouchard**  
**Telephone Number: (207) 287-2377**

**Finding:** Incorrect allocation of program costs

**Corrective Action Plan:**

The Department of Human Services, Division of Financial Services, concurs with this audit finding. The Division will be hiring a new staff person for the cost allocation function. This position will be responsible for all aspects of the direct and indirect cost allocation plans. Included in this responsibility will be assuring that all schedules will be verified for accuracy and completeness. The cost allocation schedules affected by this finding will be revised and the necessary adjustments will be made to the respective program's federal reports. These revisions will be done as prior quarter adjustments to the 9/30/99 submissions.

**Finding Number: 98-38**  
**Department of Mental Health, Mental Retardation and Substance Abuse Services**  
**Children Services**  
**Contact Person: Robert Bernier**  
**Telephone Number: (207) 287-4277**

**Finding:** Pass-through responsibilities not met (Prior Year Finding)

**Corrective Action Plan:**

The Department agrees that one recipient agency had excess cash on hand. When we did find out the Department did not make all future contract payments as agreed upon and that is why the Department requested use of the one year no cost extension in the amount of \$740,000. The Department will monitor agencies more closely in the future so this doesn't happen again.

**Finding Number: 98-39**  
**Department of Mental Health, Mental Retardation and Substance Abuse Services**  
**Children Services**  
**Contact Person: Robert Bernier**  
**Telephone Number: (207) 287-4277**

**Finding:** Indirect cost rate applied incorrectly (Prior Year Finding)

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**Corrective Action Plan:**

The Department has made arrangements to put back into the grant excess indirect cost for the past two years. Part of the funds were restored to the grant prior to the close of FY1999 in the amount of \$88,187, and the remainder of \$255,706 in FY2000.

**Finding Number: 98-40**

**Department of Mental Health, Mental Retardation and Substance Abuse Services**

**Office of Substance Abuse**

**Contact Person: Robert Bernier**

**Telephone Number: (207) 287-4277**

**Finding:** Set-aside and period of availability requirements not met; compliance with administrative limits not demonstrated; funds not obligated in period allowed (Prior Year Finding)

**Corrective Action Plan:**

The Office of Substance Abuse has established accounting procedures to improve our ability to monitor and identify administrative expenditures and set-aside allocations for each specific block grant award. The Office of Substance Abuse has taken additional corrective action during State fiscal year 1999 to improve the timing of obligating funds.

**Finding Number: 98-41**

**Department of Mental Health, Mental Retardation and Substance Abuse Services**

**Office of Substance Abuse**

**Contact Person: Robert Bernier**

**Telephone Number: (207) 287-4277**

**Finding:** Noncompliance with cash management requirements

**Corrective Action Plan:**

The Office of Substance Abuse is continuing to evaluate and refine our cash management system to ensure compliance with Federal cash management regulations...including the process of adjusting payments to providers based on Quarterly Financial Reports. We believe that improvements have been achieved in the cash management system resulting in a high level of compliance with Treasury Circular 1075. During Fiscal Year 1999, the contract officers were moved from the Service Center back to the Office of Substance Abuse and report to the Fiscal

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Manager. We believe this change will further improve our ability to monitor and adjust payments to subrecipients as necessary.

We believe that converting all subrecipients to a monthly payment schedule as recommended, would inordinately increase the administrative effort compared to possible benefits. We will review the possibility of converting some of the largest contracts to a monthly payment schedule

**Finding Number: 98-42**

**Department of Economic and Community Development**

**Office of Community Development (OCD)**

**Contact Person: Aaron Shapiro**

**Telephone Number: (207) 287-8476**

**Finding:** Funds committed before environmental review clearance (Prior Year Finding)

**Corrective Action Plan:**

1. Two requests for payment were received prior to the 8/16/97 clearance date, #1 for \$44,800 and #2 for \$192,416.
2. DECD recognized at the time the second request for payment was approved on 8/19/97 that construction activities had occurred prior to the 8/16/97 ERR clearance date.
3. This is reflected in a letter... dated 8/20/97. This letter was sent and the request for payment approved with the knowledge and endorsement of (the) Commissioner...

DECD provided funds to the Town of Fort Kent, knowing of the technical violations, for the following reasons:

- Failure to provide the funding for the sewage pretreatment facility would have bankrupted the company, Fort Kent's second largest employer, placing 75 primarily low and moderate-income persons out of work. At the time, Fort Kent's unemployment rate was in excess of 10%.
- Failure to provide the funds would have caused severe financial hardship to farmers in the St. John Valley that had contracted to grow potatoes for (the company). This extremely serious situation would have spread to suppliers who provide seed, fuel and equipment to these farmers.

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- The request for payment for construction activities was not honored until after the ERR clearance date of 8/16/99. The Environmental Review Record not only demonstrates no Harmful environmental impact it identifies significant environmental improvements provided by the project.
- The community stated that the early construction start was imperative to effectively process the upcoming fall potato harvest. DECD was entirely unaware that construction activity had begun as early as mid June. If DECD had known this, it would have halted construction immediately...
- As demonstrated by the audit, the commitment of CDBG funds prior to ERR clearance that occurred in Fort Kent is an isolated instance, not evidence of administrative or management shortcomings. This is the only case in 61 examined where this situation took place.
- DECD, by its letter to Fort Kent of 8/20/97, acknowledged the situation itself. The Department was well aware of the matter and informed the community of potential consequences at the time of the incident.

**Finding Number: 98-43**  
**Department of Labor**  
**Bureau of Employment Services**  
**Contact Person: Barry Martiin**  
**Telephone Number: (207) 624-6390**

**Finding:** Debarment and suspension certifications not obtained

**Corrective Action Plan:**

The Bureau has included as a separate Rider the Certification Regarding Debarment, Suspension and Other Responsibility Matter Form in all contracts commencing July 01, 1998. This was implemented as a result of the oversight of this instrument that was a result of the annual audit for FY 1997 conducted during April to June of 1998.

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**Finding Number: 98-44**  
**Department of Labor**  
**Bureau of Employment Services**  
**Contact Person: Rose Bailey/Barry Martin**  
**Telephone Number: (207) 287-1276/(207) 624-6390**

**Finding:** Inadequate subrecipient monitoring (Prior Year Finding)

**Corrective Action Plan:**

The following regards the monitoring of service providers via sub-grants from the 12-County Service Delivery Area (SDA) administered through the Workforce Development Centers Administrative Office (WDCAO).

The Office of Administrative Services will schedule monitoring visits annually to comply with OMB Circular A-133. Monitoring of the three subrecipients for whom OAS is responsible was performed during the state fiscal year 1999.

The OAS does review the Schedule of Findings and Questioned Costs for reportable conditions noted in the Independent Audit Reports of each subrecipient. However, of the three subrecipients monitored by the OAS, only one had a reportable condition that may impact Department of Labor programs. These conditions were also noted in the onsite monitoring performed by OAS this year, which included a subsequent follow-up visit to the subrecipient.

The OAS will work with the Workforce Development Center Administrative Office and the Bureau of Employment Services during state fiscal year 2000 to develop a departmental policy for annual subrecipient monitoring and follow-up on all independent audit findings and reportable conditions.

The following regards the monitoring of grants of the three (3) Service Delivery Areas (SDA) and any sub-state grantees monitored by the Bureau of Employment Services (BES).

For a number of years the Bureau of Employment Services had been negligent in conducting annual financial and management information systems monitoring of its JTPA sub-recipients as required by 20 CFR 627.475 (b)(5). During FY 1997 a 2 year monitoring phase-in plan was designed and implemented to ensure that the Bureau would meet this responsibility by FY 1999.

Year one of the plan would occur in FY 1998 and would include MIS monitoring of the three SDA's and pass through sub-state sub-recipients. Year two would include financial monitoring of the three SDA's and JMG as well as continued MIS monitoring.

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During FY 1998 the Bureau implemented and conducted MIS monitoring of each of the three SDA's and pass through sub-state sub-recipients. The Bureau worked closely with the Regional DOL staff by sending the monitoring tool, review schedule and review letters to Mr. Jim Ring for any comments.

During FY 1999 the Bureau implemented and conducted financial monitoring visits of the three SDA's and JMG. As part of the financial review, and review of outstanding audit issues of each entity is completed to ensure that reportable conditions or material weaknesses as noted in the audit reports are being addressed. The Bureau is currently writing the monitoring reports for each recipient as a result of these visits. Each entity will have the opportunity to respond to any findings or questioned costs. Again, the monitoring tool and review letters will be forwarded to Mr. Jim Ring of the Regional DOL staff for his review and comments.

**Finding Number: 98-45**

**Department of Labor**

**Office of Administrative Services**

**Labor Market Information Service**

**Office of Information Processing**

**Contact Person: Rose Bailey/Jon Nelson/Winnie Malia**

**Telephone Number: (207) 287-1276/(207) 287-3168/(207) 287-1256**

**Finding:** Incorrect or unverifiable data on federal financial reports (Prior Year Finding)

**Corrective Action Plan:**

#1.

Contact Persons: Jon Nelson, OIP and Winnie Malia, LMIS

The Office of Information Processing anticipates running tests on the corrections made to the ETA-581 program within two to three weeks for LMIS review.

#2.

Contact Person: Winnie Malia, LMIS

Amended reports were submitted for July 30, 1998 and September 30, 1998 on August 17, 1999. The preparer will review the ETA-227 report with the supervisor prior to submittal.



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**Finding Number: 98-46**

**Department of Labor**

**Office of Administrative Services**

**Contact Person: Rose Bailey**

**Telephone Number: (207) 287-1276**

**Finding:** Accounting systems not reconciled (Prior Year Finding)

**Corrective Action Plan:**

OAS concurs with the finding. As stated, the reconciliation process is in various stages of completion. The OAS feels confident that in the State fiscal year 2000, current reconciliation and adjusting entries will be completed within the following monthly accounting cycle. With the assistance of the contractor, all other reconciliations are expected to be completed by January 31, 2000.

As regard to options recommended by the Department of Audit and as stated during an oral interview, OAS and OIP had already examined the options presented by the Department of Audit regarding dual data entry and time and attendance. To eliminate redundancy, development and implementation of enhancements to DOL's current system was suspended pending the outcome of the State's Time and Attendance and Budget RFP's.

**Finding Number: 98-47**

**Office of the Treasurer of State**

**Contact Person: Marc Cyr**

**Telephone Number: (207) 287-2771**

**Finding:** Internal control not adequate to ensure compliance with Cash Management Improvement Act

**Corrective Action Plan:**

Two grants omitted from the FY 1998 agreement were pre-existing programs that had previously been below the dollar threshold for being included. These should have been added for the first time in FY 1998 but were overlooked. They have already been included in the subsequent agreement. A third grant, Disaster Assistance, has never been included in the agreement because it has not been considered an ongoing program. Because of the unpredictable nature of emergency assistance, exceeding the threshold in one year is not an indication it will exceed it the following year. FMS officials have recognized this is unlike other programs and have not objected to its omission in prior years. In future agreements we will either include the program or get the federal government to sign off on the omission.

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While it might not have been considered periodic, several times during FY 1998 we checked in with the agencies to discuss concerns. In 1999 a review of the CMIA program was undertaken by the Treasurer and improvements were made in oversight procedures, including increasing the reliability of interest liability reports generated by the central accounting system and increasing recipient agency awareness of the importance of reporting exceptions to the Treasurer. Also in 1999, we invited the federal CMIA coordinator assigned to Maine to come to the state to discuss issues and participate in a training session with DHS. Since the CMIA Policy and Procedures Manual was prepared for Treasury at the beginning of the CMIA program in 1993, we have formalized a sign-off procedure for agencies to report exceptions to drawdown procedures. This gives more responsibility to the agencies for seeing that they follow what is agreed upon and lessens the need for Treasury to audit agency cash management records. As procedures continue to evolve, the manual will be updated to reflect changes.

The Department of Labor (DOL) and the Department of Human Services (DHS) drew down the administrative cost components of certain grants before the average day of clearance for state payroll. This occurred because the accounting system requires money to be in the account before the state payday. DHS has corrected this by using other funds to temporarily cover these costs. DOL is not able to do this so we calculated and paid an interest liability to compensate the federal government for the use of the money.

**Finding Number: 98-48**  
**Department of Administrative and Financial Services**  
**Division of Financial and Personnel Services**  
**Contact Person: Ed Karass**  
**Telephone Number: (207) 287-4500**

**Finding:** Working capital excessive, disbursements not in compliance, and account structure inadequate (Prior Year Finding)

**Corrective Action Plan:**

The authorization to establish a proper internal service fund was granted by the Legislature in Section B-4, Chapter 16, Public Law, 1999. The working capital will be adjusted to reflect the allowable 60 day reserve authorized by OMB Circular A-87.

The Department has retained the services of a qualified actuary to examine the program. The results of the actuary's work demonstrate that there are no excess balances from any participating fund or charges levied any participating fund.

**State of Maine**  
**Summary Schedule of Prior Audit Findings**  
**For Years Prior to Fiscal Year 1999**

Finding #	CFDA #	Department	Description	Questioned Costs	Status
96.01	Various	Administrative and Financial Services	Excess balances in Retiree Health Insurance Fund	\$639,000	Agency has reached an agreement with HHS. Corrective action has been taken.
96.15	14.228	Economic and Community Development	Release of grant funds without environmental review	\$649,545	No further action warranted per OMB Circular A-133 section .315(B4).
96.16	14.228	Economic and Community Development	Grant administrative procedures should be strengthened	\$308,204	No further action warranted per OMB Circular A-133 section .315(B4).
96.17	84.126	Labor	Inadequate support for salary charged to grant	\$50,339	Agency has reached an agreement with HHS. Finding has been resolved.
96.23	84.048	Education	Inadequate support for salary charged to grant	\$70,184	This finding has been resolved. The US Department of Education did not sustain the audit finding and no corrective action is required.
96.25	84.027	Education	Inadequate support for salary charged to grant	\$122,000	This finding has been resolved. The US Department of Education did not sustain the audit finding and no corrective action is required.
97.02	N/A	Administrative and Financial Services	Fixed asset records incomplete	None	The Bureau is working with agencies to properly value and record the fixed assets. We anticipate completing this project for June 30, 2001.
97.03	N/A	Administrative and Financial Services	No system to identify capital leases	None	We agree with the recommendations that necessary procedures be implemented to evaluate leasing transactions in order to report and disclose leasing information in accordance with the standards. It should be noted that DFPS does report all leasing arrangements. DFPS has created a database that will automate the management, classification, accounting, and billing of the Lease Property Fund. This database will organize data in a way that helps us evaluate which leases are capital and which are operating. Once that determination is made, we will then record the leases appropriately on the financial statements. Technical work on the database has been completed. Manual entry has begun and there is an expected completion date of 6/30/00. We expect to be in compliance for FY00's audit.
97.05	N/A	Human Services	Failure to properly expense AFDC payments/budgetary controls circumvented	None	The TANF block grant was new in FY 1997 and started mid-year. Allotments have been established in the 2000-2001 budget.
97.06	N/A	Human Services	Block grant expenditures incorrectly charges	None	Journals were done in March, 1998 to credit the old AFDC account and charge the TANF Block Grant Funds. The Department will be submitting it's current services budget this year, and sufficient funds will be allocated to cover all benefit costs.
97.07	N/A	Labor	Procedures for estimating a reserve for uncollectible receivables are inadequate	None	The OAS has adopted the procedure that a reserve for uncollectible receivable will be established using percentages supplied by the Office of Administration and Finance. The appropriate journal entries were made reflecting this change for the period ending June 30, 1999.
97.08	N/A	Labor	Revenue recognition criteria not observed	None	The Office of Administrative Services (OAS) acknowledges the need to comply with the revenue recognition finding. The OAS will report estimated revenues to Administration and Finance annually, based on the revenues received the months of July, August and September of the previous year. This procedure will commence with the fiscal year ending June 2000.
97.13	17.999	Labor	Non.compliance with the Cash Management Improvement Act	None	(1) OAS draws down one twenty sixth of its payroll needs as stated in the agreement. As the state system can not distinguish cash ordered for pre-issuance from cash ordered for payroll based on the clearance pattern, the payroll automatically causes a shortfall in the cash drawdowns for pre-issuance funding. We therefore order cash to meet payroll needs to ensure invoices can be paid in a timely manner. (2) MDOL changed the check clearance pattern for the Unemployment Benefit Account to agree with the clearance pattern as required by the CMIA agreement. Periodic monitoring will continue to ensure the pattern is in compliance with the agreement.

**State of Maine**  
**Summary Schedule of Prior Audit Findings**  
**For Years Prior to Fiscal Year 1999**

Finding #	CFDA #	Department	Description	Questioned Costs	Status
97.16	Various	Administrative and Financial Services	Working capital and funds disbursement not in compliance, and account structure inadequate (Prior Year Finding)	\$365,681	Agency has reached an agreement with HHS. Corrective action has been taken.
97.18	93.575	Human Services	Payroll costs incorrectly charged (Prior Year Finding)	\$69,919	The State of Maine's financial policies do not allow positions to be budgeted against more than one account. The Department of Human Services contract policies encourage combining funding sources which are used to purchase like services within agencies into one contract. As a result, contracts with child care providers include several state and federal funding sources. It is also the Department's policy to apply the Child Care and Development Block Grant's regulations to all funding sources within a contract. The three employees whose salaries were charged entirely to the Child care and Development Block Grant were Department contract officers who were responsible for the negotiation and monitoring of child care contracts, all of which included Child Care and Development Block Grant funds. Since the same eligibility and program requirements were applied to all funding sources within the child care contract administered by the three Development Block grant activities. The Department has redistributed contract workloads to target CCDBG contracts to the CCDBG funded contract staff, and is proposing to require enhanced time sheets for all staff and management fulfill functions related to CCDBG administration.
97.21	93.994	Human Services	Funds exceeding the period of availability not returned to the federal government	\$33,450	The funds in question have been returned to the appropriate MCHS program accounts as add-ons. The federal oversight agency considers the issue to be resolved.
97.24	93.104	DMHMR	Indirect cost rate applied incorrectly	\$158,434	The Department has put back into the grant the excess indirect cost for the past two years.
97.25	93.104	DMHMR	Passthrough responsibilities not met	None	The Department has established procedures to address deficiencies, including requiring CFDA numbers be put on contracts and advising subrecipients of Federal requirements.
97.26	93.959	DMHMR	Failure to meet maintenance of effort requirement for State fiscal year 1997 (Prior Year Finding)	None	This has been resolved with the Federal Grantor.
97.29	93.959	DMHMR	Expenditures beyond allowable period (Prior Year Finding)	None	Agency has provided information to the Federal Grantor and this has been accepted.
97.30	93.959	DMHMR	Failure to obligate funds in proper period (Prior Year Finding)	None	Agency has provided information to the Federal Grantor and this has been accepted.
97.31	93.959	DMHMR	Set.aside expenditure requirements not met; administrative expenditures not obligated (Prior Year Finding)	None	Agency has provided information to the Federal Grantor and this has been accepted.
97.32	93.959	DMHMR	Failure to document expenditures and maintenance of effort	None	Agency has provided information to the Federal Grantor and this has been accepted.
97.34	93.558	Human Services	Budget process circumvented/overcharges to other funds due to insufficient TANF block grant allotment	None	Journals were done in March, 1998 to credit the old AFDC account and charge the TANF Block Grant Funds. The Department will be submitting it's current services budget this year, and sufficient funds will be allocated to cover all benefit costs.
98.01	N/A	BAC	Accounts payable procedures inadequate	None	The Bureau continues to develop more detailed procedures to ensure that most agencies understand the payable process. We are also reviewing system changes to force agencies to include more complete information. These changes should be in place by June 30, 2001.

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Finding #	CFDA #	Department	Description	Questioned Costs	Status
98.02	N/A	DFPS	Can't identify capital leases ( <i>prior year</i> )	n/a	We agree with the recommendations that necessary procedures be implemented to evaluate leasing transactions in order to report and disclose leasing information in accordance with the standards. It should be noted that DFPS does report all leasing arrangements. DFPS has created a database that will automate the management, classification, accounting, and billing of the Lease Property Fund. This database will organize data in a way that helps us evaluate which leases are capital and which are operating. Once that determination is made, we will then record the leases appropriately on the financial statements. Technical work on the database has been completed. Manual entry has begun and there is an expected completion date of 6/30/00. We expect to be in compliance for FY00's audit.
98.03	N/A	BAC	Incomplete fixed asset records	None	The Bureau is working with agencies to properly value and record the fixed assets. We anticipate completing this project for June 30, 2001.
98.04	N/A	DFPS - Lottery	No assurance of adequate internal controls	None	An annual SAS 70 audit has been conducted for FY99, and annual audits will be conducted in the future.
98.05	N/A	Taxation	Inadequate segregation of duties ( <i>prior year</i> )	None	Presently, Mary Lou Sullivan handles the accounting functions relating to EFT (verifying bank transfer amounts and the preparation of cash receipts), while Paula Cole handles the setting up of accounts and taxpayer inquiries. The forms that are sent to taxpayers have been modified to include the statement instructing taxpayers to verify the state's bank account number for EFT through the MRS WEB page. A list of contacts is being developed by Paula Cole to assist us in addressing our efforts for the proper "safeguarding of assets" through an adequate maintenance of internal control.
98.06	N/A	DFPS	Working Capital of Retiree Health Insurance excessive, disbursements not in compliance, and account structure inadequate ( <i>prior year</i> )	None	The Retiree Health funding structure did change in FY00, from a Trust Fund to an Internal Service Fund (CH 16, PL 99). It is understood that, if the pay-as-you-go method is retained, federal funds be disbursed as required to avoid future questioned costs, and that working capital comply with federal ceilings. It is the intention to move from a pay-as-you-go basis, to that of an actuarial basis. The resolution of DFPS has been accepted by the Federal Division of Cost Allocation.
98.07	N/A	DHS - Child & Family Services	Accounts payable amounts overstated	None	The MACWIS accounting system is now automatically processing invoices the same month they are due.
98.08	N/A	DOL - OAS	Allowance account for uncollectible receivables not properly estimated	None	The OAS has adopted the procedure that a reserve for uncollectible receivable will be established using percentages supplied by the Office of Administration and Finance. The appropriate journal entries were made reflecting this change for the period ending June 30, 1999.
98.09	N/A	DOL - OAS	Accounting systems not reconciled ( <i>prior year</i> )	None	OAS concurs with the finding. As stated, the reconciliation process is in various stages of completion. The OAS feels confident that in the state fiscal year 2001, current reconciliation and adjusting entries will be completed within the following monthly accounting cycle. All other prior year reconciling items have been identified and the expectation is that corrections will be made prior to June 30, 2000. As regard to options recommended by the Department of Audit and as stated during an oral interview, OAS and OIP had already examined the options presented by the Department of Audit regarding dual data entry and time and attendance. In order to eliminate redundancy of development and implementation of enhancements, we have suspended activity regarding changes to our current system pending the implementation of the State's Time and Attendance and Budget systems.

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Finding #	CFDA #	Department	Description	Questioned Costs	Status
98.10	N/A	DOT - Finance	Overstatement of accounts payable accruals	None	A procedure has been developed to accurately capture and report accruals for Transport payments.
98.11	N/A	Treasury	Untimely clearing of reconciling items <i>(prior year)</i>	None	same response as in Auditee Response
98.12	12.401	Defense, Veterans and Emergency Management	No evidence State match for Appendix 2, the Environmental function of the Master Cooperative Agreement for federal FY 1998 had been made	\$17,004	The Department has developed a three-phase action plan to correct this finding. Phase one was to identify positions within the 010 and 013 accounts that should be re-allocated to reduce the unmet State share. This action has been completed. Phase two is to quantify the under appropriation of the State share of Personal Services and All Other to meet the funding limitations set forth in the State/Federal Cooperative Agreement. This process is approximately 50% complete. Phase three requires legislative action. The completion of phase three will result in the appropriation of the necessary funds to meet the agreement requirement. If Legislative approval is not secured, the Maine National Guard will be required to return funds to the National Guard Bureau, resulting in the State's inability to support training mandates.
98.13	12.401	Defense, Veterans and Emergency Management	The Department could not provide a Certificate of Suspension as required by OMB, from one service provider.	None	Historically, the Department has had only one (reoccurring) contract that has exceeded \$100,000. The contract was renewed in FY 2000 and includes the proper clause. The automated format has been edited to avoid future oversights in this area. The Department considers this finding corrected.
98.14	12.401	Defense, Veterans and Emergency Management	Various cash management procedures	None	Since the 1998 audit was performed, the Maine Army National Guard Appendices have not utilized the Advance Payment process. This, in effect, negates the reoccurrence of the improper request for advance funds. A change in the format for possible future of the program has been noted. Since 1998, the National Guard Bureau has utilized Electronic Funds Transfer to provide the State with advance payments, and funds have not been held in the State for periods exceeding 30 days. The recommendation that State funds are used to make initial payment relates to the use of 013 cash to make initial payments. Corrective action would require legislative approval for an initial startup appropriation to cover all expenditures that do not meet the Advance Payment criteria. This will be addressed in conjunction with phase 3 of the Finding # 98-12 action plan, during the next budget cycle.
98.15	12.401	Defense, Veterans and Emergency Management	Left out "in kind" expenditures in their SEFA report to BAC	None	DPS & DVEM are undertaking a total review of all financial procedures to examine, implement and enforce internal controls over financial procedures.
98.16	84.010	Education - Bureau of Comp. Ed.	Non compliance with period of availability requirement for funds awarded under Title 1 program	\$13,999	Finding has been resolved and corrective action has been implemented. \$13,999 has been returned to the Federal DOE.
98.17	84.011, 84.010	Education - Bureau of Comp. Ed.	Compliance with comparability requirements not reviewed	None	The finding has been resolved and corrective action has been implemented. The comparability question is now included in the Pre-Review Report.
98.18	84.011	Education - Basic State Grant Program	Eligible children count not verifiable	None	Staffing shortages at the State level Migrant Office remained a problem during FY'99 which prevented maintaining procedures implemented to monitor eligible child count in the Migrant Program. The Department continues to utilize existing staff in the is area to ensure corective action is implemented as outlined in the FY'99 finding. This finding was repeated for FY'99 because the Migrant Office was not notified by the auditors that that there was a finding with internal control procedures until the end of FY'99. At that time it was too late to correct the problem. The Migrant Office has made every effort to resolve this problem during FY'00.
98.19	84.027	Education - Bureau of Special Services	Excessive grant funds applied to administrative costs - <i>(prior year)</i>	\$33,777	This finding has been resolved and corrective action implemented as stated in the "auditee's response" section of the audit report.

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Finding #	CFDA #	Department	Description	Questioned Costs	Status
98.20	84.027	Education - Bureau of Special Services	Local educational agency maintenance of effort nor monitored	None	Staffing shortages at the State level Special Services Office remained a problem during FY'99 which prevented maintaining procedure implemented to monitor the maintenance of effort requirement. The Department continues to utilize existing staff in the area to ensure corrective action is implemented as outlined in the FY'99 finding.
98.21	93.575	DHS - Child & Family Services	Payroll costs not equitably distributed	\$58,567	A cost allocation plan has been implemented for the positions in question.
98.22	93.596	DHS - Child & Family Services	Expenditures made to child day care providers with expired licenses	\$8,880	DHS MACWIS system has been programmed to produce a report of providers who are due for renewal; the process is working as planned.
98.23	93.596	DHS - Child & Family Services	Payments to providers in excess of authorized rates	\$296	An Action Transmittal was issued to all staff who authorize Child Care and Development Fund child care payments on 10/1/99. The ACF have identified this finding as non-monetary.
98.24	93.596	DHS - Child & Family Services	Insufficient supporting documentation for one provider payment	\$33	DHS has been maintaining all documentation to support expenditures.
98.25	93.658	DHS - Child & Family Services	Payments to unlicensed foster care homes (3 of 40)	\$234	DHS is currently meeting with the OIG to resolve this finding. A plan is in place to shift central staff to help in the licensing.
98.26	93.667	DHS - Child & Family Services	Pass-through responsibilities not met and missing Quarterly Financial Reports	None	The Service Center has issued an Action Transmittal to all contract agencies requesting them to verify CFDA numbers entered in FY contracts. A listing of CFDA numbers and programs was attached.
98.27	Various	DHS - Child & Family Services	Non-compliance with suspension and debarment requirements	None	A statement has been included in Rider "C" of all agreements/contracts concerning debarment and suspensions.
98.28	Various	DHS - Child & Family Services	Non-compliance with cash management requirements	None	Processing through Accounts & Control and treasury adds 2-3 days to the drawdown of Federal funds and the expenditure of those funds. DHS is working with Accounts & Control on shortening the time for processing.
98.29	93.991	DHS - Child & Family Services - Division of Fin Serv	Non-compliance with earmarking requirements	\$32,282	DHS has provided documentation supporting their non-concurrence with this finding.
98.30	93.667	DHS - Audit, Contracting & Licensing	Payroll costs not equitably distributed	\$50,588	The position has been moved out of the social service block grant into the Bureau of Child & Family Services. This was accomplished by Chapter 731, pages 88 & 129, Part II of the budget bill.
98.31	93.778	DHS - Div of Finan Serv	Federal Share of provider overpayments not calculated correctly, refunds not reported timely.	None	DHS feels they are reporting as timely as possible given the constraints of their accounting system. The federal account is credited as soon as an overpayment is received related to the big four of nursing homes, hospitals, intensive care facilities and Development Training facilities. The Federal agency is aware of it when DHS files the quarterly report. HCFA auditors know about this, have been involved in the process and are accepting of it.
98.32	93.268	DHS - Div of Finan Serv	No supporting documentation for claimed program expenditures	\$106,500	DHS concurs and will be returning the questioned cost amount.
98.33	93.558	DHS - Div of Finan Serv	Undocumented administrative expense and maintenance of effort amounts	None	DHS has the documentation of how the maintenance of effort was computed.
98.34	Various	DHS - Div of Finan Serv	Unsupported disbursement information reported to the federal government	None	DHS works off a cost allocation plan that estimates the amount of the cash disbursement until the quarterly report is filed and actual cash is known. DHS is hopeful that implementation of the Time and Attendance system which is a current project of Accounts and Control, will correct the lateness of reporting actual cash disbursements.
98.35	Various	DHS - Div of Finan Serv	Schedule of expenditures of federal awards not complete and/or inaccurate	None	DHS concurs they have had difficulty identifying all the costs that should be included in the CFDA numbers. These are mainly allocated costs. A new person hired will be working on the cost allocation plan, which should result in a more accurate SEFA report.

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Finding #	CFDA #	Department	Description	Questioned Costs	Status
98.36	Various	DHS - Div of Finan Serv	Inadequate internal accounting controls associated with the allocation of direct costs to federal grant programs	none	A new person working with the cost allocation plan will ensure adequate internal controls are in place and will reconcile to cash reports.
98.37	Various	DHS - Div of Finan Serv	Incorrect allocation of program costs	\$150,910	DHS has hired a staff person dedicated to the cost allocation plan. A primary responsibility will be reconciling to cost reports.
98.38	93.104	DMHMR	Pass-thru responsibilities not met ( <i>prior year</i> )	None	The Department has established procedures to address deficiencies, including requiring CFDA numbers be put on contracts and advising subrecipients of Federal requirements.
98.39	93.104	DMHMR	Indirect cost rate applied incorrectly ( <i>prior year</i> )	\$170,074	The Department has put back into the grant the excess indirect cost for the past two years.
98.40	93.959	DMHMR	Set aside and period of availability requirements not met; compliance with administrative limits not demonstrated; funds not obligated in period allowed ( <i>prior year</i> )	None	OSA has established accounting procedures for monitoring and identifying administrative expenditures and set-aside allocations for each specific block grant award.. They have also established procedures during FY 1999 to improve the timing of obligating funds.
98.41	Various	DMHMR	Non-compliance with cash management requirements	None	98.186 - The Department is using "Cash Management Forms" as a management tool to monitor cash needs of subrecipients. Subrecipients are required to file them before being paid. 93.959 - The Office of Substance Abuse (OSA) agrees that monitoring of payments to subrecipients needs to be improved.
98.42	14.228	DECD - OCD	Funds committed before environmental review clearance ( <i>prior year</i> )	\$187,416	Agency drafted a letter dated 8/14/98 to the US Department of HUD to resolve the audit findings and questioned costs. A response has not been received. Questioned costs are therefore not resolved.
98.43	17.246, 17.250	DOL - BES	Debarment and suspension certifications not obtained	None	This has been corrected by including the certification as a separate rider in all contracts. The Federal oversight agency has approved the correction.
98.44	17.246, 17.250	DOL - BES	Inadequate subrecipient monitoring ( <i>prior year</i> )	None	The Federal oversight agency has approved the corrective action plan.
98.45	17.225	DOL - OAS, LMIS, OIP	Incorrect or unverifiable data on federal financial reports ( <i>prior year</i> )	None	1. The Contribution Operations Report (ETA-581) has been corrected starting with the report submitted for report period ending 9/30/1999. 2. The Overpayment Detection and Collection activities Report (ETA-227) - the preparer continues reviewing the report with the supervisor prior to submittal.
98.46	Various	DOL - OAS, LMIS, OIP	Accounting systems not reconciled ( <i>prior year</i> )	None	OAS concurs with the finding. As stated, the reconciliation process is in various stages of completion. The OAS feels confident that in the state fiscal year 2001, current reconciliation and adjusting entries will be completed within the following monthly accounting cycle. All other prior year reconciling items have been identified and the expectation is that corrections will be made prior to June 30, 2000. As regard to options recommended by the Department of Audit and as stated during an oral interview, OAS and OIP had already examined the options presented by the Department of Audit regarding dual data entry and time and attendance. In order to eliminate redundancy of development and implementation of enhancements, we have suspended activity regarding changes to our current system pending the implementation of the State's Time and Attendance and Budget systems.
98.47	Various	Treasury	Internal control not adequate to ensure compliance with CMIA	None	same response as in Auditee Response
98.48	N/A	DFPS	Working Capital of Retiree Health Insurance excessive, disbursements not in compliance, and account structure inadequate ( <i>prior year</i> )	\$324,077	The Retiree Health funding structure did change in FY00, from a Trust Fund to an Internal Service Fund (CH 16, PL 99). It is understood that, if the pay-as-you-go method is retained, federal funds be disbursed as required to avoid future questioned costs, and that working capital comply with federal ceilings. It is the intention to move from a pay-as-you-go basis, to that of an actuarial basis. The resolution of DFPS has been accepted by the Federal Division of Cost Allocation.