State of Maine

Single Audit Report

Fiscal Year Ending
June 30, 2010

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

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2010

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Letter of Transmittal

Senator Kevin L. Raye
President of the Senate

Representative Robert W. Nutting
Speaker of the House of Representatives

The Honorable Paul R. LePage
Governor of Maine

I am pleased to submit the Single Audit of the State of Maine for the fiscal year ended June 30, 2010. This audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; the requirements of the Single Audit Act Amendments of 1996; and the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Our audit complies with 5 MRSA §243 and is a prerequisite for the receipt of federal financial assistance, which was $3.8 billion during fiscal year 2010.

This document contains the following reports and schedules:

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

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

Please contact me if you have questions or comments about the 2010 Single Audit of the State of Maine.

Respectfully submitted,

Neria R. Douglass, JD, CIA
State Auditor

March 29, 2011

STATE OF MAINE
EXECUTIVE SUMMARY
FOR THE YEAR ENDED JUNE 30, 2010

DIRIGO
MAINE

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2010

EXECUTIVE SUMMARY

The Department of Audit performs an annual financial and compliance audit, the Single Audit of the State of Maine, in order to comply with federal and State requirements. Our audit included 23 major federal programs representing 93% of the $3.8 billion in federal assistance that the State received. The Single Audit Report consists of various audit reports along with related financial statement and federal audit findings and recommendations.

Independent Auditor's Report

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

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

We reported on internal control over financial reporting and did not identify any deficiencies in internal control that we considered to be material weaknesses. A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees to prevent, or detect and correct financial statement misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies such that there is a reasonable possibility that a material misstatement of the State's financial statements would not be prevented, or detected and corrected on a timely basis.

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

Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Compliance with program requirements

We issued one audit finding that resulted in qualifications of our opinions on compliance with program requirements for four federal programs because of material noncompliance. The remaining 19 federal programs complied in all material respects with program requirements.

Internal control over compliance

We identified 56 deficiencies in internal control over compliance. A *deficiency* exists when the operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program, on a timely basis.

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

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

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs includes the audit findings and managements' responses and plans for corrective action for addressing the audit findings. The audit findings also include a total of $1.8 million of *questioned costs* and eight other audit findings for which the *questioned costs* could not be determined. *Questioned costs* are amounts of federal financial assistance that we believe were not spent in accordance with program requirements. The federal government may or may not disallow these costs and could result in reimbursements from the State to the federal government.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2010, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Maine's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units: Child Development Services, Connect ME Authority, Efficiency Maine Trust, Finance Authority of Maine, Loring Development Authority, Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine State Housing Authority, Maine Technology Institute, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and University of Maine System. We also did not audit the financial statements of the NextGen College Investing Plan. These financial statements reflect the following percentages of total assets and net assets or fund balance of the indicated opinion unit:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Net Assets/Fund Balance
Aggregate Discretely Presented Component Units	100%	100%
Aggregate Remaining Fund Information	94%	96%

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

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2010 on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As discussed in Note 3, the State has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments.*

The Management's Discussion and Analysis on pages 5 - 16, and budgetary comparison schedules and related notes, State Retirement Plan and Other Post-Employment Benefits Plans, Information About Infrastructure Assets Reported Using the Modified Approach, included on pages 92 - 102, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Neria R. Douglass, JD, CIA
State Auditor

December 21, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State of Maine's annual financial report presents the State's discussion and analysis of financial performance during the year ended June 30, 2010. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- The State's net assets increased by 4.4 percent from the previous fiscal year. Net assets of Governmental Activities increased by $212.9 million, while net assets of Business-type Activities decreased by $30.3 million. The State's assets exceeded its liabilities by $4.4 billion at the close of fiscal year 2010. Component units reported net assets of $2.1 billion, an increase of $105.7 million (5.2 percent) from the previous year, as restated.

Fund level:

- At the end of the fiscal year, the State's governmental funds reported combined ending fund balances of $311.8 million, an increase of $109.8 million from the previous year. The General Fund's total fund balance was a negative $308.2 million, a decline of $34.9 million from the previous year. The Highway Fund total fund balance was $56.4 million, an increase of $21.5 million from the prior year.

- The proprietary funds reported net assets at year end of $562 million, a decrease of $32.4 million from the previous year. This decrease is due to several factors: an increase in the Dirigo Health Fund of $10.8 million, an increase in the Maine Military Fund of $6.4 million, an increase in the Alcoholic Beverages Fund of $12.5 million, and an increase in the Information Services Fund of $9.6 million, offset by a decrease in the Employment Security Fund of $63.3 million, and a decrease in the Retiree Health Insurance Fund of $24.8 million.

Long-term Debt:

- The State's liability for general obligation bonds decreased by $29.9 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $56.8 million in bonds and made principal payments of $86.7 million.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Statements

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

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

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

Both government-wide statements report three activities:

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

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

Component units - Although legally separate, component units are important because the State is financially accountable for these entities. The State has "blended" one component unit, the Maine Governmental Facilities Authority (MGFA) with Governmental Activities as described above. Maine reports 18 other component units (6 major and 12 non-major) as discretely presented component units of the State, and one component unit is reported with the State's fiduciary funds. Complete financial statements of the individual component units may be obtained directly from their respective administrative offices as shown in Note 1 A to the financial statements.

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

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

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

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

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

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

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

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

- Net asset balances are allocated as follows:

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

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

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

Fund Financial Statements

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

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

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

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's net assets increased by 4.4 percent to $4.4 billion at June 30, 2010, as detailed in Tables A-1 and A-2.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Current and other noncurrent assets	$ 1,891,198	$ 1,901,420	$ 361,077	$ 410,353	$ 2,252,275	$ 2,311,773
Capital assets	4,618,143	4,338,301	97,635	96,665	4,715,778	4,434,966
Total Assets	**6,509,341**	**6,239,721**	**458,712**	**507,018**	**6,968,053**	**6,746,739**
Current liabilities	1,348,020	1,419,356	37,184	42,720	1,385,204	1,462,076
Long-term liabilities	1,168,334	1,040,284	38,255	50,691	1,206,589	1,090,975
Total Liabilities	**2,516,354**	**2,459,640**	**75,439**	**93,411**	**2,591,793**	**2,553,051**
Net assets (deficit):						
Investment in capital net of related debt	3,945,220	3,767,895	97,635	96,667	4,042,855	3,864,562
Restricted	184,241	162,240	320,648	383,970	504,889	546,210
Unrestricted (deficit)	(136,474)	(150,054)	(35,010)	(67,030)	(171,484)	(217,084)
Total Net Assets	**$ 3,992,987**	**$ 3,780,081**	**$ 383,273**	**$ 413,607**	**$ 4,376,260**	**$ 4,193,688**

Changes in Net Assets

The State's fiscal year 2010 revenues totaled $7.9 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 40.4 percent and 45.2 percent, respectively, of every dollar raised. The remainder came from charges for services and other miscellaneous sources.

The total cost of all programs and services totaled $7.7 billion for the year 2010. (See Table A-2) These expenses are predominantly (68.3 percent) related to health & human services and education activities. The State's governmental support & operations activities accounted for 6.2 percent of total costs. Total net assets increased by $182.6 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Revenues						
Program Revenues:						
Charges for Services	$ 492,251	$ 452,597	$ 489,034	$ 482,911	$ 981,285	$ 935,508
Operating Grants/Contributions	3,525,858	3,081,827	44,629	20,170	3,570,487	3,101,997
General Revenues:						
Taxes	3,193,659	3,245,180	-	-	3,193,659	3,245,180
Other	156,515	159,276	-	-	156,515	159,276
Total Revenues	7,368,283	6,938,880	533,663	503,081	7,901,946	7,441,961
Expenses						
Governmental Activities:						
Governmental Support	477,994	484,127			477,994	484,127
Education	1,752,041	1,689,036			1,752,041	1,689,036
Health & Human Services	3,511,572	3,428,680			3,511,572	3,428,680
Justice & Protection	412,263	419,027			412,263	419,027
Transportation Safety	295,514	301,355			295,514	301,355
Other	682,950	534,032			682,950	534,032
Interest	48,594	40,148			48,594	40,148
Business-Type Activities:					-	-
Employment Security			235,301	225,181	235,301	225,181
Lottery			166,721	163,030	166,721	163,030
Military Equip. Maint.			45,004	71,380	45,004	71,380
Dirigo Health			50,952	58,861	50,952	58,861
Other			28,740	27,560	28,740	27,560
Total Expenses	7,180,928	6,896,405	526,718	546,012	7,707,646	7,442,417
Excess (Deficiency) before Special Items and Transfers	187,355	42,475	6,945	(42,931)	194,300	(456)
Special Items	(11,728)	-	-	-	(11,728)	-
Transfers	37,279	43,700	(37,279)	(43,700)	-	-
Increase (Decrease) in Net Assets	212,906	86,175	(30,334)	(86,631)	182,572	(456)
Net Assets, beginning of year	3,780,081	3,693,906	413,607	500,238	4,193,688	4,194,144
Ending Net Assets	$ 3,992,987	$ 3,780,081	$ 383,273	$ 413,607	$ 4,376,260	$ 4,193,688

Governmental Activities

Revenues for the State's Governmental Activities totaled $7.4 billion while total expenses equaled $7.2 billion. The increase in net assets for Governmental Activities was $212.9 million in 2010. This is due, primarily, to a decrease in General Fund expenditures resulting from participation in the federal American Recovery and Reinvestment Act of 2009. Additionally, program revenues were insufficient to cover program expenses. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes. Tax revenue decreased by $51.5 million from the prior year, however net expenses supported by tax revenue also decreased by approximately $199.2 million. Furthermore, the State's Business-type Activities transferred $37.3 million (net) to the Governmental Activities in statutorily required profit transfers.

The users of the State's programs financed $492.3 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $3.5 billion. $3.2 billion of the State's net costs were financed by taxes and other miscellaneous revenue.

Table A-3: Total Sources of Revenues for Governmental Activities for Fiscal Year 2010

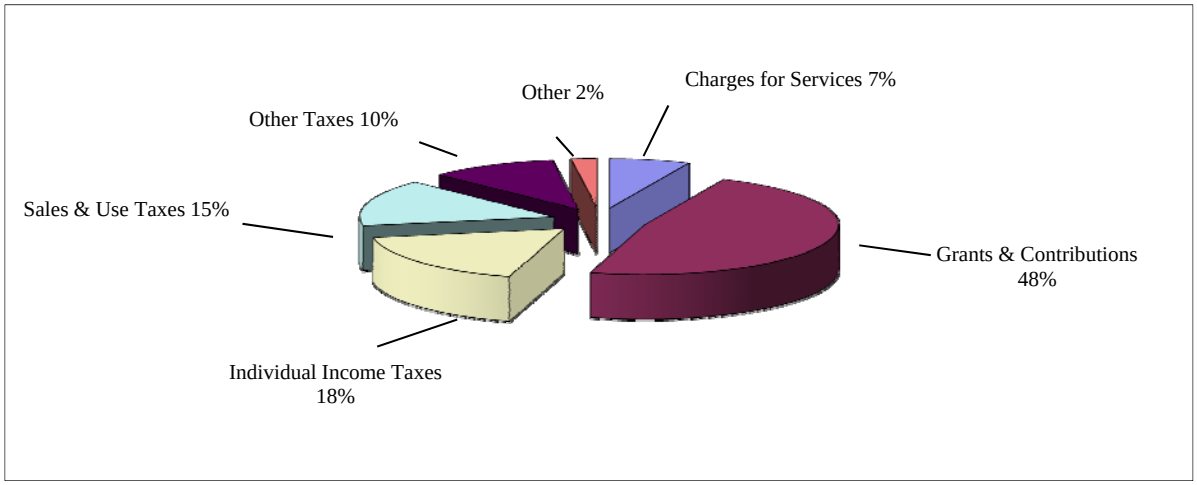
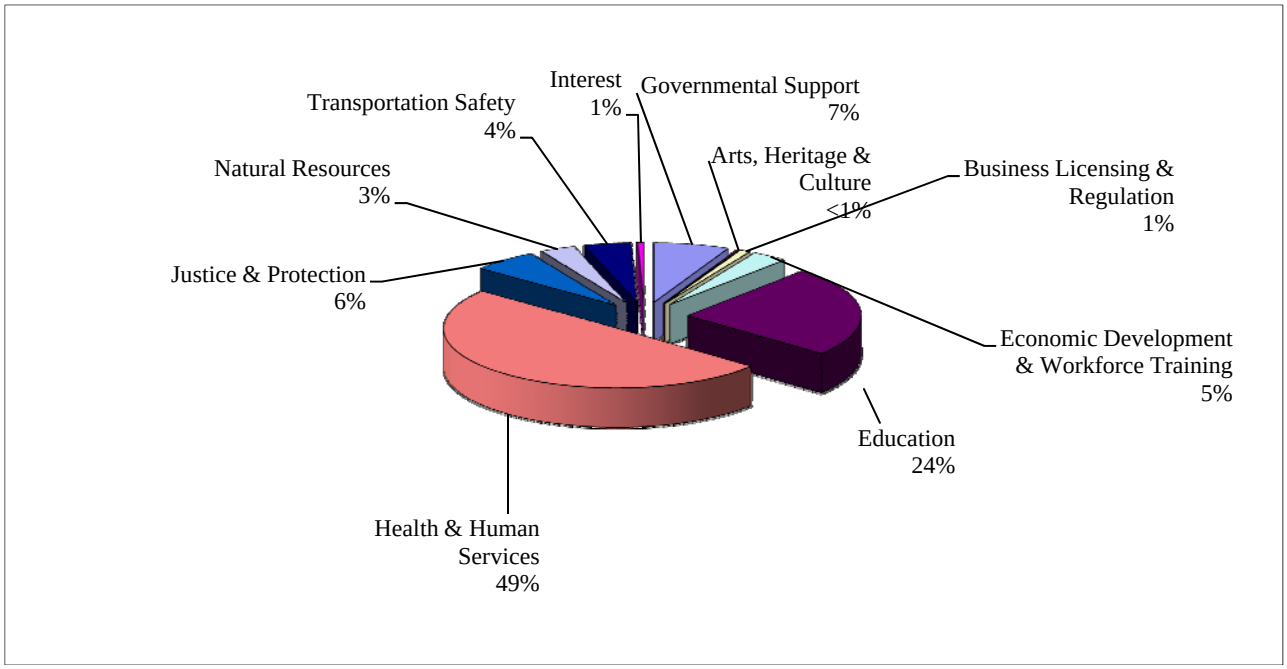


Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2010



Business-type Activities

Revenues for the State's Business-type Activities totaled $533.7 million while expenses totaled $526.7 million. The decrease in net assets for Business-type Activities was $30.3 million in 2010, due mainly to the increase of unemployment compensation payments in the Employment Security fund.

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

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

	Total Cost		Net (Cost) Revenue	
Category	**2010**	**2009**	**2010**	**2009**
Employment Security	$ 235,301	$ 225,181	$ (63,234)	$ (107,649)
Alcoholic Beverages	1	-	12,527	12,530
Lottery	166,721	163,030	53,245	50,043
Military Equip. Maint.	45,004	71,380	4,483	4,404
Dirigo Health	50,952	58,861	14,657	9,843
Other	28,739	27,560	(14,733)	(12,102)
Total	$ 526,718	$ 546,012	$ 6,945	$ (42,931)

The cost of all Business-type Activities this year was $526.7 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-type Activities was $6.9 million, with the Lottery making up $53.2 million of the total. The State’s Business-type Activities transferred $37.3 million (net) to the Governmental Activities in statutorily required profit transfers.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

Fund	Total Cost 2010	2009	Change
General	$ (308,248)	$ (273,393)	$ (34,855)
Highway	56,403	34,885	21,518
Federal	22,082	27,163	(5,081)
Other Special Revenue	442,482	300,263	142,219
Other Governmental	99,052	113,038	(13,986)
Total	$ 311,771	$ 201,956	$ 109,815

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $311.8 million, an increase of $109.8 million in comparison with the prior year. Of this amount, a net deficit fund balance of $338.6 million constitutes unreserved fund balance with 121 percent ($411 million) of the shortfall residing in the General Fund. The remainder of the fund balances for the governmental funds is reserved and is not available for new spending because it has already been dedicated for continuing appropriations ($503.2 million), Capital Projects ($33.6 million), and various other commitments ($113.6 million).

General Fund expenditures and other uses surpassed General Fund revenues and other sources resulting in a decrease in the fund balance by $34.9 million. While expenditures and other uses of the General Fund increased by approximately $8.7 million (0.28 percent) led by an increase in transfers to other funds of $50.2 million, expenditures for health and human service and education decreased by $27.7 million and $31.3 million respectively; General Fund revenues and other sources also increased by $8.8 million (0.28 percent) which is mainly attributed to a reduction in tax revenue ($58.7 million) offset by the General Funds share of returned equity from the Retiree Health Insurance Fund ($48.3 million) and increased transfers from other funds ($19.5 million).

The fund balance of the Highway Fund increased $21.5 million from fiscal year 2009, due to the Highway Fund's share of returned equity from the Retiree Health Insurance Fund ($11.1 million) and the Highway Fund's reimbursement of approximately $14.2 million from the Federal Fund for prior period expenditures that were ultimately approved for federal funding.

Budgetary Highlights

For the 2010 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to $2.9 billion, a decrease of about $8.5 million from the original legally adopted budget of approximately $2.9 billion. Actual expenditures on a budgetary basis amounted to approximately $80.9 million less than those authorized in the final budget. After deducting the encumbered obligations and other commitments that will come due in fiscal year 2011, including the budgeted starting balance for Fiscal Year 2010, there were funds remaining of $70.3 million to distribute in Fiscal Year 2010. Actual revenues exceeded final budget forecasts by $43.1 million. As a part of the final budget adjustment for Fiscal Year 2010, the Legislature approved direct transfers to the State's Budget Stabilization Fund in the amount of $5.6 million. In addition, the year-end cascade transferred another $19.6 million to the State's Budget Stabilization Fund. The additional transfer and interest earnings increased the balance in the Fund to $25.4 million as of June 30, 2010. This item is further explained in Note 2 of Notes to the Financial Statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2010, the State had roughly $4.7 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2010, the State acquired or constructed more than $330.7 million of capital assets. The most significant impact on capital assets during the year resulted from continued construction and rehabilitation of roads and bridges, and major construction and renovation of State-owned facilities. More detailed information about the State's capital assets and significant construction commitments is presented in Notes 8 and 15 to the financial statements.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land	$ 473,464	$ 449,256	$ 43,076	$ 43,344	$ 516,540	$ 492,600
Buildings	589,375	576,236	8,465	9,655	597,840	585,891
Equipment	254,744	250,031	49,548	47,134	304,292	297,165
Improvements	19,576	18,818	74,572	74,572	94,148	93,390
Infrastructure	3,600,246	3,378,914	-	-	3,600,246	3,378,914
Construction in Progress	90,974	57,350	8,789	3,416	99,763	60,766
Total Capital Assets	5,028,379	4,730,605	184,450	178,121	5,212,829	4,908,726
Accumulated Depreciation	410,236	392,304	86,815	81,456	497,051	473,760
Capital Assets, net	$ 4,618,143	$ 4,338,301	$ 97,635	$ 96,665	$ 4,715,778	$ 4,434,966

Modified Approach for Infrastructure

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

Highways and bridges are included in the State’s infrastructure. There are 8,873 highway miles or 18,048 lane miles within the State. Bridges have a deck area of 11.7 million square feet among 2,961 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2010, the actual average condition was 76.2. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 79 at June 30, 2010. Preservation costs for fiscal year 2010 totaled $77.8 million compared to estimated preservation costs of $55 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 414, PL 2009, $25 million was spent during FY 2010.

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

Long-Term Debt

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

At year-end, the State had $1.3 billion in general obligation and other long-term debt outstanding. More detailed information about the State's long-term liabilities is presented in Note 11 to the financial statements.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds	$ 500,100	$ 529,990	$ -	$ -	$ 500,100	$ 529,990
Other Long-Term Obligations	836,743	671,940	808	880	837,551	672,820
Total	$ 1,336,843	$ 1,201,930	$ 808	$ 880	$ 1,337,651	$ 1,202,810

During the year, the State reduced outstanding long-term obligations by $86.7 million for outstanding general obligation bonds and $643 million for other long-term debt. Also during fiscal year 2010, the State incurred $864.5 million of additional long-term obligations.

Credit Ratings

The State’s credit was rated during fiscal year 2010 by Moody’s Investors Service as Aa3 with a stable outlook, by Standard & Poor’s as AA with a negative outlook, and by the National Association of Insurance Commissioners as NAIC-1.

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

While national and state economic conditions have been improving over the past months, the rate of improvement has been slow. In August, Maine's year-over-year economic activity index crossed over into positive territory for the first time since April 2008. Personal income has been slow to recover, but corporate profits have been increasing significantly this year. While home sales experienced a temporary boost from the homebuyer credit, they have dropped off again following the expiration of the credit.

Going forward, economic growth in Maine is expected to reflect the slow pace of the national economic recovery. Wage and salary employment is expected to begin slowly gaining ground in the first quarter of 2011, with more rapid gains expected in 2012 and 2013. Personal income growth is generally expected to be somewhat better than previously forecast, particularly in 2010, led by growth in wages and salaries, proprietors' income and transfer payments. Inflation increased by less than 1% between July 2009 and June 2010. Energy prices have stabilized somewhat over the last year, but have increased in recent months as the winter heating season begins.

The unemployment rate in Maine has been below the national average throughout the recession and during the early stages of the economic recovery. The rate in Maine stood at 7.4% in October, which is below both the national and New England averages. Maine is forecasted to return to its pre-recession wage and salary employment level by 2013.

After falling for two straight fiscal years, General Fund revenue is projected to increase by 4.7% in FY11 and continue to grow at a similar rate through FY15. General Fund receipts reached their peak of $3.1 billion in FY08 and are projected to return to that level by FY13. Individual and corporate income tax revenues are forecasted to lead that return in General Fund receipts, while sales taxes are expected to grow at lower rates as households re-build savings lost during the great recession.

At the close of Fiscal Year 2010, the deficit in the State of Maine's Unreserved Fund Balance Account in the General Fund has increased to $411.0 million (from a deficit $390.4 reported in the prior year). This increase is primarily due to a one-day borrowing from the Other Special Revenue Fund totaling $79 million that was necessary to balance the budget. The amount of the one-day borrowing was partially offset with the excess revenues.

There are many factors that adversely affect our General Fund Balance Sheet that we should strive to resolve over the next several years. One cause for the current condition is the Medicaid liabilities that accrue at the end of each fiscal year. Other factors that have a significant impact on the State's Financial Statements compiled and issued in accordance with Generally Accepted Accounting Principles as applicable to governments include such factors as accruing tax revenues for budgetary purposes and for financial statement purposes without accruing the offsetting liabilities for budgetary purposes; the increase in the demand for carrying accounts and a lack of allowing money to accrue to the Unreserved Fund Balance of the General Fund.

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

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

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

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

DIRIGO
MAINE

STATE OF MAINE
STATEMENT OF NET ASSETS

June 30, 2010
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ 344,052	$ 11,226	$ 355,278	$ 93,591
Cash and Cash Equivalents	300	756	1,056	132,006
Cash with Fiscal Agent	166,464	-	166,464	-
Investments	65,394	-	65,394	708,598
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	36,449	-	36,449	-
Restricted Deposits and Investments	3,325	292,354	295,679	1,023
Inventories	5,622	2,461	8,083	2,146
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	332,221	-	332,221	-
Loans Receivable	5,650	-	5,650	88,187
Notes Receivable	-	-	-	63
Other Receivables	197,968	57,733	255,701	65,361
Internal Balances	6,122	(6,122)	-	-
Due from Other Governments	598,971	-	598,971	159,594
Due from Primary Government	-	-	-	15,505
Loans receivable from primary government	-	-	-	17,975
Due from Component Units	19,460	173	19,633	-
Other Current Assets	16,531	2,496	19,027	39,054
Total Current Assets	1,798,529	361,077	2,159,606	1,323,103
Noncurrent Assets:				
Assets Held in Trust	-	-	-	284
Restricted Assets:				
Restricted Deposits and Investments	-	-	-	457,246
Investments	-	-	-	432,618
Receivables, Net of Current Portion:				
Taxes Receivable	73,647	-	73,647	-
Loans Receivable	-	-	-	2,677,606
Notes Receivable	-	-	-	236,696
Other Receivables	752	-	752	13,035
Due from Other Governments	17,509	-	17,509	1,268,207
Loans receivable from primary government	-	-	-	240,419
Due From Primary Government	-	-	-	180
Other Noncurrent Assets	-	-	-	32,044
Post-Employment Benefit Asset	761	-	761	8,853
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	4,164,684	51,865	4,216,549	83,978
Buildings, Equipment and Other Depreciable Assets	863,695	132,585	996,280	1,231,899
Less: Accumulated Depreciation	(410,236)	(86,815)	(497,051)	(442,927)
Capital Assets, Net of Accumulated Depreciation	4,618,143	97,635	4,715,778	872,950
Total Noncurrent Assets	4,710,812	97,635	4,808,447	6,240,138
Total Assets	$ 6,509,341	$ 458,712	$ 6,968,053	$ 7,563,241

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

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Liabilities				
Current Liabilities:				
Accounts Payable	$ 846,579	$ 6,792	$ 853,371	$ 95,108
Accrued Payroll	37,669	1,607	39,276	1,072
Tax Refunds Payable	137,349	-	137,349	-
Due to Component Units	26,816	-	26,816	-
Due to Primary Government	-	-	-	19,633
Undistributed Grants and Administrative Funds	-	-	-	16,451
Allowances for Losses on Insured Commercial Loans	-	-	-	13,013
Current Portion of Long-Term Obligations:				
Compensated Absences	4,480	53	4,533	2,426
Due to Other Governments	103,081	-	103,081	3,087
Amounts Held under State & Federal Loan Programs	-	-	-	24,628
Claims Payable	23,688	-	23,688	-
Bonds and Notes Payable	88,005	-	88,005	170,068
Notes Payable	-	-	-	1,041
Revenue Bonds Payable	16,930	-	16,930	43,157
Obligations under Capital Leases	6,090	-	6,090	307
Certificates of Participation and Other Financing Arrangements	25,738	-	25,738	-
Loans Payable to Component Unit	17,975	-	17,975	-
Accrued Interest Payable	7,112	-	7,112	47,304
Deferred Revenue	1,291	12,801	14,092	64,420
Current portion of OPEB obligation	-	-	-	5,587
Other Current Liabilities	5,217	15,931	21,148	32,904
Total Current Liabilities	1,348,020	37,184	1,385,204	540,206
Long-Term Liabilities:				
Compensated Absences	41,308	755	42,063	-
Due to Component Units	84	-	84	-
Due to Other Governments	213	-	213	11,031
Amounts Held under State & Federal Loan Programs	-	-	-	47,688
Claims Payable	34,600	-	34,600	-
Bonds and Notes Payable	412,095	-	412,095	3,320,305
Notes Payable	-	-	-	25,272
Revenue Bonds Payable	172,150	-	172,150	1,365,282
Obligations under Capital Leases	27,239	-	27,239	5,761
Certificates of Participation and Other Financing Arrangements	50,553	-	50,553	-
Loans Payable to Component Unit	240,419	-	240,419	-
Deferred Revenue	14,100	37,500	51,600	16,303
Pension Obligation	7,845	-	7,845	-
Other Post-Employment Benefit Obligation	117,700	-	117,700	-
Pollution Remediation	50,028	-	50,028	-
Other Noncurrent Liabilities	-	-	-	94,081
Total Long-Term Liabilities	1,168,334	38,255	1,206,589	4,885,723
Total Liabilities	2,516,354	75,439	2,591,793	5,425,929
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,945,220	97,635	4,042,855	638,743
Restricted:				
Highway Fund Purposes	55,418	-	55,418	-
Federal Programs	22,082	-	22,082	-
Natural Resources	19,906	-	19,906	-
Unemployment Compensation	-	320,648	320,648	-
Other Purposes	21,341	-	21,341	1,178,810
Funds Held as Permanent Investments:				
Expendable	53,244	-	53,244	-
Nonexpendable	12,250	-	12,250	-
Unrestricted	(136,474)	(35,010)	(171,484)	319,759
Total Net Assets	$ 3,992,987	$ 383,273	$ 4,376,260	$ 2,137,312

STATE OF MAINE
STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2010
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Governmental Support & Operations	$ 477,994	$ 106,164	$ 8,477	$ -
Arts, Heritage & Cultural Enrichment	11,761	1,075	2,819	-
Business Licensing & Regulation	74,243	71,592	3,261	-
Economic Development & Workforce Training	400,166	6,846	326,633	-
Education	1,752,041	7,487	292,861	-
Health & Human Services	3,511,572	11,844	2,544,929	-
Justice & Protection	412,263	88,166	67,406	-
Natural Resources Development & Protection	196,780	95,318	46,881	-
Transportation Safety & Development	295,514	103,759	232,591	-
Interest Expense	48,594	-	-	-
Total Governmental Activities	7,180,928	492,251	3,525,858	-
Business-Type Activities:				
Employment Security	235,301	127,438	44,629	-
Alcoholic Beverages	1	12,528	-	-
Lottery	166,721	219,966	-	-
Transportation	8,173	1,929	-	-
Marine Ports	1,354	47	-	-
Ferry Services	10,817	4,951	-	-
Military Equipment Maintenance	45,004	49,487	-	-
Dirigo Health	50,952	65,609	-	-
Other	8,395	7,079	-	-
Total Business-Type Activities	526,718	489,034	44,629	-
Total Primary Government	$ 7,707,646	$ 981,285	$ 3,570,487	$ -
Component Units:				
Finance Authority of Maine	38,661	13,123	21,972	-
Maine Community College System	119,856	22,460	48,943	4,207
Maine Health & Higher Educational Facilities Authority	58,694	55,267	6,321	-
Maine Municipal Bond Bank	79,793	58,012	10,311	31,580
Maine State Housing Authority	268,767	79,050	184,865	-
University of Maine System	660,488	298,056	213,264	7,784
All Other Non-Major Component Units	121,746	41,385	58,074	4,452
Total Component Units	$ 1,348,005	$ 567,353	$ 543,750	$ 48,023

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

Special Items
Extraordinary Items
Transfers - Internal Activities
- Total General Revenues and Transfers
  - Change in Net Assets

Net Assets - Beginning (As Restated)
Net Assets - Ending

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

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (363,353)	$ -	$ (363,353)	$ -
(7,867)	-	(7,867)	-
610	-	610	-
(66,687)	-	(66,687)	-
(1,451,693)	-	(1,451,693)	-
(954,799)	-	(954,799)	-
(256,691)	-	(256,691)	-
(54,581)	-	(54,581)	-
40,836	-	40,836	-
(48,594)	-	(48,594)	-
(3,162,819)	-	(3,162,819)	-
-	(63,234)	(63,234)	-
-	12,527	12,527	-
-	53,245	53,245	-
-	(6,244)	(6,244)	-
-	(1,307)	(1,307)	-
-	(5,866)	(5,866)	-
-	4,483	4,483	-
-	14,657	14,657	-
-	(1,316)	(1,316)	-
-	6,945	6,945	-
$ (3,162,819)	$ 6,945	$ (3,155,874)	$ -
-	-	-	(3,566)
-	-	-	(44,246)
-	-	-	2,894
-	-	-	20,110
-	-	-	(4,852)
-	-	-	(141,384)
-	-	-	(17,835)
$ -	$ -	$ -	$ (188,879)
282,998	-	282,998	-
1,297,568	-	1,297,568	-
191,390	-	191,390	-
46,627	-	46,627	-
1,116,301	-	1,116,301	-
258,775	-	258,775	-
12,378	-	12,378	15,345
-	-	-	267,970
92,536	-	92,536	10,503
-	-	-	(467)
51,601	-	51,601	-
(11,728)	-	(11,728)	-
-	-	-	1,185
37,279	(37,279)	-	-
3,375,725	(37,279)	3,338,446	294,536
212,906	(30,334)	182,572	105,657
3,780,081	413,607	4,193,688	2,031,655
$ 3,992,987	$ 383,273	$ 4,376,260	$ 2,137,312

DIRIGO
MAINE

STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2010
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Treasurer's Cash Pool	$ 8,775	$ 59,181	$ 19,333	$ 92,320	$ 100	$ 179,709
Cash and Short-Term Investments	140	116	2	39	-	297
Cash with Fiscal Agent	426	1,363	-	149,851	-	151,640
Investments	-	-	-	-	65,394	65,394
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	217	-	-	-	36,232	36,449
Inventories	1,287	-	717	-	-	2,004
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	375,366	21,289	-	9,213	-	405,868
Loans Receivable	1	44	-	5,605	-	5,650
Other Receivable	63,378	1,747	60,773	69,740	-	195,638
Due from Other Funds	13,370	2,069	672	160,191	-	176,302
Due from Other Governments	-	-	598,457	-	-	598,457
Due from Component Units	-	-	-	19,344	116	19,460
Other Assets	1,732	-	397	13,482	13	15,624
Working Capital Advances Receivable	111	-	-	-	-	111
Total Assets	$ 464,803	$ 85,809	$ 680,351	$ 519,785	$ 101,855	$ 1,852,603
Liabilities and Fund Balances						
Accounts Payable	$ 199,023	$ 12,175	$ 544,167	$ 31,389	$ 1,481	$ 788,235
Accrued Payroll	17,312	7,085	4,044	6,779	-	35,220
Tax Refunds Payable	137,338	11	-	-	-	137,349
Due to Other Governments	-	-	90,598	-	-	90,598
Due to Other Funds	203,488	3,191	8,788	3,890	38	219,395
Due to Component Units	13,460	26	8,232	396	1,281	23,395
Deferred Revenue	198,812	6,502	1,472	33,673	3	240,462
Other Accrued Liabilities	3,618	416	968	1,176	-	6,178
Total Liabilities	773,051	29,406	658,269	77,303	2,803	1,540,832
Fund Balances:						
Reserved						
Continuing Appropriations	89,400	73,263	90,001	250,392	170	503,226
Capital Projects	-	-	-	-	33,558	33,558
Permanent Trusts	-	-	-	-	12,250	12,250
Other	13,370	702	-	34,227	53,074	101,373
Unreserved	(411,018)	(17,562)	(67,919)	157,863	-	(338,636)
Total Fund Balances	(308,248)	56,403	22,082	442,482	99,052	311,771
Total Liabilities and Fund Balances	$ 464,803	$ 85,809	$ 680,351	$ 519,785	$ 101,855	$ 1,852,603

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

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

June 30, 2010
(Expressed in Thousands)

Total fund balances for governmental funds		$ 311,771
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	4,679,672	
Less: Accumulated depreciation	(213,488)	4,466,184
Other Post-Employment Benefit Assets are not financial resources		761
Pollution Remediation Receivable		13,682
Long-term liabilities are not due and payable in the current period. Therefore, long-term liabilities are not reported in the governmental fund statements. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement:		
Bonds Payable	(689,180)	
Interest Payable Related to Long-term Financing	(5,758)	
Certificates of Participation and Other Financing Arrangements	(38,461)	
Due to Federal Government - Disallowed Costs in Litigation	(755)	
Loans Payable to Component Unit	(258,394)	
Compensated Absences	(41,511)	
Pension Obligation	(7,845)	
Other Post-Employment Benefit Obligation	(117,700)	
Pollution Remediation Obligation	(50,028)	(1,209,632)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		231,542
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		178,679
Net assets of governmental activities		$ 3,992,987

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

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

Fiscal Year Ended June 30, 2010
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$ 2,756,435	$ 217,612	$ -	$ 241,252	$ -	$ 3,215,299
Assessments and Other Revenue	117,119	83,695	4	133,838	-	334,656
Federal Grants and Reimbursements	11,047	-	3,517,272	6,905	-	3,535,224
Service Charges	50,852	6,409	764	101,829	-	159,854
Investment Income	567	162	35	2,866	7,643	11,273
Miscellaneous Revenue	12,284	644	323	129,597	1,661	144,509
Total Revenues	2,948,304	308,522	3,518,398	616,287	9,304	7,400,815
Expenditures						
Current:						
Governmental Support & Operations	257,093	34,832	9,120	131,057	10,189	442,291
Economic Development & Workforce Training	35,646	-	328,550	23,998	13,645	401,839
Education	1,419,891	-	292,926	52,225	11,165	1,776,207
Health and Human Services	758,808	-	2,581,250	268,587	-	3,608,645
Business Licensing & Regulation	22	-	2,817	70,968	-	73,807
Natural Resources Development & Protection	67,324	35	46,371	103,096	7,772	224,598
Justice and Protection	270,581	30,532	67,939	46,142	495	415,689
Arts, Heritage & Cultural Enrichment	7,311	-	2,770	778	754	11,613
Transportation Safety & Development	-	222,676	209,298	71,004	33,639	536,617
Debt Service:						
Principal Payments	92,035	11,820	7,625	8,607	-	120,087
Interest Payments	24,103	4,803	2,947	7,479	-	39,332
Total Expenditures	2,932,814	304,698	3,551,613	783,941	77,659	7,650,725
Revenue over (under) Expenditures	15,490	3,824	(33,215)	(167,654)	(68,355)	(249,910)
Other Financing Sources (Uses):						
Transfer from Other Funds	106,694	16,470	48,702	179,089	1,764	352,719
Transfer to Other Funds	(205,768)	(10,245)	(20,568)	(68,785)	(4,230)	(309,596)
COP's and Other	382	367	-	39,771	-	40,520
Loan Proceeds from Component Units	-	-	-	142,857	-	142,857
Bonds Issued	-	-	-	13,275	56,835	70,110
Net Other Finance Sources (Uses)	(98,692)	6,592	28,134	306,207	54,369	296,610
Special Item	48,347	11,102	-	3,666	-	63,115
Revenues and Other Sources over (under) Expenditures and Other Uses	(34,855)	21,518	(5,081)	142,219	(13,986)	109,815
Fund Balances at Beginning of Year	(273,393)	34,885	27,163	300,263	113,038	201,956
Fund Balances at End of Year	$ (308,248)	$ 56,403	$ 22,082	$ 442,482	$ 99,052	$ 311,771

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

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

June 30, 2010
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ 109,815
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, the amounts are:		
Capital outlay	288,949	
Depreciation expense	(17,067)	271,882
The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets.		(5,956)
Post-employment benefit asset funding, net		(28,007)
Pollution Remediation Receivable		(3,327)
The issuance of long-term debt provides current financial resources to governmental funds which increases long-term debt in the Statement of Net Assets. Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but repayment reduces long-term debt in the Statement of Net Assets. This is the amount that proceeds exceed repayments:		
Bond proceeds	(70,110)	
Proceeds from other financing arrangements	(40,520)	
Loan proceeds from component unit	(142,857)	
Repayment of bond principal	103,855	
Repayment of other financing debt	19,136	
Repayment of pledged revenue principal	16,232	
Accrued interest	(1,456)	(115,720)
Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported as expenditures on the Statement of Net Assets and have been eliminated from the Statement of Activities as follows:		
Pension obligation	11,036	
Other post-employment benefit obligation	(45,911)	
Pollution remediation obligation	14,848	
Claims payable	-	
Due to Federal Government - Disallowed Costs in Litigation	28,245	
Compensated absences	(367)	7,851
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		(21,519)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is included in governmental activities in the Statement of Activities.		(2,113)
Changes in net assets of governmental activities		$ 212,906

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

STATE OF MAINE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2010
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities Internal
	Major Employment Security	Non-Major Other Enterprise	Totals	Service Funds
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ -	$ 11,226	$ 11,226	$ 164,343
Cash and Short-Term Investments	-	756	756	3
Cash with Fiscal Agent	-	-	-	14,824
Restricted Assets:				
Restricted Deposits and Investments	292,354	-	292,354	3,325
Inventories	-	2,461	2,461	3,618
Receivables, Net of Allowance for Uncollectibles:				
Other Receivable	30,342	27,391	57,733	2,318
Due from Other Funds	117	501	618	22,395
Due from Component Units	-	173	173	-
Other Current Assets	-	2,496	2,496	907
Total Current Assets	322,813	45,004	367,817	211,733
Noncurrent Assets:				
Receivables, Net of Allowance for Uncollectibles:				
Capital Assets - Net of Depreciation	-	97,635	97,635	151,959
Total Noncurrent Assets	-	97,635	97,635	151,959
Total Assets	322,813	142,639	465,452	363,692
Liabilities				
Current Liabilities:				
Accounts Payable	1,230	5,562	6,792	22,752
Accrued Payroll	-	1,607	1,607	2,449
Due to Other Governments	-	-	-	11,941
Due to Other Funds	169	8,223	8,392	7,108
Due to Component Units	-	-	-	3,505
Current Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	-	-	-	10,979
Obligations Under Capital Leases	-	-	-	6,090
Claims Payable	-	-	-	23,688
Compensated Absences	-	53	53	288
Deferred Revenue	-	12,801	12,801	574
Other Accrued Liabilities	766	15,165	15,931	393
Total Current Liabilities	2,165	43,411	45,576	89,767
Long-Term Liabilities:				
Working Capital Advances Payable	-	-	-	111
Deferred Revenue	-	37,500	37,500	804
Certificates of Participation and Other Financing Arrangements	-	-	-	26,851
Obligations Under Capital Leases	-	-	-	27,239
Claims Payable	-	-	-	34,600
Compensated Absences	-	755	755	3,989
Total Long-Term Liabilities	-	38,255	38,255	93,594
Total Liabilities	2,165	81,666	83,831	183,361
Net Assets				
Invested in Capital Assets, Net of Related Debt	-	97,635	97,635	90,849
Restricted for:				
Unemployment Compensation	320,648	-	320,648	-
Other Purposes	-	-	-	2,117
Unrestricted	-	(36,662)	(36,662)	87,365
Total Net Assets	$ 320,648	$ 60,973	$ 381,621	$ 180,331
Amounts reported for business-type activities in the government-wide Statement of Net Assets are different due to elimination of the State's internal business-type activities.			1,652	
Net Assets of Business-Type Activities			$ 383,273	

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

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

Fiscal Year Ended June 30, 2010
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		Internal
	Employment Security	Other Enterprise	Totals	Service Funds
Operating Revenues				
Charges for Services	$ -	$ 347,887	$ 347,887	$ 472,377
Assessments	127,438	1,435	128,873	-
Miscellaneous Revenues	30,248	89	30,337	1,024
Total Operating Revenues	157,686	349,411	507,097	473,401
Operating Expenses				
General Operations	-	284,459	284,459	373,865
Depreciation	-	7,523	7,523	17,304
Claims/Fees Expense	235,301	-	235,301	9,677
Other Operating Expenses	-	-	-	372
Total Operating Expenses	235,301	291,982	527,283	401,218
Operating Income (Loss)	(77,615)	57,429	(20,186)	72,183
Nonoperating Revenues (Expenses)				
Investment Revenue (Expense) - net	14,381	-	14,381	1,105
Interest Expense	-	-	-	(7,750)
Other Nonoperating Revenues (Expenses)- net	-	12,185	12,185	(459)
Total Nonoperating Revenues (Expenses)	14,381	12,185	26,566	(7,104)
Income (Loss) Before Capital Contributions, Transfers and Special Items	(63,234)	69,614	6,380	65,079
Capital Contributions, Transfers and Special Items				
Capital Contributions from (to) Other Funds	-	8,873	8,873	4,467
Transfers from Other Funds	1,452	11,005	12,457	14,257
Transfers to Other Funds	(1,540)	(57,069)	(58,609)	(10,508)
Special Items	-	-	-	(74,843)
Total Capital Contributions, Transfers In (Out) and Special Items	(88)	(37,191)	(37,279)	(66,627)
Change in Net Assets	(63,322)	32,423	(30,899)	(1,548)
Total Net Assets - Beginning of Year	383,970	28,550		181,879
Total Net Assets - End of Year	$ 320,648	$ 60,973		$ 180,331
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-types activities			565	
Changes in Business-Types Net Assets			$ (30,334)	

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

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2010
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major Employment Security	Non-Major Other Enterprise	Totals	Internal Service Funds
Cash Flows from Operating Activities				
Receipts from Customers and Users	$ 158,612	$ 352,968	$ 511,580	$ 669,003
Payments of Benefits	(239,444)	-	(239,444)	-
Payments to Prize Winners	-	(134,817)	(134,817)	-
Payments to Suppliers	-	(128,643)	(128,643)	(314,132)
Payments to Employees	-	(37,668)	(37,668)	(76,747)
Net Cash Provided (Used) by Operating Activities	(80,832)	51,840	(28,992)	278,124
Cash Flows from Noncapital Financing Activities				
Operating Transfers in	1,452	11,005	12,457	14,247
Operating Transfers out	(1,540)	(57,069)	(58,609)	(10,498)
Special Items - Return of Equity	-	-	-	(74,843)
Net Cash Provided (Used) by Noncapital Financing Activities	(88)	(46,064)	(46,152)	(71,094)
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets	-	(197)	(197)	(27,079)
Proceeds from Financing Arrangements	-	-	-	28,455
Principal and Interest Paid on Financing Arrangements	-	-	-	(228,954)
Proceeds from Sale of Capital Assets	-	(7)	(7)	204
Net Cash Provided (Used) by Capital Financing Activities	-	(204)	(204)	(227,374)
Cash Flows from Investing Activities				
Interest Revenue	14,381	269	14,650	1,105
Net Cash Provided (Used) by Investing Activities	14,381	269	14,650	1,105
Net Increase (Decrease) in Cash/Cash Equivalents	(66,539)	5,841	(60,698)	(19,239)
Cash/Cash Equivalents - Beginning of Year	358,893	6,141	365,034	201,734
Cash/Cash Equivalents - End of Year	$ 292,354	$ 11,982	$ 304,336	$ 182,495
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	$ (77,615)	$ 57,429	$ (20,186)	$ 72,183
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	-	7,523	7,523	17,304
Decrease (Increase) in Assets				
Accounts Receivable	920	3,326	4,246	193,683
Interfund Balances	(633)	(17,658)	(18,291)	(6,607)
Inventories	-	902	902	451
Other Assets	-	-	-	(2)
Increase (Decrease) in Liabilities				
Accounts Payable	(2,776)	50	(2,726)	5,119
Accrued Payroll Expenses	-	(373)	(373)	(1,612)
Due to Other Governments	-	-	-	11,941
Change in Compensated Absences	-	(72)	(72)	55
Other Accruals	(728)	713	(15)	(14,310)
Total Adjustments	(3,217)	(5,589)	(8,806)	206,022
Net Cash Provided (Used) by Operating Activities	$ (80,832)	$ 51,840	$ (28,992)	$ 278,205
Non Cash Investing, Capital and Financing Activities				
Property Leased, Accrued, or Acquired	-	-	-	337
Contributed Capital Assets	-	8,873	8,873	4,467
Decrease of deferred revenue from the sale of liquor operations	-	12,500	12,500	-

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

STATE OF MAINE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2010
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
Assets			
Equity in Treasurer's Cash Pool	$ -	$ 1,380	$ 9,484
Cash and Short-Term Investments	50,143	-	27
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	21,417	-	-
Interest and Dividends	7,179	3,598	-
Due from Brokers for Securities Sold	761,331	6,469	-
Investments at Fair Value:			
Debt Securities	366,840	-	-
Equity Securities	2,743,880	-	-
Common/Collective Trusts	5,859,752	-	-
Foreign Governments and Agencies	41,206	-	11
Other	1,409	9,827	-
Securities Lending Collateral	381,545	-	-
Due from other funds	-	35,592	-
Investments Held on Behalf of Others	-	4,813,182	60,452
Capital Assets - Net of Depreciation	10,800	-	-
Other Assets	-	4,668	503
Total Assets	10,245,502	4,874,716	70,477
Liabilities			
Accounts Payable	6,268	3,307	-
Due to Other Funds	-	9	3
Due to Brokers for Securities Purchased	612,381	6,625	-
Agency Liabilities	-	-	70,427
Obligations Under Securities Lending	381,545	-	-
Other Accrued Liabilities	19,345	-	47
Total Liabilities	1,019,539	9,941	70,477
Net Assets			
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	9,225,963	4,864,775	-
Total Net Assets	$ 9,225,963	$ 4,864,775	$ -

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

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

Fiscal Year Ended June 30, 2010
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts
Additions:		
Contributions:		
Members	$ 165,923	$1,707,707
State and Local Agencies	401,925	-
Investment Income (Loss):		
Net Increase in the Fair Value of Investments	877,145	406,923
Capital Gains Distributions from Investments	-	447
Interest and Dividends	104,976	95,705
Securities Lending Income	919	-
Less Investment Expense:		
Investment Activity Expense	22,019	-
Securities Lending Expense	(562)	-
Net Investment Income	961,583	503,075
Miscellaneous Revenues	-	11,062
Transfers In	-	592
Total Additions	1,529,431	2,222,436
Deductions:		
Benefits Paid to Participants or Beneficiaries	712,436	1,564,337
Refunds and Withdrawals	23,533	-
Administrative Expenses	9,844	38,823
Claims Processing Expense	803	-
Transfers Out	-	1,316
Total Deductions	746,616	1,604,476
Net Increase	782,815	617,960
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year	8,443,148	4,246,815
End of Year	$ 9,225,963	$4,864,775

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

STATE OF MAINE
STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2010
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority
Assets			
Current Assets:			
Equity in Treasurer's Cash Pool	$ 24,599	$ 15,820	$ 5,005
Cash and Cash Equivalents	11,864	72	6,185
Investments	55,164	26,279	55,194
Restricted Assets:			
Restricted Deposits and Investments	-	-	-
Inventories	-	1,421	-
Receivables, Net of Allowance for Uncollectibles:			
Loans Receivable	-	-	42,791
Notes Receivable	-	-	-
Other Receivables	4,316	3,975	2,796
Due from Other Governments	156	-	-
Due from Primary Government	-	963	-
Loans receivable from primary government	-	-	-
Other Current Assets	2,595	952	600
Total Current Assets	98,694	49,482	112,571
Noncurrent Assets:			
Assets Held in Trust	-	-	-
Restricted Assets:			
Restricted Deposits and Investments	-	2,104	135,859
Investments	-	9,801	-
Receivables, Net of Current Portion:			
Loans Receivable	-	-	1,236,082
Notes Receivable	194,919	-	-
Other Receivables	-	-	216
Due from Other Governments	-	-	-
Due from Primary Government	-	-	-
Loans receivable from primary government	-	-	-
Post-Employment Benefit Asset	-	8,853	-
Capital Assets - Net of Depreciation	2,502	124,665	-
Other Noncurrent Assets	-	257	-
Total Noncurrent Assets	197,421	145,680	1,372,157
Total Assets	296,115	195,162	1,484,728
Liabilities			
Current Liabilities:			
Accounts Payable	7,606	4,082	398
Accrued Payroll	-	-	-
Compensated Absences	-	1,925	-
Due to Other Governments	-	-	851
Due to Primary Government	-	-	-
Amounts Held under State & Federal Loan Programs	-	-	-
Undistributed Grants and Administrative Funds	12,854	-	-
Allowances for Losses on Insured Commercial Loans	13,013	-	-
Bonds Payable	805	-	43,020
Notes Payable	-	52	-
Obligations under Capital Leases	-	-	-
Accrued Interest Payable	658	-	24,986
Deferred Revenue	1,394	1,633	3,164
Current portion of OPEB obligation	-	-	-
Other Current Liabilities	3	7,656	-
Total Current Liabilities	36,333	15,348	72,419
Long-Term Liabilities:			
Due to Other Governments	814	-	784
Amounts Held under State & Federal Loan Programs	47,688	-	-
Bonds Payable	172,199	-	1,363,270
Notes Payable	-	24,681	-
Obligations under Capital Leases	-	3,490	-
Deferred Revenue	-	-	-
Other Noncurrent Liabilities	-	-	-
Total Long-Term Liabilities	220,701	28,171	1,364,054
Total Liabilities	257,034	43,519	1,436,473
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,502	97,840	-
Restricted	9,546	22,447	28,545
Unrestricted	27,033	31,356	19,710
Total Net Assets	$ 39,081	$ 151,643	$ 48,255

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

Maine Municipal Bond Bank	Maine State Housing Authority	University of Maine System	Non-Major Component Units	Totals
$ -	$ -	$ 47,245	$ 922	$ 93,591
305	3,261	470	109,849	132,006
21,940	394,193	151,909	3,919	708,598
-	-	-	1,023	1,023
-	-	-	725	2,146
-	28,172	-	17,224	88,187
-	-	63	-	63
1,118	16,383	32,753	4,020	65,361
134,174	8,330	13,836	3,098	159,594
-	-	8,280	6,262	15,505
17,975	-	-	-	17,975
25,006	-	7,654	2,247	39,054
200,518	450,339	262,210	149,289	1,323,103
-	-	-	284	284
309,915	-	5,211	4,157	457,246
-	147,878	260,585	14,354	432,618
-	1,312,008	-	129,516	2,677,606
-	752	39,761	1,264	236,696
-	-	5,923	6,896	13,035
1,268,207	-	-	-	1,268,207
-	-	84	96	180
240,419	-	-	-	240,419
-	-	-	-	8,853
741	2,763	644,271	98,008	872,950
3,174	6,314	14,980	7,319	32,044
1,822,456	1,469,715	970,815	261,894	6,240,138
2,022,974	1,920,054	1,233,025	411,183	7,563,241
369	54,268	15,427	12,958	95,108
-	-	-	1,072	1,072
-	-	-	501	2,426
710	138	-	1,388	3,087
19,344	-	-	289	19,633
24,628	-	-	-	24,628
3,597	-	-	-	16,451
-	-	-	-	13,013
123,377	34,945	9,110	1,968	213,225
-	-	-	989	1,041
-	-	283	24	307
12,752	7,993	-	915	47,304
2,060	11,162	13,537	31,470	64,420
-	-	5,587	-	5,587
-	-	24,257	988	32,904
186,837	108,506	68,201	52,562	540,206
2,681	5,042	-	1,710	11,031
-	-	-	-	47,688
1,274,949	1,474,766	193,096	207,307	4,685,587
-	-	-	591	25,272
-	-	2,219	52	5,761
-	14,550	-	1,753	16,303
-	-	94,018	63	94,081
1,277,630	1,494,358	289,333	211,476	4,885,723
1,464,467	1,602,864	357,534	264,038	5,425,929
-	-	444,564	93,837	638,743
491,573	300,751	297,081	28,867	1,178,810
66,934	16,439	133,846	24,441	319,759
$ 558,507	$ 317,190	$ 875,491	$ 147,145	$ 2,137,312

STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

Fiscal Year Ended June 30, 2010
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority
Expenses	$ 38,661	$ 119,856	$ 58,694
Program Revenues			
Charges for Services	13,123	22,460	55,267
Program Investment Income	788	1,284	6,321
Operating Grants and Contributions	21,184	47,659	-
Capital Grants and Contributions	-	4,207	-
Net Revenue (Expense)	(3,566)	(44,246)	2,894
General Revenues			
Unrestricted Investment Earnings	1,277	1,948	350
Non-program Specific Grants, Contributions and Appropriations	-	53,713	-
Miscellaneous Income	6,384	1,891	102
Gain (Loss) on Assets Held for Sale	-	240	-
Extraordinary Items - Discontinued Operations	-	-	1,185
Total General Revenues	7,661	57,792	1,637
Change in Net Assets	4,095	13,546	4,531
Net Assets, Beginning of the Year (as restated)	34,986	138,097	43,724
Net Assets, End of Year	$ 39,081	$ 151,643	$ 48,255

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

Maine Municipal Bond Bank	Maine State Housing Authority	University of Maine System	Non-Major Component Units	Totals
$ 79,793	$ 268,767	$ 660,488	$ 121,746	$1,348,005
58,012	79,050	298,056	41,385	567,353
9,038	7,232	3,932	2,198	30,793
1,273	177,633	209,332	55,876	512,957
31,580	-	7,784	4,452	48,023
20,110	(4,852)	(141,384)	(17,835)	(188,879)
218	12	10,733	807	15,345
-	-	197,278	16,979	267,970
1,490	-	-	636	10,503
-	-	(643)	(64)	(467)
-	-	-	-	1,185
1,708	12	207,368	18,358	294,536
21,818	(4,840)	65,984	523	105,657
536,689	322,030	809,507	146,622	2,031,655
$ 558,507	$ 317,190	$ 875,491	$ 147,145	$2,137,312

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. REPORTING ENTITY

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

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

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

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

The MGFA was created in 1997, as a successor to the Maine Court Facilities Authority, for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as a court facility, State office or State activity space. In their separately issued financial statements, MGFA records a lease receivable from the State and a liability for bonds issued. However, in accordance with GASBS 14, capital leases that exist between the State and MGFA are not recorded as leases in this report. The assets associated with these leases are reported in the government-wide statements along with the related debt. The corresponding debt service activity is recorded in the Governmental Funds. MGFA financial activity associated with servicing the debt is reported in an internal service fund.

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

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

The Maine Community College System is Maine's primary provider of post-secondary technical education leading to a certificate, diploma, or associate degree. The combined financial statements of the System include the activity of seven colleges, the central administrative office, the Center for Career Development (including the Maine Career Advantage and Maine Quality Centers programs), and its component unit, Maine Community College Educational Foundations.

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

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

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

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

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

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

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

Maine Public Employees Retirement System administers an agent-multiple employer public employee retirement system. It provides pension, death, and disability benefits to its members, which include employees of the State, some public school employees, employees of approximately 293 local municipalities and other public entities in

Maine. The Governor appoints four of the Board's eight voting trustees. A fifth trustee is either the Treasurer of State or the Deputy Treasurer of State.

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

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports $504.9 million of restricted net assets, of which $19.9 million is restricted by enabling legislation.

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

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting

the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

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

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

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

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the State's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or prior to November 30, 1989, except those that conflict with a GASB pronouncement. The FASB pronouncements issued after November 30, 1989, are not followed in the preparation of the accompanying financial statements.

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

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

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

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

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

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

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

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

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

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

The State reports the following major enterprise fund:

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

Additionally, the State reports the following fund types:

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

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

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

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

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

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

investments of the trust. The trustees of the Other Employee Benefit Trust Fund are the State Controller and State Treasurer.

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

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

D. FISCAL YEAR-ENDS

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

E. ASSETS, LIABILITIES, AND NET ASSETS/FUND BALANCE

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

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

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

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

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

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

Investments Held on Behalf of Others
These assets include amounts held by the State in a fiduciary capacity, acting as either a trustee or an agent for individuals, organizations or other funds. Generally, these investments are reported at fair value or at amortized cost which approximates fair value. The State also holds $144 million of Workers' Compensation, $53 million of Bureau of Insurance, and $25 million of Maine Department of Labor surety bonds and letters of credit that are not reflected on the financial statements.

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

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

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

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

Other Assets
Other Assets consist primarily of an advance payment of $12.9 million made to Efficiency Maine Trust, a component unit of the State.

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

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

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

Due from/to Other Governments
Due from/to Other Governments represents amounts receivable from or payable to municipalities or the federal government. Due from Other Governments represents primarily federal grants receivable for Medicaid claims, other health and human services programs, and federal grants receivable for transportation-related expenditures.

Due from Other Governments in the component units' column represents amounts receivable for grants, bond repayment and retirement benefits. Due to Other Governments primarily consist of amounts owed to municipalities for Municipal Revenue Sharing and the federal government for Medicaid cost recoveries from providers.

Capital Assets
Capital assets, which include land, buildings, equipment and infrastructure assets (e.g., roads, bridges, ramps and similar items), are reported in the government-wide statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide statements. The State capitalizes governmental fund buildings valued at $1 million or more and proprietary fund buildings valued at $100 thousand or more. Governmental fund equipment is capitalized at $10 thousand or more and proprietary fund equipment is capitalized $5 thousand or more. Governmental and proprietary fund software is capitalized at $1 million or more. All land, regardless of value, is capitalized. Capital assets are recorded at cost or, if donated, at estimated fair market value at date of acquisition. In some instances, capital assets historical cost were not available. The costs of these assets at the date of acquisitions have been estimated.

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

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

Accounts Payable
Accounts payable represent the gross amount of expenditures or expenses incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers. Incurred but not paid (IBNP) Medicaid claims settlements are actuarially estimated. The IBNP estimate at June 30, 2010 is $252 million.

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

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

Compensated Employee Absences
In the government-wide statements and proprietary fund financial statements, compensated absences are recorded as a long-term liability as required by GASB. In the governmental fund financial statements, vested or accumulated leave is reported as an expenditure and fund liability when incurred upon retirement, termination or death. Sick and vacation payments to terminated employees as of June 30, 2010 but paid after the fiscal year end is also reported in the funds. In the discretely presented component units, employees' accumulated compensated absences are recorded as an expense and liability as the benefits accrue.

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

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

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

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

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

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

The State reported the following fund balance reservations:

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

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

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

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

F. REVENUES AND EXPENDITURES/EXPENSES

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

revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

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

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

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g. general operations and depreciation). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating, capital contributions, transfers or special items.

NOTE 2 – BUDGETING AND BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Appropriation Limits

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

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

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

Budget Stabilization Fund

The Maine Budget Stabilization Fund, a fund designation established under Title 5 MRSA C. 142, is included in the negative $411 million unreserved General Fund fund balance. Amounts in the stabilization fund may be expended only to offset a General Fund revenue shortfall. The Governor may also allocate funds for payment of death benefits for law enforcement officers, firefighters and emergency medical services personnel.

Balances in the fund do not lapse, but carry forward each year. Money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. As the third priority before any other transfer, the State Controller is required to transfer 35 percent of the unappropriated surplus of the General Fund, when the fund is not at its statutory cap. In accordance with the statute, the State Controller made the required

transfer for fiscal year 2010. Per Public Law 2009, Chapter 645, Part H an additional $5.6 million was transferred from the General Fund unappropriated surplus to the Budget Stabilization fund.

The statutory cap for the fund is 12 percent of the total General Fund revenue received in the immediately preceding fiscal year. At the close of the fiscal year, the cap is based on the revenue received in the fiscal year being closed. Based on fiscal year 2010 actual General Fund revenue, the statutory cap at the close of fiscal year 2010 and during fiscal year 2010 was $330.7 million. At the close of fiscal year 2010, the balance of the Maine Budget Stabilization Fund was $25.4 million. No reductions to the Maine Budget Stabilization Fund balance are required when it exceeds the balance of the statutory cap as a result of a decline of General Fund revenue.

Budget Stabilization Fund Activity
(Expressed in Thousands)

Balance, beginning of year	$	195
Increase in fund balance		25,190
Balance, end of year	$	25,385

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

Except in specific instances, only the Legislature may transfer appropriations between departments. Changes in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget. For the year ended June 30, 2010, the Legislature decreased supplemental appropriations to the General Fund by $77.1 million.

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

NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS

Accounting Changes
During fiscal year ended June 30, 2010, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 51, Accounting and Financial Reporting for Intangible Assets. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement also requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Retroactive reporting of the provisions of the statement is generally required with the exception of intangible assets considered to have indefinite useful lives and those considered to be internally generated. The state did not have any intangibles assets at June 30, 2010 that were subject to retroactive reporting.

In addition, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. This Statement requires the state to report

derivative instruments at fair value as assets or liabilities in the financial statements and to disclose a summary of derivative instrument activity as well as the objectives, significant terms, and risks associated with derivative instruments.

Restatement – Component Units

The beginning net assets of the non-major component units increased by $3.5 million as a result of adding two additional units to the financial statements.

NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS

Three internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2010. The Workers' Compensation Fund reported a deficit of $6.0 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund had a fund balance deficit of $3.9 million because rates charged were insufficient to cover expenses incurred. The Postal, Printing & Supply fund reported a deficit of $2.3 million because expenses are recognized when incurred; however, related revenue is not earned until jobs are satisfactorily completed. All of the deficits mentioned above are expected to be funded by future service charges.

The Alcoholic Beverages Enterprise Fund shows a deficit of $50.0 million. During fiscal year 2004, the State of Maine entered into a 10 year contract with a vendor to manage and operate wholesale liquor distribution as the State's agent. The deficit reflects the deferral of license fees that will be amortized over that 10 year period.

The Dirigo Health Enterprise Fund shows a deficit of $84 thousand. This deficit is the result of an increased payable resulting from a payment arrangement with the program's insurance carrier.

The General Fund shows a deficit fund balance of $308.2 million at June 30, 2010. This deficit is primarily due to the full recognition of the State's share of Medicaid liabilities at fiscal year end, which are funded throughout the year with the aforementioned tax revenue. The federal portion of these liabilities is also fully accrued, with an offsetting receivable from the federal government as allowed under Governmental Accounting Standards Board (GASB) Statement No. 33. Per GASB 33, revenue associated with government mandated non-exchange transactions should be recognized when applicable eligibility requirements have been met and the resources are available. Medicaid is an entitlement program. Therefore, the funds are available when the payments for these liabilities are processed.

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

Approved investments include bonds, notes, certificates of indebtedness, other obligations of the United States that mature not more than 25 months from the date of investment; repurchase agreements secured by obligations of the United States that mature within the succeeding 12 months; prime commercial paper; tax-exempt obligations; corporate bonds rated "AAA" that mature within 25 months from the date of investment; banker's acceptances; and "no-load" shares of an investment company registered under the Federal Investment Company

Act of 1940, whose shares maintain a constant share price. Although authorized to do so, the Treasurer does not participate in the securities loan market.

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

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

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

The Primary Government's Deposits and Investments excluding component units that are fiduciary in nature at June 30, 2010:

Primary Government Deposits and Investments
(Expressed in Thousands)

	Governmental Activities	Business-Type Activities	Private Purpose Trusts	Agency Funds	Total
Equity in Treasurer's Cash Pool	$ 344,052	$ 11,226	$ 1,380	$ 9,484	$ 366,142
Cash and Cash Equivalents	300	756	-	27	1,083
Cash with Fiscal Agent	166,464	-	-	-	166,464
Investments	65,394	-	9,827	-	75,221
Restricted Equity in Treasurer's Cash Pool	36,449	-	-	-	36,449
Restricted Deposits and Investments	3,325	292,354	-	11	295,690
Investments Held on Behalf of Others	-	-	4,813,182	60,452	4,873,634
Other Assets	-	-	-	-	-
Total Primary Government	$ 615,984	$ 304,336	$ 4,824,389	$ 69,974	$ 5,814,683

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

The following table provides the segmented time distribution of the Primary Government's investments at June 30, 2010:

	Maturities in Years (Expressed in Thousands)						
	Less than 1	1 - 5	6 - 10	11 - 20	More than 20	No Maturity	Fair Value
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	$ 8,707	$ -	$ -	$ -	$ -	$ -	$ 8,707
US Treasury Notes	-	-	-	-	-	-	-
Repurchase Agreements	6,728	-	-	-	-	-	6,728
Corporate Notes and Bonds	2,217	-	-	-	-	-	2,217
Commercial Paper	-	-	-	-	-	-	-
Certificates of Deposit	4,757	-	-	-	-	-	4,757
Money Market	-	-	-	-	-	-	-
Cash and Cash Equivalents	-	-	-	-	-	373,710	373,710
Unemployment Fund							
Deposits with US Treasury	-	-	-	-	-	292,354	292,354
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	293	2,638	285	960	2,527	-	6,703
US Treasury Notes	2,046	14,148	5,066	9,858	-	466	31,584
Repurchase Agreements	186	-	-	-	-	-	186
Corporate Notes and Bonds	139	2,707	4,023	73	1,549	5,721	14,212
Other Fixed Income Securities	4,116	-	148	-	-	-	4,264
Commercial Paper	-	-	-	-	-	-	-
Certificates of Deposit	75	-	-	-	-	11,607	11,682
Money Market	-	-	-	-	-	1,100	1,100
Cash and Cash Equivalents	-	-	-	-	-	21,366	21,366
Equities	-	-	-	-	-	53,446	53,446
Other	-	-	-	-	-	2,021	2,021
	$ 29,264	$ 19,493	$ 9,522	$ 10,891	$ 4,076	$ 761,791	$ 835,037
NextGen College Investing Plan							4,813,182
Other Assets							-
Cash with Fiscal Agent							166,464
Total Primary Government							$ 5,814,683

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

The Primary Government's total investments by credit quality rating as of June 30, 2010 are presented below:

	Standard & Poor's Credit Rating (Expressed in Thousands)								
	A1	**A**	**AA**	**AA+**	**AAA**	**BB**	**BBB**	**Not Rated**	**Total**
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	$ -	$ -	$ -	$ -	$ 8,707	$ -	$ -	$ -	$ 8,707
US Treasury Notes	-	-	-	-	-	-	-	-	-
Corporate Notes and Bonds	-	-	-	2,217	-	-	-	-	2,217
Commercial Paper	-	-	-	-	-	-	-	-	-
Money Market	-	-	-	-	-	-	-	-	-
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	-	-	-	-	2,193	-	-	4,510	6,703
US Treasury Notes	-	-	-	-	3,842	-	-	27,742	31,584
Corporate Notes and Bonds	-	2,376	865	-	1,037	-	669	9,265	14,212
Commercial Paper	-	-	-	-	-	-	-	-	-
Money Market	-	-	-	-	-	-	-	-	-
Other Fixed Income Securities	-	-	-	-	-	-	148	4,116	4,264
Total Primary Government	$ -	$ 2,376	$ 3,082	$ -	$ 15,779	$ -	$ 817	$ 45,633	$ 67,687

Concentration of Credit Risk –Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State limits concentration of credit risk in its trusts by requiring that no single stock represent more than 10 percent of the total portfolio. There is no concentration of credit risk policy for the Treasurer's Cash Pool. At June 30, 2010, there were no investments that exceeded five percent of the Treasurer's Cash Pool.

Custodial Credit Risk - For investments, custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The State limits its custodial credit risk for the Treasurer's Cash Pool by maintaining a file of the most recent credit rating analysis reports performed for each approved financial institution. The State also requires that all securities be perfected in the name of the State and held in third party safekeeping by a state approved custodian. Of the cash pool's $3.5 million invested in non-negotiable certificates of deposit, none exceeded the FDIC insured amounts for the institutions at which they were held. The State does not have a policy regarding custodial credit risk for its trusts. The Percival P. Baxter Trust is held by the counterparty's trust department, but not in the State's name.

The fair value of the trust's investments as of June 30, 2010 was $53.1 million and was comprised of the following:

U.S. Instrumentalities	$ 4,071
US Treasury Notes	1,809
Corporate Notes and Bonds	3,886
Other Fixed Income Securities	4,265
Equities	36,815
Cash and Equivalents	668
Other	1,592
Total	$ 53,106

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to its vendors. During fiscal year 2010 these disbursements, on average, exceeded $183.0 million per month. The funds in transit are not collateralized and are not held by the State Treasurer. Until the vendor receives payment, the State retains some liability.

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Maine Public Employees Retirement System (the System) makes investments in a combination of equities, fixed income securities, infrastructure, private equity, real estate, mutual funds, commingled mutual and index funds, derivative financial instruments, and other investment securities established by the Trustee's investment policy.

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

Foreign currency forward contracts are used to hedge against the currency risk in the System's foreign equity and fixed income security portfolios. The System's fixed income managers invest in CMOs and Asset-Backed Securities to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2010 the carrying value of the System's CMO and Asset-Backed Security holdings totaled $111.4 million. The System also invests in swaps. Interest rate swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities.

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

Cash open collateral is invested in a short-term investment pool, the Core Limited Collateral Section. Cash collateral may also be invested separately in "term loans." At June 30, 2010 all of the collateral for securities lending is subject to custodial credit risk. The System believes that there is no credit risk as defined in GASB Statement No. 28 and GASB Statement No. 40. The collateral held and the market value of securities on loan for the System as of June 30, 2010 was $381.9 million and $370.6 million, respectively.

The following table details the System's derivative investments at June 30, 2010:

(Expressed in Thousands)

	2010 Changes in Fair Value	Fair Value at June 30, 2010		Notional
		Classification	Amount	
Investment derivatives:				
Interest rate swaps:				
Pay fixed	$ (2,550)	OSIC*	$ (3,311)	$ 36,400
Credit default swaps:				
Buy protection	$ (1,276)	Investments	$ 2,593	$ 78,327
Sell protection	501	OSIC*	(307)	$ 5,400
	$ (775)		$ 2,286	
Foreign currency contracts:				
To sell:				
Canadian dollar	$ 1,681	Investments	$ 1,681	$ 33,386
EURO	946	Investments	946	$ 9,766
British Pound Sterling	(13)	OSIC*	(13)	$ 931
	$ 2,614		$ 2,614	
Futures:				
Equity Index Futures Contracts	$ (264)	OSIC*	$ (264)	$ 30,918

*OSIC = Obligations to settle investment contracts

NEXTGEN COLLEGE INVESTING PLAN

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

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

NextGen's investments are comprised of 43 different investment portfolios which are reported at fair value and total $4.8 billion at June 30, 2010.

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

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

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

Credit Risk - The Program has not established an investment policy that specifically limits its exposure to credit risk. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account may bear credit risk. The GIC underlying the Program's investment in the Principal Plus Portfolio has not been rated by any of the nationally recognized statistical rating organizations. The fair value of the GIC at June 30, 2010 was $225.6 million.

The assets of the Account are invested in a portfolio of high-quality, short-term money-market securities consisting primarily of direct U.S. Government obligations, U.S. Government agency securities, obligations of domestic and foreign banks, U.S. dollar denominated commercial paper, other short-term debt securities issued by U.S. and foreign entities, and repurchase agreements. In addition, the Account invests in certificates of deposit issued by Maine financial institutions in accordance with instructions of FAME and the Treasurer. All Maine Certificate of Deposit's are FDIC insured or fully collateralized. The value of the Account at June 30, 2010 was $342.3 million.

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

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

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

	Fair Value
Principal Plus Portfolio	$ 225,582
Cash Allocation Account	342,307
Fixed Income Securities	1,158,640
Total Fair Value	$1,726,529

COMPONENT UNITS

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

Certain component units also invest in the Treasurer's Cash Pool and comprise approximately 20 percent of pool assets. The component units reported their participation as either Cash and Cash Equivalents or Investments on their financial statements. The State reclassified $93.6 million of the component units' participation to "Equity in Treasurer's Cash Pool" on the State's financial statements. In addition to the amounts reported, the State Treasurer's Cash Pool includes $8.0 million, consisting of Finance Authority of Maine component unit fiduciary funds that, because of GASB Statement No. 34 reporting criteria, are not shown in the accompanying financial statements as invested in the Treasurer's Cash Pool.

NOTE 6 - RECEIVABLES

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

Primary Government – Receivables
(Expressed in Thousands)

	Taxes	Accounts	Loans	Allowance for Uncollectibles	Net Receivables
Governmental Funds:					
General	$520,230	$97,785	$1	($179,271)	$438,745
Highway	28,754	1,761	44	(7,479)	23,080
Federal	-	82,423	-	(21,650)	60,773
Other Special Revenue	9,767	76,626	5,605	(7,440)	84,558
Other Governmental Funds	-	-	-	-	-
Total Governmental Funds	558,751	258,595	5,650	(215,840)	607,156
Allowance for Uncollectibles	(152,883)	(62,957)	-		
Net Receivables	$405,868	$195,638	$5,650		$607,156
Proprietary Funds:					
Employment Security	$0	$41,436	$0	($11,094)	$30,342
Nonmajor Enterprise	-	28,409	-	(1,018)	27,391
Internal Service	-	2,318	-	-	2,318
Total Proprietary Funds	-	72,163	-	(12,112)	60,051
Allowance for Uncollectibles	-	(12,112)	-		
Net Receivables	$0	$ 60,051	$ -		$60,051

Component Units – Receivables
(Expressed in Thousands)

	Accounts	Loans	Notes	Allowance For Uncollectibles	Net Receivables
Finance Authority of Maine	$4,316	$ -	$201,808	($6,889)	$199,235
Maine Community College System	5,081	-	-	(1,106)	3,975
Maine Health and Educational Facilities Authority	3,630	1,278,873	-	(618)	1,281,885
Maine Municipal Bond Bank	1,118	-	-	-	1,118
Maine State Housing Authority	16,383	1,350,913	794	(10,775)	1,357,315
University of Maine System	43,864	-	41,109	(6,473)	78,500

NOTE 7 - INTERFUND TRANSACTIONS

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

Balances due within one year are recorded as Due to/Due from Other Funds. The balances of current interfund receivables and payables as of June 30, 2010 were:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds				
Due from Other Funds	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ -	$ -	$ 1,316	$ -	$ -
Highway	1	1	1,864	-	-
Federal	64	23	330	72	-
Other Special Revenue	157,401	154	523	233	38
Other Governmental	-	-	-	-	-
Employment Security	-	-	117	-	-
Non-Major Enterprise	222	211	14	5	-
Internal Service	10,208	2,802	4,624	3,580	-
Fiduciary	35,592	-	-	-	-
Total	$ 203,488	$ 3,191	$ 8,788	$ 3,890	$ 38

Due from Other Funds	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ 169	$ 6,410	$ 5,475	$ -	$ 13,370
Highway	-	-	203	-	2,069
Federal	-	-	183	-	672
Other Special Revenue	-	1,607	235	-	160,191
Other Governmental	-	-	-	-	-
Employment Security	-	-	-	-	117
Non-Major Enterprise	-	-	49	-	501
Internal Service	-	206	963	12	22,395
Fiduciary	-	-	-	-	35,592
Total	$ 169	$ 8,223	$ 7,108	$ 12	$ 234,907

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

The more significant balance included in Due to/Due from other funds is $65 million due to the Other Special Revenue Fund related to the General Fund's negative cash position in the Treasurer's Cash Pool. This type of temporary loan is typical; cash is frequently borrowed and returned depending on cash flow needs.

Transfers are made in accordance with statutory authority. Significant transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the funds required to pay debt service as

principal and interest payments come due, 3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Lottery Fund, and 5) transfer accumulated surpluses from other funds to the General Fund when authorized by statute.

During fiscal year 2010, the State of Maine, in accordance with the legislatively authorized budget, recorded several non-routine, nonrecurring transfers.

The unappropriated surplus of the General Fund transferred $29.7 million to the Medical Care Services Federal Expenditures Fund for the federal disallowance related to targeted case management services provided in 2002 and 2003.

The Other Special Revenue Fund transferred $13.5 million to the unappropriated surplus of the General Fund.

The Retiree Health Insurance Fund transferred $48.4 million to the unappropriated surplus of the General Fund, and transferred $11.1 million to the unappropriated surplus of the Highway Fund.

Interfund transfers for the year ended June 30, 2010, consisted of the following:

Interfund Transfers
(Expressed in Thousands)

	Transferred From				
Transferred To	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ -	$ -	$ -	$ 51,413	$ -
Highway	1,642	-	14,222	533	-
Federal	29,812	-	-	16,653	-
Other Special Revenue	160,112	5,669	4,512	-	2,233
Other Governmental Funds	-	-	381	-	1,383
Employment Security	-	-	1,452	-	-
Non-Major Enterprise	3,360	4,576	-	176	-
Internal Service	10,842	-	1	10	-
Fiduciary	-	-	-	-	592
Total	$ 205,768	$ 10,245	$ 20,568	$ 68,785	$ 4,208

	Transferred From				
Transferred To	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ -	$ 52,229	$ 3,052	$ -	$ 106,694
Highway	-	-	73	-	16,470
Federal	1,540	-	697	-	48,702
Other Special Revenue	-	4,840	383	1,340	179,089
Other Governmental Funds	-	-	-	-	1,764
Employment Security	-	-	-	-	1,452
Non-Major Enterprise	-	-	2,893	-	11,005
Internal Service	-	-	3,404	-	14,257
Fiduciary	-	-	6	-	598
Total	$ 1,540	$ 57,069	$ 10,508	$ 1,340	$ 380,031

NOTE 8 - CAPITAL ASSETS

The following schedule details changes in capital assets for the governmental activities and business-type activities of the primary government for the fiscal year ended June 30, 2010:

Primary Government – Capital Assets
(Expressed in Thousands)

	Beginning Balance	Increases and Other Additions	Decreases and Other Deletions	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 449,256	$ 24,520	$ 312	$ 473,464
Construction in progress	57,350	39,269	5,645	90,974
Infrastructure	3,378,914	221,332	-	3,600,246
Total capital assets not being depreciated	3,885,520	285,121	5,957	4,164,684
Capital assets being depreciated:				
Buildings	576,236	13,367	228	589,375
Equipment	250,031	22,333	17,620	254,744
Improvements other than buildings	18,818	787	29	19,576
Total capital assets being depreciated	845,085	36,487	17,877	863,695
Less accumulated depreciation for:				
Buildings	213,848	15,052	143	228,757
Equipment	167,775	18,350	16,426	169,699
Improvements other than buildings	10,681	1,128	29	11,780
Total accumulated depreciation	392,304	34,530	16,598	410,236
Total capital assets being depreciated, net	447,216	1,957	1,279	453,459
Governmental Activities Capital Assets, net	$ 4,338,301	$ 287,078	$ 7,236	$ 4,618,143

	Beginning Balance	Net Additions	Net Deletions	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 43,344	$ -	$ 268	$ 43,076
Construction in progress	3,416	5,373	-	8,789
Total capital assets not being depreciated	46,760	5,373	268	51,865
Capital assets being depreciated:				
Buildings	9,655	-	1,190	8,465
Equipment	47,134	3,714	1,300	49,548
Improvements other than buildings	74,572	-	-	74,572
Total capital assets being depreciated	131,361	3,714	2,490	132,585
Less accumulated depreciation	81,456	7,245	1,886	86,815
Total capital assets being depreciated, net	49,905	(3,531)	604	45,770
Business-Type Activities Capital Assets, net	$ 96,665	$ 1,842	$ 872	$ 97,635

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

Governmental Activities – Depreciation Expense
(Expressed in Thousands)

	Amount
Governmental Activities:	
Arts, Heritage and Cultural Enrichment	$ 19
Business Licensing and Regulation	385
Economic Development and Workforce Training	1,185
Education	328
Governmental Support and Operations	5,826
Health and Human Services	5,027
Justice and Protection	10,534
Natural Resources Development and Protection	3,860
Transportation Safety and Development	7,206
Total Depreciation Expense – Governmental Activities	$ 34,370

NOTE 9 - MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

PLAN DESCRIPTIONS

The Maine Public Employees Retirement System, formerly named the Maine State Retirement System, (the System), is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Title 5 MRSA C. 421, 423, and 425. The System provides pension, disability, and death benefits to its members, which includes employees of the State, public school employees (defined by Maine law as teachers and for whom the State is the employer for retirement contribution and benefit purposes, or SETP) and employees of 293 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine, each of which contracts for participation in the System under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2010 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The Maine Public Employees Retirement System management's interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries. The System is therefore regarded as administering an agent, multiple-employer plan for financial reporting purposes. The statements include $2.0 billion of assets related to the PLD's. The Attorney General's Office does not concur that these assets are available for payment of State benefits.

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

The System administers three defined contribution plans for employees of PLD's that elect to participate. At June 30, 2010, there were 46 employers participating in these plans. The 629 participants individually direct the $10.4 million in assets covered by the plans.

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

BASIS OF ACCOUNTING

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

INVESTMENTS

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

CONTRIBUTION INFORMATION

Membership in each defined benefit plan consisted of the following at June 30, 2010:

	State Employees and Teachers Plan	Consolidated Plan for PLD
Active vested and nonvested members	40,113	10,369
Terminated vested participants	6,828	1,274
Retirees and benefit recipients	28,435	7,370
Total	75,376	19,013
Number of participating employers/sponsors	1	292

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

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

STATE EMPLOYEES AND TEACHERS PENSION PLAN SPECIFICS

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

PARTICIPATING LOCAL DISTRICTS PLAN SPECIFICS

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

SPECIAL FUNDING SITUATION – TEACHERS DEFINED BENEFIT PENSION PLAN

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

FUNDED STATUS AND FUNDING PROGRESS – DEFINED BENEFIT PENSION PLANS

The funded status of each plan as of June 30, 2010, the most recent biennial actuarial valuation date, is as follows:

Plans	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) – Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
SETP	8,369,772,080	12,676,367,068	4,306,594,988	66.0%	1,681,593,315	256.1%
PLD's	2,045,337,000	2,122,833,460	77,496,460	96.3%	397,506,572	19.5%

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

	SETP		PLD's
Valuation date	June 30, 2010		June 30, 2010
Actuarial cost method	Entry age		Entry age
Amortization method	Level percent closed		Level percent open
Remaining amortization period	18	[1]	14
Asset valuation method	3-Year smoothed market		3-Year smoothed market
Actuarial assumptions:			
Investment rate of return	7.75%		7.75%
Projected salary increases	4.75% - 10.00%		4.50% - 10.50%
Includes inflation at	4.50%		4.50%
Cost of living adjustments	3.75%		3.75%
Most recent review of plan experience:	2006		2008
Plan changes from last valuation	none		none

[1] The System amortizes the unfunded liability of the State and teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2004, the Legislature

relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The contribution rate in effect for 2010 was determined by the 2008 valuation, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 7 years remained at June 30, 2010.

CONTRIBUTION RATES – DEFINED BENEFIT PENSION PLANS

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

In order to reduce any unfunded pension liability for State employees and teachers under Title 5 MRSA § 1536, the State is required to remit 20 percent of its General Fund unappropriated surplus to the System at year-end. For fiscal 2010, the amount due was $11.2 million.

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 2010 for participating entities:

State	
Employees [1]	7.65 - 8.65%
Employer [1]	14.35 - 53.32%
Teachers	
Employees	7.65%
Employer	17.28%
Participating Local Entities	
Employees [1]	3.0 - 8%
Employer [1]	1.5 - 6.5%

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

ANNUAL PENSION COST AND NET PENSION OBLIGATION

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

Net Pension Obligation
(Expressed in Thousands)

Annual required contribution	$	317,992
Interest on net pension obligation		1,463
Adjustment to annual required contribution		(1,284)
Annual pension cost		318,171
Contributions made		329,207
Increase (decrease) in net pension obligation		(11,036)
Net pension obligation beginning of year		18,881
Net pension obligation end of year	$	7,845

Analysis of Funding Progress
(Expressed in Thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
2010	329,207	100.00%	7,845
2009	320,285	100.00%	18,881
2008	305,625	99.91%	18,708

Employer contributions met actuarially determined contribution requirements.

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

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

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

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

The State also administers a fourth defined benefit healthcare plan, (Ancillary Group Plan), which covers two non-major discretely presented component units. A major component unit had been included in this plan for fiscal 2009. They currently administer their own healthcare plan. Under the Ancillary Group Plan, the State acts as the plan administrator only.

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

PLAN MEMBERSHIP

Membership in the four healthcare plans is as follows:

	State Employees	Teachers	First Responders	Ancillary Groups
Actives	12,720	27,159	912	67
Retirees	8,920	9,381	69	11
Total	21,640	36,540	981	78
Number of employers	1			2
Contributing entities		1	1	2

STATE EMPLOYEES PLAN FUNDING POLICY

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

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

TEACHERS PLAN AND FIRST RESPONDERS PLAN FUNDING

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

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

ANCILLARY GROUP PLAN

The following plan, administered by the State, is financially independent and is not included in the State Retiree Health Internal Service Fund. This multiple-employer agent postemployment benefit plan covers 11 retirees of two non-major component units: Maine Educational Center for the Deaf and Hard of Hearing and the Northern New England Passenger Rail Authority. All active employees participate in the State Employee Group Health Insurance Plan. All eligible retired employees who elect coverage are included in this plan. The State Employee Health Commission establishes premiums annually.

ANNUAL OPEB COST

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

(Expressed in Thousands)

	State Employees	Teachers	First Responders
Annual required contribution	$ 90,000	$ 58,000	$ 1,105
Interest on net OPEB obligation (asset)	(1,000)	3,000	86
Adjustment to annual required contribution	3,000	(5,000)	(140)
Annual OPEB cost	$ 92,000	$ 56,000	$ 1,051
Contributions made	55,000	19,000	368
Increase (decrease) in net healthcare obligation	37,000	37,000	683
Net healthcare obligation (asset) beginning of year	(28,772)	69,956	1,833
Net healthcare obligation end of year	$ 8,228	$ 106,956	$ 2,516

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

Analysis of Funding Progress
(Expressed in Thousands)

Plan	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Asset	Net OPEB Obligation
State Employees	6/30/2010	92,000	59.78%		8,228
	6/30/2009	77,000	65.43%	28,772	
	6/30/2008	111,000	149.90%	55,388	
Teachers	6/30/2010	56,000	33.93%		106,956
	6/30/2009	60,000	30.65%		69,956
	6/30/2008	46,000	38.38%		28,343
First Responders	6/30/2010	1,051	35.01%		2,516
	6/30/2009	1,045	24.69%		1,833
	6/30/2008	1,045	0.00%		1,045

FUNDED STATUS AND FUNDING PROGRESS
The funded status of the plans as of June 30, 2010 was as follows:

		(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Plan	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
	June 30, 2010	103	1,450	1,347	7.10%	549	245.36%
State Employees	June 30, 2009	82	1,311	1,229	6.25%	595	206.55%
(in millions)	June 30, 2008	98	1,242	1,144	7.89%	568	201.41%
Teachers	June 30, 2010	0	1,005	1,005	0.00%	1,064	94.45%
(in millions)	June 30, 2009	0	994	994	0.00%	1,215	85.93%
	June 30, 2008	0	1,044	1,044	0.00%	1,160	85.69%
	(biennial)						
First Responders	June 30, 2009	0	20,063	20,063	0.00%	51,876	38.67%
(in thousands)	June 30, 2008	0	19,806	19,806	0.00%	51,021	38.82%

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

ACTUARIAL METHODS AND ASSUMPTIONS

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

	State Employees	Teachers	First Responders
Valuation date	March 31, 2010	March 31, 2010	June 30, 2009
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed	Level percent closed
Remaining amortization period - UAAL	28	28	28
Plan changes	30-year fixed	30-year fixed	20-year fixed
Actuarial (gains) /losses	10-year fixed	15-year fixed	rolling 15 year period
Asset valuation method	market	n/a	n/a
Actuarial assumptions:			
Investment rate of return	4.80% 7.50% ultimate	4.50%	4.50%
Projected salary increases	3.25%	3.25%	3.75%
Inflation rate	3.00%	3.00%	3.75%
Healthcare inflation rate	initial - actual premiums ultimate 4.5%	initial - actual premiums ultimate 4.5%	initial 8% ultimate 4.5%

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CONTRIBUTIONS AND RESERVES

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

INVESTMENTS

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

POST RETIREMENT GROUP LIFE INSURANCE BENEFIT PLAN

The Maine Public Employees Retirement System, (the System), is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit Group Life Insurance Plan (GLIP) administered by a third party insurance company in accordance with Title 5 MRSA C. 423 and 425. Members include employees of the State, public school employees (defined by Maine law as teachers and for whom the State acts like the employer for retirement contribution and benefit purposes), members of the Judiciary and the Legislature, that are eligible for membership in the System. Group life insurance benefits are also provided to employees of 390 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine that elect to participate under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2010 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

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

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

BASIS OF ACCOUNTING

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

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

INVESTMENTS

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

FUNDING POLICY

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

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

ANNUAL OPEB COST

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

Analysis of Funding Progress

(Expressed in Thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Net OPEB Asset	Net OPEB Obligation	Percentage of OPEB Cost Contributed
June 30, 2010	$ 6,800	$ 6,361	$ 761		93.54%
June 30, 2009	5,700	12,377	1,200		217.14%
June 30, 2008	5,500	23		$ 5,477	0.42%

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of June 30, 2010 was as follows:

(Expressed in Thousands)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
State Employees	June 30, 2010	19,700	71,500	51,800	27.55%	615,600	8.41%
	June 30, 2009	17,500	67,900	50,400	25.77%	601,099	8.38%
	June 30, 2008	21,100	64,900	43,800	32.51%	601,100	7.29%
Teachers	June 30, 2010	21,400	60,400	39,000	35.43%	650,600	5.99%
	June 30, 2009	17,700	54,700	37,000	32.36%	591,100	6.26%
	June 30, 2008	19,900	52,100	32,200	38.20%	591,100	5.45%

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

ACTUARIAL METHODS AND ASSUMPTIONS

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

Significant methods and assumptions were as follows:

Valuation date	June 30, 2010
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Asset valuation method	market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75% - 10.00%
Cost of living increases in life benefits	N/A
Participation percent for future retirees	100.00%
Form of benefit payment	lump sum

NOTE 11 - LONG-TERM OBLIGATIONS

PRIMARY GOVERNMENT

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

GENERAL OBLIGATION BONDS

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

Changes in general obligation bonds of the primary government during fiscal year 2010 were:

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

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010	Due Within One Year
General Obligation Debt:					
General Fund	$ 408,925	$ 31,755	$ 74,905	$ 365,775	$ 72,905
Special Revenue Fund	121,065	25,080	11,820	134,325	15,100
Total	$ 529,990	$ 56,835	$ 86,725	$ 500,100	$ 88,005

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2010 until maturity, are summarized in the following table:

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

Fiscal Year	Principal	Interest	Total
2011	$ 88,005	$ 18,921	$ 106,926
2012	82,010	15,931	97,941
2013	80,275	12,915	93,190
2014	63,315	9,913	73,228
2015	56,070	7,495	63,565
2016 - 2020	130,425	12,810	143,235
Total	$ 500,100	$ 77,985	$ 578,085

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2010 are as follows:

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

	Amounts Issued	Outstanding June 30, 2010	Fiscal Year Maturities First Year	Fiscal Year Maturities Last Year	Interest Rates
General Fund:					
Series 2001	22,050	2,105	2002	2011	4.00% - 6.08%
Series 2002	27,610	5,520	2003	2012	3.00% - 5.75%
Series 2003	97,080	29,115	2003	2013	1.50% - 5.00%
Series 2004	117,275	45,640	2005	2014	2.00% - 5.27%
Series 2005	137,525	76,535	2006	2015	2.00% - 5.27%
Series 2006	52,390	31,425	2007	2016	4.00% - 5.51%
Series 2007	33,975	23,765	2008	2017	4.00% - 5.50%
Series 2008	46,525	37,215	2009	2018	3.00% - 5.13%
Series 2009	96,035	82,700	2011	2019	2.50% - 5.00%
Series 2010	31,755	31,755	2011	2020	1.41% - 4.00%
Total General Fund		$ 365,775			
Special Revenue Fund:					
Series 2001	19,225	1,920	2002	2011	4.00% - 5.00%
Series 2004	13,000	5,075	2005	2014	2.00% - 4.00%
Series 2007	27,000	18,900	2008	2017	4.00% - 5.50%
Series 2008	57,550	46,040	2009	2018	3.00% - 5.13%
Series 2009	37,310	37,310	2011	2019	2.50% - 5.00%
Series 2010	25,080	25,080	2011	2020	1.41% - 4.00%
Total Special Revenue		$ 134,325			

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, 2010, general obligations bonds authorized and unissued totaled $95.8 million.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY

The State included $189.1 million in other financing arrangements to reflect revenue bonds issued by the Maine Governmental Facilities Authority (MGFA), a blended component unit. Payment of the bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature. Debt issued by MGFA is not debt of the State or any political subdivision within the State. The State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. MGFA may not issue securities in excess of $325.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2010, MGFA issued Series 2009A Bonds, which totaled $12.0 million at an interest rate between 3.25 percent and 5 percent, and issued Series 2010A Refunding Bonds, which totaled $25.6 million at an interest rate between 2.5 percent and 5 percent. The 2010A Refunding Bonds were used to in-substance defease $24.3 million in certain maturities of outstanding 1999, 2000A, 2000B, 2001 and 2002 bonds with an average interest rate of 5.75 percent. Net proceeds totaled $25.8 million, including bond premiums of $600 thousand, and after $378 thousand in issuance costs, were used to purchase U.S. Government securities which will provide for all future debt service payments on the defeased bonds.

Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of $222 thousand, the Authority in effect reduced in aggregate debt service payments by approximately $1.0 million over the next twelve years and obtained an economic gain of $1.0 million. At June 30, 2010, there were approximately $51.0 million of MGFA in-substance defeased bonds outstanding.

CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS

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

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

SHORT TERM OBLIGATIONS

The State of Maine issued and retired $41.2 million in Bond Anticipation Notes during fiscal year 2010. Short term obligations are used to meet temporary operating cash flow needs. At June 30, 2010 there were no outstanding Tax Anticipation Notes or Bond Anticipation Notes.

OTHER LONG-TERM OBLIGATIONS

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

Changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2010, are summarized as follows:

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

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due Within One Year
Governmental Activities:					
MGFA Revenue Bonds	$ 192,935	$ 37,560	$ 41,415	$ 189,080	$ 16,930
COP's and Other Financing	50,079	57,989	31,777	76,291	25,738
Compensated Absences	45,366	5,931	5,509	45,788	4,480
Claims Payable	58,611	187,573	187,896	58,288	23,688
Capital Leases	37,634	328	4,633	33,329	5,830
Loans Payable to Component Unit	131,769	142,857	16,232	258,394	17,975
Net Pension Obligation	18,881	318,171	329,207	7,845	-
Other Post-Employment Benefit Obligation	71,789	56,051	10,140	117,700	-
Pollution Remediation	64,876	1,106	15,954	50,028	-
Total Governmental Activities	$ 671,940	$ 807,566	$ 642,763	$ 836,743	$ 94,641
Business-Type Activities:					
Compensated Absences	$ 880	$ 117	$ 189	$ 808	$ 189
Total Business-Type Activities	$ 880	$ 117	$ 189	$ 808	$ 189

Debt service requirements (principal and interest) for COP's and other financing arrangements of the primary government, from June 30, 2010 until maturity, are summarized as follows:

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

	Governmental Funds			Internal Service Funds		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total
2011	$ 14,759	$ 254	$ 15,013	$ 27,909	$ 8,913	$ 36,822
2012	12,994	112	13,106	27,865	7,898	35,763
2013	10,168	37	10,205	27,311	6,903	34,214
2014	126	25	151	22,830	5,886	28,716
2015	132	19	151	17,277	5,049	22,326
2016 - 2020	282	19	301	74,080	14,688	88,768
2021 - 2025	-	-	-	18,695	4,389	23,084
2026 - 2030	-	-	-	10,945	1,088	12,033
Total	$ 38,461	$ 466	$ 38,927	$ 226,912	$ 54,814	$ 281,726

CONDUIT DEBT OBLIGATIONS

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

LOANS PAYABLE TO COMPONENT UNIT

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

Changes in GARVEE and TransCap revenue bonds during fiscal year 2010 were:

Primary Government - Changes in GARVEE and TransCap Revenue Bonds
(Expressed in Thousands)

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010	Due Within One Year
Loans Payable to Component Unit:					
Federal Funds	$ 84,203	$ -	$ 7,625	$ 76,578	$ 7,950
Special Revenue Fund	47,566	142,857	8,607	181,816	10,025
Total	$ 131,769	$ 142,857	$ 16,232	$ 258,394	$ 17,975

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

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

GARVEE and TransCap Revenue bonds issued and outstanding at June 30, 2010 are as follows:

GARVEE and TransCap Revenue Bonds Outstanding
(Expressed in Thousands)

	Amounts Issued	Outstanding June 30, 2010	Fiscal Year Maturities First Year	Fiscal Year Maturities Last Year	Interest Rates
Federal Funds:					
Series 2004	49,423	28,915	2005	2015	2.50% - 5.00%
Series 2008	50,000	46,635	2010	2021	3.25% - 4.00%
Total Federal Funds		$ 75,550			
Special Revenue Fund:					
Series 2008	50,000	45,601	2010	2024	3.00% - 5.50%
Series 2009A	111,388	105,823	2011	2024	2.50% - 5.00%
Series 2009B	31,469	30,391	2011	2025	2.00% - 5.00%
Total Special Revenue		$ 181,815			

Total principal and interest requirements over the life of the 2004 GARVEE bonds are $60.2 million, with annual requirements of up to $5.6 million; for the 2008 GARVEE bonds total principal and interest requirements are $63.1 million, with annual requirements of up to $5.3 million. Federal transportation funds received by the State for the federal fiscal year preceding the issuance of the 2004 GARVEE bonds totaled $175 million. Total federal highway transportation funds received in federal fiscal year 2010 were $150.9 million. Current year payments to MMBB for GARVEE bonds were $10.6 million (7.1 percent of federal highway transportation funds received).

Total principal and interest requirements over the life of the 2008 TransCap Revenue Bond are $71.9 million, with annual requirements up to $4.8 million. Total principal and interest requirements over the life of the 2009A TransCap Revenue Bonds are $144.3 million, with annual requirements up to $10.1 million; for the 2009B TransCap Revenue Bonds total principal and interest requirements are $46.2 million, with annual requirements up to $16.9 million. Total revenue received for revenue sources used as pledged revenues were $38.1 million in fiscal year 2010.

OBLIGATIONS UNDER CAPITAL LEASES

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

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

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

Leases that exist between the State and the Maine Governmental Facilities Authority (MGFA), a blended component unit, are not recorded as leases in this report. In their separately issued financial statements, MGFA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide statements for the bonds issued by MGFA to construct the assets associated with the leases. Future payments to MGFA are, therefore, not included in the schedule of lease commitments below.

At June 30, 2010 capital assets include $72.3 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of $43.1 million.

OBLIGATIONS UNDER OPERATING LEASES

The State is obligated under certain leases, accounted for as operating leases, in the proprietary funds. Operating leases do not give rise to property rights or lease obligations, and therefore assets and liabilities related to the lease agreements are not recorded in the State's financial statements. Rental expense incurred under operating leases totaled $2.1 million during the year.

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

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

Fiscal Year	Capital Leases	Operating Leases
2011	$ 5,830	$ 4,103
2012	5,564	3,847
2013	4,524	3,287
2014	3,960	2,987
2016	3,566	2,624
2016 - 2020	12,321	6,879
2021 - 2025	3,728	3,375
2026 - 2030	623	65
2031 - 2035	-	22
2036 - 2040	-	24
2041- 2045	-	26
2046 - 2050	-	24
Total Minimum Payments	40,116	$ 27,263
Less: Amount Representing Interest	7,047	
Present Value of Future Minimum Payments	$ 33,069	

MGFA REVENUE BONDS, COP'S AND OTHER FINANCING ARRANGEMENTS

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

CLAIMS PAYABLE

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

COMPENSATED ABSENCES

In the government-wide statements and proprietary fund financial statements, compensated absences are reported as long-term liabilities as required by GASB. In the governmental fund financial statements, vested or accumulated leave is reported as an expenditure and fund liability when incurred upon retirement, termination or death. Sick and vacation payments made to terminated employees as of June 30, 2010 but paid after the fiscal year end is also reported in the funds.

COMPONENT UNITS

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

Component Unit Bonds Outstanding
(Expressed in Thousands)

Component Unit	Interest Rates	Amount	Maturity Dates
Finance Authority of Maine	0.5 - 1.0%	173,004	2010 – 2037
Maine Community College System	3.0 - 5.0%	24,734	2010 - 2036
Maine Health and Higher Educational Facilities Authority			
debt	2.0 - 6.2%	1,406,290	2010 - 2040
conduit debt	4.5- 7.3%	148,720	2010 - 2039
Maine Municipal Bond Bank	1.1 - 5.9%	1,398,326	2010 – 2039
Maine State Housing Authority	0.0 - 6.4%	1,509,711	2010 – 2042
University of Maine System	4.3 - 5.75%	202,206	2010 – 2037

MHHEFA advance refunded various bond obligations in prior years. Proceeds were primarily used to purchase U.S. Government securities that will provide for future payment on the debt. On April 22, 2010 MHHEFA issued $97.2 million in 2010A reserve fund resolution revenue bonds with an average interest rate of 4.84 percent, $41.1 million was used to in-substance defease $44.2 million of outstanding bonds. On June 24, 2010 MHHEFA issued $108.0 million in 2010B and C reserve fund resolution revenue bonds with an average interest rate of 4.36 percent, all of which was used to in-substance defease $118.4 million of certain outstanding bond issuances. At June 30, 2010, there were approximately $247.6 million of in-substance defeased bonds remaining outstanding with respect to all advance-refunded issues within the reserve fund resolution. At June 30, 2010, there were approximately $13.5 million of defeased bonds outstanding with respect to advance refunded bond issues of the general resolution. The general resolution bonds are considered conduit debt.

UMS advance refunded various bond obligations in prior years. Proceeds were primarily used to purchase U.S. Government securities that will provide for future debt service payment on the debt. At June 30, 2010, $21.3 million of in-substance defeased bonds remained outstanding.

In periods of declining interest rates, MMBB has refunded its bond obligations, reducing aggregate debt service. Where allowed, the bank retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Government securities that will provide for future payment on the debt. On August 27, 2009 MMBB issued $23.8 million of Series E and F general tax-exempt bonds with an average interest rate of 3.0 percent to in-substance defease $24.1 million of various outstanding bonds. At June 30, 2010 the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately $88 million. On November 3, 2009 MMBB issued $19.6 million of Series A, B and C refunding sewer and water bonds with an average interest rate of 3.3 percent to in-substance defease $21.6 million of various outstanding bonds. At June 30, 2010 there are no balances remaining of sewer and water fund group in-substance defeased bonds as all were called and repaid from refunding escrows prior to June 30, 2010.

For the period ended December 31, 2009, MSHA redeemed $185.6 million of its Mortgage Purchase Fund group bonds from reserve funds, mortgage prepayments, surplus revenues and the proceeds of refunding bonds. Mortgage Purchase Fund losses of $466 thousand were attributable to recognition of the bond discount and debt issuance expenses associated with the redeemed bonds.

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

Component Units Principal Maturities
(Expressed in Thousands)

Fiscal Year Ending	FAME	MMBB	MCCS	MSHA	UMS	MHHEFA
2011	$ 805	$ 121,495	$ 52	$ 34,945	$ 8,526	$ 43,020
2012	55	114,978	54	41,035	39,425	55,515
2013	56	110,376	601	41,690	7,616	60,185
2014	57	104,009	622	43,555	7,962	60,630
2015	57	100,890	649	46,615	9,990	62,005
2016 - 2020	295	420,115	3,637	255,240	35,009	294,695
2021 - 2025	298	293,735	4,529	296,695	33,226	285,375
2026 - 2030	-	106,150	5,681	298,700	33,280	251,775
2031 - 2035	101,550	8,645	6,720	251,300	23,865	185,455
2036 - 2040	70,400	1,055	1,467	185,155	1,076	104,160
2041 - 2045	-	10	-	29,440	-	3,475
Net unamortized premium or (deferred amount)	(569)	16,867	722	(14,659)	2,231	-
Total Principal Payments	$ 173,004	$ 1,398,325	$ 24,734	$ 1,509,711	$ 202,206	$ 1,406,290

NOTE 12 - SELF-INSURANCE

A. RISK MANAGEMENT

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

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

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

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

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

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

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

All risk-financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims liabilities represent the estimated cost of claims as of March 31, 2010. This cost of claims includes case reserves, the development of known claims, and the direct administrative expenses for settling specific claims.

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

At March 31, 2010 and 2009, the present value of the claims payable for the State's self-insurance plan was estimated at $3.8 million and $3.5 million, respectively. The actuary calculated this based on the State's rate on investments.

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

	2010	2009
Liability at Beginning of Year	$ 3,525	$ 3,525
Current Year Claims and Changes in Estimates	1,062	530
Claims Payments	715	530
Liability at End of Year	$ 3,872	$ 3,525

As of June 30, 2010, fund assets of $23.1 million exceeded fund liabilities of $4.4 million by $18.7 million. The portion of this amount that may be reserved for catastrophic losses has not been determined.

In the past, general liability insurance coverage excluded lawsuits brought by employees. Therefore, the loss history used by the actuary to project claims did not include the effects of any such lawsuits. Effective July 1, 1999, the State added $50 thousand coverage per occurrence for the cost of defending the State in any such lawsuits. Effective July 1, 2000, the State increased coverage to include both defense and indemnification costs up to $400 thousand. The effect of this change has been partially incorporated into the estimate used to determine claims payable as of June 30, 2010.

B. UNEMPLOYMENT INSURANCE

The State is self-insured for unemployment compensation. As a direct reimbursement employer, the State recognizes all costs for unemployment compensation as claims are paid. These costs totaled $1.4 million for the fiscal year ended June 30, 2010.

C. WORKERS' COMPENSATION

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

Claims liabilities are actuarially determined based on estimates of the ultimate cost of claims, including future claim adjustment expenses that have been incurred but not reported and claims reported but not settled. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The balance of claims liabilities as of June 30, 2010:

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

	2010	2009
Liability at Beginning of Year	$ 38,673	$ 45,358
Current Year Claims and Changes in Estimates	8,961	1,622
Claims Payments	8,961	8,307
Liability at End of Year	$ 38,673	$ 38,673

Based on the actuarial calculation as of June 30, 2009, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $45.4 million. The discounted amount is $38.7 million and was calculated based on a 3.5 percent interest rate on investments.

D. EMPLOYEE HEALTH INSURANCE

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

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

There are two primary health plans available. HMO Choice is a point-of-service plan available to all active employees and retirees not eligible for Medicare. Smart Value is a Medicare Advantage plan available to Medicare eligible retirees. Total enrollment averaged approximately 40,500 covered individuals. This total includes 29,000 active employees and dependents, 4,500 pre-Medicare retirees and dependents, and 7,000 Medicare retirees and dependents.

Claims expenses are recorded when premiums are paid to the claims servicing contractor. At the end of the period, the total of these premium payments are compared with the actual claims paid and claims expense is adjusted for any overage or shortage with an offsetting receivable or liability recorded. For the period ending June 30, 2010, the State recorded a receivable of $1.2 million for an underpayment of health care premiums.

Expenses and liabilities for incurred but not reported claims, based on an actuarial analysis of claim lag pattern, have been recorded as liabilities in the amount of $15.7 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2010 follows (in thousands):

	Employee Health Fund	Retiree Health Fund
Liability at Beginning of Year	$ 12,405	$ 4,008
Current Year Claims and Changes in Estimates	110,983	13,441
Claims Payments	111,423	13,671
Liability at End of Year	$ 11,965	$ 3,778

The table above reflects actual activity of the employee health and retiree health insurance programs. In accordance with GASB Statement No. 45, certain costs reported above were reclassified for financial statement purposes. $40 million in retiree healthcare costs were reclassified from the internal service fund to the OPEB Trust Fund, a fiduciary fund. Additionally, $13 million of active employee healthcare costs was reclassified from the internal service fund to the OPEB Trust Fund to reflect age-adjusted claims.

NOTE 13 – JOINT VENTURES

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

Tri-State Lotto Commission

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

The Commission is composed of one member from each of the participating states. Each member State's commission appoints one of its members to serve on the Commission and each member holds office at the

pleasure of his or her appointing authority. The Commission annually elects a chairman from among its members. The Commission designated that 50 percent of its sales revenue be reserved for prize awards and agent bonuses.

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

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

The Tri-State Lotto Commission financial report for fiscal year 2010, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected financial information:

Tri-State Lotto Commission
(Expressed in Thousands)

Current Assets	$	35,888
Noncurrent Assets		58,433
Total Assets	$	94,321
Current Liabilities	$	26,860
Long-term Liabilities		52,425
Total Liabilities		79,285
Designated Prize Reserves		4,345
Reserve for Unrealized Gains		10,691
Total Net Assets		15,036
Total Liabilities and Net Assets	$	94,321
Total Revenue	$	78,754
Total Expenses		52,508
Allocation to Member States		26,246
Change in Unrealized Gain on Investments Held for Resale		(539)
Change in Net Assets	$	(539)

Multi-State Lottery Association

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

Participating lotteries sell Powerball tickets, collect all revenues, and remit prize funds to the MUSL, net of lower tier prize awards. The operating costs of the board are divided equally among all of the participating lotteries.

Jackpot prizes payable in installments are satisfied through investments purchased by the MUSL. The MUSL purchases US government obligations which are held in irrevocable trusts established by the MUSL for the benefit of participating State lotteries. Each week the MUSL allocates 50 percent of sales to the prize pool. If no winning ticket is selected, the available jackpot is carried over to the following jackpot drawing.

The Multi-State Lottery Association's financial report for fiscal year 2010, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected information:

Multi-State Lottery Association
(Expressed in Thousands)

Cash and Cash Equivalents	$ 78,668
Investments in US Government Securities	148,216
US Government Securities Held for Prize Annuities	488,579
Due from Party Lotteries	19,585
Other Assets	1,239
Total Assets	$ 736,287
Amount Held for Future Prizes	$ 221,594
Grand Prize Annuities Payable	511,513
Other Liabilities	2,676
	735,783
Net Assets, Unrestricted	504
Total Liabilities and Net Assets	$ 736,287
Total Revenue	$ 3,712
Total Expenses	4,002
Excess of revenue over expenses	(290)
Net assets, beginning	794
Net assets, ending	$ 504

NOTE 14 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

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

By statute, program assets are held by the Treasurer of the State of Maine. FAME and the Treasurer of the State of Maine have entered into a management agreement for the Treasurer to act as a fiduciary of the Fund. The Treasurer is responsible for investment of the Fund and determining, with the advice of the Advisory Committee

on College Savings, the proper allocation of the investments of the Fund. The NextGen had approximately $4.8 billion in net assets at June 30, 2010, which have been recorded in a Private Purpose Trust Fund on the financial statements of the State.

The State of Maine pays a local company as a provider for mental health and independent living services through the MaineCare program. The Executive Director of the Company also serves as House Chair of the Joint Standing Committee on Health and Human Services in the Maine Legislature. During fiscal 2010, the State paid $15.1 million for these services; $5.1 million from the General Fund and $10.0 million from the Federal Fund. At June 30, 2010, the State owed $189 thousand to this vendor.

The State of Maine pays a family owned company as a provider for road reconstruction through the Department of Transportation. The family includes a House Representative on the Utilities and Energy Committee. During fiscal 2010, the State paid $4.2 million for these services; $3.9 million from the Highway Fund and $.3 million from the Transit, Aviation and Rail Transportation Fund. At June 30, 2010, the State had no outstanding balance with this vendor.

The State of Maine pays a local non-profit to provide medical care, nursing facilities and MaineCare services to individuals with developmental disabilities. The Chief Executive Officer of the company is the spouse of the Commissioner of the Department of Health and Human Services. During fiscal 2010, the State paid $5.4 million for these services; $3.9 million from the Federal Fund and $1.5 million from the General Fund. At June 30, 2010, the State had no outstanding balance with this vendor.

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

COMPONENT UNITS

The State provided appropriations and grant monies to the following discretely presented component units: University of Maine System, $205.5 million; Maine Community College System, $60.7 million; Maine Municipal Bond Bank, $36.7 million; Finance Authority of Maine, $13.6 million; and Maine State Housing Authority, $5.9 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $30.3 million at June 30, 2010, as a liability in Amounts Held Under State Revolving Loan Programs in their financial statements. The state reports the asset as a receivable in the Special Revenue Fund. During fiscal year 2010, the State expended $3.8 million to FAME for State revolving loan funds. The State also transferred $1 million from its Loan Insurance Reserves to FAME.

Title 20-A MRSA Chapter 419-A established the Maine State Grant Program as a fund under the jurisdiction of the Finance Authority of Maine. All grant revenues under this fund must be distributed by FAME to students who meet the eligibility requirements for a grant under this chapter. During fiscal year 2007, the NextGen College Savings grant funds and the Maine State Grant funds were pooled into the new State of Maine Grant. FAME paid approximately $6.0 million in grants to the University of Maine System (UMS) on behalf of eligible students. The UMS reflected these as grant revenues from the State.

RELATED ORGANIZATIONS

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

Authority, with the concurrence of the Maine Department of Transportation, established the operating surplus at $4.7 million annually. The payment of debt service costs in connection with the issuance of the Series 1996 Special Obligation Bonds is considered to constitute payment of the operating surplus for the year 2010.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

PRIMARY GOVERNMENT

LITIGATION

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

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

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

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

FEDERAL GRANTS

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

POLLUTION REMEDIATION

The Department of Environmental Protection (DEP) and Department of Transportation (DOT) have pollution remediation obligations as defined by Governmental Accounting Standards Board (GASB) Statement No. 49. The State's total amount of pollution remediation obligation as of June 30, 2010 is $50.0 million. Superfund sites account for approximately $39 million. Superfund is the federal government program to clean up hazardous waste sites.

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

Eastland Woolen Mill – The State recorded a liability for pollution remediation activities of approximately $1.7 million. Currently the State shares the costs with Environmental Protection Agency (EPA) in a cost-sharing ratio

of 10 percent State, 90 percent EPA. Beginning in September of 2018, the State will assume 100 percent of the operation and maintenance and long-term monitoring costs.

Eastern Surplus – The State recorded a liability for pollution remediation activities of approximately $30.1 million. Currently the State shares the costs with EPA in a cost-sharing ratio of 10 percent State, 90 percent EPA. Beginning in August of 2012, the State will assume 100 percent of the operation and maintenance and monitoring costs. As of June 30, 2010 the State has received $2.2 million in recoveries from the Department of Defense. The State expects to recover additional costs of $12.9 million.

Callahan Mine – The State recorded a liability for pollution remediation activities of approximately $7.3 million. Currently the State shares the costs with EPA in a cost-sharing ratio of 10 percent State, 90 percent EPA. The State will assume 100 percent of the cost for the operation and maintenance of the site.

The State recorded a liability for pollution remediation activities of approximately $11 million (net of unrealized recoveries of $3.2 million) related to seven of eight uncontrolled hazardous substance sites. The State expects to recover $753 thousand in costs. The pollution remediation liability for one of these sites could not be reasonably estimated. The Uncontrolled Hazardous Substance Sites Program was created in response to the threats and potential threats to human health and the environment posed primarily by abandoned hazardous waste sites. The Uncontrolled Hazardous Substance Sites program is the State's equivalent to the Federal Superfund Program.

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

MUNICIPAL SOLID WASTE LANDFILLS

Title 38 MRSA §1310-F, establishes within the Department of Environmental Protection (DEP) a cost-sharing program for the closure and remediation of municipal solid waste landfills that pose an actual or potential hazard to the environment and public health. The State's obligation to provide cost sharing to municipalities is subject to the availability of funds approved for that purpose. State expenditures for landfill remediation projects totaled $257 thousand for fiscal year 2010.

During the 2010 fiscal year, no State general funds or bond funds were expended for municipal solid waste landfill closure projects. After January 1, 2000, the State is no longer liable for the costs relating to the closure of municipal solid waste landfills, except the Commissioner may make grants or payments up to 30 percent, if they are incurred pursuant to an alternative closure schedule approved by DEP prior to January 1, 2000, and if they are specifically identified in a department order or license, schedule of compliance or consent agreement. No reimbursement applications for past closure costs are on file. No additional cost share eligible closures have been approved by DEP. Consequently, the DEP expects no further expenditures for municipal landfill closures.

During the 2010 fiscal year, the State expended $257 thousand of general obligation bond funds for municipal solid waste landfill remediation projects. Remediation funding, subject to the availability of funds, will continue for 90 percent of the cost of remediation for threats posed by a municipal landfill to wells or other structures constructed on or before December 31, 1999. The maximum reimbursement for remediation funding is 50 percent for structures constructed after that date. The DEP recognizes that, in the future, some landfills will require State funds for post closure investigation and remediation activities. The DEP has estimated the amount of these potential future costs could be as much as $3.5 million, based on current site knowledge, the increasing frequency of residential development near closed municipal landfills, the discovery of older abandoned dump sites now occupied by residential homes, and recent issues involving gas migration from two municipal landfills in the state. Approximately $8 thousand remains in the existing municipal landfill bond account. The bond funds currently

available are insufficient to fully cover identified obligations. Additional bond funds will be necessary to cover current outstanding obligations as well as potential future remedial actions.

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 $19.5 million. This consists of approximately $13.5 million for State-owned facilities and approximately $6 million for the State's share, under a cost sharing arrangement, for municipal facilities.

POLLUTION ABATEMENT PROGRAM

Title 38 MRSA § 411 establishes within DEP a cost-sharing program for pollution abatement projects. Subject to funding by the Legislature and the approval of the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. During the 2010 fiscal year, $4.17 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2010, amounts encumbered for pollution abatement projects totaled $7.11million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $810 thousand. As of June 30, 2010, DEP estimated the total cost (federal, State, and local) of future projects to be $1 billion.

GROUND WATER OIL CLEAN-UP FUND

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

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

CONSTRUCTION COMMITMENTS

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. Although the outstanding indebtedness for school construction projects is debt of the municipalities, the State subsidizes 48.93 percent of the annual payments. As of June 30, 2010, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $990.6 million.

At June 30, 2010, the Department of Transportation had contractual commitments of approximately $16.2 million for construction of various highway projects. The State's share of that amount is expected to be approximately $2 million. Of these amounts, $2.1 million has already been accrued. Federal and State funds plus bond proceeds are expected to fund these future expenditures.

TOBACCO SETTLEMENTS

On November 23, 1998, Maine along with 45 other states and six civil jurisdictions (collectively known under the MSA as the "Settling States"), entered into a Master Settlement Agreement (MSA) with certain Participating Tobacco Manufacturers (PM's). The MSA is a settlement of lawsuits brought by many States against the four largest tobacco companies alleging multiple counts of misconduct and claiming punitive and compensatory damages, including a claim for all the State's Medicaid costs caused by or related to tobacco use. The MSA includes provisions to annually compensate the State for smoking-related Medicaid costs and to impose marketing and advertising restrictions on PM's to protect public health. In this settlement, the PM's agreed, among other things, to make annual payments to the states and jurisdictions based on their allocable share of the market. In return, the states agreed to relinquish claims to further damages resulting from, among other things, Medicaid costs. Annual payments fluctuate subject to various adjustments and are partially contingent on the passage and

enforcement of a State statute imposing economic conditions related to the State's public health claims on the Nonparticipating manufacturers (NPM's) in the form of an annual escrow payment due from each NPM with in-state sales. The NPM Adjustment is set forth in the Master Settlement Agreement (MSA). If the PM's claim an NPM Adjustment for a given year and prove that they lost market share to the NPM's and it is determined that the MSA was a significant factor contributing to that lost market share then an NPM Adjustment 'shall apply' unless a Settling State passed a qualifying statute and 'diligently enforced' that statute. In effect this means that the Allocated Payment to a Settling State that diligently enforced will not be reduced, but a Settling State that did not diligently enforce its qualifying statute will be subject to a reduction in its payment due to the NPM Adjustment. NPM Adjustment Due to the provisions of the MSA, a State that is found not to have diligently enforced its qualifying statute may lose up to its entire annual payment amount due to the NPM Adjustment for a given year.

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

In addition, in the MSA, the PM's agreed to pay $8.6 billion in Strategic Contribution Payments (SCP) to certain states and jurisdictions as compensation for their contribution to the overall settlement. Maine's share of this total amount is approximately $114 million. Maine will receive this amount through ten annual SCP payments starting in 2008. In April 2010, Maine received a total of $53.1 million including both the annual payment amount and the strategic contribution amount.

ESCHEAT PROPERTY

The State Abandoned Property Statute requires the deposit of certain defined and unclaimed assets into a state-managed Abandoned Property Fund (Private Purpose Trust Fund). The State Statute provides that whenever the cash balance of the fund exceeds $500 thousand at fiscal year-end, the excess must be remitted to the General Fund where it is reported as operating transfers from other funds. At June 30, 2010, the Fund included $4.7 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2010 of approximately $159.7 million represent a contingent liability to the State since claims for refund may be filed by the owners of such property.

A liability representing the probable amount of escheat property that will be reclaimed and paid to claimants and other third parties is reported in the Fund. To the extent that the assets in the Fund are less than the claimant liability, a receivable (due from other funds) is reported in that Fund and an equal liability (due to other funds) is reported in the General Fund. At June 30, 2010, the amount reported in the Fund for claimant liability is $40.8 million. The General Fund shows a $35.6 million payable to the Escheat Fund.

CONSTITUTIONAL OBLIGATIONS

Article 9, § 14-A, C, and D of the Maine State Constitution provides that the State may insure the payment of mortgage loans for industrial, manufacturing, fishing, agricultural and recreational enterprises; mortgage loans for the acquisition, construction, repair and remodeling of houses owned or to be owned by members of two tribes on several Indian reservations; and mortgage loans to resident Maine veterans of the Armed Forces of the United States, including loans to a business organization owned in whole or in part by resident Maine veterans. The aggregate of these obligations, at any one time, may not exceed $90 million, $1 million, and $4 million, respectively. At June 30, 2010, loans outstanding pursuant to these authorizations are $44.6 million, less than $1 million, and less than $1 million, respectively. The State has not paid, nor does it expect to pay, any amounts as a result of these authorizations as of June 30, 2010.

Article 8, § 2, of the Maine State Constitution provides that the State may secure funds, through the issuance of bonds authorized by the Governor, for loans to Maine students attending institutions of higher education. The amount of bonds issued and outstanding shall not at any one time exceed $4 million in the aggregate. At June 30, 2010, no bonds were outstanding. The State has not paid, nor does it expect to pay, any amount as a result of this authorization as of June 30, 2010.

MORAL OBLIGATIONS

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

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

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

The following summarizes information regarding outstanding moral obligations:

Moral Obligation Bonds
(Expressed in Thousands)

Issuer	Bonds Outstanding	Required Debt Reserve	Obligation Debt Limit	Legal Citation
Maine Health and Higher Educational Facilities Authority - debt	$ 1,406,290	$113,986	no limit	22 MRSA § 2075
conduit debt	148,720		no limit	22 MRSA § 2075
Finance Authority of Maine	44,820	-	$ 596,480	10 MRSA §1032, 1053
	-	-	50,000	20-A MRSA §11449
	-	-	50,000	38 MRSA §2221
Loring Development Authority *	-	-	100,000	5 MRSA §13080-N
Maine Municipal Bond Bank	1,381,459	137,778	no limit	30-A MRSA §6006
Maine Educational Loan Authority *	210,000	12,881	300,000	20-A MRSA §11424
Maine State Housing Authority	1,524,370	-	2,150,000	30-A MRSA §4906
University of Maine System	200,346	4,948	220,000	20-A MRSA §10952
Total	$ 4,916,005	$269,593		

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

COMPONENT UNITS

NURSING HOME LOANS

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

MHHEFA advanced approximately $447 thousand from the operating fund as of June 30, 2010 to other financially troubled institutions, with combined loan amounts due the Authority of approximately $9.2 million at June 30, 2010, including loans of $8.8 million reserved at June 30, 2010. These advances were primarily made to assist these institutions in meeting debt service requirements in years prior to fiscal 2010. MHHEFA also has approximately $.4 million of other receivables outstanding with the operating fund at June 30, 2010, primarily related to amounts due from institutions to reimburse the Authority for arbitrage rebate payments made on their behalf. MHHEFA established a $.6 million reserve in its operating fund related to the above loans, advances and other receivables outstanding.

CONSTRUCTION CONTRACTS

At June 30, 2010, UMS had outstanding commitments on uncompleted construction contracts that totaled $21.6 million. Maine Community College System had commitments of $8.3 million at June 30, 2010.

MORTGAGE COMMITMENTS

Mortgage commitments are agreements to lend provided there is no violation of any term or condition of the agreement. Generally, once exercised, the loans made under the terms of such commitments are secured by a lien on the related property and other collateral as deemed necessary. At December 31, 2009, Maine State Housing Authority (MSHA) had outstanding commitments to originate multi-family loans of approximately $40.0 million.

MSHA, under its single-family program, enters into purchase agreements to lenders to purchase mortgage loans. At December 31, 2009, single-family loans being processed by lenders totaled $41.4 million.

NOTE 16 - SUBSEQUENT EVENTS

PRIMARY GOVERNMENT

On August 11, 2010 the State issued $68.5 million, of Bond Anticipation Notes that mature on June 15, 2011.

On July 15 and October 15, 2010, the State issued 10 million and 5 million respectively of Certificates of Participation (COP's) for the purpose of financing the State's radio network project. These COP's carry interest rates of 2.58 %, and have maturity dates in SFY 2018.

COMPONENT UNITS

On February 1, 2010, the Maine State Housing Authority (MSHA) redeemed at par $49.2 million of its 1998 through 2008 Mortgage Purchase Fund bonds. On February 10, 2010, MSHA redeemed at par $25.7 million of its 1998 through 2008 Mortgage Purchase Fund bonds.

NOTE 17 – SPECIAL ITEM

Pursuant to Chapters 571 and 600, PL 2009, the State returned $66.6 million of equity in the Retiree Health Insurance Internal Service Fund to participating funds in order to address a significant budget shortfall expected for SFY 2010. Additionally, the state returned $11.7 million of funds to the federal government. These resources were made available through rates established to accumulate assets for transfer to the State Retiree Health Irrevocable Trust Fund to meet the unfunded liability obligations for the retiree health benefits of State employees. The state suspended payments toward the unfunded liability for fiscal year 2010. The return of equity from the Fund to its participants, as well as the, return of funds to the federal government have been recorded as Special Items in the financial statements for the fiscal year ended June 30, 2010.

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2010
(Expressed in Thousands)

	General Fund				Highway Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues								
Taxes	$ 2,758,705	$ 2,568,647	$ 2,626,588	$ 57,941	$ 220,306	220,305	$ 219,186	$ (1,119)
Assessments and Other	118,224	114,272	116,553	2,281	83,666	80,686	83,362	2,676
Federal Grants	5,430	12,241	11,047	(1,194)	-	-	-	-
Service Charges	45,336	54,868	50,852	(4,016)	4,696	4,650	6,409	1,759
Income from Investments	948	103	281	178	173	113	162	49
Miscellaneous Revenue	19,978	29,117	16,999	(12,118)	2,074	1,938	1,302	(636)
Total Revenues	2,948,621	2,779,248	2,822,320	43,072	310,915	307,692	310,421	2,729
Expenditures								
Governmental Support and Operations	264,825	259,039	251,522	7,517	39,035	38,075	35,452	2,623
Economic Development & Workforce Training	38,027	37,170	35,788	1,382	-	-	-	-
Education	1,461,585	1,436,474	1,419,788	16,686	-	-	-	-
Health and Human Services	826,095	849,825	802,461	47,364	-	-	-	-
Business Licensing & Regulation	38	26	26	-	-	-	-	-
Natural Resources Development & Protection	70,435	69,348	67,360	1,988	39	39	38	1
Justice and Protection	281,044	281,774	276,030	5,744	31,836	31,522	30,720	802
Arts, Heritage & Cultural Enrichment	7,681	7,572	7,392	180	-	-	-	-
Transportation Safety & Development	-	-	-	-	237,940	294,749	234,579	60,170
Total Expenditures	2,949,730	2,941,228	2,860,367	80,861	308,850	364,385	300,789	63,596
Revenues Over (Under) Expenditures	(1,109)	(161,980)	(38,047)	123,933	2,065	(56,693)	9,632	66,325
Other Financing Sources (Uses)								
Operating Transfers Net	(91,949)	(86,243)	33,427	119,670	1,827	1,800	17,327	15,527
Proceeds from Pledged Future Revenues								
Net Other Financing Sources (Uses)	(91,949)	(86,243)	33,427	119,670	1,827	1,800	17,327	15,527
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (93,058)	$ (248,223)	$ (4,620)	$ 243,603	$ 3,892	$ (54,893)	$ 26,959	$ 81,852
Fund Balances at Beginning of Year			131,021				127,857	
Fund Balances at End of Year			$ 126,401				$ 154,816	

Federal Funds				Other Special Revenue Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
$ -	$ -	$ -	$ -	$ 223,673	$ 220,967	$ 242,691	$ 21,724
7	7	4	(3)	150,996	160,634	132,543	(28,091)
3,090,542	3,794,838	3,130,628	(664,210)	23,125	28,829	6,905	(21,924)
988	988	764	(224)	146,605	158,169	154,961	(3,208)
17	17	35	18	2,083	2,058	593	(1,465)
2,426	2,530	715	(1,815)	275,818	275,015	165,913	(109,102)
3,093,980	3,798,380	3,132,146	(666,234)	822,300	845,672	703,606	(142,066)
7,795	22,602	7,894	14,708	144,935	139,645	126,766	12,879
134,747	423,863	328,948	94,915	68,173	68,766	55,684	13,082
241,065	355,639	285,594	70,045	7,728	17,471	12,777	4,694
2,332,473	2,455,733	2,258,701	197,032	519,099	525,577	378,879	146,698
33,248	32,971	2,994	29,977	111,959	128,004	73,105	54,899
48,459	76,559	43,433	33,126	125,973	150,706	101,129	49,577
119,789	142,183	58,248	83,935	41,724	47,308	36,211	11,097
3,091	3,587	2,784	803	1,586	1,546	822	724
182,779	306,768	231,345	75,423	180,422	181,095	67,760	113,335
3,103,446	3,819,905	3,219,941	599,964	1,201,599	1,260,118	853,133	406,985
(9,466)	(21,525)	(87,795)	(66,270)	(379,299)	(414,446)	(149,527)	264,919
258	258	21,608	21,350	171,504	166,035	41,067	(124,968)
				180,536	181,036	59,264	(121,772)
258	258	21,608	21,350	352,040	347,071	100,331	(246,740)
$ (9,208)	$ (21,267)	$ (66,187)	$ (44,920)	$ (27,259)	$ (67,375)	$ (49,196)	$ 18,179
		54,370				206,598	
		$ (11,817)				$ 157,402	

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2010
(Expressed in Thousands)

	General Fund	Highway Fund	Federal Funds	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 126,401	$ 154,816	$ (11,818)	$ 157,402
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	197,273	889	-	8,247
Intergovernmental Receivables	-	-	597,882	-
Other Receivables	45,447	1,675	57,892	66,470
Inventories	1,285	-	717	-
Due from Component Units	-		-	19,334
Due from Other Funds	3,855	5,226	964	240,582
Other Assets	1,535	-	341	15,164
Deferred Revenues	(198,812)	(6,502)	(1,472)	(26,882)
Total Revenue Accruals/Adjustments	50,583	1,288	656,324	322,915
Expenditure Accruals/Adjustments:				
Accounts Payable	(194,824)	(12,149)	(539,558)	(26,770)
Due to Component Units	(13,460)	(26)	(8,232)	(396)
Bonds Issued	-	-	-	-
Accrued Liabilities	(1,116)	(7,085)	(4,992)	(6,779)
Taxes Payable	(137,338)	(11)	-	-
Intergovernmental Payables	-	-	(60,862)	-
Due to Other Funds	(138,494)	(80,430)	(8,780)	(3,890)
Total Expenditure Accruals/Adjustments	(485,232)	(99,701)	(622,424)	(37,835)
Fund Balances - GAAP Basis	$ (308,248)	$ 56,403	$ 22,082	$ 442,482

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING

Statutory/Budgetary Presentation

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

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

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

Detailed budgetary control is maintained at the program and line category level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers. Except in specific instances, only the Legislature may transfer appropriations between departments. Increases in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget. For the year ended June 30, 2010, the legislature deappropriated $77.1 million of original appropriations for the General Fund.

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

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

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

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

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

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

The budgetary comparison schedule presented for the General Fund, the Highway Fund, the Federal Fund, and the Other Special Revenue Fund presents the original and final appropriated budgets for fiscal year 2009-2010, as well as the actual resource inflows, outflows and fund balances stated on the budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of May 28, 2009, and includes encumbrances carried forward from the prior year.

Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the "final budget" column. Therefore updated revenue estimates available for appropriations as of June 30, 2010 rather than the amounts shown in the original budget, are reported.

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

Compliance at the Legal Level of Budgetary Control

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

Required Supplementary Information – State Retirement Plan

Schedule of Funding Progress

	(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, 2010	8,369,772,080	12,676,367,068	4,306,594,988	66.0%	1,681,593,315	256.1%
June 30, 2009	8,383,147,465	12,377,262,461	3,994,114,996	67.7%	1,678,930,948	237.9%
June 30, 2008	8,691,075,704	11,721,271,968	3,030,196,264	74.1%	1,628,421,362	186.1%
June 30, 2007	8,302,466,643	11,209,708,127	2,907,241,484	74.1%	1,595,199,514	182.2%
June 30, 2006	7,556,514,663	10,598,346,071	3,041,831,408	71.3%	1,546,315,522	196.7%
June 30, 2005	7,013,846,148	10,048,587,643	3,034,741,495	69.8%	1,516,390,862	200.1%
June 30, 2004	6,498,608,717	9,485,605,608	2,986,996,891	68.5%	1,472,429,214	202.9%

Major changes in actuarial assumptions include the following:

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

The June 30, 2010 valuation retained the same actuarial assumptions.

The Maine Public Retirement System (the System), which is a component unit of the State, is the administrator of an agent, multiple-employer, defined benefit public employee retirement system. The June 30, 2010 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The System amortizes the unfunded liability of the State and teacher plan over a closed period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2004, the Legislature relengthened the period to 25 years, the full extent of the then-remaining Constitutional years for the 2004-2005 biennium, and reshortened the period effective July 1, 2005 to the 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The contribution rate in effect for 2010 was determined by the 2008 valuation, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 7 years remained at June 30, 2010.

Note: Actuarial valuations are performed biennially on even years. Rollforward valuations occur on odd numbered years. The latest actuarial valuation occurred June 30, 2010.

Required Supplementary Information – Other Post-employment Benefit Plans

Schedules of Funding Progress
(Expressed in millions)

State Employees Healthcare Plan

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	**Actuarial Value Of Assets**	**Actuarial Accrued Liability (AAL) – Entry Age**	**Unfunded AAL (UAAL)**	**Funded Ratio**	**Annual Covered Payroll**	**UAAL (as a percentage of covered payroll)**
June 30, 2010	103	1,450	1,347	7.10%	549	245.36%
June 30, 2009	82	1,311	1,229	6.25%	595	206.55%
June 30, 2008	98	1,242	1,144	7.89%	568	201.41%

Teachers Healthcare Plan

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	**Actuarial Value Of Assets**	**Actuarial Accrued Liability (AAL) – Entry Age**	**Unfunded AAL (UAAL)**	**Funded Ratio**	**Annual Covered Payroll**	**UAAL (as a percentage of covered payroll)**
June 30, 2010	N/A	1,005	1,005	0.00%	1,064	94.45%
June 30, 2009	N/A	994	994	0.00%	1,215	81.81%
June 30, 2008	N/A	1,044	1,044	0.00%	1,160	90.00%

State Employees Group Life Insurance Plan

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	**Actuarial Value Of Assets**	**Actuarial Accrued Liability (AAL) – Entry Age**	**Unfunded AAL (UAAL)**	**Funded Ratio**	**Annual Covered Payroll**	**UAAL (as a percentage of covered payroll)**
June 30, 2010	19.7	71.5	51.8	27.55%	615.6	8.41%
June 30, 2009	17.5	67.9	50.4	25.77%	601.1	8.38%
June 30, 2008	21.1	64.9	43.8	32.51%	601.1	7.29%

Teachers Group Life Insurance Plan

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	**Actuarial Value Of Assets**	**Actuarial Accrued Liability (AAL) – Entry Age**	**Unfunded AAL (UAAL)**	**Funded Ratio**	**Annual Covered Payroll**	**UAAL (as a percentage of covered payroll)**
June 30, 2010	21.4	60.4	39.0	35.43%	650.6	5.99%
June 30, 2009	17.7	54.7	37.0	32.36%	591.1	6.26%
June 30, 2008	19.9	52.1	32.2	38.20%	591.1	5.45%

Schedules of Funding Progress

(Expressed in 000's)

First Responders Healthcare Plan

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL) – Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
June 30, 2009	N/A	20,063	20,063	0.00%	51,876	38.67%
June 30, 2008	N/A	19,806	19,806	0.00%	51,021	38.82%

Biennial valuations are required. The three most recent valuations are presented in accordance with standards (where applicable). This is the third year of prospective implementation.

Schedule of Employer Contributions

(Expressed in 000's)

	Employer Contributions						
	State Employees		Teachers		First Responders		
Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	
Healthcare - 2010	92,000	59.78%	56,000	34.55%	1,051	35.01%	
Healthcare - 2009	77,000	65.43%	60,000	30.65%	1,045	.25%	
Healthcare - 2008	111,000	149.90%	46,000	38.38%	1,045	0%	
Group Life - 2010	6,800	93.54%			N/A	N/A	
Group Life - 2009	5,700	217.14%			N/A	N/A	
Group Life - 2008	5,500	.42%			N/A	N/A	

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

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Assets accounted for under the modified approach include 8,873 highway miles or 18,048 lane miles of roads and 2,961 bridges having a total deck area of 11.7 million square feet that the State is responsible to maintain.

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

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

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

Highways

Measurement Scale for Highways

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

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

Bridges

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

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

Assessed Conditions

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

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

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

Fiscal Year	Highways	Bridges
2010	76.2	79.0
2009	75.3	78.0
2008	75.6	79.0

Comparison of Estimated-to-Actual Preservation Costs

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

Actual Preservation Costs
(Amounts in millions)

	2010	2009	2008	2007	2006
Highways	$ 68.6	$ 74.5	$ 80.0	$ 71.7	$ 46.3
Bridges	9.2	1.6	1.6	1.6	4.8
Total	**$ 77.8**	**$ 76.1**	**$ 81.6**	**$ 73.3**	**$ 51.1**

Estimated Preservation Costs
(Amounts in millions)

	2010	2009	2008	2007	2006
Highways	$ 48.5	$ 55.8	$ 97.7	$ 59.7	$ 47.1
Bridges	6.5	1.2	2.0	1.3	4.9
Total	**$ 55.0**	**$ 57.0**	**$ 99.7**	**$ 61.0**	**$ 52.0**

Transportation Bonds

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 414, PL 2009, $25 million was spent during FY2010.

STATE OF MAINE
REPORTS ON INTERNAL CONTROL AND COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2010

DIRIGO
MAINE

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2010, which collectively comprise the State of Maine's basic financial statements, and have issued our report thereon dated December 21, 2010. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Child Development Services, Connect ME Authority, Efficiency Maine Trust, Finance Authority of Maine, Loring Development Authority, Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine State Housing Authority, Maine Technology Institute, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and University of Maine System, as described in our report on the State of Maine's financial statements. Also, we did not audit the financial statements of the NextGen College Investing Plan. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Maine Educational Loan Authority, Maine Technology Institute, Northern New England Passenger Rail Authority, and the Small Enterprise Growth Fund were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable

possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

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

Neria R. Douglass, JD, CIA
State Auditor

December 21, 2010

NERIA R. DOUGLASS, JD, CIA
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Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Compliance

We have audited the State of Maine's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State of Maine's major federal programs for the year ended June 30, 2010. The State of Maine's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Maine's management. Our responsibility is to express an opinion on the State of Maine's compliance based on our audit.

The State of Maine's basic financial statements include the operations of the following component units: Child Development Services, Connect ME Authority, Efficiency Maine Trust, Finance Authority of Maine, Loring Development Authority, Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, Maine Public Employees Retirement System, Maine State Housing Authority, Maine Technology Institute, Midcoast Regional Redevelopment Authority, Northern New England Passenger Rail Authority, Small Enterprise Growth Fund, and University of Maine System. The federal awards that these component units received are not included in the Supplementary Schedule of Expenditures of Federal Awards for the year ended June 30, 2010. Our audit, described below, did not include the operations of these component units because the component units engaged other auditors to perform an audit in accordance with Circular A-133, if required.

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

As identified below and described in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with compliance requirements that are applicable to the following major

programs. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to those programs.

Finding Number	Federal Program Name	Compliance Requirements
10-1200-01	Title 1, Part A Cluster	Cash Management
10-1200-01	Special Education Cluster (IDEA)	Cash Management
10-1200-01	Improving Teacher Quality State Grants	Cash Management
10-1200-01	State Fiscal Stabilization Fund Cluster	Cash Management

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Maine complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

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 10-1103-01, 10-1106-02, 10-1106-05, 10-1106-09, 11-1106-10, 10-1106-12, 10-1106-14 through 10-1106-16, 10-1109-06, 10-1110-07, 10-1140-01, 10-1151-03, 10-1151-05, 10-1302-05, 10-1308-02, 10-1500-01 and 10-1503-02.

Internal Control Over Compliance

Management of the State of Maine is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Maine's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Maine's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 10-1109-02, 10-1110-02, and 10-1200-01 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important

enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 10-1102-01, 10-1103-01, 10-1106-01 through 10-1106-18, 10-1109-03, 10-1109-06, 10-1110-04, 10-1110-07, 10-1111-01, 10-1111-02, 10-1113-02, 10-1130-01, 10-1140-01 through 10-1140-03, 10-1151-01, 10-1151-03, through 10-1151-05, 10-1200-02, through 10-1200-04, 10-1201-01, 10-1203-01, 10-1203-02, 10-1234-01, 10-1302-05, 10-1308-01 through 10-1308-03, 10-1315-01 through 10-1315-03, 10-1500-01, and 10-1503-01 through 10-1503-03 to be significant deficiencies.

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

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

Neria R. Douglass, JD, CIA
State Auditor

March 29, 2011

DIRIGO
MAINE

STATE OF MAINE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

DIRIGO
MAINE

STATE OF MAINE

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

Federal Agency Clusters and Program Titles	CFDA #	State Agency	Total ARRA	Total non-ARRA	Grand Total	
Department of Agriculture						
Plant and Animal Disease, Pest Control, and Animal Care	10.025	Agriculture	$ -	$ 338,226	$ 338,226	
	10.025	Conservation	-	68,944	68,944	
	10.025	Inland Fisheries	-	107,195	107,195	
	10.025 Total		-	514,365	514,365	
Aquaculture Grants Program (AGP)	10.086	Agriculture	201,548	-	201,548	
Federal-State Marketing Improvement Program	10.156	Agriculture	-	672,843	672,843	
Inspection Grading and Standardization	10.162	Agriculture	-	859,117	859,117	
Market Protection and Promotion	10.163	Agriculture	-	178,754	178,754	
Specialty Crop Block Grant Program	10.169	Agriculture	-	96,366	96,366	
Specialty Crop Block Grant Program - Farm Bill	10.170	Agriculture	-	267,683	267,683	
State Mediation Grants	10.435	Agriculture	-	8,456	8,456	
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475	Agriculture	-	209,933	209,933	
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	Human Services	-	18,104,582	18,104,582	**
Child and Adult Care Food Program	10.558	Education	-	1,008	1,008	
	10.558	Human Services	-	9,010,525	9,010,525	
	10.558 Total		-	9,011,533	9,011,533	
State Administrative Expenses for Child Nutrition	10.560	Education	-	378,879	378,879	
	10.560	Human Services	-	207,070	207,070	
	10.560 Total		-	585,949	585,949	
Commodity Supplemental Food Program	10.565	Agriculture	-	81,539	81,539	
WIC Farmers' Market Nutrition Program (FMNP)	10.572	Human Services	-	78,265	78,265	
Team Nutrition Grants	10.574	Education	-	118,936	118,936	
Senior Farmers Market Nutrition Program	10.576	Agriculture	-	1,019,274	1,019,274	
Child Nutrition Discretionary Grants Limited Availability	10.579	Education	307,008	-	307,008	
Fresh Fruit and Vegetable Program	10.582	Education	-	833,904	833,904	
Forestry Research	10.652	Conservation	-	454,032	454,032	
Cooperative Forestry Assistance	10.664	Conservation	-	1,602,624	1,602,624	
Urban and Community Forestry Program	10.675	Conservation	-	343,441	343,441	
Forest Legacy Program	10.676	Conservation	-	2,565,574	2,565,574	
Forest Stewardship Program	10.678	Conservation	-	429,280	429,280	
Recovery Act of 2009: Wildland Fire Management	10.688	Conservation	126,384	-	126,384	
Rural Business Enterprise Grants	10.769	Public Utilities	-	12,098	12,098	
Soil and Water Conservation	10.902	Conservation	-	8,551	8,551	
Environmental Quality Incentives Program	10.912	Conservation	-	27,772	27,772	
Child Nutrition Cluster						
School Breakfast Program	10.553	Corrections	-	126,770	126,770	**
	10.553	Education	-	8,958,344	8,958,344	**
National School Lunch Program	10.555	Corrections	-	222,602	222,602	**
	10.555	Education	-	34,009,440	34,009,440	**
Special Milk Program for Children	10.556	Education	-	29,184	29,184	**
Summer Food Service Program for Children	10.559	Education	-	1,158,498	1,158,498	**
Child Nutrition Cluster Total			-	44,504,838	44,504,838	**
Emergency Food Assistance Cluster						
Emergency Food Assistance Program (Administrative Costs)	10.568	Agriculture	101,068	299,075	400,143	
Emergency Food Assistance Program (Food Commodities)	10.569	Agriculture	-	2,578,944	2,578,944	
Emergency Food Assistance Cluster Total			101,068	2,878,019	2,979,087	
SNAP Cluster						
Supplemental Nutrition Assistance Program	10.551	Human Services	-	346,820,144	346,820,144	**
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	Human Services	1,416,926	16,076,439	17,493,365	**
SNAP Cluster Total			1,416,926	362,896,583	364,313,509	**
Department of Agriculture Total			2,152,934	448,364,312	450,517,246	
Department of Commerce						
Anadromous Fish Conservation Act Program	11.405	Marine Resource	-	31,612	31,612	
Interjurisdictional Fisheries Act of 1986	11.407	Marine Resource	-	147,354	147,354	
Coastal Zone Management Administration Awards	11.419	Conservation	-	51,652	51,652	
	11.419	Environment	-	456,375	456,375	
	11.419	Inland Fisheries	-	284,000	284,000	
	11.419	Marine Resource	-	325,719	325,719	
	11.419	Planning	-	1,578,112	1,578,112	
	11.419 Total		-	2,695,858	2,695,858	
Marine Mammal Data Program	11.439	Marine Resource	-	76,701	76,701	
Unallied Industry Projects	11.452	Marine Resource	-	1,479,043	1,479,043	
Unallied Management Projects	11.454	Marine Resource	-	131,339	131,339	
Habitat Conservation	11.463	Conservation	-	56,774	56,774	
	11.463	Marine Resource	-	9,871	9,871	
	11.463 Total		-	66,645	66,645	
Meteorologic and Hydrologic Modernization Development	11.467	Defense	-	23,802	23,802	
Unallied Science Program	11.472	Marine Resource	-	2,289,140	2,289,140	
Atlantic Coastal Fisheries Cooperative Management Act	11.474	Marine Resource	-	651,943	651,943	

STATE OF MAINE

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

Federal Agency Clusters and Program Titles	CFDA #	State Agency	Total ARRA	Total non-ARRA	Grand Total	
Educational Partnership Program	11.481	Marine Resource	-	188	188	
Public Safety Interoperable Communications Grant Program	11.555	Defense	-	1,618,258	1,618,258	
	11.555	Judicial	-	397,693	397,693	
	11.555 Total		-	2,015,951	2,015,951	
Access Point Angler Intercept Survey - MACRO, 37555-10S-1482	11.999	Marine Resource	-	24,749	24,749	
American Lobster Ventless Trap Survey, 05-1109	11.999	Marine Resource	-	3,198	3,198	
Biological Sampling, Behavior and Migration Study of Atlantic Halibut in the Gulf of Maine, EA133F-06-CN-0225	11.999	Marine Resource	-	7,848	7,848	
Derelict Lobster Gear Retrieval, Salvage & Disposal (ME), MOU-GOMLF	11.999	Marine Resource	-	3,382	3,382	
Eastern Administrative Support Center EA133F06CN0226	11.999	Marine Resource	-	6,533	6,533	
Exploratory fixed gear survey in the inshore Gulf of maine utilizing trap gear and targeting Atlantic Wolffish, EA133F10CN0075	11.999	Marine Resource	-	20,803	20,803	
Joint Enforcement Agreements, 2007 - 2009 JEA	11.999	Marine Resource	-	790,560	790,560	
Large Pelagic Intercept Survey	11.999	Marine Resource	-	10,652	10,652	
Maine-New Hampshire Insorte Trawl Survey, EA133F06CN0226	11.999	Marine Resource	-	6,721	6,721	
Recovery of Alewives in Maine	11.999	Marine Resource	-	37,903	37,903	
Stranding Response in Western ME, EA133F-09-SE-2628	11.999	Marine Resource	-	21,720	21,720	
Public Works and Economic Development Cluster						
Economic Adjustment Assistance	11.307	Economic Devel	-	37,451	37,451	
Public Works and Economic Development Cluster Total			-	37,451	37,451	
Department of Commerce Total			-	10,581,095	10,581,095	
Department of Defense						
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	Environment	-	512,621	512,621	
National Guard Military Operations and Maintenance (O&M) Projects	12.401	Defense	1,074,908	68,229,897	69,304,804	**
National Guard Civilian Youth Opportunities	12.404	Defense	-	229,775	229,775	
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	12.607	Governor	-	708,735	708,735	
Cooperative Agreement Dept of USACE	12.999	Marine Resource	-	3,081	3,081	
Department of Defense Total			1,074,908	69,684,110	70,759,018	
Department of Housing and Urban Development						
Manufactured Home Construction and Safety Standards	14.171	Professional Reg	-	19,902	19,902	
Shelter Plus Care	14.238	Human Services	-	5,629,776	5,629,776	
Fair Housing Assistance Program_State and Local	14.401	Human Rights	-	219,181	219,181	
CDBG - State-Administered Small Cities Program Cluster						
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	Defense	-	521,189	521,189	**
	14.228	Economic Devel	-	17,566,171	17,566,171	**
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii– (Recovery Act Funded)	14.255	Economic Devel	1,887,167	-	1,887,167	**
CDBG - State-Administered Small Cities Program Cluster Total			1,887,167	18,087,360	19,974,526	**
Department of Housing and Urban Development Total			1,887,167	23,956,219	25,843,386	
Bureau of Indian Affairs						
National Fire Plan - Rural Fire Assistance	15.242	Conservation	-	30,449	30,449	
Bureau of Indian Affairs Total			-	30,449	30,449	
Department of the Interior						
Fish and Wildlife Management Assistance	15.608	Conservation	-	62,892	62,892	
	15.608	Environment	-	29,480	29,480	
	15.608	Inland Fisheries	-	6,058	6,058	
	15.608	Marine Resource	-	104,567	104,567	
Coastal Wetlands Planning, Protection and Restoration Act	15.614	Inland Fisheries	-	2,208,231	2,208,231	
Cooperative Endangered Species Conservation Fund	15.615	Conservation	-	14,269	14,269	
Clean Vessel Act	15.616	Environment	-	215,677	215,677	
Sportfishing and Boating Safety Act	15.622	Transportation	-	109,798	109,798	
North American Wetlands Conservation Fund	15.623	Inland Fisheries	-	999,000	999,000	
Coastal Program	15.630	Marine Resource	-	131,518	131,518	
Landowner Incentive Program	15.633	Inland Fisheries	-	679,838	679,838	
State Wildlife Grants	15.634	Inland Fisheries	-	505,159	505,159	
Research Grants (Generic)	15.650	Marine Resource	-	4,191	4,191	
U.S. Geological Survey_ Research and Data Collection	15.808	Financial Serv	-	111,717	111,717	
National Spatial Data Infrastructure Cooperative Agreements Program	15.809	Financial Serv	-	32,354	32,354	

STATE OF MAINE

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

Federal Agency Clusters and Program Titles	CFDA #	State Agency	Total ARRA	Total non-ARRA	Grand Total
National Cooperative Geologic Mapping Program	15.810	Conservation	-	116,677	116,677
Historic Preservation Fund Grants-In-Aid	15.904	Historic Preserve	-	630,698	630,698
Outdoor Recreation_Acquisition, Development and Planning	15.916	Conservation	-	349,549	349,549
Rivers, Trails and Conservation Assistance	15.921	Transportation	-	1,425,510	1,425,510
Atlantic Salmon Management Project	15.999	Marine Resource	-	84,028	84,028
Fish Passage work at Flanders Stream in Sullivan & Seven Mile Stream in Vassalboro, 50181-6-G043	15.999	Marine Resource	-	18,681	18,681
Lynx Population Assessment MEF08055	15.999	Inland Fisheries	-	3,604	3,604
Special Projects 534108M607	15.999	Inland Fisheries	-	3,128	3,128
Webber Pond - 7 Mile Stream Fish Passage, WHIP & Others	15.999	Marine Resource	-	67,621	67,621
Fish and Wildlife Cluster					
Sport Fish Restoration Program	15.605	Inland Fisheries	-	2,080,289	2,080,289
	15.605	Marine Resource	-	918,630	918,630
Wildlife Restoration	15.611	Inland Fisheries	-	2,895,942	2,895,942
Fish and Wildlife Cluster Total			-	5,894,862	5,894,862
Department of the Interior Total			-	13,809,104	13,809,104
Department of Justice					
Sexual Assault Services Formula Program	16.017	Human Services	-	77,582	77,582
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	Corrections	-	148,786	148,786
Juvenile Accountability Block Grants	16.523	Corrections	-	326,946	326,946
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	Corrections	-	746,073	746,073
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	Corrections	-	230,473	230,473
Missing Children's Assistance	16.543	Public Safety	-	106,786	106,786
Youth Gang Prevention	16.544	Public Safety	-	204,043	204,043
Title V_Delinquency Prevention Program	16.548	Corrections	-	68,608	68,608
State Justice Statistics Program for Statistical Analysis Centers	16.550	Corrections	-	24,109	24,109
National Criminal History Improvement Program (NCHIP)	16.554	Judicial	-	4,830	4,830
Crime Victim Assistance	16.575	Human Services	-	1,791,592	1,791,592
Crime Victim Compensation	16.576	Attorney General	-	191,396	191,396
Edward Byrne Memorial Formula Grant Program	16.579	Attorney General	-	44,193	44,193
	16.579	Public Safety	-	56,074	56,074
	16.579	Total	-	100,266	100,266
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	Public Safety	-	1,383	1,383
Drug Court Discretionary Grant Program	16.585	Human Services	-	34,998	34,998
	16.585	Judicial	-	88,809	88,809
	16.585	Total	-	123,807	123,807
Violence Against Women Formula Grants	16.588	Attorney General	73,642	39,306	112,949
	16.588	Judicial	14,775	18,259	33,034
	16.588	Public Safety	278,945	920,044	1,198,989
	16.588	Total	367,362	977,609	1,344,972
The Community-Defined Solutions to Violence Against Women Grant Program	16.590	Corrections	-	175,566	175,566
	16.590	Judicial	-	275,873	275,873
	16.590	Public Safety	-	2,258	2,258
	16.590	Total	-	453,697	453,697
Residential Substance Abuse Treatment for State Prisoners	16.593	Corrections	-	42,999	42,999
	16.593	Public Safety	-	15,280	15,280
	16.593	Total	-	58,280	58,280
State Criminal Alien Assistance Program	16.606	Corrections	-	86,716	86,716
Project Safe Neighborhoods	16.609	Public Safety	-	22,473	22,473
Public Safety Partnership and Community Policing Grants	16.710	Inland Fisheries	-	8,896	8,896
	16.710	Public Safety	-	619,561	619,561
	16.710	Total	-	628,457	628,457
Juvenile Mentoring Program	16.726	Corrections	-	181,171	181,171
Enforcing Underage Drinking Laws Program	16.727	Human Services	-	475,261	475,261
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Attorney General	-	479,328	479,328
	16.738	Public Safety	-	463,419	463,419
	16.738	Total	-	942,747	942,747
Forensic DNA Backlog Reduction Program	16.741	Public Safety	-	89,207	89,207
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	Attorney General	-	36,513	36,513
	16.742	Human Services	-	36,593	36,593
	16.742	Public Safety	-	67,060	67,060
	16.742	Total	-	140,166	140,166
Anti-Gang Initiative	16.744	Public Safety	-	132,117	132,117
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	Corrections	-	43,376	43,376
Convicted Offender and/or Arrestee DNA Backlog Reduction Program	16.748	Public Safety	-	74,872	74,872
Congressionally Recommended Awards	16.753	Public Safety	-	43,967	43,967

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For the Year Ended June 30, 2010

Federal Agency Clusters and Program Titles	CFDA #	State Agency	Total ARRA	Total non-ARRA	Grand Total	
Harold Rogers Prescription Drug Monitoring Program	16.754	Human Services	-	248,608	248,608	
Recovery Act - Internet Crimes against Children Task Force Program (ICAC)	16.800	Public Safety	37,370	-	37,370	
Recovery Act - State Victim Assistance Formula Grant Program	16.801	Corrections	40,836	-	40,836	
	16.801	Human Services	139,254	-	139,254	
	16.801 Total		180,090	-	180,090	
Recovery Act - State Victim Compensation Formula Grant Program	16.802	Attorney General	42,289	-	42,289	
Recovery Act - Eward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	Attorney General	79,249	-	79,249	
	16.803	Corrections	36,434	-	36,434	
	16.803	Public Safety	1,931,560	-	1,931,560	
	16.803 Total		2,047,243	-	2,047,243	
Department of Justice Total			2,674,354	8,745,407	11,419,761	
Department of Labor						
Labor Force Statistics	17.002	Labor	-	1,273,662	1,273,662	
Compensation and Working Conditions	17.005	Labor	-	5,860	5,860	
Unemployment Insurance	17.225	Labor	190,420,687	292,597,789	483,018,476	**
Senior Community Service Employment Program	17.235	Human Services	87,873	665,361	753,233	
Trade Adjustment Assistance	17.245	Labor	-	6,549,151	6,549,151	
Work Incentive Grants	17.266	Labor	-	288,716	288,716	
H-1B Job Training Grants	17.268	Economic Devel	-	316,459	316,459	
	17.268	Governor	-	81,774	81,774	
	17.268	Labor	-	3,447,980	3,447,980	
	17.268 Total		-	3,846,214	3,846,214	
Reintegration of Ex-Offenders	17.270	Corrections	-	61,761	61,761	
Work Opportunity Tax Credit Program (WOTC)	17.271	Labor	-	72,333	72,333	
Temporary Labor Certification for Foreign Workers	17.273	Labor	-	230,962	230,962	
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	Labor	68,017	-	68,017	
Health Coverage Tax Credit (HCTC)	17.276	Labor	143,457	125	143,582	
Workforce Investment Act (WIA) Dislocated Worker National Reserve Demonstration Grants	17.280	Labor	-	84,424	84,424	
Consultation Agreements	17.504	Labor	-	503,283	503,283	
Mine Health and Safety Grants	17.600	Labor	-	43,169	43,169	
Employment Service Cluster						
Employment Service/Wagner-Peyser Funded Activities	17.207	Labor	851,941	4,846,309	5,698,250	
Disabled Veterans' Outreach Program (DVOP)	17.801	Labor	-	432,755	432,755	
Local Veterans' Employment Representative Program	17.804	Labor	-	402,871	402,871	
Employment Service Cluster Total			851,941	5,681,934	6,533,876	
WIA Cluster						
WIA Adult Program	17.258	Labor	970,770	3,053,218	4,023,988	**
WIA Youth Activities	17.259	Labor	3,027,097	2,843,564	5,870,661	**
WIA Dislocated Workers	17.260	Economic Devel	-	260,741	260,741	**
	17.260	Labor	3,600,435	4,938,914	8,539,349	**
WIA Cluster Total			7,598,302	11,096,438	18,694,740	**
Department of Labor Total			199,170,277	323,001,181	522,171,458	
Department of Transportation						
Airport Improvement Program	20.106	Transportation	679,664	361,712	1,041,375	
National Motor Carrier Safety	20.218	Financial Serv	-	360	360	
	20.218	Public Safety	-	335,142	335,142	
	20.218	State	-	149,294	149,294	
	20.218 Total		-	484,796	484,796	
Border Enforcement Grants	20.233	Public Safety	-	276,636	276,636	
Safety Data Improvement Program	20.234	Public Safety	-	169,086	169,086	
Commercial Vehicle Information Systems and Networks	20.237	Transportation	-	1,745,128	1,745,128	
Capital Assistance to States - Intercity Passenger Rail Service	20.317	Transportation	-	154,031	154,031	
Metropolitan Transportation Planning	20.505	Transportation	-	41,701	41,701	
Formula Grants for Other Than Urbanized Areas	20.509	Transportation	781,584	4,306,360	5,087,944	
Paul S. Sarbanes Transit in the Parks	20.520	Transportation	-	1,099,657	1,099,657	
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	20.614	Public Safety	-	35,651	35,651	
Pipeline Safety Program Base Grants	20.700	Public Utilities	-	157,559	157,559	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	Defense	-	147,756	147,756	
Federal Transit Cluster						
Federal Transit_Capital Investment Grants	20.500	Transportation	-	1,577,314	1,577,314	
Federal Transit_Formula Grants	20.507	Transportation	-	2,196,916	2,196,916	

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For the Year Ended June 30, 2010

Federal Agency Clusters and Program Titles	CFDA #	State Agency	Total ARRA	Total non-ARRA	Grand Total	
Federal Transit Cluster Total			-	3,774,230	3,774,230	
Highway Planning and Construction Cluster						
Highway Planning and Construction	20.205	Transportation	81,081,489	137,132,226	218,213,715	**
Recreational Trails Program	20.219	Conservation	-	1,296,532	1,296,532	**
Highway Planning and Construction Cluster Total			81,081,489	138,428,758	219,510,247	**
Highway Safety Cluster						
State and Community Highway Safety	20.600	Human Services	-	131,708	131,708	
	20.600	Public Safety	-	1,785,125	1,785,125	
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	Public Safety	-	523,156	523,156	
Occupant Protection Incentive Grants	20.602	Public Safety	-	36,374	36,374	
Safety Belt Performance Grants	20.609	Public Safety	-	103,955	103,955	
State Traffic Safety Information System Improvement Grants	20.610	Public Safety	-	653,178	653,178	
Child Safety and Child Booster Seats Incentive Grants	20.613	Human Services	-	(214)	(214)	
	20.613	Public Safety	-	147,274	147,274	
Highway Safety Cluster Total			-	3,380,556	3,380,556	
Transit Services Programs Cluster						
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	Transportation	-	101,111	101,111	
Job Access_Reverse Commute	20.516	Transportation	-	595,151	595,151	
Transit Services Programs Cluster Total			-	696,261	696,261	
Department of Transportation Total			82,542,737	155,259,878	237,802,615	
Equal Employment Opportunity Commission						
Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	30.002	Human Rights	-	209,674	209,674	
Equal Employment Opportunity Commission Total			-	209,674	209,674	
General Services Administration						
Donation of Federal Surplus Personal Property	39.003	Financial Serv	-	909,090	909,090	
General Services Administration Total			-	909,090	909,090	
National Endowment for the Arts						
Promotion of the Arts_Partnership Agreements	45.025	Arts	275,535	802,374	1,077,909	
	45.025	Museum	-	25,746	25,746	
	45.025 Total		275,535	828,120	1,103,655	
National Endowment for the Arts Total			275,535	828,120	1,103,655	
National Endowment for the Humanities						
Promotion of the Humanities_Public Programs	45.164	Museum	-	5,412	5,412	
National Endowment for the Humanities Total			-	5,412	5,412	
Institute of Museum and Library Services						
Museums for America	45.301	Museum	-	5,131	5,131	
Grants to States	45.310	Library	-	1,038,831	1,038,831	
Institute of Museum and Library Services Total			-	1,043,962	1,043,962	
Department of Veterans Affairs						
Burial Expenses Allowance for Veterans	64.101	Defense	-	25,605	25,605	
State Cemetery Grants	64.203	Defense	-	1,391,634	1,391,634	
Department of Veterans Affairs Total			-	1,417,239	1,417,239	
Environmental Protection Agency						
State Indoor Radon Grants	66.032	Human Services	-	108,943	108,943	
National Clean Diesel Emissions Reduction Program	66.039	Environment	522,163	-	522,163	
State Clean Diesel Grant Program	66.040	Education	36,635	33,565	70,200	
	66.040	Environment	1,091,588	71,211	1,162,799	
	66.040 Total		1,128,223	104,776	1,232,999	
Congressionally Mandated Projects	66.202	Environment	-	293,295	293,295	
State Public Water System Supervision	66.432	Human Services	-	1,024,285	1,024,285	
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436	Environment	-	30,309	30,309	
Water Quality Management Planning	66.454	Environment	176,438	86,021	262,459	
Regional Wetland Program Development Grants	66.461	Conservation	-	120,399	120,399	
Capitalization Grants for Drinking Water State Revolving Funds	66.468	Human Services	-	1,385,567	1,385,567	

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For the Year Ended June 30, 2010

Federal Agency Clusters and Program Titles	CFDA #	State Agency	Total ARRA	Total non-ARRA	Grand Total
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	Human Services	-	93,465	93,465
Beach Monitoring and Notification Program Implementation Grants	66.472	Environment	-	224,125	224,125
Water Protection Grants to the States	66.474	Human Services	-	62,095	62,095
Science To Achieve Results (STAR) Research Program	66.509	Inland Fisheries	-	88,263	88,263
Performance Partnership Grants	66.605	Agriculture	-	306,352	306,352
	66.605	Environment	-	7,451,493	7,451,493
	66.605	Human Services	-	6,550	6,550
	66.605	Marine Resource	-	9,500	9,500
	66.605 Total		-	7,773,895	7,773,895
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	Environment	-	445,042	445,042
	66.608	Human Services	-	(29)	(29)
	66.608	Marine Resource	-	98,705	98,705
	66.608 Total		-	543,718	543,718
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	Environment	-	8,629	8,629
Source Reduction Assistance	66.717	Environment	-	15,495	15,495
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	Environment	-	41,193	41,193
Underground Storage Tank Prevention, Detection and Compliance Program	66.804	Environment	-	217,742	217,742
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	Environment	887,843	656,079	1,543,922
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	Environment	-	226,094	226,094
State and Tribal Response Program Grants	66.817	Environment	-	1,055,613	1,055,613
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	Environment	170,180	-	170,180
Environmental Policy and State Sustainability Grants	66.940	Environment	-	21,238	21,238
Environmental Protection Agency Total			2,884,847	14,181,238	17,066,085
Department of Energy					
State Energy Program	81.041	Planning	27,829	-	27,829
	81.041	Public Safety	28,312	-	28,312
	81.041	Public Utilities	2,376,524	273,898	2,650,421
	81.041	Transportation	53,318	-	53,318
	81.041 Total		2,485,982	273,898	2,759,880
State Energy Program Special Projects	81.119	Planning	-	8,887	8,887
	81.119	Public Utilities	-	254,518	254,518
	81.119 Total		-	263,405	263,405
Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	Public Utilities	41,613	-	41,613
Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	Public Utilities	10,426	-	10,426
Department of Energy Total			2,538,021	537,303	3,075,324
Department of Education					
Adult Education - Basic Grants to States	84.002	Corrections	-	36,355	36,355
	84.002	Education	-	1,684,492	1,684,492
	84.002 Total		-	1,720,847	1,720,847
Migrant Education_State Grant Program	84.011	Education	-	611,535	611,535
Title I Program for Neglected and Delinquent Children	84.013	Corrections	-	170,662	170,662
Career and Technical Education -- Basic Grants to States	84.048	Corrections	-	76,291	76,291
	84.048	Education	-	6,530,937	6,530,937
	84.048 Total		-	6,607,228	6,607,228
Migrant Education_Coordination Program	84.144	Education	-	32,770	32,770
Rehabilitation Services_Client Assistance Program	84.161	Labor	-	122,459	122,459
Safe and Drug-Free Schools and Communities_State Grants	84.186	Corrections	-	2,424	2,424
	84.186	Human Services	-	1,361,454	1,361,454
	84.186 Total		-	1,363,878	1,363,878
Supported Employment Services for Individuals with Significant Disabilities	84.187	Labor	-	408,473	408,473
Even Start_State Educational Agencies	84.213	Education	-	163,954	163,954
Fund for the Improvement of Education	84.215	Education	-	130,847	130,847
Assistive Technology	84.224	Education	-	365,105	365,105
Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	84.265	Labor	-	45,630	45,630
Twenty-First Century Community Learning Centers	84.287	Education	-	6,663,003	6,663,003
State Grants for Innovative Programs	84.298	Corrections	-	85	85
	84.298	Education	-	28,661	28,661
	84.298 Total		-	28,746	28,746
Special Education - State Personnel Development	84.323	Education	-	662,695	662,695
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	Education	-	570,946	570,946
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331	Corrections	-	39,378	39,378

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Federal Agency Clusters and Program Titles	CFDA #	State Agency	Total ARRA	Total non-ARRA	Grand Total	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	Education	-	2,864,627	2,864,627	
Reading First State Grants	84.357	Education	-	1,595,786	1,595,786	
Rural Education	84.358	Corrections	-	18,770	18,770	
	84.358	Education	-	2,040,429	2,040,429	
	84.358 Total		-	2,059,199	2,059,199	
English Language Acquisition Grants	84.365	Education	-	713,489	713,489	
Mathematics and Science Partnerships	84.366	Education	-	707,906	707,906	
Improving Teacher Quality State Grants	84.367	Corrections	-	21,110	21,110	**
	84.367	Education	-	13,721,001	13,721,001	**
	84.367 Total		-	13,742,111	13,742,111	**
Grants for State Assessments and Related Activities	84.369	Education	-	4,840,760	4,840,760	
Early Intervention Services (IDEA) Cluster						
Special Education-Grants for Infants and Families	84.181	Education	-	2,085,257	2,085,257	
Special Education - Grants for Infants and Families, Recovery Act	84.393	Education	300,000	-	300,000	
Early Intervention Services (IDEA) Cluster Total			300,000	2,085,257	2,385,257	
Education of Homeless Children and Youth Cluster						
Education for Homeless Children and Youth	84.196	Education	-	126,524	126,524	
Education for Homeless Children and Youth, Recovery Act	84.387	Education	135,379	-	135,379	
Education of Homeless Children and Youth Cluster Total			135,379	126,524	261,903	
Educational Technology State Grants Cluster						
Education Technology State Grants	84.318	Corrections	-	3,056	3,056	
	84.318	Education	-	1,226,999	1,226,999	
Education Technology State Grants, Recovery Act	84.386	Corrections	3,262	-	3,262	
	84.386	Education	1,943,631	-	1,943,631	
Educational Technology State Grants Cluster Total			1,946,893	1,230,055	3,176,948	
Independent Living Services for Older Individuals Who Are Blind Cluster						
Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	84.177	Labor	-	217,237	217,237	
Independent Living Services for Older Individuals Who Are Blind Cluster Total			-	217,237	217,237	
Independent Living State Grants Cluster						
Independent Living_State Grants	84.169	Labor	-	298,653	298,653	
Independent Living State Grants, Recovery Act	84.398	Labor	92,519	-	92,519	
Independent Living State Grants Cluster Total			92,519	298,653	391,171	
School Improvement Grants Cluster						
School Improvement Grants	84.377	Education	-	367,165	367,165	
School Improvement Grants Cluster Total			-	367,165	367,165	
Special Education Cluster (IDEA)						
Special Education_Grants to States	84.027	Corrections	-	62,573	62,573	**
	84.027	Education	-	53,614,464	53,614,464	**
Special Education_Preschool Grants	84.173	Education	-	2,698,254	2,698,254	**
Special Education Grants to States, Recovery Act	84.391	Corrections	3,903	-	3,903	**
	84.391	Education	23,511,131	-	23,511,131	**
Special Education - Preschool Grants, Recovery Act	84.392	Education	776,339	-	776,339	**
Special Education Cluster (IDEA) Total			24,291,373	56,375,291	80,666,664	**
State Fiscal Stabilization Fund Cluster						
State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	Education	39,402,023	-	39,402,023	**
State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	Financial Serv	514,166	-	514,166	**
	84.397	Human Services	33,650,788	-	33,650,788	**
State Fiscal Stabilization Fund Cluster Total			73,566,977	-	73,566,977	**
Statewide Data Systems Cluster						
Statewide Data Systems	84.372	Education	-	834,775	834,775	
Statewide Data Systems Cluster Total			-	834,775	834,775	
Title I, Part A Cluster						
Title I Grants to Local Educational Agencies	84.010	Education	-	47,150,878	47,150,878	**
Title I Grants to Local Educational Agencies, Recovery Act	84.389	Education	23,996,506	-	23,996,506	**
Title I, Part A Cluster Total			23,996,506	47,150,878	71,147,384	**
Vocational Rehabilitation Cluster						
Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126	Labor	-	16,167,481	16,167,481	**
Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	84.390	Labor	901,998	212	902,210	**
Vocational Rehabilitation Cluster Total			901,998	16,167,693	17,069,691	**
Department of Education Total			125,231,645	171,085,563	296,317,208	
National Archives and Records Administration						
Cooperative Agreements to Support the Programs of the National Archives and Records Administration (NARA)	89.005	State	-	63,400	63,400	
National Archives and Records Administration Total			-	63,400	63,400	

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Federal Agency Clusters and Program Titles	CFDA #	State Agency	Total ARRA	Total non-ARRA	Grand Total	
Election Assistance Commission (EAC)						
Help America Vote Act Requirements Payments	90.401	State	-	1,353,761	1,353,761	
Election Assistance Commission (EAC) Total			-	1,353,761	1,353,761	
Department of Health and Human Services						
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	Human Services	-	(1,703)	(1,703)	
Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	Human Services	-	21,709	21,709	
Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	93.042	Human Services	-	137,940	137,940	
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	93.043	Human Services	-	112,442	112,442	
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048	Human Services	-	639,725	639,725	
Alzheimer's Disease Demonstration Grants to States	93.051	Human Services	-	510,922	510,922	
National Family Caregiver Support, Title III, Part E	93.052	Human Services	-	654,589	654,589	
Public Health Emergency Preparedness	93.069	Human Services	-	16,272,535	16,272,535	**
Environmental Public Health and Emergency Response	93.070	Human Services	-	249,562	249,562	
Medicare Enrollment Assistance Program	93.071	Human Services	-	59,376	59,376	
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	Human Services	-	758,168	758,168	
Maternal and Child Health Federal Consolidated Programs	93.110	Human Services	-	982,186	982,186	
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	Human Services	-	161,829	161,829	
Emergency Medical Services for Children	93.127	Public Safety	-	391	391	
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	Human Services	-	192,607	192,607	
Injury Prevention and Control Research and State and Community Based Programs	93.136	Human Services	-	157,398	157,398	
Projects for Assistance in Transition from Homelessness (PATH)	93.150	Human Services	-	292,119	292,119	
Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	Human Services	-	285,392	285,392	
Traumatic Brain Injury State Demonstration Grant Program	93.234	Human Services	-	75,074	75,074	
Grants for Dental Public Health Residency Training	93.236	Human Services	-	295,960	295,960	
State Rural Hospital Flexibility Program	93.241	Human Services	-	361,087	361,087	
	93.241	Public Safety	-	14,527	14,527	
	93.241 Total		-	375,614	375,614	
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	Human Services	-	5,237,966	5,237,966	
	93.243	Judicial	25,565	226,789	252,354	
	93.243 Total		25,565	5,464,754	5,490,319	
Universal Newborn Hearing Screening	93.251	Human Services	-	142,130	142,130	
State Health Access Program	93.256	Dirigo	-	76,164	76,164	
	93.256	Governor	-	33,798	33,798	
	93.256 Total		-	109,962	109,962	
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283	Human Services	-	7,749,395	7,749,395	
Small Rural Hospital Improvement Grant Program	93.301	Human Services	-	157,926	157,926	
Promoting Safe and Stable Families	93.556	Human Services	-	1,729,872	1,729,872	
Child Support Enforcement	93.563	Human Services	5,386,081	12,998,431	18,384,512	**
Refugee and Entrant Assistance_State Administered Programs	93.566	Human Services	-	621,083	621,083	
Refugee and Entrant Assistance_Discretionary Grants	93.576	Education	-	130,242	130,242	
	93.576	Human Services	-	548,679	548,679	
	93.576 Total		-	678,921	678,921	
State Court Improvement Program	93.586	Judicial	-	192,593	192,593	
Chafee Education and Training Vouchers Program (ETV)	93.599	Human Services	-	93,239	93,239	
Family Connection Grants	93.605	Human Services	-	107,437	107,437	
Voting Access for Individuals with Disabilities_Grants to States	93.617	State	-	36,229	36,229	
Developmental Disabilities Basic Support and Advocacy Grants	93.630	Financial Serv	-	500,946	500,946	
Children's Justice Grants to States	93.643	Human Services	-	138,331	138,331	
Child Welfare Services_State Grants	93.645	Human Services	-	325,648	325,648	
Social Services Research and Demonstration	93.647	Human Services	-	131,759	131,759	
Foster Care_Title IV-E	93.658	Human Services	562,248	17,762,691	18,324,939	**
Adoption Assistance	93.659	Human Services	1,133,136	15,839,437	16,972,573	**
Social Services Block Grant	93.667	Human Services	-	11,726,702	11,726,702	**
Child Abuse and Neglect State Grants	93.669	Human Services	-	110,473	110,473	
Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes	93.671	Human Services	-	789,031	789,031	
Chafee Foster Care Independence Program	93.674	Human Services	-	629,293	629,293	
ARRA - Preventing Healthcare-Associated Infections	93.717	Human Services	9,838	-	9,838	

STATE OF MAINE

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

Federal Agency Clusters and Program Titles	CFDA #	State Agency	Total ARRA	Total non-ARRA	Grand Total	
ARRA - State Grants to Promote Health Information Technology	93.719	Governor	412,345	-	412,345	
ARRA - Prevention and Wellness-State, Territories and Pacific Islands	93.723	Human Services	10,082	-	10,082	
ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724	Human Services	3,109	-	3,109	
Children's Health Insurance Program	93.767	Human Services	-	34,134,306	34,134,306	**
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	Human Services	-	586,898	586,898	
	93.768	Labor	-	37,070	37,070	
	93.768 Total		-	623,968	623,968	
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	Human Services	-	1,139,230	1,139,230	
National Bioterrorism Hospital Preparedness Program	93.889	Human Services	-	2,188,257	2,188,257	
	93.889	Public Safety	-	172,379	172,379	
	93.889 Total		-	2,360,637	2,360,637	
Grants to States for Operation of Offices of Rural Health	93.913	Human Services	-	92,806	92,806	
HIV Care Formula Grants	93.917	Human Services	-	1,661,977	1,661,977	
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	Corrections	-	839	839	
	93.938	Education	-	591,226	591,226	
	93.938 Total		-	592,065	592,065	
HIV Prevention Activities_Health Department Based	93.940	Human Services	-	1,642,292	1,642,292	
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	Human Services	-	114,607	114,607	
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946	Human Services	-	164,798	164,798	
Block Grants for Community Mental Health Services	93.958	Human Services	-	1,607,818	1,607,818	
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Human Services	-	5,329,166	5,329,166	
National All Schedules Prescription Electronic Reporting Grant	93.975	Human Services	-	3,878	3,878	
Preventive Health Services_Sexually Transmitted Diseases Control Grants	93.977	Human Services	-	283,246	283,246	
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	Human Services	-	165,341	165,341	
Preventive Health and Health Services Block Grant	93.991	Human Services	-	835,409	835,409	
Maternal and Child Health Services Block Grant to the States	93.994	Education	-	193,624	193,624	
	93.994	Human Services	-	3,560,761	3,560,761	
	93.994 Total		-	3,754,385	3,754,385	
MIS: Implementation of Uniform Alcohol & Drug Abuse Data Collection System	93.999	Human Services	-	134,999	134,999	
Aging Cluster						
Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044	Human Services	-	2,476,484	2,476,484	
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045	Human Services	-	2,678,215	2,678,215	
Nutrition Services Incentive Program	93.053	Human Services	-	558,951	558,951	
Aging Home-Delivered Nutrition Services for States	93.705	Human Services	156,673	-	156,673	
Aging Congregate Nutrition Services for States	93.707	Human Services	287,571	-	287,571	
Aging Cluster Total			444,244	5,713,649	6,157,893	
CCDF Cluster						
Child Care and Development Block Grant	93.575	Human Services	-	8,232,534	8,232,534	**
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	Human Services	-	5,100,664	5,100,664	**
ARRA – Child Care and Development Block Grant	93.713	Human Services	982,858	-	982,858	**
CCDF Cluster Total			982,858	13,333,198	14,316,056	**
CSBG Cluster						
Community Services Block Grant	93.569	Human Services	-	3,562,764	3,562,764	
ARRA - Community Services Block Grant	93.710	Human Services	3,256,869	-	3,256,869	
CSBG Cluster Total			3,256,869	3,562,764	6,819,633	
Head Start Cluster						
Head Start	93.600	Human Services	-	62,879	62,879	
Head Start Cluster Total			-	62,879	62,879	
Immunization Cluster						
Immunization Grants	93.268	Human Services	-	12,634,736	12,634,736	**
ARRA - Immunization	93.712	Human Services	21,617	-	21,617	**
Immunization Cluster Total			21,617	12,634,736	12,656,354	**

STATE OF MAINE

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

Federal Agency Clusters and Program Titles	CFDA #	State Agency	Total ARRA	Total non-ARRA	Grand Total	
Medicaid Cluster						
State Medicaid Fraud Control Units	93.775	Attorney General	-	504,982	504,982	**
State Survey and Certification of Health Care Providers and Suppliers	93.777	Human Services	13,464	3,139,451	3,152,915	**
Medical Assistance Program	93.778	Financial Serv	-	57,150	57,150	**
	93.778	Governor	-	24,841	24,841	**
	93.778	Human Services	233,020,905	1,613,876,476	1,846,897,381	**
Medicaid Cluster Total			233,034,369	1,617,602,900	1,850,637,269	**
TANF Cluster						
Temporary Assistance for Needy Families	93.558	Human Services	-	73,427,597	73,427,597	**
ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	Human Services	12,105,486	-	12,105,486	**
TANF Cluster Total			12,105,486	73,427,597	85,533,083	**
Department of Health and Human Services Total			257,387,848	1,881,248,770	2,138,636,618	
Corporation for National and Community Service						
State Commissions	94.003	Planning	-	137,140	137,140	
Learn and Serve America_School and Community Based Programs	94.004	Education	-	83,504	83,504	
AmeriCorps	94.006	Conservation	-	241,681	241,681	
	94.006	Planning	72,768	552,613	625,381	
	94.006 Total		72,768	794,294	867,062	
Program Development and Innovation Grants	94.007	Planning	-	82,964	82,964	
Training and Technical Assistance	94.009	Planning	-	76,609	76,609	
Volunteers in Service to America	94.013	Planning	18,447	527,532	545,979	
Corporation for National and Community Service Total			91,215	1,702,043	1,793,258	
Social Security Administration						
Disability Insurance/SSI Cluster						
Social Security_Disability Insurance	96.001	Human Services	-	8,961,148	8,961,148	
Social Security Administration Total			-	8,961,148	8,961,148	
Department of Homeland Security						
Pilot Demonstration or Earmarked Projects	97.001	Defense	-	93,541	93,541	
Boating Safety Financial Assistance	97.012	Inland Fisheries	-	952,302	952,302	
	97.012	Marine Resource	-	345,209	345,209	
	97.012 Total		-	1,297,511	1,297,511	
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017	Defense	-	48,880	48,880	
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	Planning	-	113,558	113,558	
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	Defense	-	7,201,176	7,201,176	
	97.036	Inland Fisheries	-	25,425	25,425	
	97.036	Marine Resource	-	5,176	5,176	
	97.036	Transportation	-	746,160	746,160	
	97.036 Total		-	7,977,937	7,977,937	
Hazard Mitigation Grant	97.039	Defense	-	1,929,279	1,929,279	
National Dam Safety Program	97.041	Defense	-	53,535	53,535	
Emergency Management Performance Grants	97.042	Defense	-	2,217,530	2,217,530	
Assistance to Firefighters Grant	97.044	Conservation	-	16,227	16,227	
	97.044	Public Safety	-	85,437	85,437	
	97.044 Total		-	101,664	101,664	
Cooperating Technical Partners	97.045	Financial Serv	-	116,250	116,250	
Pre-Disaster Mitigation	97.047	Defense	-	60,557	60,557	
Map Modernization Management Support	97.070	Planning	-	99,834	99,834	
Buffer Zone Protection Program (BZPP)	97.078	Defense	-	32,755	32,755	
	97.078	Public Safety	-	1,100	1,100	
	97.078 Total		-	33,855	33,855	
Earthquake Consortium	97.082	Defense	-	16,670	16,670	
Homeland Security Cluster						
Homeland Security Grant Program	97.067	Defense	-	7,074,240	7,074,240	
	97.067	Inland Fisheries	-	591,638	591,638	
	97.067	Judicial	-	56,659	56,659	
	97.067	Marine Resource	-	226,916	226,916	
	97.067	Public Safety	-	537,572	537,572	
Homeland Security Cluster Total			-	8,487,024	8,487,024	
Department of Homeland Security Total			-	22,647,626	22,647,626	
Total			$ 677,911,486	$ 3,159,626,105	$ 3,837,537,591	

See accompanying notes to the Schedule of Expenditures of Federal Awards

Asterisks indicate audited programs

State of Maine
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2010

Legend of State Agency Abbreviations

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

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STATE OF MAINE
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

1. Purpose of the Schedule

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

2. Significant Accounting Policies

A. *Reporting Entity* - The reporting entity is defined in Note 1 to the BFS. The accompanying Schedule includes all federal financial assistance programs of the State of Maine reporting entity for the fiscal year ended June 30, 2010, with the exception of the discrete component units identified in Note 1 to the BFS. The discrete component units engaged other auditors.

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

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

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

prefix "ARRA-" in identifying the name of the Federal program as the first characters in Item 9d of Part III on the SF-SAC.

3) ARRA Reporting Exception – The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 16.38 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2010.

4) Type A and Type B Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 established the levels of expenditures to be used in defining Type A and Type B federal financial assistance programs. Type A programs for the State of Maine are those programs that equal or exceed $11.5 million in expenditures, distributions, or issuances for the year ended June 30, 2010. Programs audited as major programs are marked with asterisks in the accompanying schedule.

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

3. Unemployment Insurance Program

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

State Funds	$235,301,000
Federal Funds	247,717,476
Total	$483,018,476

4. NonCash Awards

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

CFDA Number	Program Title	Noncash Awards	Commodities on hand at June 30, 2010
10.551	SNAP (Supplemental Nutrition Assistance Program)	346,820,144	-
10.553	School Breakfast Program	125,949	36,362
10.555	National School Lunch Program	4,151,439	-
10.559	Summer Food Service Program for Children	23,198	-
10.569	Emergency Food Assistance Program	2,578,944	261,238
10.664	Cooperative Forestry Assistance	614,015	-
12.401	National Guard Military Operations & Maint. Proj.	1,010,836	-
12.401	Readiness Sustainment Maint. Center (formerly CFDA 12.999)	9,496,777	-
39.003	Donation of federal surplus property	909,090	419,891
93.069	Public Health Emergency Preparedness	6,597,335	
93.268 Immunization Cluster	Immunization grants	9,448,255	-

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STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Section I – Summary of Auditor's Results

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SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

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

Federal Awards:

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

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

Unqualified
SNAP Cluster
Child Nutrition Cluster
Special Supplemental Nutrition Program for Women, Infants, and Children
National Guard Military Operations and Maintenance (O&M) Projects
CDBG-State-Administered Small Cities Program Cluster
Unemployment Insurance
WIA Cluster
Highway Planning and Construction Cluster
Vocational Rehabilitation Cluster
Immunization Grants
TANF Cluster
Child Support Enforcement
CCDF Cluster
Foster Care – Title IV-E
Adoption Assistance
Children's Health Insurance Program
Medicaid Cluster
Public Health Emergency Preparedness
Social Services Block Grant

Qualified
Title I, Part A Cluster
Special Education Cluster (IDEA)
Improving Teacher Quality State Grants
State Fiscal Stabilization Fund Cluster

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

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Identification of Major Programs:

CFDA #	**Name of Federal Program or Cluster**
SNAP Cluster	
10.551	Supplemental Nutrition Assistance Program
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
Child Nutrition Cluster	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children
CDBG - State-Administered Small Cities Program Cluster	
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
14.255	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii-Recovery Act Funded
WIA Cluster	
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
Highway Planning and Construction Cluster	
20.205	Highway Planning and Construction
20.219	Recreational Trails Program
Title I Part A Cluster	
84.010	Title I Grants to Local Educational Agencies
84.389	Title I Grants to Local Educational Agencies, Recovery Act
Special Education Cluster (IDEA)	
84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants
84.391	Special Education Grants to States, Recovery Act
84.392	Special Education - Preschool Grants, Recovery Act
Vocational Rehabilitation Cluster	
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.390	Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act

SECTION I – SUMMARY OF AUDITOR'S RESULTS

State Fiscal Stabilization Fund Cluster

84.394	State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (Education Stabilization Fund)
84.397	State Fiscal Stabilization Fund (SFSF) – Government Services, Recovery Act

TANF Cluster

93.558	Temporary Assistance for Needy Families
93.714	ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families

CCDF Cluster

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

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

Other Programs

10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
12.401	National Guard Military Operations and Maintenance (O&M) Projects
17.225	Unemployment Insurance
84.367	Improving Teacher Quality State Grants
93.069	Public Health Emergency Preparedness
93.268	Immunization Grants
93.563	Child Support Enforcement
93.658	Foster Care — Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	Children's Health Insurance Program

Dollar threshold used to distinguish between type A and type B programs: $11,512,613

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

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Summary of Questioned Costs:

Federal Agency	**Federal Program**	**Known Questioned Costs**	**Finding Number**
U.S. Department of Health and Human Services	Medicaid Cluster	undeterminable 86,636 undeterminable 30,000 55,112 undeterminable 223,171 undeterminable	10-1106-02 10-1106-05 10-1106-09 10-1106-10 10-1106-12 10-1106-14 10-1106-15 10-1140-01
	Foster Care – Title IV-E	171,437 13,622	10-1103-01 10-1109-06
	Adoption Assistance	14,316 366,908	10-1103-01 10-1110-07
	Children's Health Insurance Program	undeterminable undeterminable undeterminable	10-1106-09 10-1106-16 10-1140-01
	Public Health Emergency Preparedness	15,255 undeterminable	10-1151-03 10-1151-05
U.S. Department of Labor	Vocational Rehabilitation Cluster	12,560	10-1308-02
	Unemployment Compensation	undeterminable	10-1302-05
U.S. Department of Homeland Security	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	800,000	10-1500-01
U.S. Department of Defense	National Guard Military Operation & Maintenance Projects	undeterminable	10-1503-02
	Total Known Questioned Costs	**$1,789,017** plus undeterminable amounts as indicated above	

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Section II – Financial Statement Findings

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FINANCIAL STATEMENT FINDINGS

No financial statement findings were issued for the fiscal year ending June 30, 2010.

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STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Indexes to Federal Program Findings

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INDEX TO FEDERAL FINDINGS
BY FEDERAL PROGRAM

Program / Finding #	Brief Summary of Finding	State Dept	Page
SNAP Cluster CFDA# 10.551, 10.561			
10-1111-01	Income and Eligibility Verification System procedures not followed	DHHS	E-67
Child Nutrition Cluster CFDA# 10.553, 10.555, 10.556, 10.559			
10-1200-02	Subrecipient monitoring procedures not adequate	DAFS DOE	E-87
10-1200-04	Federal cash management procedures inadequate	DAFS	E-90
10-1203-01	Inadequate monitoring of subrecipient net cash resources	DOE	E-94
10-1203-02	Grant information not provided to subrecipients	DOE	E-95
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) CFDA# 10.557			
10-1113-02	Noncompliance with cash management requirements	DHHS	E-71
National Guard Military Operations and Maintenance (O&M) Projects CFDA#12.401			
10-1503-01	Inadequate controls over support for salaries and wages	DVEM	E-113
10-1503-02	Inadequate controls over the Buy American provision required for projects funded with ARRA funds	DVEM	E-114
10-1503-03	Inadequate controls over cash management	DVEM	E-115
Unemployment Insurance CFDA# 17.225			
10-1302-05	Amounts reported on the Statement of Expenditures & Financial Adjustments of Federal Funds for UC for UCFE-UCX (ETA 191) cannot be fully supported	DOL	E-100
WIA Cluster CFDA# 17.258, 17.259, 17.260			
10-1315-01	Procedures not adequate for federal cash management	DAFS	E-107
10-1315-02	Required award information not provided to subrecipients	DOL	E-108
10-1315-03	Documentation to support subrecipient monitoring activities not maintained	DOL DAFS	E-109

INDEX TO FEDERAL FINDINGS
BY FEDERAL PROGRAM

Program / Finding #	Brief Summary of Finding	State Dept	Page
Title I, Part A Cluster CFDA# 84.010, 84.389			
10-1200-01	Noncompliance with subrecipient cash management requirements	DAFS	E-86
10-1200-02	Subrecipient monitoring procedures not adequate	DAFS DOE	E-87
10-1200-03	Federal cash management procedures not followed	DAFS	E-89
10-1200-04	Federal cash management procedures inadequate	DAFS	E-90
Special Education Cluster (IDEA) CFDA# 84.027, 84.173, 84.391, 84.392			
10-1200-01	Noncompliance with subrecipient cash management requirements	DAFS	E-86
10-1200-02	Subrecipient monitoring procedures not adequate	DAFS DOE	E-87
10-1200-03	Federal cash management procedures not followed	DAFS	E-89
10-1200-04	Federal cash management procedures inadequate	DAFS	E-90
10-1201-01	Inadequate during-the-award monitoring procedures	DOE	E-92
Vocational Rehabilitation Cluster CFDA# 84.126, 84.390			
10-1308-01	Cash management procedures need to be improved	DAFS	E-102
10-1308-02	Client services payments not adequately monitored	DOL	E-103
10-1308-03	Procedures not adequate to ensure timely eligibility decisions	DOL	E-105
Improving Teacher Quality State Grants CFDA# 84.367			
10-1200-01	Noncompliance with subrecipient cash management requirements	DAFS	E-86
10-1200-02	Subrecipient monitoring procedures not adequate	DAFS DOE	E-87
10-1200-04	Federal cash management procedures inadequate	DAFS	E-90

INDEX TO FEDERAL FINDINGS
BY FEDERAL PROGRAM

Program / Finding #	Brief Summary of Finding	State Dept	Page
State Fiscal Stabilization Fund Cluster CFDA# 84.394, 84.397			
10-1200-01	Noncompliance with subrecipient cash management requirements	DAFS	E-86
10-1200-02	Subrecipient monitoring procedures not adequate	DAFS DOE	E-87
10-1200-04	Federal cash management procedures inadequate	DAFS	E-90
10-1234-01	Inadequate during the award monitoring procedures	DOE	E-98
Public Health Emergency Preparedness CFDA# 93.069			
10-1151-01	Lack of internal controls over suspension and debarment requirements	DHHS	E-80
10-1151-03	Ineffective internal controls over Period of Availability of federal funds	DAFS	E-81
10-1151-04	Subrecipients were not made aware of CFDA title, award name and number, and Federal Awarding Agency	DHHS	E-82
10-1151-05	Payroll costs not supported in accordance with federal regulations	DHHS	E-84
TANF Cluster CFDA# 93.558, 93.714			
10-1111-01	Income and Eligibility Verification System procedures not followed	DHHS	E-67
10-1111-02	Controls not adequate to ensure accurate financial reporting	DAFS	E-69
Foster Care – Title IV-E CFDA# 93.658			
10-1103-01	Costs not allocated in accordance with cost allocation plans	DAFS	E-60
10-1109-02	Inaccurate financial reporting	DAFS	E-56
10-1109-03	Federal cash management procedures need improvement	DAFS	E-57
10-1109-06	Procedures to ensure payments are made only for allowable activities need improvement	DHHS	E-58
10-1110-07	Inadequate procedures to ensure costs are properly charged or allocated	DHHS	E-64

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Program / Finding #	Brief Summary of Finding	State Dept	Page
Adoption Assistance CFDA# 93.659			
10-1103-01	Costs not allocated in accordance with cost allocation plans	DAFS	E-60
10-1109-06	Procedures to ensure payments are made only for allowable activities need improvement	DHHS	E-58
10-1110-02	Inaccurate financial reporting	DAFS	E-62
10-1110-04	Federal cash management procedures inadequate	DAFS	E-63
10-1110-07	Inadequate procedures to ensure costs are properly charged or allocated	DHHS	E-64
Social Services Block Grant CFDA# 93.667			
10-1130-01	Inadequate procedures for providing award information to subrecipients	DHHS	E-73
Children's Health Insurance Program CFDA# 93.767			
10-1102-01	Procedures to ensure accurate financial reporting need improvement	DAFS	E-78
10-1106-09	Controls over pharmacy claims processing system need improvement	DHHS	E-40
10-1106-10	Reimbursement rates not adequately supported/incorrect reimbursement rates paid to providers	DHHS	E-42
10-1106-15	Controls to ensure payments are made from the correct federal program need improvement	DAFS DHHS	E-49
10-1106-16	Incorrect client eligibility determinations	DHHS	E-50
10-1140-01	School Based Rehabilitation services billing and payment policy procedures not adequate	DHHS	E-74
10-1140-02	Maine Claims Management System (MECMS) procedures not adequate to ensure local match (certified seed) is met	DHHS	E-75
10-1140-03	Procedures needed to ensure better accountability of certified public expenditures	DHHS	E-76
Medicaid Cluster CFDA# 93.775, 93.777, 93.778			
10-1106-01	Internal control over Medicare Part B eligibility needs improvement	DHHS	E-29
10-1106-02	Federal share of paid claims overstated	DAFS DHHS	E-30

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Program / Finding #	Brief Summary of Finding	State Dept	Page
Medicaid Cluster continued from previous page			
10-1106-03	Inconsistent application of controls over the Medicaid provider desk review process	DHHS	E-32
10-1106-04	Controls over the hospital cost reporting process need improvement	DHHS	E-33
10-1106-05	Procedures to ensure proper crediting of federal share of cost of care recoupments need improvement	DAFS DHHS	E-34
10-1106-06	No verification of services furnished to recipients	DHHS	E-35
10-1106-07	Claims processing and information retrieval system lacking required functionalities	DAFS DHHS	E-36
10-1106-08	Inadequate surveillance and utilization review of Medicaid services	DHHS	E-38
10-1106-09	Controls over pharmacy claims processing system need improvement	DHHS	E-40
10-1106-10	Reimbursement rates not adequately supported/incorrect reimbursement rates paid to providers	DHHS	E-42
10-1106-11	Procedures to ensure provider eligibility requirements are met need improvement	DHHS	E-43
10-1106-12	Procedures to ensure checks that remain uncashed beyond 180 days from issuance are credited to the federal government on a timely basis need improvement	DAFS	E-45
10-1106-13	Procedures for crediting the federal share of overpayments need improvement	DAFS	E-46
10-1106-14	Controls over prompt payment requirements need improvement	DAFS DHHS	E-48
10-1106-15	Controls to ensure payments are made from the correct federal program need improvement	DAFS DHHS	E-49
10-1106-16	Incorrect client eligibility determinations	DHHS	E-50
10-1106-17	Medicaid eligibility quality control procedures need improvement	DHHS	E-53
10-1106-18	Insufficient documentation in hospital survey and certification results	DHHS	E-54
10-1111-01	Income and Eligibility Verification System procedures not followed	DHHS	E-67
10-1140-01	School Based Rehabilitation services billing and payment policy procedures not adequate	DHHS	E-74
10-1140-02	Maine Claims Management System (MECMS) procedures not adequate to ensure local match (certified seed) is met	DHHS	E-75
10-1140-03	Procedures needed to ensure better accountability of certified public expenditures	DHHS	E-76

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Disaster Grants – Public Assistance (Presidentially Declared Disasters) CFDA# 97.036			
10-1500-01	Excess cash balance	DVEM	E-111

Legend of State Agency Abbreviations:

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

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BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Administrative and Financial Services																
10-1102-01	Children's Health Insurance Program (CHIP)												✓			E-78
10-1103-01	Multiple Programs		✓													E-60
10-1106-02	Medicaid Cluster	✓	✓										✓			E-30
10-1106-05	Medicaid Cluster		✓													E-34
10-1106-07	Medicaid Cluster														✓	E-36
10-1106-12	Medicaid Cluster		✓													E-45
10-1106-13	Medicaid Cluster		✓													E-46
10-1106-14	Medicaid Cluster	✓														E-48
10-1106-15	Multiple Programs	✓	✓													E-49
10-1109-02	Title IV-E Foster Care												✓			E-56
10-1109-03	Title IV-E Foster Care			✓												E-57
10-1110-02	Title IV-E Adoption Assistance												✓			E-62
10-1110-04	Title IV-E Adoption Assistance			✓												E-63
10-1110-07	Multiple Programs		✓													E-64
10-1111-02	Temporary Assistance for Needy Families Cluster (TANF)												✓			E-69
10-1151-03	Public Health Emergency Preparedness								✓							E-81
10-1200-01	Multiple Programs			✓												E-86
10-1200-02	Multiple Programs													✓		E-87
10-1200-03	Multiple Programs			✓												E-89
10-1200-04	Multiple Programs			✓												E-90
10-1308-01	Vocational Rehabilitation Cluster			✓												E-102

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Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Administrative and Financial Services (continued from previous page)																
10-1315-01	WIA Cluster			✓												E-107
10-1315-03	WIA Cluster													✓		E-109
Department of Education																
10-1200-02	Multiple Programs													✓		E-87
10-1201-01	Special Education Cluster													✓		E-92
10-1203-01	Child Nutrition Cluster													✓		E-94
10-1203-02	Child Nutrition Cluster													✓		E-95
10-1234-01	State Fiscal Stabilization Cluster													✓		E-98
Department of Health and Human Services																
10-1106-01	Medicaid Cluster					✓										E-29
10-1106-02	Medicaid Cluster	✓	✓										✓			E-30
10-1106-03	Medicaid Cluster														✓	E-32
10-1106-04	Medicaid Cluster														✓	E-33
10-1106-05	Medicaid Cluster		✓													E-34
10-1106-06	Medicaid Cluster														✓	E-35
10-1106-07	Medicaid Cluster														✓	E-36
10-1106-08	Medicaid Cluster														✓	E-38
10-1106-09	Multiple Programs	✓	✓													E-40
10-1106-10	Multiple Programs	✓	✓													E-42
10-1106-11	Medicaid Cluster														✓	E-43
10-1106-14	Medicaid Cluster	✓														E-48
10-1106-15	Multiple Programs	✓	✓													E-49
10-1106-16	Multiple Programs	✓	✓			✓										E-50
10-1106-17	Medicaid Cluster					✓										E-53
10-1106-18	Medicaid Cluster														✓	E-54

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Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Health and Human Services (continued from previous page)																
10-1109-06	Foster Care - Title IV-E	✓														E-58
10-1111-01	Multiple Programs														✓	E-67
10-1113-02	Special Supplemental Nutrition Program … (WIC)			✓												E-71
10-1130-01	Social Services Block Grant													✓		E-73
10-1140-01	Multiple Programs	✓														E-74
10-1140-02	Multiple Programs							✓								E-75
10-1140-03	Multiple Programs							✓								E-76
10-1151-01	Public Health Emergency Preparedness									✓						E-80
10-1151-04	Public Health Emergency Preparedness													✓		E-82
10-1151-05	Public Health Emergency Preparedness		✓													E-84
Department of Labor																
10-1302-05	Unemployment Insurance												✓			E-100
10-1308-02	Vocational Rehabilitation Cluster		✓													E-103
10-1308-03	Vocational Rehabilitation Cluster					✓										E-105
10-1315-02	WIA Cluster													✓		E-108
10-1315-03	WIA Cluster													✓		E-109

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Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Defense Veterans and Emergency Management																
10-1500-01	Disaster Grants – Public Assistance (Presidentially Declared Disasters)			✓												E-111
10-1503-01	National Guard Military Operations & Maintenance Projects		✓													E-113
10-1503-02	National Guard Military Operations & Maintenance Projects									✓						E-114
10-1503-03	National Guard Military Operations & Maintenance Projects			✓												E-115

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Finding # *	Page	Compliance Area	Finding Type				
			Material Non-compliance	Internal Control		Questioned Costs	Other
				Material Weakness	Significant Deficiency		
10-1102-01	E-78	Reporting			✓		
10-1103-01	E-60	Allowable Costs			✓	185,753	
10-1106-01	E-29	Eligibility			✓		
10-1106-02	E-30	Activities Allowed/Allowable Costs/Reporting			✓	Undetermi-nable	
10-1106-03	E-32	Special Tests and Provisions			✓		
10-1106-04	E-33	Special Tests and Provisions			✓		
10-1106-05	E-34	Allowable Costs			✓	86,636	
10-1106-06	E-35	Special Tests and Provisions			✓		
10-1106-07	E-36	Special Tests and Provisions			✓		
10-1106-08	E-38	Special Tests and Provisions			✓		
10-1106-09	E-40	Activities Allowed/Allowable Costs			✓	Undetermi-nable	
10-1106-10	E-42	Activities Allowed/Allowable Costs			✓	30,000	
10-1106-11	E-43	Special Tests and Provisions			✓		
10-1106-12	E-45	Allowable Costs			✓	55,512	
10-1106-13	E-46	Allowable Costs			✓		
10-1106-14	E-48	Activities Allowed			✓	Undetermi-nable	
10-1106-15	E-49	Activities Allowed/Allowable Costs			✓	223,171	
10-1106-16	E-50	Activities Allowed/Allowable Costs/Eligibility			✓	Undetermi-nable	
10-1106-17	E-53	Eligibility			✓		
10-1106-18	E-54	Special Tests and Provisions			✓		

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

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Finding # *	Page	Compliance Area	Finding Type				
			Material Non-compliance	Internal Control		Questioned Costs	Other
				Material Weakness	Significant Deficiency		
10-1109-02	E-56	Reporting		✓			
10-1109-03	E-57	Cash Management			✓		
10-1109-06	E-58	Activities Allowed			✓	13,622	
10-1110-02	E-62	Reporting		✓			
10-1110-04	E-63	Cash Management			✓		
10-1110-07	E-64	Allowable Costs			✓	366,908	
10-1111-01	E-67	Special Tests and Provisions			✓		
10-1111-02	E-69	Reporting			✓		
10-1113-02	E-71	Cash Management			✓		
10-1130-01	E-73	Subrecipient Monitoring			✓		
10-1140-01	E-74	Activities Allowed			✓	Undetermi-nable	
10-1140-02	E-75	Matching, Level of Effort, Earmarking			✓		
10-1140-03	E-76	Matching, Level of Effort, Earmarking			✓		
10-1151-01	E-80	Procurement and Suspension and Debarment			✓		
10-1151-03	E-81	Period of Availability			✓	15,255	
10-1151-04	E-82	Subrecipient Monitoring			✓		
10-1151-05	E-84	Allowable Costs			✓	Undetermi-nable	
10-1200-01	E-86	Cash Management	✓	✓			
10-1200-02	E-87	Subrecipient Monitoring			✓		
10-1200-03	E-89	Cash Management			✓		
10-1200-04	E-90	Cash Management			✓		
10-1201-01	E-92	Subrecipient Monitoring			✓		
10-1203-01	E-94	Subrecipient Monitoring			✓		
10-1203-02	E-95	Subrecipient Monitoring			✓		

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

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Finding # *	Page	Compliance Area	Finding Type				
			Material Non-compliance	Internal Control		Questioned Costs	Other
				Material Weakness	Significant Deficiency		
10-1234-01	E-98	Subrecipient Monitoring			✓		
10-1302-05	E-100	Reporting			✓	Undetermi-nable	
10-1308-01	E-102	Cash Management			✓		
10-1308-02	E-103	Allowable Costs			✓	12,560	
10-1308-03	E-105	Eligibility			✓		
10-1315-01	E-107	Cash Management			✓		
10-1315-02	E-108	Subrecipient Monitoring			✓		
10-1315-03	E-109	Subrecipient Monitoring			✓		
10-1500-01	E-111	Cash Management			✓	800,000	
10-1503-01	E-113	Allowable Costs			✓		
10-1503-02	E-114	Procurement and Suspension and Debarment			✓	Undetermi-nable	
10-1503-03	E-115	Cash Management			✓		

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

DIRIGO
MAINE

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

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

DIRIGO
MAINE

MEDICAID CLUSTER

(10-1106-01)

Title: Internal control over Medicare Part B eligibility needs improvement

Prior Year Finding: No
State Department: Health and Human Services (DHHS)
State Bureau: Office of Integrated Access and Support
DHHS Financial Management Services
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0905ME5028; 05-1005ME5028

Compliance Areas: Eligibility

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: U.S. Department of HHS, State Buy-In Manual (various sections); 42 CFR §431.625 Coordination of Medicaid with Medicare Part B; 45 CFR §92.20

Condition: Procedures were not adequate to ensure that Medicare Part B premiums paid to the Centers for Medicare and Medicaid Services (CMS) are made only for eligible individuals.

Context: In the ten month period ending April 30, 2010 MaineCare paid $98 million to CMS for Medicare participants' Part B coverage. We noted the following:

- Four of the 60 Medicare Part B premium payments tested were made for ineligible individuals; three were due to State errors, the other was due to incorrect CMS data.
- We examined 25 death related premium reimbursements. State records for five of these did not agree with CMS records.
- Two of the 10 retroactive Medicare Part B premium adjustments examined were incorrectly assessed.

Causes:

- Inadequate oversight of Part B expenditures
- System edits in the Automated Client Eligibility System are not adequate to detect or remediate inconsistent information received from CMS or the Social Security Administration.
- DHHS methods used to manually reestablish program eligibility did not reflect appropriate State or Federal requirements and were not subject to review.

Effect: Medicare Part B payments were made on behalf of ineligible individuals and resulted in higher than necessary Federal and State expenditures.

Recommendation: We recommend that the Department develop electronic matching and reconciliation procedures to provide assurance that Medicare Part B premium payments are correct.

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

The ACES system is designed to detect and re-assess eligibility for the Medicare Buy-In. The Department does believe that it has adequate controls in place to manually re-establish Buy-In for clients. The Department has in place an "operating memorandum" that regional staff refer to when requesting a manual Buy-In.

The Department agrees that better accountability needs to be established to correct errors and reduce unallowable charges. The Departments Management Information Systems unit will work collaboratively with the finance department to build a reconciliation process that will allow the Department to dispute errors and inconsistencies within the allowable 2 month time frame allotted by CMS. As of the first quarter of State fiscal year 2012, the reconciliation process should be implemented.

Contact: *Bethany Hamm, Division Director Policy and Programs, 287-3931*

Auditor's Conclusions: For instances we tested, the system did not always detect or reassess eligibility when State records to support Medicare Part B (Buy-In) eligibility were inconsistent with Medicare information electronically interfaced from CMS or the SSA. Additionally, methods to process some manual eligibility decisions can be complex. These cases should be subject to adequate supervisory review. The finding remains as stated.

(10-1106-02)

Title: Federal share of paid claims overstated

Prior Year Finding: No
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Health and Human Services Service Center
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0905ME5028; 05-1005ME5028;
05-1005ME5MAP; 05-1005MEARRA

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

MEDICAID CLUSTER

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225); State Medicaid Manual (Chapter 2, Section 2500(D)(2))

Condition: The Department's claims adjustment methodology was not consistent with Centers for Medicare and Medicaid Services' (CMS) interpretation of Federal regulations and the Medicaid claims system was not developed to process claims in accordance with Section 2500.2 of the State Medicaid Manual, resulting in inaccurate Federal reporting.

Context: To adjust a paid claim, a credit transaction is processed for the entire amount of the original paid claim and a new adjusted claim is processed. The credit transaction is processed and reported at the original Federal Medical Assistance Percentages (FMAP) rate; however, the adjusted claim is processed and reported at the current FMAP rate as a current period expenditure, even if the original claim was paid in a prior fiscal year at a different FMAP rate. While testing the quarter ending December 31, 2009 CMS-64 report, support provided for prior period adjustments related to the January 1, 2008 to December 31, 2009 timeframe reflected that Medicaid was overcharged. On this same CMS-64 report, current period expenditures were over reported and prior period expenditures were underreported.

Additionally, though the Federal share of reversed claims was corrected on the quarter ending June 30, 2010 report, prior period activity (reversed and adjusted claims) was incorrectly reported at the current FMAP rate as current period activity on the quarter ending March 31, 2010 CMS-64 report. On the quarter ending June 30, 2010 CMS-64 report, claims adjusted for a prior period were incorrectly reported at the current FMAP rate as current period activity.

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

Effect:

- Potential disallowances
- Inaccurate Federal financial reports
- Noncompliance with Federal regulations
- General fund expenditures are understated while Federal fund expenditures are overstated

Recommendation: We recommend that the Department develop procedures to ensure claims transactions are processed and reported in compliance with Federal regulations.

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

The Department acknowledges that its claims adjustment process was not consistent with CMS' interpretation of the Federal regulation, that its Medicaid claims system must be updated with the appropriate claims adjustment functionality, and that the Department's misinterpretation of the regulations resulted in inaccurate reporting.

The Department has initiated discussions with CMS and is awaiting further clarification regarding the appropriate handling of claims adjustments. The Department will work with CMS to identify an appropriate resolution.

Contact: *Colin D. Lindley, Director of MaineCare Finance, 287-1855*

(10-1106-03)

Title: Inconsistent application of controls over the Medicaid provider desk review process

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Division of Audit
Federal Agency: U.S. Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0605ME5028; 05-0705ME5028;
05-0805ME5028; 05-0905ME5028

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Chapter 101 of the MaineCare Benefits Manual (Chapter III, Section 67, subsection 34.1.2 of the Principles of Reimbursement for Nursing Facilities)

Condition: Established control procedures were not followed to ensure timely desk reviews of nursing facility cost reports

Context: A test of 18 nursing facility desk reviews issued during the audit period revealed that nine were not completed within the required 180 days following acceptance of the cost report. The reviews were between 92 to 458 days late.

Cause: Lack of staff

Effect:

- Noncompliance with cost report review requirements
- Delays in the preparation and issuance of cost reports resulting in amounts due to the State or provider

Recommendation: We recommend that the Department consistently follow established procedures to provide reasonable assurance that nursing home desk reviews are completed within the established 180 day time frame.

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

The Division of Audit utilizes status reports to track the 180 day time frame. As of March 1, 2011, the Division will assign Nursing Facility cost reports for desk review as they are received to ensure adherence to the 180 day time frame.

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

(10-1106-04)

Title: Controls over the hospital cost reporting process need improvement

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Division of Audit
Federal Agency: U.S. Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775, 93.777, 93.778
Federal Award #: 05-0405ME5028; 05-0505ME5028; 05-0605ME5028

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Chapter 101 of the MaineCare Benefits Manual (Chapter III, Section 45.02-5); Principles of Reasonable Cost Reimbursement (42 CFR 413.24(f)(2)(ii))

Condition: Controls are inadequate to ensure the timely submission of hospital cost reports.

Context: Cost reports are due on or before the last day of the fifth month following the close of the period covered by the report. A test of five hospital facility desk reviews issued during the audit period revealed that four were not submitted within the required time frame. The reports were 31 days to 231 days late.

Cause: Lack of available funding for cost settlements

Effect:

- Noncompliance with cost report submission requirements
- Delays in the preparation and issuance of cost settlements resulting in amounts due the State or the provider

Recommendation: We recommend that the Department strengthen controls over the hospital cost reporting process in order to provide reasonable assurance that they be submitted and received in a more timely fashion.

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

The Division of Audit has controls in place to identify Hospital cost reports that have not been submitted within the required time frame. Failure to submit an adequate, complete cost report is grounds for the Department to impose sanctions pursuant to the MaineCare Benefits Manual Chapter I, Section I. As of March 1, 2011, imposition of these sanctions will be considered on a case by case basis.

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

(10-1106-05)

Title: Procedures to ensure proper crediting of Federal share of cost of care recoupments need improvement

Prior Year Finding: 09-1106-06
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Health and Human Services Service Center
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0605ME 5028; 05-0705ME5028;
05-0805ME5028; 05-0905ME5028

Compliance Area: Allowable costs/Cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $86,636

Likely Questioned Costs: $86,636

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225)

Condition: The Department did not credit the Federal government with a proportionate share of cost of care recoupments.

Context: Medicaid recipients may be responsible for paying a portion of their cost of care. A disproportionate share of these recoupments totaling $480,343 was credited to the General Fund.

Cause: Data entry errors

Effect: Potential current and future disallowances

Recommendation: We recommend that the Department credit the Federal program accounts for the appropriate share of Cost of Care recoupments.

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

MaineCare Finance has been making the adjustment to credit the Federal program accounts for the appropriate share of HCBS Waiver program recoupments since March 31, 2010. Procedures have been established to record the appropriate share of payments in the Federal program accounts.

Contact: *Colin Lindley, Director, MaineCare, 287-1855*

(10-1106-06)

Title: No verification of services furnished to recipients

Prior Year Finding: 09-1106-03
State Department: Health and Human Services
State Bureau: Division of Program Integrity/Division of Claims, Third Party Liability (TPL) and Project Management
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0805ME5028; 05-0905ME5028;
05-1005ME5028; 05-1005ME5MAP

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Program Integrity – Basis and Scope (42 CFR §455.1(a)(2))

Condition: The Department did not have a method to verify whether services reimbursed by Medicaid were actually furnished to recipients.

Context: The Department previously achieved compliance with this requirement by sending out Explanation of Medical Benefits (EOMB). The verification of recipient services via EOMBs had not been performed since December 2004. According to program personnel, the new claims processing system implemented in September 2010 is now generating these notifications.

Cause: The Maine Claims Management System (MeCMS), which was used to process claims during State fiscal year 2010, did not have the capability to generate EOMBs.

Effect: Providers could be reimbursed for services not actually rendered to program participants

Recommendation: We recommend that the Department ensure that the new claims processing system continues providing EOMBs to program participants.

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

The Maine DHHS has contracted with Molina as its fiscal agent. The implementation of MIHMS was completed September 1, 2010. The system used by the fiscal agent has the capability to provide monthly explanation of medical benefits. The fiscal agent has issued monthly explanation of benefits beginning September 2010 and will continue to do so on a monthly basis thereafter.

Contact: *Marc Fecteau, Assistant Director of Program Integrity, 287-9280*

(10-1106-07)

Title: Claims processing and information retrieval system lacking required functionalities

Prior Year Finding: 09-1106-04
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Office of Information Technology
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0805ME5028; 05-0905ME5028; 05-1005ME5MAP;
05-0905ME5048; 05-1005ME5ADM

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

MEDICAID CLUSTER

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: State Fiscal Administration (42 CFR §433.10-§433.131); Section 11300 State Medicaid Manual

Condition: The Maine Claims Management System (MeCMS) cannot currently perform all of its required functions and objectives. Four of six required subsystems are not fully functional.

The Recipient Subsystem does not contain the data necessary to support Third Party Liability (TPL) recovery activities; however, the Claims Processing Subsystem can identify Third Party Liability and assure that Medicaid is the payor of last resort.

The Surveillance and Utilization Review (SUR) Subsystem cannot:

- Develop a comprehensive statistical profile of health care delivery and utilization patterns established by provider and recipients
- Use computerized exception processing techniques to perform analyses and produce reports

The Management and Administrative Reporting Subsystem has limited ability to:

- Report information to assist management in fiscal planning and control. Some reports have been created outside of the Management and Administrative Reporting System by workarounds.
- Produce program data necessary to satisfy Federal Medicaid reporting requirements
- Monitor third party avoidances and collections in accordance with State plan requirements

Although some upgrades have been made, examples of Claims Processing Subsystem problems that exist include the following:

- Some claims processed through the Fund Exception Matrix are not assigned an accounting string
- Failed processing system edits and certain edits set to "ignore"
- Fund allocation failures
- Noncompliance with the current Health Insurance Portability and Accountability Act (HIPAA) claims format
- Incomplete history retention for cost of care rate assessments
- Overly complex claims adjustment process

Context: Medicaid is a $2.5 billion Federal/State-funded program. During fiscal year 2010 MeCMS was essential to its operation. Beginning on September 1, 2010, the Department implemented the Maine Integrated Health Management Solution (MIHMS), a new claims management system managed by a fiscal agent. The State Medicaid agency plans to retain MeCMS for a period of six months after implementation of MIHMS with a cutover strategy in order to maintain its core claims processing operations.

Cause: The Department of Health and Human Services converted to MeCMS prematurely. The initial system breakdown can be attributed to the following:

- An inadequate system development effort
- Lack of a formal risk management process
- Lack of effective testing before going into production
- Procuring the services of a software vendor unfamiliar with the processing of medical claims

Effect: Improperly designed and implemented system controls and edit functionality creates a potential for the following

- Disallowed costs
- Non-compliance with Federal regulations

Recommendation: We recommend that the Department work with the fiscal agent to implement the State's new Medicaid Management Information System (MMIS) with all of the required functionalities and obtain the required Federal certification.

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

The DHHS has contracted with Molina as its fiscal agent. The implementation was completed September 1, 2010. The Department is working with the fiscal agent to ensure that the MMIS has all the required functionalities and obtain the required Federal certification.

Contact: *Beth Ketch, Director of Operations, 287- 4078*
Marc Fecteau, Assistant Director, SURS, 287-9280

(10-1106-08)

Title: Inadequate surveillance and utilization review of Medicaid services

Prior Year Finding: 09-1106-05
State Department: Health and Human Services
State Bureau: Division of Program Integrity
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0805ME5028; 05-0905ME5028;
05-1005ME5028; 05-1005ME5MAP

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Utilization Control (42 CFR Part 456) Subpart B; MaineCare Benefits Manual (§1.18 and §1.19)

Condition: No Medicaid Management Information System (MMIS) subsystem is in place to ensure the ongoing evaluation, on a sample basis, of the need for and the quality and timeliness of Medicaid services. The current system is not adequately designed to accomplish the post-payment review process.

Context: Medicaid Federal and State expenditures were approximately $2.5 billion in fiscal year 2010. Utilization controls are an important safeguard against the unnecessary or inappropriate use of Medicaid services.

Cause: The State's claims processing system in place during fiscal year 2010 was not fully functional and as a result was lacking a surveillance utilization review subsystem (SURS). The State is in the process of implementing a new claims processing system.

Effect: Potential unnecessary or inappropriate use of Medicaid funds

Recommendation: We recommend that DHHS:

- Ensure that a SURS is incorporated as a required core MMIS subsystem
- Develop a post-payment review process that evaluates recipient utilization and provider service profiles and identify exception criteria
- Procure specialized software to allow the Division of Program Integrity to download and convert claims data for subsequent analytical purposes

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

The DHHS has contracted with Molina as its fiscal agent. The implementation was completed on September 1, 2010. Included in the contract is a surveillance and utilization review component that has been fully certified by the Centers for Medicare and Medicaid Services. This component will allow for evaluation of recipient utilization, provider service profiles as well as the ability to identify exception criteria and subsequent analysis. The surveillance and utilization review component is expected to be fully operational in the third quarter of State fiscal year 2011.

Contact: *Marc Fecteau, Assistant Director for Program Integrity, 287-9280*

MEDICAID CLUSTER

(10-1106-09)

Title: Controls over pharmacy claims processing system need improvement

Prior Year Finding: 09-1106-09
State Department: Health and Human Services
State Bureau: Office of MaineCare Services (OMS)
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-0905ME5028; 05-1005ME5028; 05-1005ME5MAP;
05-0905ME5021; 05-1005ME5021

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

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: State Fiscal Administration (42 CFR §433.10-§433.131); Section 11300 State Medicaid Manual; Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225)

Condition: Pharmacy claims processing systems controls are not adequate to ensure compliance with program requirements. We noted the following:

- OMS does not provide adequate oversight to ensure the appropriateness of the override of rejected claims.
- Maine Maximum Allowable Cost (MMAC) prices recorded in the Maine Point of Purchase System (MEPOPS) pharmacy system are not periodically reviewed and verified.
- The pharmacy claims contractor has not obtained assurance that Medi-Span price quotes are accurate.
- Federal Upper Limit (FUL) prices are ignored when considering the lowest reimbursement rate for brand-name drugs.

Context: In our test of pharmacy claims charged to the Medicaid and CHIP programs, 49% were paid using a MMAC price; the remaining 51% were paid using drug prices provided by Medi-Span and Centers for Medicare and Medicaid Services. We found that one out of 60 Medicaid claims and two out of 60 CHIP claims were paid without consideration of the FUL as required by MaineCare policy.

Cause: The Department has relied on a contractor to have appropriate controls in place over the processing of pharmacy claims without adequate oversight.

Effect:

- Rejected claims could be erroneously approved
- Drugs may be paid at a higher rate than necessary
- Noncompliance with State and Federal rules and regulations

Recommendation: We recommend that the Department strengthen monitoring activities of and provide additional guidance to the pharmacy claims contractor to ensure that claims are processed in accordance with State and Federal rules and regulations.

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

Under the current contract the Department does not have the tools in place to monitor the Pharmacy Benefits Manager (PBM). Recently GHS won the PBM contract under a new procurement. As of July 1, 2011, the new contract provides access to the live point of sale system so staff can view and monitor live claims as they are processed. Reports are being implemented that allows staff to monitor the activities of the PBM. And the Department is implementing an auditing process of pricing and claims.

The Department did incorporate Federal Upper Limit (FUL) changes when they became available in 2004. CMS declared that a state's aggregate payment for all Medicaid prescription drugs with a FUL must not exceed, in the aggregate, the payment levels established by the FUL program. The aggregate cap allows states to increase or decrease the cost of individual prescription drugs in accordance with state or local markets while maintaining the overall savings created by the FUL program. States may exceed the FUL price for individual prescription drugs as long as their aggregate expenditures do not exceed the amounts that would have otherwise been spent by applying the FUL limit plus a reasonable dispensing fee.

The Department is addressing the issue that policy is not currently up to date with the payment changes made in 2004.

Contact: *Jennifer Palow, Pharmacy Director, 287-2705*

MEDICAID CLUSTER

(10-1106-10)

Title: Reimbursement rates not adequately supported/incorrect reimbursement rates paid to providers

Prior Year Finding: 09-1106-10
State Department: Health and Human Services (DHHS)
State Bureau: Office of MaineCare Services (OMS) Rate Setting Unit
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-0905ME5028; 05-1005ME5028; 05-1005ME5MAP;
05-0905ME5021; 05-1005ME5021

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

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $30,000

Likely Questioned Costs: Undeterminable

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225); MaineCare Benefits Manual §45, 55 and 101

Condition: Providers were paid at an incorrect or unsupported reimbursement rate.

Context: In a test of paid claims, we noted the following:

- Four out-of-state hospitals were reimbursed at the incorrect rate, while adequate documentation could not be provided for another out-of-state hospital.
- The Claim Pricing indicator for the "out-of-state professional rate" was incorrectly set up in the claims processing system to pay claims using the Medicare rate instead of the lower MaineCare rate.
- Medical imaging services were incorrectly set up in the claims processing system to pay claims based on conversion factors instead of the lowest of the following: the fee-for-service rate is set at 52% of the lowest level in the current Medicare fee schedule for Maine in effect at that time; or the lowest amount allowed by the Medicare Part B carrier; or the provider's usual and customary charge.

Cause:

- The basis for some of these rates were determined prior to the establishment of DHHS' Rate Setting Unit
- It appears that the incorrect reimbursement rate was loaded into Maine Claims Management System

Effect: Potential disallowed costs

Recommendation: We recommend that the Department ensure:

- That the basis for all reimbursement rates be documented, referenced to the applicable Federal/State regulations, and retained for audit purposes
- That OMS and DHHS' Rate Setting Unit make the necessary system correction(s)

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

The DHHS has contracted with Molina as its fiscal agent for the Maine Integrated Health Management System. The implementation was completed September 1, 2010. Rate Setting is working with the fiscal agent to ensure that the MMIS has the correct rates.

In addition, all reimbursement rates are being documented, referenced to the applicable Federal/State regulations and retained for audit purposes.

Contact: *Greg Nadeau, Rate Setting Manager, 287-4254*

(10-1106-11)

Title: Procedures to ensure provider eligibility requirements are met need improvement

Prior Year Finding: 09-1106-08
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0905ME5028; 05-1005ME5028; 05-1005ME5MAP

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Required provider agreement (42 CFR §431.107); Disclosure of Information by Providers and Fiscal Agents (42 CFR §455 Subpart B)

Condition: Procedures were not adequate to ensure provider files contained the required documentation and that enrollment forms and provider agreements included the required disclosures.

Context:

- Not all enrollment forms on file require providers to disclose criminal convictions by persons with an ownership or control interest in the provider or agents or managing employees of the provider
- Enrollment forms, instructions and provider agreements do not include language about direct or indirect ownership and do not ask if anyone named is related to another as a spouse, parent, sibling or child
- Enrollment forms and provider agreements do not include a provision to furnish information about certain business transactions with wholly owned suppliers or subcontractors
- Not all provider files are complete. Enrollment forms, provider agreements or evidence of proper licensure may be missing.

Cause:

- All of the required disclosures were not requested on provider enrollment forms and provider agreements
- Insufficient follow-up to ensure all providers had complete provider files including current licenses
- Changes were not made to the existing provider enrollment process since provider enrollment will be handled by the vendor of the new claims processing system

Effect:

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

Recommendation: We recommend that the Department modify provider enrollment forms and provider agreements to meet all disclosure requirements. We further recommend that the Department ensure all documentation required for determining provider eligibility is retained in the provider's file.

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

All deficiencies are addressed in the new MIHMS system. All enrollments are done on-line and information is stored in the QNXT database. All providers are required to re-enroll including a new signed Provider Agreement. Each year after re-enrolled, providers must check and validate all information, including Ownership, and new Provider Agreements will be required every 3 yrs with verification of all information concerning the provider that is stored in QNXT.

The MIHMS enrollment form requests the names and address of owners with a 5% interest in the disclosing entity, relationships between any of the 5% owners and if these owners have ownership in any other disclosing entity. Documentation of the disclosing entities attempts to obtain ownership information must be held at the disclosing entity per Title 42 CFR 455.104 (a) (3) and MaineCare Benefits Manual.

Criminal questions are asked in both the Business Questions and also under Legal information. Each person listed on the application is checked by staff against the Federal and State SURS site, and a note is written in the provider file with the findings.

Licenses are required in MIHMS, and are verified and/or stored within the database under the NPI number. An automatic e-mail message will be sent to the provider 45 days before the license is to expire, they will be able to e-mail, fax, or mail their updated license, letter for extension from Licensing, or canceled check to prove they are complying with Licensing.

All documentation will be stored within the QNXT database system and will be indexed under the Providers NPI number.

Molina is doing the actual provider enrollment work, as of March 1, 2010, with OMS overseeing Quality Assurance. To date the majority of providers have re-enrolled, and have a new Provider Agreement.

Contact: *Beth Ketch, Social Service Program Manager, 287-4078*

(10-1106-12)

Title: Procedures to ensure checks that remain uncashed beyond 180 days from issuance are credited to the Federal government on a timely basis need improvement

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0905ME5028; 05-1005ME5028; 05-1005ME5MAP

Compliance Area: Allowable costs/Cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $55,512

Likely Questioned Costs: $111,024
Likely questioned costs were computed by multiplying known questioned costs (representing 6 months of uncashed checks) by two.

Criteria: Treatment of uncashed or canceled (voided) Medicaid checks (42 CFR §433.40(c)); Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225)

Condition: The Department did not credit the Federal government with a proportionate share of checks uncashed beyond 180 days from issuance on the CMS-64 Federal expenditure report on a quarterly basis.

Context: Currently, the Department only reviews checks that remain uncashed beyond 180 days from issuance on an annual basis with a one-year lag time.

Cause: Lack of knowledge of specific reporting requirement

Effect: Potential current and future disallowances

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

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

As of April 1, 2011, MaineCare Finance will review uncashed checks on a quarterly basis. The Department will work with the State Controller's Office in the development of a report identifying the Federal share so CMS will be credited.

Contact: *Colin Lindley, Director, MaineCare, 287-1855*

(10-1106-13)

Title: Procedures for crediting the Federal share of overpayments need improvement

Prior Year Finding: 09-1106-02
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0905ME5028; 05-1005ME5028; 05-1005ME5MAP

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: State Fiscal Administration (42 CFR Part 433); Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225); Uniform Administrative Requirements for Grants

and Cooperative Agreements for State, Local, and Tribal Governments – Financial Management Systems (45 CFR §92.20)

Condition: Procedures are not adequate to ensure that the Federal government has been credited for its share of audit cost settlements and Program Integrity-identified overpayments on a timely basis. The Federal share of overpayments associated with one Program Integrity review and 38 audit cost settlements totaling $1.3 million was not credited to the Federal government within the 60-day required timeframe.

Context: We reviewed 60 overpayments associated with Program Integrity reviews and audit cost settlements. Thirty-nine overpayments were credited to the Federal government between 85 to 143 days after the date of discovery.

Cause: Time consuming process to determine the correct accounts to credit the Federal share of expenditures

Effect:

- Noncompliance with requirements mandating the timely crediting of the Federal share of provider overpayments
- Noncompliance with Federal standards for financial management systems

Recommendation: We recommend that the Department improve its process to ensure the Federal share of recoupment is credited on a timely basis.

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

As of March 1, 2010, a process has been established to record Program Integrity receivables in AdvantageME. The Finance Recovery Team has procedures in place to track and follow up on all receivables.

The Finance Recovery Team receives reports of SURS receivables to be recorded from the Program Integrity group as often as the information becomes available. These reports constitute the detail for AdvantageME ABSJs that are developed (at least) monthly and sometimes more often.

The receivable adjustment is a summary entry that debits the accounting system receivable balance (BSA 0025, unit 8681) and credits the Federal and state expense accounts which repays the Feds what they are owed by reducing the amount the State requires. We also include an entry for the allowance for doubtful accounts component that is equal to the State portion of the entry.

The above process ensures that the Federal share of recoupment efforts is credited to the proper State and Federal accounts in a timely manner.

Contact: *Richard Violette, Management Analyst, 287-4033*

MEDICAID CLUSTER

(10-1106-14)

Title: Controls over prompt payment requirements need improvement

Prior Year Finding: 09-1106-13
State Department: Administrative and Financial Services
Health and Human Services (DHHS)
State Bureau: Health and Human Services Service Center
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0805ME5028; 05-0905ME5028;
05-1005ME5028; 05-1005ME5MAP

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: American Recovery and Reinvestment Act (ARRA) of 2009 section 5001(f)(2); Technical guidance provided by Centers for Medicare and Medicaid Services (CMS)

Condition: The population of claims used to determine whether prompt payment requirements were met incorrectly included non-Medicaid claims.

Context:

- The RAC (Recipient Aid Category) code field in claims data was used as a method for filtering non-Medicaid claims. We identified 3 RAC code types related to State-only funding that were not filtered from the claims used to generate the report.
- We also determined that the use of the RAC code for identifying Medicaid-only claims would not provide complete and accurate results.

Cause:

- Maine processes claims for multiple state and Federal programs. The program under which a particular claim is paid is not readily determinable without obtaining accounting information.
- DHHS did not follow the Prompt Payment Implementation Guidance provided by CMS.

Effect:

- The inclusion of non-Medicaid claims in the agency's self-determination of compliance causes the results to be inaccurate and unreliable
- Potential disallowance of enhanced ARRA funding

Recommendation: We recommend that the Department redesign programming code to exclude non-Medicaid claims from the calculations used to determine compliance with prompt payment requirements. We further recommend that the Department reevaluate prompt payment compliance after programming changes are implemented.

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

As of the fourth quarter of State fiscal year 2010, Service center personnel will redesign programming code to exclude CHIP and other non-Medicaid claims from the calculations used to determine compliance with prompt payment requirements.

However, we do not believe there will be a disallowance of ARRA funding, because the Center for Medicare and Medicaid Services has not verified the proper calculation to use for this determination.

Contact: *Colin Lindley, Director MaineCare Finance, 287-1855*

(10-1106-15)

Title: Controls to ensure payments are made from the correct Federal program need improvement

Prior Year Finding: No
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Health and Human Services Service Center
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-0905ME5028; 05-1005ME5028; 05-1005ME5MAP;
05-0905ME5021; 05-1005ME5021

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

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $223,171 (Medicaid)

Likely Questioned Costs: $223,171 (Medicaid)

Criteria: MaineCare Benefits Manual §30; Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225)

Condition: Payments were made for family planning services on behalf of members eligible for CHIP; however, the Department claimed these costs on Medicaid's CMS-64 expenditure report at a higher Federal reimbursement rate than was allowed.

Context: In a test of 60 paid claims, we noted one instance where a claim was paid from a Medicaid program account on behalf of a member eligible only for CHIP. We expanded our testing and found over 7,000 claims where this error occurred.

Cause:

- A design flaw in the Medicaid claims system fund allocation matrix resulted in CHIP family planning claims being incorrectly charged to the Medicaid program
- Inadequate control procedures were in place to ensure that CHIP family planning claims were reported correctly.

Effect:

- Costs are overcharged to Medicaid and undercharged to CHIP
- Current and possible future questioned costs
- Noncompliance with Federal regulations

Recommendation: We recommend that the Department correct the claims payment systems to ensure payments are made from the correct Federal program and reported at the correct reimbursement rate.

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

The Department will work to correct the claims management system to ensure that CHIP family planning claims are correctly fund allocated and reported to the appropriate Federal program.

Contact: *Colin D. Lindley, Director of MaineCare Finance, 287-1855*

(10-1106-16)

Title: Incorrect client eligibility determinations

Prior Year Finding: 09-1106-14
State Department: Health and Human Services (DHHS)
State Bureau: Office of Integrated Access and Support
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-0905ME5028; 05-1005ME5028; 05-1005ME5MAP;
05-0905ME5021; 05-1005ME5021

MEDICAID CLUSTER

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

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: None (Medicaid)
Undeterminable (CHIP)

Likely Questioned Costs: None (Medicaid)
Undeterminable (CHIP)

Criteria: MaineCare Eligibility Manual; State Plan for Medicaid and State Plan for CHIP

Condition: The Department does not have adequate procedures in place for the Medicaid and CHIP programs to determine individual eligibility, to maintain records relevant to making eligibility determinations, or to charge the appropriate program for the associated costs of eligible individuals.

Context: In a sample of 60 Medicaid clients we found that one client's eligibility status was established incorrectly due to a programming logic error. This resulted in a longer eligibility timeframe than allowed.

In a sample 60 CHIP clients we found the following exceptions:

- Two clients were incorrectly deemed eligible for Medicaid Expansion when they should have been eligible for CubCare.
- Two clients were incorrectly deemed eligible for CubCare when they should have been eligible for Medicaid Expansion.
- Four clients were incorrectly deemed eligible for Medicaid Expansion when they should have been eligible for Medicaid.

Cause:

- The administration of multiple Federal and State programs under the umbrella of the MaineCare program does not always foster a clear and readily determinable delineation regarding the categorization of eligible clients for specific Federal or State funded benefits.
- The distinct segregation of eligibility, payment, accounting and information technology functions within the same Department creates a division of responsibility which impedes problem recognition and resolution. DHHS uses three interconnected automated systems to determine client eligibility and assign client claims to the appropriate program for payment. Two DHHS offices, the Office of Integrated Access and Support and the Office of MaineCare Services along with the Department of Administrative and Financial Services Office of Information Technology and an outside contractor are responsible for various aspects of the client eligibility determination and associated claims payment processes.
- Complex methods and criteria used to determine eligibility
- Possible programming logic errors in the Automated Client Eligibility System

Effect:

- Costs may be charged to an incorrect State or Federal program
- Costs paid on behalf of ineligible individuals reduce funds available for those who are eligible
- Eligibility errors may result in noncompliance with Federal regulations
- Current and possible future questioned costs

Recommendation: We recommend that the Department:

- Strengthen procedures to ensure that Medicaid and CHIP client eligibility determinations are appropriately established on the relevant information systems
- Investigate any suspected programming logic errors on behalf of all eligibility information system activity

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

Two cases identified in the finding were due to programming logic. For one, the logic is around the transfer of the start date to the Office of MaineCare Services when there is a change in a household that results in Medicaid eligibility in the current month for a child open to Cub Care. This is now resolved as WELFRE is no longer used to transfer Recipient Aid Category information. Eligibility information is now communicated through a 'data hub' to MHIMS and allows for changes in the RAC in the current month.

The second issue is how eligibility is budgeted for cases where there is an excluded stepparent and the stepparent and the legal parent have income. This is identified as a task to be addressed as a modification to ACES. In the meantime eligibility staff will be reminded to check eligibility for these types of cases to confirm they are budgeted correctly.

The remaining three were a result of worker oversight. Eligibility staff will be reminded to check for correct eligibility timeframes, to close education records for children who graduate from high school, and to properly enter self employment income information.

Contact: *Michael Frey, Deputy Director, Office of Integrated Access and Support Services, 287-7129*

MEDICAID CLUSTER

(10-1106-17)

Title: Medicaid eligibility quality control procedures need improvement

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office of Integrated Access and Support
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0905ME5028; 05-1005ME5028; 05-1005ME5MAP

Compliance Area: Eligibility

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Case Review Completion Deadlines and Submittal of Reports (42 CFR §431.816)

Condition: The Medicaid Eligibility Quality Control (MEQC) unit does not have adequate procedures to ensure that supervisory reviews are performed and that required error reports are submitted to the Centers for Medicare and Medicaid Services (CMS) timely.

Context: In a sample of 40 MEQC case reviews, we found no evidence that a supervisory review was performed for four cases. Also, the six-month summary report applicable to April 2009 through September 2009 was due July 31, 2010 but has yet to be submitted to CMS.

Cause:
- No adequate method for tracking supervisory reviews exist
- Unfamiliarity with reporting requirements

Effect:
- Potential incorrect eligibility determinations of MEQC cases could result
- Costs paid on behalf of ineligible individuals could reduce funds available for eligible individuals
- Potential sanctions could result from noncompliance with MEQC report submission requirements

Recommendation: We recommend that the MEQC unit implement procedures to ensure that supervisory reviews are performed and that required error reports are submitted to CMS timely.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees in part with this finding. There is a process in place for supervisory review that was effective for 90% of the sampled cases.*

The Office of Integrated Access and Support intends to address the issue as follows:

- *A mandate has been set for all Quality Assurance workers to ensure all outstanding medical reviews through Federal Fiscal Year 2010 (Oct 2009 – Sep 2010) be completed by* ***Mar 31, 2011;***
- *Submission of the six-month summary report for July 31, 2010 (review months April 2009 – September 2009) to be submitted by* ***April 20, 2011;***
- *Submission of the six-month summary report for Jan 31, 2011 (review months October 2009 – Mar 31, 2010) to be submitted by* ***May 31, 2011;***
- *Submission of the six-month summary report for Jul 31, 2011 (review months April 2010 – Sep 2010) will be submitted timely and no later than* ***Jul 31, 2011****.*
- *FFY 2011 medical reviews to be completed with Food Supplement Reviews on a monthly basis.*

In addition, the OIAS Division Director and QA Supervisory team will develop and implement a more robust process to address supervisory oversight of Medicaid Case reviews by ***April 30, 2011.***

Contact: *Anthony Pelotte, OIAS Division Director, 287-3460*

(10-1106-18)

Title: Insufficient documentation in hospital survey and certification results

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Medical Facilities Unit, Division of Licensing and Regulatory Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0805ME5028; 05-0905ME5028;
05-1005ME5028; 05-1005ME5MAP

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 42 CFR § 482.30 Condition of participation for hospitals

Condition: As a condition of participation, non-critical access hospitals are required to have a utilization review plan. Hospital evaluators did not document that they assessed compliance with the utilization review requirement or that the assessment of the utilization review plan was conducted pursuant to a contract with a Quality Improvement Organization (QIO).

Context: Five out of seven hospital surveys reviewed did not contain documentation of compliance with this condition of participation.

Cause: A decision was made by the agency to document only the exceptions to this requirement.

Effect:

- Inability to ascertain if the hospital surveys were conducted in accordance with Federal regulations
- Survey activities that are not performed according to Federal requirements could leave Medicaid participants susceptible to substandard care

Recommendation: We recommend that the State's hospital evaluators document whether or not utilization review plans were in place or that utilization reviews were performed pursuant to a contract with a QIO.

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

A plan of correction for this deficiency was implemented on the day of the finding (March 1, 2011). The Acute Care Team received e-mail instructions from the Supervisor that when reviewing the Condition of Participation for Utilization Review, there needs to be documentation either that requirements are met or documentation for any deficiency noted. Additionally, this was discussed at the Team Meeting held on March 7, 2011. The Supervisor will be conducting monitoring of the survey packets to ensure that this documentation is happening.

Contact: *Catherine M. Cobb, Director, Division of Licensing and Regulatory Services, 287-2979*

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

(10-1111-01) ***page E-67***

(10-1140-01) ***page E-74***

(10-1140-03) ***page E-76***

FOSTER CARE – TITLE IV-E

(10-1109-02)

Title: Inaccurate financial reporting

Prior Year Finding: 09-1109-05
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care - Title IV-E
CFDA #: 93.658
Federal Award #: 1001ME1401

Compliance Area: Reporting

Type of Finding: Material weakness

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments (45 CFR § 92.20)

Condition: The Department did not submit accurate expenditure reports for the Foster Care - Title IV-E program. We noted numerous errors in the report; this problem has remained uncorrected for several years.

Context: We reviewed one quarterly report submitted for the audit period.

Cause:
- Inadequate policies and procedures regarding the reporting of expenditures
- Failure to reconcile reported expenditures to the accounting system
- Complex and outdated templates used to prepare the Federal reports
- Improper application of population factors in supporting schedules

Effect:
- Inaccurate financial information reported
- Potential disallowances

Recommendation: We recommend that the Department:
- Improve written procedures in support of the financial reporting process
- Develop a report template that is free of formula errors
- Reconcile quarterly reports to the accounting system

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

Effective July 1, 2010, the reported expenditures were tied out to the accounting system. Also, the correct factors were applied and streamlined supporting schedules were created. During September 2010, financial report procedures were documented. Weekly meetings with Office of Child and Family Services and DHHS Service Center staff help reduce communication barriers.

Contact: *Sarah Gove, Managing Staff Accountant 287-6390*

(10-1109-03)

Title: Federal cash management procedures need improvement

Prior Year Finding: 09-1109-07
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care - Title IV-E
CFDA #: 93.658
Federal Award #: 1001ME1401

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Rules applicable to Federal Assistance Programs not included in a Treasury - State Agreement (31 CFR §205 Subpart A)

Condition: The Department did not have adequate procedures in place to ensure that cash draws were made on an as needed basis. Revenue is drawn without taking the cash balance into consideration.

Context: Cash is not tracked by program

Cause:

- Cash balance is not taken into consideration when cash draws are processed because individual program balances are not known
- The grants are reconciled after the end of the grant year, so excess cash would be returned if warranted, but the Department does not monitor the cash balance throughout the year at the program level
- Use of shared accounts

Effect: Potential interest liability to the Federal government

Recommendation: We recommend that the Department:

- Determine the amount of cash balance for each account within the appropriation and ask the Office of the State Controller to adjust the amount to actual on the State's accounting system
- Utilize account coding specific to individual programs when possible

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

Effective April 2011, cash balances by program will be reviewed and taken into consideration prior to the weekly draw process. Specific account coding is being used for individual programs.

Contact: *Sarah Gove, Managing Staff Accountant 287-6390*

(10-1109-06)

Title: Procedures to ensure payments are made only for allowable activities need improvement

Prior Year Finding: 09-1109-04
State Department: Health and Human Services
State Bureau: Office of Child and Family Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care – Title IV-E
CFDA #: 93.658
Federal Award #: 1001ME1401

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $13,622

Likely Questioned Costs: $38,396

Likely questioned costs were computed by applying the error rate in the sample (76.67%) to the total population of expenditures coded to these expenditure categories ($70,485). The result was then multiplied by the blended Federal medical assistance percentage (71.05%).

Criteria: 42 USC §675 Definitions; 45 CFR §1356.60 Fiscal requirements (Title IV-E)

FOSTER CARE – TITLE IV-E

Condition: The Department did not ensure that all miscellaneous maintenance payments were made for allowable activities. The Foster Care program incurred costs on behalf of program participants for medical payments, adoption services and certain legal fees that were not allowable costs of the program.

Context: In the 2009 Single Audit we identified unallowable payments charged to certain object codes within the miscellaneous maintenance payments accounts. As follow-up on this prior year finding, we selected a sample of 60 transactions charged to these specific object codes and found that 46 of 60 were for unallowable activities.

Cause:

- Unfamiliarity with program requirements
- Lack of training

Effect:

- Payments made for unallowable activities
- Current and potential future questioned costs
- Noncompliance with program requirements

Recommendation: We recommend that the Department provide adequate training regarding invoice coding and allowable activities.

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

The Office of Child and Family Services (OCFS) completed a training program for proper invoice coding and allowable activities for Foster Care and Adoptive Assistance programs in the third quarter of State fiscal year 2010. In June 2009, MACWIS was changed so that IV-E unit codes can no longer be used for non-IV-E eligible children.

Monthly desk reviews are being completed on a sample of prior month processed invoices to reinforce the proper coding of invoices and that activities are allowable. In the spring of 2011 further changes to Macwis will be made to introduce a coding process that clerks entering invoices can use to help them choose the proper funding source.

The Office of Child and Family Services would also like to note that the error invoices represent only 5% of all the miscellaneous bills that are processed in State fiscal year 2010 and that the known questioned cost of $13,622 is only .22% of the $6,102,098 in total foster care maintenance payment expenditure for the State fiscal year 2010. The process of manually coding invoices is very complicated and the DHHS staff has worked diligently in trying to become more accurate.

Contact: *Dan Despard, Director Child Welfare Policy, OCFS, 624-7950*

FOSTER CARE – TITLE IV-E

(10-1103-01)

Title: Costs not allocated in accordance with cost allocation plan

Prior Year Finding: 09-1103-01
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care—Title IV-E
Adoption Assistance
CFDA #: 93.658; 93.659
Federal Award #: 1001ME1401 (93.658); 1001ME1407 (93.659)

Compliance Area: Allowable costs/Cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $171,437 (Foster Care—Title IV-E)
$14,316 (Adoption Assistance)

Likely Questioned Costs: $171,437 (Foster Care—Title IV-E)
$14,316 (Adoption Assistance)

Criteria: General Administration – Cost Allocation Plans (45 CFR §95.507, §95.519)

Condition: The Department did not allocate all costs in accordance with the Office of Child and Family Services' cost allocation plan. We noted that an incorrect allocation method was assigned to an account resulting in costs being incorrectly charged to Federal programs.

Context: A total of $13.5 million was allocated by the Office of Child and Family Services' allocation plan. Foster Care and Adoption Assistance programs were overcharged by $171,437 and $14,316 respectively.

Cause:

- Lack of communication and training
- Failure to reconcile final receiver report expenditures to the State's accounting records

Effect: Not properly allocating costs could result in the following issues with Federal assistance programs:

- Inaccurate financial reports
- Cash shortages or overages
- Unallowable costs claimed

Recommendation: We recommend that the Department continue in its efforts to revise the cost allocation plan so that it more accurately reflects operations, ensure that costs are recorded in the correct accounts, and completes a review of allocated cost accounts to ensure the proper allocation methods are assigned.

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

Effective through October 1, 2009 to March 31, 2010 and July 1, 2010 to September 30, 2010, unallowable costs on the final receiver report were backed out when reporting Federal expenditures. Effective October 1, 2010, the methodology within the cost allocation plan has been changed to exclude the unallowable costs from the final receiver report.

These overcharged costs will be adjusted out on the Quarterly Report to be submitted for the quarter ending March 31, 2011.

Contact: *John D. Mower, Deputy Director, DHHS Service Center, 287-1869*

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

(10-1110-07) ***page E-64***

ADOPTION ASSISTANCE

(10-1110-02)

Title: Procedures to ensure accurate financial reporting need improvement

Prior Year Finding: 09-1110-02
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Adoption Assistance
CFDA #: 93.659
Federal Award #: 1001ME1407

Compliance Area: Reporting

Type of Finding: Material weakness

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments (45 CFR § 92.20)

Condition: The Department did not submit accurate expenditure reports for the Adoption Assistance program. We noted several errors in the report; this problem has remained uncorrected for several years.

Context: We reviewed one quarterly report submitted for the audit period.

Cause:
- Inadequate policies and procedures regarding the reporting of expenditures
- Failure to reconcile reported expenditures to the accounting system
- Complex and outdated templates used to prepare the Federal reports
- Improper application of population factors in supporting schedules

Effect:
- Inaccurate financial information reported
- Potential disallowances

Recommendation: We recommend that the Department:
- Improve written procedures in support of the financial reporting process
- Develop a report template that is free of formula errors
- Reconcile quarterly reports to the accounting system

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

Effective July 1, 2010, the reported expenditures were tied out to the accounting system. Also, the correct factors were applied and streamlined supporting schedules were created. During September 2010, financial report procedures were documented. Weekly meetings with Office of Child and Family Services and DHHS Service Center staff help reduce communication barriers.

Contact: *Sarah Gove, Managing Staff Accountant, 287-6390*

(10-1110-04)

Title: Federal cash management procedures need improvement

Prior Year Finding: 09-1110-03
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Adoption Assistance
CFDA #: 93.659
Federal Award #: 1001ME1407

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Rules applicable to Federal Assistance Programs not included in a Treasury - State Agreement (31 CFR §205 Subpart A)

Condition: The Department did not have adequate procedures in place to ensure that cash draws were made on an as needed basis. Cash is drawn without taking existing cash balances into consideration.

Context: Cash is not tracked by program

Cause:

- Cash balance is not taken into consideration when cash draws are processed because individual program balances are not known
- The grants are reconciled after the end of the grant year, so excess cash would be returned if warranted, but the Department does not monitor the cash balance throughout the year at the program level
- Use of shared accounts

Effect: Potential interest liability to the Federal government

Recommendation: We recommend that the Department:

- Determine the amount of cash balance for each account within the appropriation and ask the Office of the State Controller to adjust the amount to actual on the State's accounting system
- Utilize account coding specific to individual programs when possible

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

Effective April 2011, cash balances by program will be reviewed and taken into consideration prior to the weekly draw process. Specific account coding is being used for individual programs.

Contact: *Sarah Gove, Managing Staff Accountant, 287-6390*

(10-1110-07)

Title: Inadequate procedures to ensure costs are properly charged or allocated

Prior Year Finding: 09-1109-03
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Adoption Assistance
Foster Care – Title IV-E
CFDA #: 93.658; 93.659
Federal Award #: 1001ME1401; 1001ME1407

Compliance Area: Allowable costs/Cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $366,908 (Adoption Assistance)

Likely Questioned Costs: Undeterminable

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87); Cost Allocation Plans (45 CFR §95.517); Requirements Applicable to Title IV-E (45 CFR §1356.60); Payments to States (42 USC 674)

Condition: The Department did not allocate expenditures relating to training costs in relation to the benefit received. Costs were incorrectly allocated between the two Title IV-E programs and were claimed at the incorrect Federal Financial Participation rate.

ADOPTION ASSISTANCE

Context:

- Adoption Assistance was overcharged by $329,446 and Foster Care was undercharged by $274,247. The costs should have been allocated only to the Foster Care program. These questioned costs are based on a review of all expenditures made during the fiscal year associated with one cooperative agreement.
- Adoption Assistance was overcharged by $37,462 and Foster Care was undercharged by $14,151. Questioned costs are based on a review of expenditures for one quarter for other training costs.

Cause:

- Lack of communication between program and finance personnel
- Lack of training
- Improper account coding
- Incorrect application of factors used for allocating costs
- Commingling of expenditures within one account

Effect:

- Unallowable costs claimed
- Allowable costs not claimed
- Potential for disallowance of costs

Recommendation: We recommend that the Department use the correct factors and Federal Financial Participation rates when allocating costs between the Title IV-E programs. We further recommend that the Department utilize account coding specific to individual programs and eliminate commingling of expenditures.

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

U.S. Department of Health and Human Services, Office of the Inspector General, Office of Audit Services has an audit that overlapped the scope and time frame that this audit finding covers. In order to accurately correct this finding and not duplicate the overlapping areas, a determination will be made on what parts of the finding overlap.

Effective July 1, 2010, all types of errors identified in this finding had already been fixed to properly allocate allowable expenditures between Title IV-E Adoption Assistance and Foster Care.

Contact: *Sarah Gove, Managing Staff Accountant, 287-6390*

Please see the following finding for other issues related to this program.

(10-1103-01) ***page E-60***

SNAP CLUSTER

Please see the following finding for other issues related to this program.

(10-1111-01) ***page E-67***

TANF CLUSTER

(10-1111-01)

Title: Income and eligibility verification system procedures need improvement

Prior Year Finding: 09-1111-01
State Department: Health and Human Services
State Bureau: Office of Integrated Access and Support
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Temporary Assistance for Needy Families Cluster
Medicaid Cluster
Supplemental Nutrition Assistance Program Cluster
CFDA #: 93.558; 93.714; 93.775; 93.777; 93.778; 10.551; 10.561
Federal Award #: 1002METANF; 1001METAN2; 5-0905ME5028; 05-1005ME5028; 4ME400401; 4ME420408; 4ME430401

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

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

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

Context:

- The Department did not document that alien registration information was verified through the designated automated system for 28 of the 60 non-United States citizen clients tested.
- Sixty-two clients who were included on IEVS data matching reports were tested. The Department did not document in the case files that action had been taken for 43 of these clients.

Cause: Procedures not followed

Effect: Potential disallowed costs resulting from ineligible clients

Recommendation: We recommend that the Department implement procedures to ensure that case action regarding IEVS information is documented. We further recommend that the Department follow procedures to ensure that non-United States citizen alien registration documentation is verified through a designated automated system.

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

Non-Citizens
Current Policy - Alien registration information is verified through use of the USCIS Systematic Alien Verification for Entitlements (SAVE) system. Staff is required to verify a non-citizenship applicant's or recipients' alien/immigration status with documents issued by the UNCIS and confirm the legality using the SAVE Program.

Corrective Action - Staff will be reminded to follow this policy by Operating Memorandum dated 2/25/11 and Regional supervisors will receive training at the state-wide Supervisor's Meeting scheduled for March 9, 2011.

The Department will institute a quality review process to ensure Regional staff complies with this procedure. The responsibility for the review will rest with the Payment Accuracy Team at Central Office in Augusta.

IEVS Verification
Current policy – Staff are required to use review and compare the information obtained from each data exchange against information contained in the case record to determine whether it affects the applicant's or the recipient's eligibility or amount of assistance.

Current procedure – Staff verify the information from the data exchange to the information in the case record. If the information is known or would cause no change to the client benefit nothing is done. If the information does require further action be taken it is done so and documented in the case notes in ACES.

Corrective Action - Staff will be instructed that they must also document in the case record when verification was made and no action was required. This instruction will occur during the state-wide supervisor's meeting scheduled for March 9, 2011 and by Operating Memorandum.

The Department will institute a quality review to ensure Regional staff complies with this procedure. The responsibility for the review will rest with the Payment Accuracy Team at Central Office in Augusta

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

TANF CLUSTER

(10-1111-02)

Title: Controls not adequate to ensure accurate financial reporting

Prior Year Finding: 09-1111-04
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Temporary Assistance for Needy Families (TANF) Cluster
CFDA #: 93.558; 93.714
Federal Award #: 0902METANF; 1002METANF;
0901METAN2; 1001METAN2

Compliance Area: Reporting

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Data collection and reporting requirements (45 CFR §265); When are expenditures on State or local tax credits allowable expenditures for TANF-related purposes? (45 CFR §260.33)

Condition: The State's ACF-196 quarterly financial reports contained errors for Federal fiscal years 2009 and 2010.

Context: Other refundable tax credits reported as Maintenance of Effort (MOE) expenditures for Separate State Programs were overstated by approximately $1.3 million in State fiscal year 2010.

Cause: Misinterpretation of regulations

Effect:
- Programmatic decisions could be based on inaccurate data
- Potential failure to meet MOE requirement
- Potential questioned costs

Recommendation: We recommend that the Department review program regulations to ensure accurate reporting of allowable expenditures.

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

Based on Sections 260.31; 260.32; and 260.33, the correct amounts were entered for the allowable Child Care Credit to families under 200% of the poverty level. In addition, the amounts used to offset income tax (non-allowable portion) were also included. Based on our most recent discussion with the State's Federal representative, the amounts used to offset the

income tax (non-allowable portion) were not able to be counted as MOE. Based on the initial single audit review (and substantiated by the State's Federal representative), the income tax offset amounts (non-allowable portions) were removed from the ACF-196 Reports for Federal fiscal years 2009 and 2010.

Of the estimated $1.3 million Child Care Tax Credits overstated in State fiscal year 2009, only $662,323 was reported on the ACF-196 Report for Federal Fiscal Year 2009, and $616,781 for Federal Fiscal Year 2010. As a result, the possible failure to meet the MOE requirement was neither relevant nor significant. As a percentage, the amounts were less than 1.5% of the total MOE for each of the Federal fiscal years. The data entered was accurate, but under sections 260.31 through 260.33 not considered as an MOE amount.

It should also be noted that the reporting deficiency noted above (10-1111-02) is not related to the prior year reporting deficiency (09-1111-04 no cost effect) in which the State's ACF-196 quarterly financial reports contained initial cost allocation amounts which were provided and reported, but subsequently revised due to cost allocation formula corrections unrelated to the TANF ACF-196 Report.

In the future, when interpreting complex TANF regulations, staff will consult with the State's Federal representative for additional guidance. Because the State's MOE was $45,375,151 which was $5,349,612 million dollars over its required MOE contribution (which equals $40,025,539) in Federal Fiscal Year 2010, there was no cost effect. The reporting intent was to represent all MOE contributions on the ACF-196 Report after meeting the allowable required MOE requirement.

Contact: *Mark Fisher, Managing Staff Accountant, 287-3160*

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

(10-1113-02)

Title: Noncompliance with cash management requirements

Prior Year Finding: 09-1113-03
State Department: Health and Human Services
State Bureau: Center for Disease Control and Prevention
Federal Agency: U.S. Department of Agriculture
CFDA Title: Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #: 10.557
Federal Award #: 4ME700701; 4ME700752

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

Condition: Cash held by the program's fiscal agent was in excess of immediate cash needs. During the twelve months of the fiscal year, cash on hand averaged approximately $238,000, well above the daily amount needed. Current procedures specify that a standard amount ($300,000) is drawn when the cash balance falls below $200,000.

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

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

Effect: Potential interest liability to the Federal government

Recommendation: We recommend that the Department draw cash based on anticipated needs while also taking into account rebates.

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

As of July 1, 2010, cash draws were reduced to $200,000 which is a potential of 2 days worth of Food Instruments. Since the wire into the account takes 2 days Management feels that this is an adequate level of funding. Further, if there is a State Shutdown day or a State Holiday or the potential for a storm an additional $100,000 in funds are drawn to cover a potential third day.
Contact: *Dena Darveau, Financial Manager, 287-1469*

SOCIAL SERVICES BLOCK GRANT

(10-1130-01)

Title: Procedures for providing award information to subrecipients need improvement

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office of Child and Family Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Social Services Block Grant
CFDA #: 93.667
Federal Award #: G0901MESOSR

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations §_.400(d) Pass-through entity responsibilities

Condition: The Department did not include all the required information when awarding funds to subrecipients. Subrecipient contracts did not include the CFDA title, award name and number, or the name of Federal awarding agency.

Context: The program awarded funds to 60 subrecipients.

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

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

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

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

As of March 14, 2011, sub recipients of Social Service Block Grant funds will be notified via letter of the Federal award information and applicable regulations, including the CFDA title and number, award name and number, and name of Federal awarding agency. This information will also be added to all new sub recipient contracts.

Contact: *Stephen Turner, Director, Division of Purchased Services, 287-3774*

CHILDREN'S HEALTH INSURANCE PROGRAM

(10-1140-01)

Title: School based rehabilitation services billing and payment procedures need improvement

Prior Year Finding: 09-1140-03
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-0905ME5028; 05-1005ME5028; 05-1005ME5MAP;
05-0905ME5021; 05-1005ME5021

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: MaineCare Benefits Manual §104.8; MaineCare Benefits Manual General Administrative Policies and Procedures §1.02 (D), 1.03 (M) and 1.03 (S)(2)

Condition: An August 2007 MaineCare policy memo allows Maine schools to submit claims for School Based Rehabilitation services for all students with active Individual Education Plans (IEPs) who attended school at least one day during the month regardless of whether they received services during the month. This guidance and billing practice is inconsistent with the MaineCare Benefits Manual, which requires recipients to be present and receive services within the month in order for the provider to be reimbursed a monthly rate. Providers did not always maintain or retain records sufficient to document the nature, scope and detail of the services/products provided to each individual MaineCare member.

Context: The rate setting document produced by Maximus in 1997 states that under the per diem program being implemented that services will be reimbursable if the service is covered under the Medicaid State Plan, is authorized in an IEP, and was provided by an appropriate professional or other qualified staff. Thus, under the per diem or bundled rate setting methodology services must be rendered in order to be reimbursed.

In the fiscal year, the Medicaid and the CHIP programs disbursed approximately $23.5 million in Federal funds for School Based Rehabilitation services.

Cause: The Office of MaineCare Services policy did not adequately consider the provisions of the MaineCare Benefits Manual or the Federal regulations.

Effect: Payment practices inconsistent with policy and regulations may result in a disallowance of claims.

Recommendation: We recommend that the Department establish payment procedures that are consistent with the MaineCare Benefits Manual.

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

The School Based Rehabilitation section of policy has been repealed and services have been moved primarily to MaineCare Benefits Manual sections that include Occupational, Physical, Speech and Hearing services. These services will be paid under fee for service.

DHHS has done rulemaking and made configuration changes to MIHMS to pay correctly; which we were unable to do with MECMS. The rule went into effect September 1, 2010 at the time MIHMS was activated and we are in compliance with the regulations.

Contact: *Patricia Dushuttle, Director, Division of Policy and Performance, 287-9362*

(10-1140-02)

Title: Maine Claims Management System (MECMS) procedures to ensure local match (certified seed) is met need improvement

Prior Year Finding: 09-1140-01
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Children's Health Insurance Program (CHIP)
Medicaid Cluster
CFDA #: 93.767; 93.775; 93.777; 93.778
Federal Award #: 05-0905ME5028; 05-1005ME5028; 05-1005ME5MAP;
05-0905ME5021; 05-1005ME5021

Compliance Area: Matching, level of effort, earmarking

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Standards for Financial Management System (45 CFR §92.20)

Condition: Budgets for "certified seed" providers were not always appropriately charged. Furthermore, procedures were not in place to ensure that providers would not get paid for claims for which they did not provide the qualifying non-Federal share.

Context: For payments made on behalf of Medicaid and CHIP clients the amount shown in the certified seed amount field in MECMS is incorrect. The funding allocation process did not appropriately charge the non-Federal share (seed) account. However, we determined that the Federal share of claims were calculated and paid correctly and therefore we are not questioning costs.

Cause: Errors in MECMS program logic and/or funding allocation process

Effect: When provider seed budgets are not charged as intended, providers can be paid the Federal share of claims even after matching funds have been depleted, thus non Federal match may not be met.

Recommendation: We recommend that the Department work with the new fiscal agent to ensure effective tracking of certified seed matching amounts upon implementation of the new system.

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

The DHHS has contracted with Molina as its fiscal agent. The implementation of the MIHMS was completed September 1, 2010. As part of this implementation budgets for certified seed providers will be charged correctly. And the providers will not be paid the Federal share of claims after the matching funds have been depleted.

In addition, internal control procedures were increased in State fiscal year 2011. The Department of Education now verifies and certifies the seed.

Contact: *Colin Lindley, Director, MaineCare Finance, 287-1855*

(10-1140-03)

Title: Procedures needed to ensure better accountability of certified public expenditures

Prior Year Finding: 09-1140-04
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-0905ME5028; 05-1005ME5028; 05-1005ME5MAP;
05-0905ME5021; 05-1005ME5021

CHILDREN'S HEALTH INSURANCE PROGRAM

Compliance Area: Matching, level of effort, earmarking

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225); Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments – Matching or Cost Sharing (45 CFR §92.24); MaineCare Benefits Manual General Administrative Policies and Procedures, 1.03(M)

Condition: The amount of certified public expenditures (certified seed) submitted to the Department on "Certified Seed Rider A" forms is calculated by Maine State Billing (MSB), a service provider that submits claims for School Based Rehabilitation and Day Treatment on behalf of school systems. MSB's derivation of the amount of local funding is based on prior year claims history. Thus, the amount of certified public expenditures (local share of funds to be provided as matching funds) is not based on budgeted expenditures, cost analyses, or prior year actual expenditures. Rather, the amount is imputed based on the amount of Federal reimbursement received from the prior year.

For certified seed provider schools that do not use the services of MSB, the Department of Education calculates the amount of certified seed. This amount is the total local share amount of all special education services, rather than an estimate of the local share of the cost of providing services such as school based rehabilitation and day treatment.

Context: Certified Seed Rider A forms serve two purposes. The first purpose is for school superintendents to certify that local matching funds are available and will be spent to provide services that will be reimbursed by the Federal government. The second purpose is to provide budget amounts to be entered into the State's accounting system to cap the amount of Federal reimbursement. When certified seed providers have "used" all of the budgeted amounts, claims are suspended. However, the seed providers need only submit additional Rider A forms in order to resume payment for suspended and subsequent claims.

Cause: The Department did not consider whether adequate procedures were in place to ensure that matching requirements are met.

Effect:

- Budgetary controls over reimbursement to certified seed providers will not be effective
- Non Federal match may not be met resulting in a disallowance of the Federal share of claims

Recommendation: We recommend that the Department, with the cooperation of the Department of Education, implement policies and procedures that will provide better accountability over certified public expenditures. When Maine Integrated Health Management System (MIHMS) is implemented, if MaineCare continues to use certified public expenditures as matching funds for

services provided and billed individually by healthcare professionals in a school setting, then certified seed budgets should be based on historical costs supported by provider invoices.

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

The Office of MaineCare Services has worked with the Department of Education to strengthen policies and procedures that will provide accountability over certified public expenditures. In State fiscal year 2011, the Department of Education is verifying and certifying the certified seed Rider As.

In addition, MIHMS was implemented on September 1, 2010; certified seed budgets are based on historical costs supported by provider invoices.

Contact: *Colin Lindley, Director of MaineCare Finance, 287-1855*

(10-1102-01)

Title: Procedures to ensure accurate financial reporting need improvement

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Children's Health Insurance Program (CHIP)
CFDA #: 93.767
Federal Award #: 0905ME5021; 1005ME5021

Compliance Area: Reporting

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments (45 CFR §92.20)

Condition: The Department did not submit an accurate SF-425 Federal Financial Report for the CHIP program for the 3rd quarter of the fiscal year.

Context: We examined all four quarterly reports submitted for the fiscal year. The third quarter report contained the following errors:

- $1.1 million in expenditures were incorrectly reported under two different awards
- $2 million in expenditures reported occurred in prior quarters

Cause:

- Inadequate procedures for reporting expenditures
- Failure to reconcile reported expenditures to the accounting system

Effect: Inaccurate financial information

Recommendation: We recommend that the Department improve procedures to ensure Federal financial reports are accurately prepared and reconciled to the accounting system.

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

As of October 1, 2010, Service Center personnel perform a monthly reconciliation of CHIP draw downs to the expenses in AdvantageME. This monthly reconciliation is used to complete the quarterly FFR-425 (SF-425) report. The report is reviewed as it is entered into the Payment Management System.

Contact: *Colin Lindley, Director, MaineCare Finance, 287-1855*

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

(10-1106-09) ***page E-40***

(10-1106-10) ***page E-42***

(10-1106-15) ***page E-49***

(10-1106-16) ***page E-50***

PUBLIC HEALTH EMERGENCY PREPAREDNESS

(10-1151-01)

Title: Controls over suspension and debarment requirements need improvement

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Division of Purchased Services
Center for Disease Control and Prevention
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Public Health Emergency Preparedness
CFDA #: 93.069
Federal Award #: 1H75TP000341-01

Compliance Area: Procurement, suspension and debarment

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 45 CFR §74.13 Debarment and Suspension

Condition: The Department did not ensure that payments were not made to suspended or debarred parties.

Context: Nineteen subrecipients, receiving a total of $1.3 million, were tested. The Department did not obtain certifications for four of the nineteen subrecipients. In addition, one of ten vendors, receiving a total of $2 million, did not have the required certification.

Cause: Lack of procedures

Effect: Potential payments to suspended or debarred parties, resulting in questioned costs

Recommendation: We recommend that the Department implement procedures to ensure that required suspension and debarment certifications are obtained.

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

Maine Center for Disease Control and Prevention (Maine CDC) has a standard process for contract development, internal and external review and approval, encumbrance, monitoring and reporting. This process was developed in collaboration with and at the direction of the Division of Purchases. Following standard policies and procedures, the Division of Purchases reviews and approves all contract documents prior to finalization and encumbrance.

Procedures to ensure that required suspension and debarment certifications are obtained from subrecipients are defined in a manner that is reviewed and approved by the Division of Purchases.

Contract Blankets established during the 2009-2010 Public Health Emergency Preparedness (PHEP) project period for H1N1 responses was a one time activity specifically for response to this historic public health event.

The PHEP Principal Investigator and Maine CDC, Director of the Division of Public Health Systems have contacted the Division of Purchases to assure they revise as necessary, contract policy, protocol and staff training necessary for a consistent approach to ensure that required suspension and debarment certifications are obtained from all subrecipients. The Division of Purchases has agreed to make the updates.

As of April 1, 2011, PHEP personnel will verify that training has been conducted and that suspension and debarment certifications have been obtained.

Contact: *Kristine Perkins, Division Director, Public Health Systems, CDC, 287-8104*

(10-1151-03)

Title: Controls over period of availability of Federal funds need improvement

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Public Health Emergency Preparedness
CFDA #: 93.069
Federal Award #: 5U90TP116972-09

Compliance Area: Period of availability

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $15,255

Likely Questioned Costs: $15,255

Criteria: 45 CFR §92.23 Period of availability of funds

Condition: The Department expended funds outside the liquidation period.

Context: We reviewed all transactions charged to the grant that ended during State *fiscal year* 2010 to determine whether payments were obligated and/or liquidated during the period of

availability. We noted that grant funds were used to pay for three transactions after the liquidation period had expired.

Cause: Misinterpretation of period of availability requirements

Effect: Potential disallowances

Recommendation: We recommend that the Department follow established procedures to ensure compliance with period of availability of Federal funds requirements.

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

The DHHS Service Center will comply with 45 CFR 92.23, Federal Code of Regulations. Internal Control Plans previously put in place will be strictly adhered to. As of August 10, 2011, Program Code end dates are being implemented to further assure compliance.

Contact: *Heidi Ellis, Managing Staff Accountant, DHHS Service Center, 287-1841*

(10-1151-04)

Title: Subrecipient award identification procedures need improvement

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Center for Disease Control and Prevention
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Public Health Emergency Preparedness
CFDA #: 93.069
Federal Award #: 1H75TP000341-01; 1U90TP000158-01; 5U90TP116972-09

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

Condition: Subrecipients were not made aware of CFDA title, award name and number, and Federal awarding agency.

Context: The program awarded funds to 188 subrecipients.

PUBLIC HEALTH EMERGENCY PREPAREDNESS

Cause: Lack of knowledge of information required to be communicated to subrecipients

Effect: Subrecipients may not be aware of the source of funds, which could result in noncompliance with applicable Federal regulations.

Recommendation: We recommend that the Department communicate the required Federal award information to subrecipients.

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

Maine CDC has a standard process for contract development, internal and external review and approval, encumbrance, monitoring and reporting. This process was developed in collaboration with and at the direction of the Division of Purchases. Following standard policies and procedures, the Division of Purchases reviews and approves all contract documents prior to finalization and encumbrance.

CFDA numbers, award names and Federal Awarding Agency titles are defined in contracts with Subrecipients in a manner that is reviewed and approved by the Division of Purchases.

Contract Blankets established during the 2009-2010 Public health Emergency Preparedness (PHEP) project period for H1N1 responses was a one time activity specifically for response to this historic public health event.

The PHEP Principal Investigator and Maine CDC, Director of the Division of Public Health Systems have contacted the Division of Purchases to assure they revise as necessary, contract policy, protocol and staff training necessary to ensure a consistent approach for documentation of CFDA title, award Subrecipients name and number, and Federal Awarding Agency in all agreements with Subrecipients.

As of April 1, 2011, PHEP personnel will verify that training has been conducted and that the required Federal award information to sub recipients is in all agreements.

Contact: *Kristine Perkins, Division Director, Public Health Systems, CDC, 287-8104*

PUBLIC HEALTH EMERGENCY PREPAREDNESS

(10-1151-05)

Title: Payroll costs not supported in accordance with Federal regulations

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Center for Disease Control and Prevention
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Public Health Emergency Preparedness
CFDA #: 93.069
Federal Award #: 1H75TP000341-01; 1U90TP000158-01; 5U90TP116972-09

Compliance Area: Allowable costs/Cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87) – 2 CFR Part 225

Condition: The Department did not have adequate procedures in place to ensure that salaries and wages for employees who work on more than one program were properly distributed. Furthermore, salaries and wages for all employees who worked solely on this program were not supported by periodic certifications through the State's payroll system.

Context:

- Thirty-two employees working on multiple activities did not utilize task codes in the State's payroll system to distribute their salaries and wages. Of the thirty-two employees, eight charged their time to one of two new grants based on estimates.
- Three of six employees whose compensation costs were charged 100% to the program did not certify their time.

Cause:

- Procedures not followed
- Task codes not assigned for new grants

Effect: Lack of support for salaries and wages charged to the program

Recommendation: We recommend that the Department implement more adequate procedures designed to ensure that payroll costs of all employees who work on multiple programs are adequately distributed in the State's payroll system. We also recommend that the Department improve controls designed to ensure employees working solely on the program certify their time through the State's payroll system.

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

The Maine CDC, Office of Public Health Emergency Preparedness had implemented a process for certification of personnel time spent working on each of the two Bioterrorism Federal cooperative agreements: Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP). Certification of Time forms defining the percent of time all staff work on either program are signed by individuals; signed forms are kept in a central file with the Director, Division of Public Health Systems who serves as the PI on each Cooperative Agreement. Following the2009 audit of the 2007-2008 PHEP project year, this process was deemed unnecessary as utilization of task codes in the State's payroll system (TAMS) was defined as the appropriate means to distribute their salaries and wages.

A spreadsheet stating the entire slate of personnel assigned to the HPP and/or PHEP cooperative agreement project is developed annually to define a profile for each employee's percent of time, and funding unit.

A list of corrections / verifications of each staff members time and funding source is forwarded for correction in TAMS. This is done at the beginning of each project year; and as corrections are necessary throughout the project period. Ongoing regular monitoring of expenses track expenditures for payroll of each staff member funded through the PHEP award; if errors are noted, corrections are made following the above process.

However, during the 2009-2010 PHEP project period, supplemental PHEP funds were provided to all grantees for the purpose of response to the H1N1 Influenza Pandemic. Personnel who were assigned to response roles had defined proportions of their salaries and wages covered by this funding source. In the midst of this emergency response, TAMS corrections / adjustments were made however in some instances task assignments in the system lagged behind.

As of April 1, 2011, PHEP personnel, in addition to the annual process, will periodically verify that payroll costs of all employees who work on multiple programs are adequately distributed in the State payroll system. Also, they will ensure employees working solely on the program certify their time through the State's payroll system.

Contact: *Kristine Perkins, Division Director, Public Health Systems, CDC, 287-8104*

TITLE I, PART A CLUSTER

(10-1200-01)

Title: Noncompliance with subrecipient cash management requirements

Prior Year Finding: 09-1200-01
State Department: Administrative and Financial Services
State Bureau: General Government Service Center
Federal Agency: U.S. Department of Education
CFDA Title: Title I, Part A Cluster
Special Education Cluster (IDEA)
Improving Teacher Quality State Grants
State Fiscal Stabilization Fund Cluster
CFDA #: 84.010; 84.389; 84.027; 84.173; 84.391; 84.392; 84.367; 84.394; 84.397
Federal Award #: S010A090019A; S389A090019A; H027A090109A; H173A090115; H391A090109A; H392A090115A; S367A090018; S394A090020; S397A090020

Compliance Area: Cash management

Type of Finding: Material weakness/Material noncompliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform administrative requirements for grants and cooperative agreements to state and local governments (34 CFR Subtitle §80.37 & §80.20)

Condition: The Department does not have adequate procedures in place to monitor cash balances of subrecipients receiving funds prior to disbursement to ensure that the time between receipt and disbursement of funds is minimized.

Context: As of the end of fiscal year 2010, subrecipients reported approximately $40 million in excess cash balances. Many subrecipients had more cash than was considered reasonable for immediate needs.

Cause: Ineffective design of procedures; the Department utilizes a quarterly cash management report but disburses funds to subrecipients on a monthly basis.

Effect: Noncompliance with Federal cash management requirements may result in Federal sanctions.

Recommendation: We recommend that the Department modify current procedures to ensure compliance with Federal cash management requirements.

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

TITLE I, PART A CLUSTER

The General Government Service Center (GGSC) has established a procedure regarding recipient cash on hand to address this issue. This procedure stipulates that if the quarterly cash management report reflects a cash on hand balance in excess of $1,500 in a program, no payments will be issue for that program until a revised report is submitted that reflects a cash balance less than $1,500.

GGSC is also working with the Department of Education to establish a reimbursement process for all Federal funds. Implementation is expected to take effect on July 1, 2011.

Department of Education Administrative Letter #19 relayed this information to the recipients on October 4, 2010.

Contact: *Denise Garland, GG/NR Service Center Director, 624-7397*

(10-1200-02)

Title: Subrecipient monitoring procedures need improvement

Prior Year Finding: ML09-1200-06
State Department: Administrative and Financial Services
Education
State Bureau: Support Systems Team—Education Finance
Federal Agency: U.S. Department of Education
CFDA Title: Child Nutrition Cluster
Title I, Part A Cluster
Special Education Cluster
Improving Teacher Quality State Grants
State Fiscal Stabilization Fund Cluster
CFDA #: 10.553; 10.555; 10.556; 10.559; 84.010; 84.389; 84.027; 84.173; 84.391; 84.392; 84.367; 84.394; 84.397
Federal Award #: 4ME300301; S010A090019A; S389A090019A; H027A090109A; H173A090115; H391A090109A; H392A090115A; S367A090018; S394A090020; S397A090020

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations §__.400(d),§ __.405

TITLE I, PART A CLUSTER

Condition: The Department did not perform effective monitoring procedures to ensure that required subrecipient audits were completed.

Context:

- In a sample of 40 subrecipients, three did not have a determination made as to whether or not a Single Audit was required.
- In a sample of 22 subrecipients, four Single Audit Reports were not obtained.
- In a sample of three subrecipients, we noted that no management decision letters were issued when the agency agreed with the corrective action plan.

Cause:

- Inadequate procedures
- Lack of understanding of Federal requirements for pass-through entities.

Effect: Findings may exist that are not being reviewed to ensure proper corrective action is taking place.

Recommendation: We recommend that the Department develop procedures to document determinations of whether all subrecipients had Single Audits performed. In cases where a subrecipient had a Single Audit performed the Department should develop procedures to identify whether findings were issued related to a Department of Education Federal program and obtain those Single Audit reports. Furthermore, the Department must obtain subrecipient corrective action plans for all Department of Education Federal program findings, determine the adequacy of the corrective action plans, and issue management decision letters in a timely manner.

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

The Department of Education has implemented reviewing a more inclusive report provided by the Department of Administrative and Financial Services that identifies the amount of all Federal funds sent to each subrecipient from all State of Maine Agencies. The Department of Education began using this new report on July 1, 2010, therefore allowing the audit staff to better identify what type of audit each subrecipient will require and inform the subrecipient of those requirements. In addition, the audit staff has recently learned of a Federal Audit Clearinghouse website to allow them to further identify entities that require a single audit report based on all Federal funds received from all sources. The Federal Audit Clearinghouse cross reference tool will be implemented effective April 1, 2011. The audit staff will also use internal resources from other departments to help identify external resources available to ensure compliance with the OMB Circular A-133.

Previously, the Department of Education's process consisted of sending one letter to the subrecipient to request a corrective plan for any finding if no acceptable corrective action plan was included in their audit report. Additionally, this letter included a statement that the Department of Education sustained the findings along with the request for corrective action and informed the subrecipient of their right to an appeal.

TITLE I, PART A CLUSTER

The audit staff is currently drafting a new management decision letter to ensure compliance with the OMB Circular A-133, which will be sent to the subrecipients within six months of receipt of the Single Audit Report. The new letter will comply with the OMB Circular A-133 by clearly stating whether or not the audit finding is sustained, the reasons for the decision and the action that will be expected by the subrecipients. The new management decision letter will be implemented on March 23, 2011, and will be sent to all required subrecipients for the FY 2010 and going forward.

Contact: *Heather Neal, Supervisor of Audit, Department of Education, 624-6863*

(10-1200-03)

Title: Federal cash management procedures not followed

Prior Year Finding: 09-1200-03
State Department: Administrative and Financial Services
State Bureau: General Government Service Center
Federal Agency: U.S. Department of Education
CFDA Title: Title I, Part A Cluster;
Special Education Cluster (IDEA)
CFDA #: 84.010; 84.027
Federal Award #: S010A090019A; H027A090109A

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

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

Context: Federal program cash drawdowns are not being made in a manner consistent with the methodology prescribed by the TSA. Four of nine drawdowns tested were not in compliance with the prescribed methodology.

Cause:
- Inadequate procedures
- Insufficient understanding of the requirements of the TSA

Effect:

- Potential interest liability to the Federal government
- Loss of cash pool interest when funds are drawn down later than allowed
- The possibility that the Federal government could impose more stringent cash management requirements on the State for programs in noncompliance

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

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

The General Government Service Center (GGSC) established internal procedures on December 29, 2009 to ensure that Federal funds are drawn in compliance with cash management requirements due to a prior year finding. Staff turnover and limited available resources have resulted in existing staff assuming additional unfamiliar duties. A concentrated training effort will ensure that all staff is aware that the issuance date is the record date plus one day (per the TSA). All future draws will adhere to these requirements. This change has also been incorporated into the GGSC procedure manual.

Contact: *Denise Garland, GG/NR Service Center Director, 624-7397*

(10-1200-04)

Title: Federal cash management procedures inadequate

Prior Year Finding: 09-1200-04, 09-1234-01
State Department: Administrative and Financial Services
State Bureau: Division of Financial and Personnel Services
Federal Agency: U.S. Department of Education
CFDA Title: Child Nutrition Cluster
Title I, Part A Cluster
Special Education Cluster (IDEA)
Improving Teacher Quality State Grants
State Fiscal Stabilization Fund Cluster
CFDA #: 10.553; 10.556; 10.559; 84.389; 84.173;
84.391; 84.392; 84.367; 84.394; 84.397
Federal Award #: 4ME300301; S389A090019A; H173A090115; H391A090109A;
H392A090115A; S367A090018; S394A090020; S397A090020

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

TITLE I, PART A CLUSTER

Likely Questioned Costs: None

Criteria: Post-Award Requirements, Standards for Financial Management Systems (34 CFR Subpart C §80); Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement (31 CFR Subpart B §205)

Condition: The Department did not minimize the time between receipt and disbursement of Federal funds for programs not subject to the Treasury-State Agreement.

Context: Five of seventeen drawdowns tested represented advances of Federal funds. The agency did not minimize the time between receipt and disbursement of Federal funds.

Cause: Inadequate procedures

Effect: The possibility that the Federal government could impose more stringent cash management requirements on the State for programs in noncompliance.

Recommendation: We recommend that the Department establish procedures to monitor receipts and disbursements to ensure that grant funds are drawn down on a timely basis and spent within the allowable time frames.

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

The General Government Service Center (GGSC) is working with the Department of Education to establish a reimbursement process for all Federal funds. Implementation of this process will eliminate the possibility of the advance of Federal funds and is expected to take effect on July 1, 2011.

Department of Education Administrative Letter #19 relayed this information to the recipients on October 4, 2010.

Contact: *Denise Garland, GG/NR Service Center Director, 624-7397*

SPECIAL EDUCATION CLUSTER (IDEA)

(10-1201-01)

Title: Inadequate during-the-award monitoring procedures

Prior Year Finding: 09-1201-02
State Department: Education
State Bureau: Special Education
Federal Agency: U.S. Department of Education
CFDA Title: Special Education Cluster (IDEA)
CFDA #: 84.027; 84.173; 84.391; 84.392
Federal Award #: H027A090109A; H173A090115; H391A090109A; H392A090115A

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Subpart D, §__.400 (d)(3), Pass-through entity responsibilities

Condition: The Department did not adequately monitor subrecipients to ensure compliance with Federal program requirements. Because the majority of program funds are passed-through to subrecipients, during-the-award monitoring is critical. Typical during-the-award monitoring procedures include reporting, site visits and regular contact. No site visits, or any form of regular contact or oversight for the purpose of monitoring subrecipient compliance was conducted for any of the 25 subrecipients we reviewed. Furthermore, 13 of the 25 subrecipients tested were not required to obtain an A-133 Single Audit, therefore, department compliance monitoring for those subrecipients would be of greater importance.

Context: Ninety-six percent of program funds are passed through to subrecipients.

Cause: Lack of understanding of subrecipient monitoring requirements

Effect: No assurance that subrecipients were compliant with Federal regulations

Recommendation: We recommend that the Department implement adequate subrecipient monitoring procedures to ensure subrecipients are in compliance with Federal program compliance requirements.

Management's Response/Corrective Action Plan: *We are concerned with the finding under 10-1201-01 and especially the assertion under "Cause: Lack of understanding of sub-recipient monitoring requirements". During the 2009-10 school year, MDOE implemented strategies to comply with the IDEA requirements for SEAs to fulfill its "general supervision system" obligations. The General Supervision System Team was established and strategies consistent with OSEP program guidance were implemented. In addition to its implementation, the*

Department has provided multiple personnel development programs for school administrative units, special purpose private schools and other sub-recipients.

The implementation of site visits and other monitoring are based on risk analysis strategies that include:

- *Review and analysis of Part B and C performance indicators*
- *Consideration of OMB 133 LEA audit reports*
- *Review of cash management lists*
- *Review of budget variances*
- *Review of year-end operating results*
- *Special education due process activity*

In addition to the assessment of performance data, risk analysis governed the deployment of personnel for site visits. The Department implemented multiple activities including personnel development, convening of school representatives with a target on specific program and fiscal performance issues. Regular contact with organizations representing school administrative unit personnel is conducted at least monthly. The use of distance education technologies have been implemented to provide contact in efficient and effective means.

The Office of Special Education Program's determination for the State of Maine indicated the performance by the Department and schools for Part B 5-20 requirements met the standard. The Child Development Services system for Part B and Part C performance indicators was determined to be "in need of assistance". Substantial resources were committed to strategies to improve the performance of the Child Development Services regional sites.

We recognize that the 25 sub-recipients tested may not have included priority schools/sites. Coincidentally, those 25 sub-recipients did not happen to have any of the high risk factors that caused the Department to conduct on-site monitoring. In the coming year we will strengthen our high-risk monitoring matrix to strengthen the monitoring of fiscal indicators.

Contact: *David Stockford, Education Team and Policy Director, 624-6650*

Auditor's Conclusion: While we agree that risk assessment should be used in determining the nature, timing and extent of during-the-award monitoring activities to be performed, the agency did not provide us documentation of this assessment. Furthermore, the only during-the-award monitoring activity the agency provided to the auditor was a budget to actual comparison for total expenditures. Our finding and recommendation remain as stated.

Please see the following findings for other issues related to this program

(10-1200-01) *page E-86*

(10-1200-02) *page E-87*

(10-1200-03) *page E-89*

(10-1200-04) *page E-90*

CHILD NUTRITION CLUSTER

(10-1203-01)

Title: Monitoring of subrecipient net cash resources need improvement

Prior Year Finding: 09-1203-01
State Department: Education
State Bureau: Child Nutrition Services
Federal Agency: U.S. Department of Agriculture
CFDA Title: Child Nutrition Cluster
CFDA #: 10.553; 10.555; 10.556; 10.559
Federal Award #: 2010IN109844

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Excess net cash resources by school food authorities (7 CFR §210.14, 210.19)

Condition: The Department does not have adequate procedures in place to ensure that subrecipients are not maintaining excess net cash resources.

Context: Excess net cash resources were incorrectly calculated. In addition, the Department monitored excess net cash resources for the end of the school year only, rather than throughout the school year.

Cause: Lack of adequate procedures

Effect: The program cannot rely on internally generated reports to determine if subrecipients have excess net cash resources, resulting in noncompliance with the Federal subrecipient monitoring compliance requirement.

Recommendation: We recommend that the Department implement procedures to ensure excess net cash resources are properly calculated and monitored throughout the school year.

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

The recommendation that the Department implement procedures to ensure excess net cash resources are properly calculated and monitored has been implemented. The current computer system generates a report that at year end will be reviewed and verified. Federal regulations do not require regular submission of disbursements, revenue and cash balances. We have confirmed with the USDA Food and Nutrition Services, a 5 year review cycle of all districts and an annual audit is required. States can select to check balances more often but are not required to do so. Year end information provides the most accurate data to determine cash resources.

Therefore, that is why this method created 25 plus years ago when "Balance to High" calculations were done year end. DOE/CNS will implement this new practice to continue with the improvements.

Contact: *Walter Beesley, Education Specialist, 624-6875*

Auditor's Conclusion: The Department does not review net cash resources on a periodic basis. A calculation is performed only once for the entire fiscal year. This could result in a school food service program operating with excess cash for the entire school year, except June, and not be detected. The finding and recommendation remain as stated.

(10-1203-02)

Title: Grant information not provided to subrecipients

Prior Year Finding: 09-1203-04
State Department: Education
State Bureau: Child Nutrition Services
Federal Agency: U.S. Department of Agriculture
CFDA Title: Child Nutrition Cluster
CFDA #: 10.553; 10.555; 10.556; 10.559
Federal Award #: 2010IN109844

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

Condition: Subrecipients were not made aware of award information including CFDA title and number, award name and number, and related regulations.

Context: The program awarded funds to 210 subrecipients.

Cause: Lack of knowledge of information required to be communicated to subrecipients.

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

Recommendation: We recommend that the Department communicate the Federal award information and the applicable regulations to program subrecipients.

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

The recommendation that the Department communicate the Federal award information and the applicable regulations to program subrecipients was done for school year 2011. The information was posted on the Department of Education/Child Nutrition Services financial web page. It was also included in Administrative letter 2011-03 from the Commissioner of Education.

Contact: *Walter Beesley, Education Specialist, 624-6875*

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

(10-1200-02) *page E-87*

(10-1200-04) *page E-90*

IMPROVING TEACHER QUALITY STATE GRANTS

Please see the following findings for issues related to this program

(10-1200-01) *page E-86*

(10-1200-02) *page E-87*

(10-1200-04) *page E-90*

STATE FISCAL STABILIZATION FUND CLUSTER

(10-1234-01)

Title: Inadequate during-the-award monitoring procedures

Prior Year Finding: No
State Department: Education
State Bureau: Commissioner's Office (Education)
Federal Agency: U.S. Department of Education
CFDA Title: State Fiscal Stabilization Cluster
CFDA #: 84.394
Federal Award #: S394A090020

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Subpart D, §__.400 (d)(3), Pass-through entity responsibilities

Condition: The Department did not adequately monitor subrecipients to ensure compliance with Federal program regulations. Because the majority of program funds are passed-through to subrecipients, during-the-award monitoring is critical. Typical during-the-award monitoring procedures include reporting, site visits and regular contact. No site visits were conducted for nineteen of twenty subrecipients we reviewed.

Context: Ninety-six percent of program funds were passed through to subrecipients.

Cause: Lack of understanding of subrecipient monitoring compliance requirements.

Effect: No assurance that subrecipients were compliant with Federal regulations.

Recommendation: We recommend that the Department implement adequate subrecipient monitoring procedures to ensure subrecipients are in compliance with Federal program compliance requirements.

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

Using our triangular method involving MEDMS Financials and the ARRA monthly report we strongly feel we are performing an adequate risk assessment and monitoring of SFSF subrecipients. However, DOE will work with DOA and the OSC to ensure appropriate evidence for the risk analysis and review of subrecipients is maintained.

Contact: *Jaci Holmes, CDS State IEU, 624-6660*

Auditor's Conclusion: While we agree that risk assessment should be used in determining the nature, timing and extent of during-the-award monitoring activities to be performed, the agency did not provide us documentation of this triangular method and risk assessment. Furthermore, the triangular method previously mentioned represents a budget to actual comparison of subrecipient expenditures. Given the fact that a majority of the Education Stabilization Fund award is passed through to subrecipients we believe that such a budget to actual comparison without the implementation of other during-the-award monitoring procedures is not sufficient to comply with the subrecipient monitoring compliance requirements. Our finding and recommendation remain as stated.

Please see the following findings for other issues related to this program

(10-1200-01) *page E-86*

(10-1200-02) *page E-87*

(10-1200-04) *page E-90*

UNEMPLOYMENT INSURANCE

(10-1302-05)

Title: Amounts reported on the ETA 191 report cannot be fully supported

Prior Year Finding: No
State Department: Labor
State Bureau: Unemployment Compensation
Federal Agency: U.S. Department of Labor
CFDA Title: Unemployment Insurance
CFDA #: 17.225
Federal Award #: N/A

Compliance Area: Reporting

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: 29 CFR §97.20 Standards for Financial Management Systems

Condition: The Department was unable to provide detail to support all information used to create the monthly UCX/UCFE charge report. The information on the charge report is used to determine amounts reported on the ETA 191. For the quarter tested, we identified a variance of approximately $150,000 between the charge report and BUC systems information.

Context: Unemployment compensation for ex-service members (UCX) and former Federal employees (UCFE) is paid from the State Unemployment Trust Fund. Each quarter the State must report these UCX-UCFE payments on the ETA 191 in order to bill the appropriate Federal agencies for reimbursement. This report is the sole source of billing for reimbursement from the Federal government for these payments.

Cause: The program used to run monthly UCX and UCFE charge reports was created over 30 years ago and is based on antiquated COBOL language. No documentation exists for program parameters. According to program personnel, the variance is primarily the result of benefit factor charges made to employer accounts, but these cannot be verified except on an employee by employee basis.

Effect: Unable to independently verify amounts reported for UCX-UCFE charges

Recommendation: We recommend that the Department determine how the UCX/UCFE reports are programmed, or create a new report based on current technology.

Management's Response/Corrective Action Plan: *The Department agrees that the documentation for the program that calculates the UCX/UCFE monthly charging was insufficient. After review of the programming, the Office of Information Technology was able to recreate the monthly figures used. To improve the reporting going forward, OIT has begun work on a portion of the ETA-191 report generation, and has included documentation of the process as part of the project.*

Contact: *Kimberly Smith, Acting Director, Bureau of Unemployment Compensation, 621-5161*

VOCATIONAL REHABILITATION CLUSTER

(10-1308-01)

Title: Cash management procedures need improvement
Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Security and Employment Service Center
Federal Agency: U.S. Department of Education
CFDA Title: Vocational Rehabilitation Cluster
CFDA #: 84.126; 84.390
Federal Award #: H126A100026; H126A090026; H390A090026;
H126A100085; H126A090085; H390A090085

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 31 CFR Subpart B §205.33 - Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement*;* 34 CFR §80 Subpart C

Condition: The Department did not draw funds in accordance with Federal requirements.

Context: We noted that the Department maintained excess cash on hand for the year. On average, cash was on hand for 15 days.

Cause: Inadequate monitoring

Effect: Possibility of more stringent cash management requirements imposed by the Federal government

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

Management's Response/Corrective Action Plan: *The Department agrees with this finding, however, there is a contradiction between the Federal regulations about program income and the CMIA regulation about spending program income first.*

Per 34 CFR 361.64(a) "any program income received during a fiscal year that is not obligated by the State by the beginning of the succeeding fiscal year remain available for obligation by the State during that succeeding fiscal year." *Historical practice has been to spend this program income over the two year period.*

The finding is directly related to program income because when the program income accounts are excluded, the cash was on hand for fewer than 7 days. The American Recovery and Reinvestment Act funds also had cash on hand for fewer than 7 days.

Corrective action will not be taken until clarifying Federal guidance is received.

Contact: *Marilyn Leimbach, Financial Analyst, 623-6714*

(10-1308-02)

Title: Client services payments not adequately monitored

Prior Year Finding: 09-1308-02
State Department: Labor
State Bureau: Bureau of Rehabilitation Services
Federal Agency: U.S. Department of Education
CFDA Title: Vocational Rehabilitation Cluster
CFDA #: 84.126; 84.390
Federal Award #: H126A100085; H126A090085; H390A090085;
H126A100026; H126A090026; H390A090026

Compliance Area: Allowable costs/Cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $12,560

Likely Questioned Costs: $196,322
A sample of 60 payments totaling $524,655 was selected on a haphazard basis. Likely questioned costs of $196,322 were determined by projecting known questioned costs to the population.

Criteria: 2 CFR Part 225 - Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87); 34 CFR §76.702 - State Administered Programs – Fiscal Control and Fund Accounting Procedures

Condition: Client services expenditures were made without adequate support (e.g. invoice, report, paid receipt).

Context: Five of 60 case services expenditures did not have adequate supporting documentation. The Federal share of client services payments was $6.1 million in fiscal year 2010.

Causes:
- Insufficient oversight
- Lack of written policies and procedures

VOCATIONAL REHABILITATION CLUSTER

Effect: Potential disallowances

Recommendation: We recommend that the Department continue to implement procedures to ensure independent approval of case service expenditures and include adequate support for all expenditures.

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

We have reviewed the five cases involved. As a result of this management review, the agency found no indication of fraud or misuse of funds and determined the following:

Three instances involved the lack of supporting documentation in two local offices. The supervisors in the local offices were asked to review the cases in question with the individual counselors and review our practice guidelines regarding the need for supporting documentation for expenditures. In addition, the expectation that receipts/documentation will be retained in client files was re-visited at a quarterly DVR meeting of supervisors and managers.

One finding involved a majority of invoices being received after the payment was authorized. Again, the supervisor in the office was made aware of this. The case note documentation in the case was excellent, and after the fact, receipts were received from the client. The counselor was reminded again about the need for invoices in the case files before processing payment.

The remaining situation required that a note in the file be made to document a small adjustment that should have been made on an R-20. The counselor involved was reminded of this protocol by their supervisor.

The agency has taken a firm stance on the requirement of supporting documentation for client expenditures, adopting a revised Procurement Protocol in 2008 and re-issuing it in March 2010 at its lead team meeting. This protocol specifies the requirements for supporting documentation of all case services expenditures, and is supported by an electronic process that requires two different signatures to authorize and approve payments, most commonly with the counselor authorizing payment and an independent second party (a peer, support staff or supervisor) completing the review to complete the transaction.

In addition, the following are two core expectations on Counselor's Performance Expectations: 1) "will follow all DVR policies and procedures, including case record documentation of case actions, purchases, and service outcomes and 2) "will meet with supervisor at least monthly to review progress, discuss client services, case management practices, case reviews, caseload flow, etc." Supervisors in each unit conduct random case reviews (closed and open case files) and review any issues with individual counselors at the monthly supervisory meetings.

Contact: *Betsy Hopkins, DVR Director, 623-6745*
Karen Fraser, BRS Q.A. Director, 623-7961

VOCATIONAL REHABILITATION CLUSTER

(10-1308-03)

Title: Procedures not adequate to ensure timely eligibility decisions

Prior Year Finding: 09-1308-01
State Department: Labor
State Bureau: Bureau of Rehabilitation Services
Federal Agency: U.S. Department of Education
CFDA Title: Vocational Rehabilitation Cluster
CFDA #: 84.126; 84.390
Federal Award #: H126A100085; H126A090085; H390A090085;
H126A100026; H126A090026; H390A090026

Compliance Area: Eligibility

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: State Vocational Rehabilitation Services Program – Processing referrals and applications (34 CFR §361.41)

Condition: Eligibility decisions were not completed in the required 60 day timeframe.

Context: In three out of 60 cases examined eligibility decisions were made, on average, 27 days later than required.

Causes:

- Outdated Office of Rehabilitation Services Information System (ORSIS)
- Ability to override prompts in the ORSIS system

Effect: Eligible participants may not receive services in a timely manner

Recommendation: We recommend that the Department develop procedures that will improve the timeliness of eligibility decisions.

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

Although management acknowledges that this remains a compliance issue, the agency notes significant improvement from the prior audit when eligibility of 15 out of 60 cases were not timely and the average delay was 67 days.

We have reviewed the three cases and there was no evidence of an agreement by the client found in the case record to extend the period of eligibility determination. All three instances had 2009

application dates. Although ORSIS flags and controls were implemented prior to that time, the system still requires action on the part of the VR counselor to determine eligibility within 60 days or obtain an agreement for an extension. Of the three instances, two were given to the supervisors in the regions who subsequently addressed this performance issue with the responsible counselor. In the third case, the staff person has retired from state service and therefore no longer works for DVR.

DVR continues to also address this deficiency on a broader basis. In January 2010, statewide performance expectations were incorporated in each counselor's Performance Management Form that added, "will complete eligibilities within 60 days or have documented the agreement for an extension in the file, as indicated in ORSIS." In addition, this is a topic discussed and reported on at least quarterly at statewide meetings with supervisors and managers.

The agency agrees that ORSIS is an antiquated electronic case management system and is currently implementing a project to replace it by September 2011 with AwareVR, an Alliance Enterprises' product. Requirements for eligibility determination were included as part of the RFP specifications/product validation and do address this compliance area.

Contact: *Betsy Hopkins, DVR Director, 623-6745*
Karen Fraser, BRS Q.A. Director, 623-7961

WIA CLUSTER

(10-1315-01)

Title: Cash management procedures need improvement

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Security and Employment Service Center
Federal Agency: U.S. Department of Labor
CFDA Title: WIA Cluster
CFDA #: 17.258; 17.259; 17.260
Federal Award #: AA171253Y; AA171254A; AA186448D; AA186446E; AA186448F; AA186446Z; EM17008YW; AA171255J; AA171255P; AA171255L

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

Condition: Between October 2009 and May 2010, the cash balance was in excess of the amount considered necessary to meet the immediate cash needs of the program. Our review indicated that during these months the number of days cash on hand ranged from 13 to 27 days for American Recovery and Reinvestment Act (ARRA) funds, and 21 to 60 days for non-ARRA funds.

Context: During the fiscal year the State received approximately $21 million from U.S. Department of Labor. Approximately $8 million was funded by ARRA.

Cause: Cash balances were not taken into consideration when amounts of cash draws were determined. Furthermore, internal monitoring activities did not result in timely adjustment of amounts drawn.

Effect:

- Potential interest liability to the Federal government
- Possibility that the Federal government could impose more stringent cash management requirements on the State

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

Management's Response/Corrective Action Plan: *We agree with the finding.*

The Security and Employment Service Center is in the process of breaking down one Bureau of Employment Service appropriation into five appropriation units with similar grants.

Part of the cash issue involves delays in recording expenditures against drawdowns for work performed by DOL for the Local Area Workforce Investment Boards. The Service Center and the Department are working with the US Department of Labor and the Office of the State Controller to change the current method of recording and reimbursement of those expenditures.

These changes will make both cash management and account reconciliation easier on a day to day basis. All of this work will be complete by June 30, 2011.

Contact: *Dennis Corliss, Security and Employment Service Center Director, 623-6701*

(10-1315-02)

Title: Required award information not provided to subrecipients

Prior Year Finding: No
State Department: Labor
State Bureau: Employment Services
Federal Agency: U.S. Department of Labor
CFDA Title: WIA Cluster
CFDA #: 17.258; 17.259; 17.260
Federal Award #: AA171253Y; AA171254A; AA186448D; AA186446E; AA186448F; AA186446Z; EM17008YW; AA171255J; AA171255P; AA171255L

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations §__.400(d) Pass-through entity responsibilities; OMB Circular A-133 Compliance Supplement (Part 3, Monitoring)

Condition: At the time of the award, subrecipients were not provided the CFDA title and number, the name of the Federal awarding agency, and the applicable compliance requirements.

Context: The Local Workforce Investment Boards were awarded $13 million in fiscal year 2010.

Cause: Lack of procedures to communicate required grant information to subrecipients

Effect: Subrecipients may not be aware of applicable Federal regulations which could result in noncompliance.

Recommendation: We recommend that the Department implement procedures to provide the required information at the time of the award.

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

DOL – Employment Services was not citing the CFDA title and number on contracts written and issued as required by Federal regulations. However, the contract parties were all aware of the CDFA number and title through other DOL – Employment Services communication. As soon as this condition was brought to our attention during the audit, MDOL-BES quickly resolved the issue by including the references on all contracts and by updating the BES contract guidance manual used by staff to include this requirement. We believe these measures will ensure compliance going forward.

Contact: *Dawn Mealey, Acting Director, Bureau of Employment Services, MDOL, 623-7989*

(10-1315-03)

Title: Documentation to support subrecipient monitoring activities not maintained

Prior Year Finding: No
State Department: Labor
Administrative and Financial Services
State Bureau: Bureau of Employment Services
Security and Employment Service Center
Federal Agency: U.S. Department of Labor
CFDA Title: WIA Cluster
CFDA #: 17.258, 17.259; 17.260
Federal Award #: AA171253Y; AA171254A; AA186448D; AA186446E; AA186448F; AA186446Z; EM17008YW; AA171255J; AA171255P; AA171255L

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

WIA CLUSTER

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations §__.400(d)(1); OMB Circular A-133 Compliance Supplement (Part 3, Monitoring)

Condition: There was insufficient documentation to determine whether on-site visits and reviews of independent audit reports were completed during fiscal year 2010.

Context: The Local Workforce Investment Boards were awarded $13 million in State fiscal year 2010.

Cause: Lack of procedures to maintain documentation of subrecipient monitoring

Effect: Possible disallowed costs

Recommendation: We recommend that the Department implement procedures to maintain evidence of on-site visits and reviews of the audited financial statements performed annually.

Management's Response/Corrective Action Plan: *We agree with the finding.*

Monitoring files are being collected and put into a shared folder within the document management system (FORTIS) so that they can be located easily by any staff member. The documents will be located and put into FORTIS by June 30, 2011.

Contact: *Dennis Corliss, Director, Security and Employment Service Center, 623-6701*

DISASTER GRANTS – PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS)

(10-1500-01)

Title: Excess cash balance

Prior Year Finding: No
State Department: Defense Veterans and Emergency Management
State Bureau: Maine Emergency Management Agency
Federal Agency: U.S. Department of Homeland Security
CFDA Title: Disaster Grants – Public Assistance (Presidentially Declared Disasters)
CFDA #: 97.036
Federal Award #: XXXXDRME

Compliance Area: Cash management

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $800,000

Likely Questioned Costs: $800,000

Criteria: Rules and Procedures for Efficient Federal-State Funds Transfers (31 CFR §205)

Condition: The Maine Emergency Management Agency had an excessive cash balance in an account within the Federal expenditures fund during fiscal year 2010.

Context: Over $800,000 was maintained in this account throughout the year. The balance appears to have built up over a period of time.

Cause: The entire administrative component of previous grant awards was drawn down despite the fact that actual administrative costs were less than the amount of the administrative award.

Effect: The Federal expenditures fund has excessive cash on hand.

Recommendation: We recommend that the Department reimburse the Federal agency for the excess funds drawn.

Management's Response/Corrective Action Plan: *The Department of Defense, Veterans, and Emergency Management agrees with the finding.*

Prior to 2006, funding to cover administrative costs of managing disasters was automatically provided to the State by the Federal Government. That is the source of these excess funds. During the disasters that generated these funds, the State did not incur sufficient expenses to spend this money. We have asked FEMA if it can be used for any other purposes. Excerpts from the FEMA response are as follows:

DISASTER GRANTS – PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS)

"Unfortunately, we cannot authorize the use of Federal funds as you requested and the funds need to be returned. The Federal funds of $800k were provided to the State as Disaster Administration Funds and regardless that the funds were accumulated as a result of disasters occurring 2006 and prior, if they cannot be properly supported by eligible expenditures (overtime, per diem and travel), they must be returned to FEMA."

Based on the guidance from FEMA, MEMA will determine the exact amount of money in question and complete the process of returning it to the Federal Government.

Contact: *Robert McAleer, Director, 624-4401*

(10-1503-01)

Title: Inadequate controls over support for salaries and wages

Prior Year Finding: No
State Department: Defense, Veterans, and Emergency Management
State Bureau: Air National Guard
Army National Guard
Federal Agency: U.S. Department of Defense
CFDA Title: National Guard Military Operation and Maintenance Projects
CFDA #: 12.401
Federal Award #: W912JD-10-2-3035

Compliance Area: Allowable costs/Cost principles

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 2 CFR Part 225 Cost Principles for State, Local and Indian Tribal Governments (OMB Circular No. A-87) Appendix B - 8 (h)(3)

Condition: Certifications that employees worked solely on a single Federal award or cost objective were not obtained for all applicable employees.

Context: Ten of 96 employees were not certified as required by Federal regulations.

Cause: Inadequate procedures

Effect: Potential disallowed costs

Recommendation: We recommend that the Department implement procedures to ensure all employees who are required to be certified are included on the semi-annual certification list.

Management's Response/Corrective Action Plan: *The Department of Defense, Veterans, and Emergency Management agrees with the finding. This past December procedures were clearly explained to recently hired personnel responsible for creating and approving certifications. We believe these procedures will ensure our compliance with the Federal regulations going forward.*

Contact: *Nathalie Schlieper, Financial Analyst, 626-4493*

(10-1503-02)

Title: Procedures to ensure compliance with Buy American Act provisions need improvement

Prior Year Finding: No
State Department: Defense, Veterans, and Emergency Management
State Bureau: Army National Guard
Federal Agency: U.S. Department of Defense
CFDA Title: National Guard Military Operation and Maintenance Projects
CFDA #: 12.401
Federal Award #: W912JD-10-2-3035

Compliance Area: Procurement, suspension and debarment

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: American Recovery and Reinvestment Act of 2009 (ARRA) §1605; Award term—Required Use of American Iron, Steel, and Manufactured Goods—Section 1605 of the ARRA of 2009 (2 CFR §176.140)

Condition: The Agency received ARRA funding for ten contracts during the State fiscal year 2010. No monitoring procedures were in place to ensure the contractors were complying with the Buy American Act provision in the contract.

Context: It could not be determined if the ARRA funds were expended on American products, as there was no monitoring tonsure adherence to the Buy American Act provisions.

Cause: Lack of internal controls

Effect: Unallowable costs may be charged to the award resulting in questioned costs

Recommendation: We recommend that the Department implement procedures to ensure that contractors adhere to the Buy American provision when using ARRA funding.

Management's Response/Corrective Action Plan: *The Department of Defense, Veterans, and Emergency Management (DVEM) agrees with the finding. The DVEM's purchasing department has begun to include requests of vendors to provide proof of Buy American Act in all contracts as of 3/1/11. Additionally they will monitor contracts to assure each company has provided the information in a timely manner. We believe these procedures will ensure our compliance with the Federal regulations.*

Contact: *Nathalie Schlieper, Financial Analyst, 626-4493*

(10-1503-03)

Title: Controls over Federal cash management requirements need improvement

Prior Year Finding: 09-1503-02
State Department: Defense, Veterans, and Emergency Management
State Bureau: Maine Military Authority
Air National Guard
Army National Guard
Federal Agency: U.S. Department of Defense
CFDA Title: National Guard Military Operation and Maintenance Projects
CFDA #: 12.401
Federal Award #: W912JD-10-2-3035; W912JD-09-2-1001; W912JD-09-2-1002; W912JD-09-2-1003; W912JD-09-2-1004; W912JD-09-2-1007; W912JD-09-2-1010; W912JD-09-2-1021; W912JD-09-2-1022; W912JD-09-2-1023; W912JD-09-2-1024; W912JD-09-2-1040; W912JD-09-2-1041

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

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

Condition: The Department did not have procedures in place to ensure compliance with the terms of the Treasury-State Agreement (TSA).

Context: Federal cash was not consistently drawn down in programs covered by the TSA. Lack of proper drawdown procedures led to both excess and negative cash balances in the program during the year. The Department worked with State Treasury personnel to amend the 2011 TSA to allow for drawdown method that better suits their operational needs.

Cause: The agency did not utilize drawdown method specified in the TSA.

Effect:
- Potential interest liability to the Federal government
- Loss of interest earnings when funds are drawn later than allowed

Recommendation: We recommend that procedures be implemented to ensure Federal funds are drawn in compliance with the procedures specified in the TSA.

Management's Response/Corrective Action Plan: *The State Military Department and the National Guard Bureau, funded by Department of Defense appropriations, enter into a Master*

Cooperative Agreement to establish the terms and conditions applicable to the contribution of NGB funds and/or in-kind assistance for the operation and training of the State Army and Air National Guard and Maine Military Authority. This Master Cooperative Agreement is not a 'grant' in the context of what is normally considered a Federal Grant for CMIA purposes. Because of the above, the Department disagrees with the finding.

That being said, the Department did work with State Treasury personnel to amend the 2011 TSA to allow for a clearance pattern that better suits our operational needs. We believe these procedures will ensure our compliance with the Federal regulations for FY11 and beyond.

Contact: *Nathalie Schlieper, Financial Analyst, 626-4493*

Auditor's Conclusion: The TSA in effect for fiscal year 2010 requires National Guard Military Operations and Maintenance (O&M) program funds to be drawn down using the average clearance method for parts and other administrative costs and the estimated allocation - weekly method for payroll. The agency did not draw funds in accordance with these methods. As a result, our finding and recommendation remain as stated.

STATE OF MAINE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Agency Legend

DAFS	Department of Administrative and Financial Services
DHHS	Department of Health and Human Services
DECD	Department of Economic and Community Development
DEP	Department of Environmental Protection
DOA	Department of Agriculture
DOE	Department of Education
DOL	Department of Labor
DOT	Department of Transportation
DVEM	Department of Defense, Veterans and Emergency Management

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2010

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY10 Status (Refer to auditee's complete corrective action plan)	FY10 Repeat Finding
04-55	93.778	DHHS	Unallowable case management claim payments	$7,462	Awaiting final federal decision	Finding was not repeated
05-55	93.775, 93.777, 93.778	DHHS	Inadequate procedures to identify allowable targeted case management services; and non-compliance with allowable cost requirements	$6,528	Awaiting final federal decision	Finding was not repeated
06-60	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure case management costs are allowable; and non-compliance	$27,870	Awaiting final federal decision	Finding was not repeated
07-16	10.558	DHHS	Subrecipient cash management requirements not followed	None	Corrective action taken in FY10	No further action warranted per OMB A-133 §315(b)(4)
07-23	20.205	DOT	Davis-Bacon requirements not followed	None	Management Letter comment issued for FY10	No further action warranted per OMB A-133 §315(b)(4)
07-27	84.010, 84.027, 84.173	DAFS and DOE	Subrecipient cash management requirements not followed	None	Corrective action not completed in FY10	No further action warranted per OMB A-133 §315(b)(4)
07-30	84.126	DOL	Client service payments not adequately monitored	None	Corrective action not completed in FY10	See 10-1308-02 No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2010

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY10 Status (Refer to auditee's complete corrective action plan)	FY10 Repeat Finding
07-31	84.126	DOL	The timeliness of eligibility decisions needs to be improved	None	Corrective action not completed in FY10	See 10-1308-03 No further action warranted per OMB A-133 §315(b)(4)
07-38	93.283	DHHS	Payroll costs not adequately supported	Not determinable	Corrective action taken in FY10	No further action warranted per OMB A-133 §315(b)(4)
07-40	93.558	DAFS	Report revisions not filed	None	Corrective action taken in FY10. New condition identified.	See 10-1111-02 No further action warranted per OMB A-133 §315(b)(4)
07-41	93.558	DHHS	Excessive benefits paid to TANF clients	$729	Management Letter comment issued for FY10	No further action warranted per OMB A-133 §315(b)(4)
07-42	93.558	DHHS	Eligibility determinations not adequately supported	None	Management Letter comment issued for FY10	No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2010

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY10 Status (Refer to auditee's complete corrective action plan)	FY10 Repeat Finding
07-54	93.658, 93.659	DAFS	Federal cash management requirements not followed	None	Corrective action not completed in FY10	See 10-1109-03 & 10-1110-04 No further action warranted per OMB A-133 §315(b)(4)
07-56	93.658, 93.659	DAFS	Inaccurate financial reports	None	Corrective action not completed in FY10	See 10-1109-02 & 10-1110-02 No further action warranted per OMB A-133 §315(b)(4)
07-61	93.767	DHHS	Budgetary controls involving payments to certified seed providers are not effective	$18,523	Corrective action not completed in FY10	See 10-1140-02 No further action warranted per OMB A-133 §315(b)(4)
07-62	93.775, 93.777, 93.778	DAFS	Cost of Care payments not credited to federal funds	$146,385	Corrective action not completed in FY10	See 10-1106-05 No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2010

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY10 Status (Refer to auditee's complete corrective action plan)	FY10 Repeat Finding
07-65	93.775, 93.777, 93.778	DAFS and DHHS	Claims processing and information retrieval system deficient	None	Corrective action not completed in FY10	See 10-1106-07 No further action warranted per OMB A-133 §315(b)(4)
07-67	93.775, 93.777, 93.778, 93.767	DHHS	Third party liability data incomplete; cost avoidance and recovery not maximized	see 07-69	Corrective action taken in FY10	No further action warranted per OMB A-133 §315(b)(4)
07-68	93.775, 93.777, 93.778, 93.767	DAFS and DHHS	Waiver costs funded by incorrect program	$203,000	Corrective action not completed in FY10	No further action warranted per OMB A-133 §315(b)(4)
07-69	93.775, 93.777, 93.778, 93.767	DHHS	Eligibility determinations incorrect	$35,238 $98,427	Corrective action not completed in FY10	See 10-1106-16 No further action warranted per OMB A-133 §315(b)(4)
07-72	93.775, 93.777, 93.778	DHHS	Rates paid to Medicaid providers not adequately supported	None	Corrective action not completed in FY10	See 10-1106-10 No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2010

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY10 Status (Refer to auditee's complete corrective action plan)	FY10 Repeat Finding
07-77	93.775, 93.777, 93.778	DHHS	Inadequate surveillance and utilization review of Medicaid services	None	Corrective action not completed in FY10	See 10-1106-08 No further action warranted per OMB A-133 §315(b)(4)
07-78	93.775, 93.777, 93.778	DHHS	No verification method for services furnished to recipients	None	Corrective action not completed in FY10	See 10-1106-06 No further action warranted per OMB A-133 §315(b)(4)
07-80	93.959	DAFS	Excess cash related to audit settlements	Not determinable	Corrective action taken in FY10	No further action warranted per OMB A-133 §315(b)(4)
07-88	97.004, 97.067	DVEM	Subrecipient monitoring requirements not followed	None	Corrective action not completed in FY10	No further action warranted per OMB A-133 §315(b)(4)
07-90	Various	DAFS	Federal cash management requirements not followed	None	Corrective action not completed in FY10	See 10-1200-03 & 10-1200-04 No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2010

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY10 Status (Refer to auditee's complete corrective action plan)	FY10 Repeat Finding
07-91	Various	DAFS	Cost allocation plan not followed and allocated costs not properly reported	None	Corrective action not completed in FY10	See 10-1103-01 No further action warranted per OMB A-133 §315(b)(4)
08-05	Various	DHHS	Income and Eligibility Verifications System requirements not followed	None	Corrective action not completed in FY10	10-1111-01
08-06	Various	DAFS	Noncompliance with federal cash management requirements for programs included in the Treasury-State Agreement	None	Corrective action not completed in FY10	10-1200-03
08-08	10.557	DHHS	Noncompliance with cash management requirements	None	Corrective action not completed in FY10	10-1113-02
08-09	10.557	DHHS	Grant information not provided to subrecipients	None	Corrective action taken in FY10	Finding was not repeated
08-10	10.557	DHHS	Compliance investigations not prioritized by risk	None	Corrective action taken in FY10	Finding was not repeated
08-11	10.558	DHHS	Subrecipient cash management requirements not followed	None	Corrective action taken in FY10	Finding was not repeated
08-15	20.205	DOT	Davis-Bacon requirements not followed	None	Management Letter comment issued for FY10	Finding was not repeated
08-16	66.605	DEP	Subrecipient cash management requirements not followed	None	Corrective action taken in FY10	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2010

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY10 Status (Refer to auditee's complete corrective action plan)	FY10 Repeat Finding
08-18	Various	DAFS	Noncompliance with federal cash management requirements for programs not included in the Treasury-State Agreement	None	Corrective action not completed in FY10	10-1200-04
08-19	84.126	DOL	Client service payments not adequately monitored	$264	Corrective action not completed in FY10	10-1308-02
08-21	84.126	DOL	Eligibility decisions not timely	None	Corrective action not completed in FY10	10-1308-03
08-23	84.126	DOL	Quarterly financial reports not accurate	None	Corrective action taken in FY10	Finding was not repeated
08-24	84.010, 84.027, 84.173, 84.367	DAFS	Subrecipient cash management requirements not followed	None	Corrective action not completed in FY10	Finding was not repeated
08-25	93.069	DHHS	Payroll expenditures incorrectly charged to program	Not determinable	Corrective action taken in FY10	Finding was not repeated
08-26	93-069	DHHS	Noncompliance with earmarking requirements	$474,138	Corrective action taken in FY10	Finding was not repeated
08-27	93.558	DHHS	Unallowable transitional DOT benefits paid	$290,020	Management Letter comment issued for FY10	Finding was not repeated
08-28	93.558	DHHS	Eligibility determinations are not adequately supported	None	Management Letter comment issued for FY10	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2010

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY10 Status (Refer to auditee's complete corrective action plan)	FY10 Repeat Finding
08-29	93.558	DAFS	Inaccurate financial reporting	None	Corrective action taken in FY10. New condition identified.	10-1111-02
08-36	93.658	DHHS	Payments made for unallowable activities	$30,092	Corrective action not completed in FY10	10-1109-06
08-37	93.658, 93.659	DAFS	Costs not properly charged or allocated	$200,646	Corrective action not completed in FY10	10-1110-07
08-38	93.658, 93.659	DAFS	Office of Child and Family Services' cost allocation plan contained errors	None	Corrective action not completed in FY10	10-1103-01
08-39	93.658, 93.659	DAFS	Procedures not in place to ensure cash management requirements are met	None	Corrective action not completed in FY10	10-1109-03 10-1110-04
08-42	93.658	DHHS	State and federal procurement procedures not followed	None	Management Letter comment issued for FY10	Finding was not repeated
08-43	93.658, 93.659	DAFS	Inaccurate financial reports	None	Corrective action not completed in FY10	10-1109-02 10-1110-02
08-45	93.767	DHHS	Waiver costs funded by incorrect program	$295,909	Corrective action not completed in FY10	Finding was not repeated
08-46	93.767	DHHS	Maine Claims Management System (MECMS) errors may result in local match (certified seed) not being met	None	Corrective action not completed in FY10	10-1140-02

State of Maine
Summary Schedule of Prior Audit Findings
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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY10 Status (Refer to auditee's complete corrective action plan)	FY10 Repeat Finding
08-47	Various	DHHS and DOE	Billing service contracts not compliant with regulations	None	Corrective action taken in FY10	Finding was not repeated
08-48	93.775, 93.777, 93.778, 93.767	DHHS	Third party liability data incomplete; cost avoidance and recovery not maximized	Not determinable	Corrective action taken in FY10	Finding was not repeated
08-49	93.775, 93.777, 93.778, 93.767	DHHS	School Based Rehabilitation services billing and payment policy	Not Determinable	Corrective action not completed in FY10	10-1140-01
08-51	93.775, 93.777, 93.778, 93.767	DHHS	Reimbursement rate not adequately supported; inaccurate reimbursement rate paid to providers	$335,724, $28,607	Corrective action not completed in FY10	10-1106-10
08-54	93.775, 93.777, 93.778	DHHS	Cost of care recoupments not credited to federal funds	$79,309	Corrective action not completed in FY10	10-1106-05
08-55	93.775, 93.777, 93.778	DAFS	Payroll costs charged to Medicaid are overstated	$80,000	Corrective action taken in FY10	Finding was not repeated
08-56	93.775, 93.777, 93.778	DAFS	Payroll costs not properly charged	$619,000	Corrective action taken in FY10	Finding was not repeated
08-57	93.775, 93.777, 93.778, 93.767	DHHS	Incorrect client eligibility determinations	$266,342	Corrective action not completed in FY10	10-1106-16
08-59	93.775, 93.777, 93.778, 93.767	DHHS	Basis for certification of public expenditures (certified seed) not supported	None	Corrective action not completed in FY10	10-1140-03

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2010

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY10 Status (Refer to auditee's complete corrective action plan)	FY10 Repeat Finding
08-62	93.775, 93.777, 93.778	DAFS and DHHS	Untimely crediting of federal share of audit cost settlements and Program Integrity recoupments; no accounts receivable established for Program Integrity recoupments	None	Corrective action not completed in FY10	10-1106-13
08-63	93.775, 93.777, 93.778	DHHS	Services furnished to recipients not verified	None	Corrective action not completed in FY10	10-1106-06
08-64	93.775, 93.777, 93.778	DAFS and DHHS	Claims processing and information retrieval system lacking required functionalities	None	Corrective action not completed in FY10	10-1106-07
08-66	93.775, 93.777, 93.778	DHHS	Inadequate surveillance and utilization review of Medicaid services	None	Corrective action not completed in FY10	10-1106-08
08-70	Various	DAFS	Costs not allocated in accordance with plan	$2,364,580, $54,760	Corrective action not completed in FY10	10-1103-01
08-72	97.036	DVEM	Lack of procedures to ensure compliance with subrecipient monitoring requirements	None	Corrective action not completed in FY10	Finding was not repeated
08-74	97.067	DVEM	Lack of procedures to ensure compliance with subrecipient monitoring requirements	None	Corrective action not completed in FY10	Finding was not repeated
09-0111-01	93.775, 93.777, 93.778	DAFS	Controls over payroll rates charged to Medicaid not adequate	$104,310	Corrective action taken in FY10	Finding was not repeated
09-0111-02	93.775, 93.777, 93.778	DAFS	Procedures not adequate to ensure indirect payroll costs are properly charged	$290,487	Corrective action taken in FY10	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2010

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY10 Status (Refer to auditee's complete corrective action plan)	FY10 Repeat Finding
09-1103-01	93.558, 93.658 & 93.659	DAFS	Procedures not adequate to ensure costs are properly allocated in accordance with cost allocation plans	$410,408	Corrective action not completed in FY10	10-1103-01
09-1106-02	93.775, 93.777, 93.778	DAFS and DHHS	Procedures for crediting and accounting for federal share of overpayments not adequate	None	Corrective action not completed in FY10	10-1106-13
09-1106-03	93.775, 93.777, 93.778	DHHS	Inadequate controls over verification of services provided	None	Corrective action not completed in FY10	10-1106-06
09-1106-04	93.775, 93.777, 93.778	DAFS and DHHS	Claims processing and information retrieval system lacking required functionalities	$15,822	Corrective action not completed in FY10	10-1106-07
09-1106-05	93.775, 93.777, 93.778	DHHS	Inadequate procedures over surveillance and utilization review of Medicaid services	None	Corrective action not completed in FY10	10-1106-08
09-1106-06	93.775, 93.777, 93.778	DHHS	Inadequate procedures to ensure proper crediting of federal share of cost of care recoupments	$71,921	Corrective action not completed in FY10	10-1106-05
09-1106-07	93.775, 93.777, 93.778, 93.767	DHHS	Inadequate procedures over Third Party Liability, cost avoidance and recovery	None	Corrective action taken in FY10	Finding was not repeated
09-1106-08	93.775, 93.777, 93.778	DHHS	Controls not adequate to ensure provider eligibility requirements are met	None	Corrective action not completed in FY10	10-1106-11
09-1106-09	93.775, 93.777, 93.778	DAFS and DHHS	Inadequate controls over pharmacy claims processing system	None	Corrective action not completed in FY10	10-1106-09

State of Maine
Summary Schedule of Prior Audit Findings
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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY10 Status (Refer to auditee's complete corrective action plan)	FY10 Repeat Finding
09-1106-10	93.775, 93.777, 93.778, 93.767	DHHS	Reimbursement rate not adequately supported/inaccurate reimbursement rate paid to providers	$96,618	Corrective action not completed in FY10	10-1106-10
09-1106-13	93.775, 93.777, 93.778	DAFS and DHHS	Inadequate controls over prompt payment requirements	None	Corrective action not completed in FY10	10-1106-14
09-1106-14	93.775, 93.777, 93.778, 93.767	DHHS	Procedures not adequate to ensure proper client eligibility	Not Determinable	Corrective action not completed in FY10	10-1106-16
09-1109-01	93.658	DHHS	Controls over State and federal procurement requirements not followed	None	Management Letter comment issued for FY10	Finding was not repeated
09-1109-03	93.658, 93.659	DAFS	Inadequate procedures to ensure costs are properly charged or allocated	$301,318	Corrective action not completed in FY10	10-1110-07
09-1109-04	93.658	DHHS	Procedures not adequate to ensure payments are made only for allowable activities	$7,045	Corrective Action not completed in FY10	10-1109-01
09-1109-05	93.658	DAFS	Procedures not adequate to ensure accurate quarterly financial reports	None	Corrective action not completed in FY10	10-1109-02
09-1109-06	93.658	DAFS	Lack of procedures to ensure records were maintained that identified adequately the source and application of ARRA funds	None	Corrective action taken in FY10	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY10 Status (Refer to auditee's complete corrective action plan)	FY10 Repeat Finding
09-1109-07	93.658	DAFS	Federal cash management procedures inadequate	None	Corrective action not completed in FY10	10-1109-03
09-1110-02	93.659	DAFS	Procedures not adequate to ensure accurate quarterly financial reports	None	Corrective action not completed in FY10	10-1110-02
09-1110-03	93.659	DAFS	Procedures not in place to ensure cash management requirements are met	None	Corrective action not completed in FY10	10-1110-04
09-1110-04	93.659	DAFS	Lack of procedures to ensure records were maintained that identified adequately the source and application of ARRA funds	None	Corrective action taken in FY10	Finding was not repeated
09-1111-01	Various	DHHS	Income and Eligibility Verifications System requirements not followed	None	Corrective action not completed in FY10	10-1111-01
09-1111-02	93.558	DHHS	Controls inadequate to prevent payment of unallowable transitional DOT benefits	$93,828	Management Letter comment issued for FY10	Finding was not repeated
09-1111-03	93.558	DHHS	Eligibility determinations not adequately supported	None	Management Letter comment issued for FY10	Finding was not repeated
09-1111-04	93.558	DAFS	Controls inadequate to ensure accurate financial reporting	None	Corrective action taken in FY10. New condition identified.	10-1111-02

State of Maine
Summary Schedule of Prior Audit Findings
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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY10 Status (Refer to auditee's complete corrective action plan)	FY10 Repeat Finding
09-1113-02	10.557	DHHS	Inadequate procedures for providing award information to subrecipients	None	Corrective action taken in FY10	Finding was not repeated
09-1113-03	10.557	DHHS	Inadequate procedures for federal cash management	None	Corrective action not completed in FY10	10-1113-02
09-1113-04	10.557	DHHS	Compliance investigations procedures not adequate	None	Corrective action taken in FY10	Finding was not repeated
09-1128-01	93.563	DAFS	Controls inadequate to ensure proper allocation of costs in accordance with approved plan	$207,370	Corrective action taken in FY10	Finding was not repeated
09-1140-01	93.767	DHHS	Maine Claims Management System (MECMS) procedures not adequate to ensure local match (certified seed) is met	None	Corrective action not completed in FY10	10-1140-02
09-1140-02	93.775, 93.777, 93.778, 93.767	DHHS and DOE	Controls over billing service contracts not adequate	None	Corrective action taken in FY10	Finding was not repeated
09-1140-03	93.775, 93.777, 93.778, 93.767	DHHS	School Based Rehabilitation services billing and payment policy procedures not adequate	Not Determinable	Corrective action not completed in FY10	10-1140-01
09-1140-04	93.775, 93.777, 93.778, 93.767	DHHS	Procedures needed to ensure better accountability of certified public expenditures (certified seed)	None	Corrective action not completed in FY10	10-1140-03

State of Maine
Summary Schedule of Prior Audit Findings
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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY10 Status (Refer to auditee's complete corrective action plan)	FY10 Repeat Finding
09-1200-01	84.010, 84.027, 84.173 & 84.367	DAFS	Noncompliance with subrecipient cash management requirements	None	Corrective action not completed in FY10	10-1200-01
09-1200-03	10.555, 84.010 & 84.027	DAFS	Federal cash management procedures not followed	None	Corrective action not completed in FY10	10-1200-03
09-1200-04	Various	DAFS	Federal cash management procedures inadequate	None	Corrective action not completed in FY10	10-1200-04
09-1200-05	Various	DAFS	Ineffective internal controls over Period of Availability of federal funds	$238,912	Corrective action taken in FY10	Finding was not repeated
09-1201-02	84.027 & 84.173	DOE	Procedures not adequate to ensure timely site visits	None	Corrective action not completed in FY10	10-1201-01
09-1203-01	10.553, 10.555, 10556 & 10.559	DOE	Inadequate controls over monitoring of subrecipient net cash resources	None	Corrective action not completed in FY10	10-1203-01
09-1203-04	10.553, 10.555, 10556 & 10.559	DOE	Inadequate procedures for providing award information to subrecipients	None	Corrective action not completed in FY10	10-1203-02
09-1221-02	84.367	DOE	Inadequate procedures for maintaining subrecipient award information	None	Corrective action taken in FY10	Finding was not repeated
09-1234-01	84.394 & 84.397	DAFS	Noncompliance and inadequate controls over federal cash management procedures	None	Corrective action not completed in FY10	10-1200-04

State of Maine
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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY10 Status (Refer to auditee's complete corrective action plan)	FY10 Repeat Finding
09-1234-02	84.394 & 84.397	DAFS and DOE	Noncompliance with subrecipient monitoring and special tests and provisions for awards with ARRA funding requirements	None	Corrective action taken in FY10.	Finding was not repeated
09-1308-01	84.126	DOL	Procedures not adequate to ensure timely eligibility decisions	None	Corrective action not completed in FY10	10-1308-03
09-1308-02	84.126	DOL	Client service payments not adequately monitored	$9,050	Corrective action not completed in FY10	10-1308-02
09-1308-03	84.126	DOL	Procedures not adequate to ensure accurate quarterly financial reports	None	Corrective action taken in FY10	Finding was not repeated
09-1401-01	20.205 & 20.219	DOT	Davis-Bacon Act requirements not followed	None	Management Letter comment issued for FY10	Finding was not repeated
09-1502-01	97.036	DVEM	Lack of procedures to ensure compliance with subrecipient monitoring requirements	None	Corrective action not completed in FY10	Finding was not repeated
09-1503-01	12.401	DVEM	Procurement and suspension and debarment procedures inadequate	None	Corrective action taken in FY10	Finding was not repeated
09-1503-02	12.401	DVEM	Federal cash management procedures inadequate	None	Corrective action not completed in FY10	10-1503-03
09-1520-01	66.605	DEP	Procedures not adequate for subrecipient federal cash management	None	Corrective action taken in FY10	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2010

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY10 Status (Refer to auditee's complete corrective action plan)	FY10 Repeat Finding
09-1520-02	66.605	DEP	Inadequate procedures to ensure payroll costs are supported in accordance with federal regulations	None	Corrective action taken in FY10	Finding was not repeated
09-1520-03	66.605	DEP	Federal cash management procedures inadequate	None	Corrective action taken in FY10	Finding was not repeated

Legend of State Agency Abbreviations

DAFS – Department of DAFS
DECD – Department of Economic and Community Development
DEP – Department of DEP
DHHS – Department of DHHS
DOE – Department of DOE
DOL – Department of DOL
DOT – Department of DOT
DVEM – Defense, Veterans and Emergency Services

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