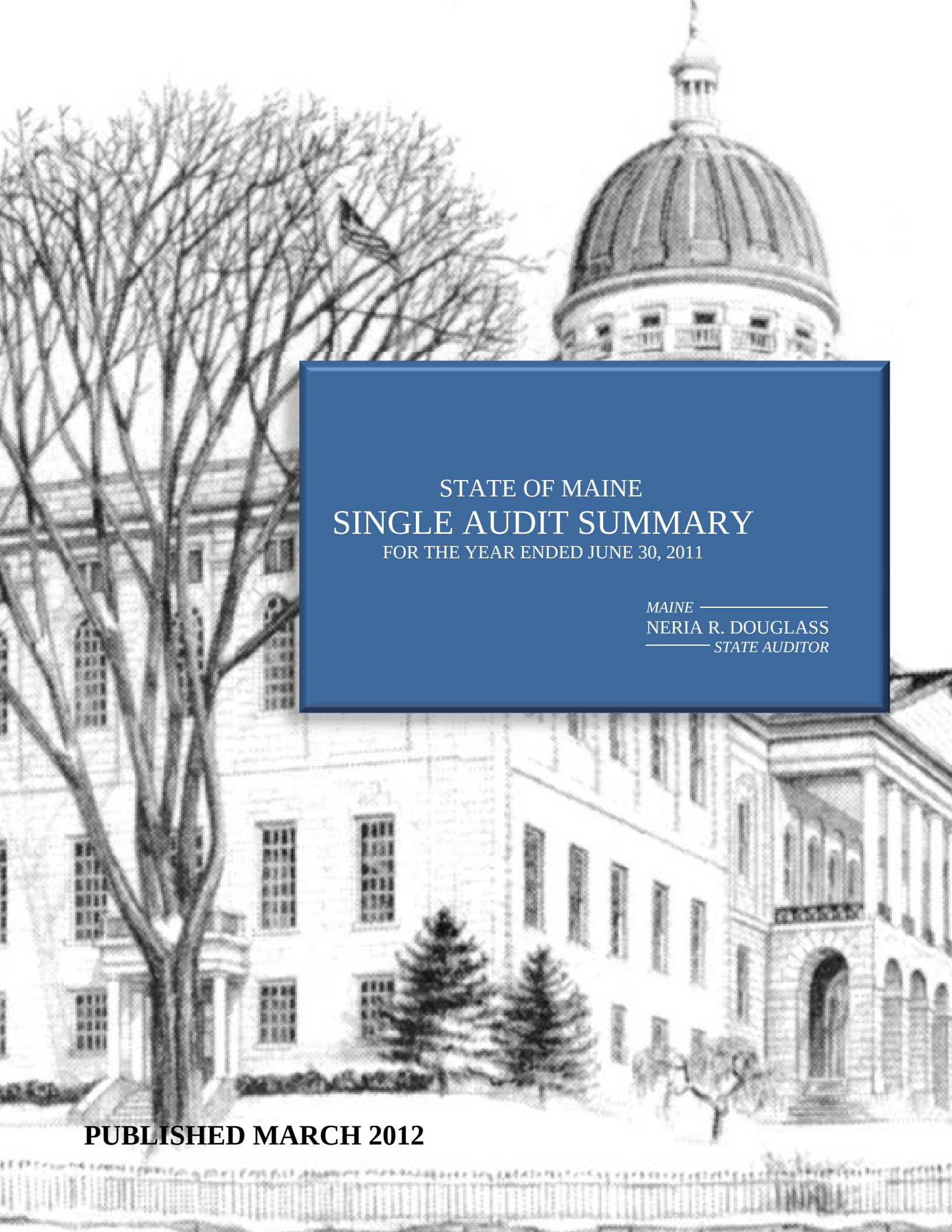


STATE OF MAINE

SINGLE AUDIT SUMMARY

FOR THE YEAR ENDED JUNE 30, 2011

MAINE
NERIA R. DOUGLASS
STATE AUDITOR

PUBLISHED MARCH 2012

State of Maine Single Audit - Summary of Results

All activities of State government are subject to audit. The State of Maine had revenues of $7.5 billion and expended $7.2 billion in fiscal year 2011 (FY 2011), which included $3.6 billion in federal financial assistance. As a condition of receiving federal funds, the State is required to have what is known as a "Single Audit" of its financial statements and of its compliance with federal grant program requirements during that year.

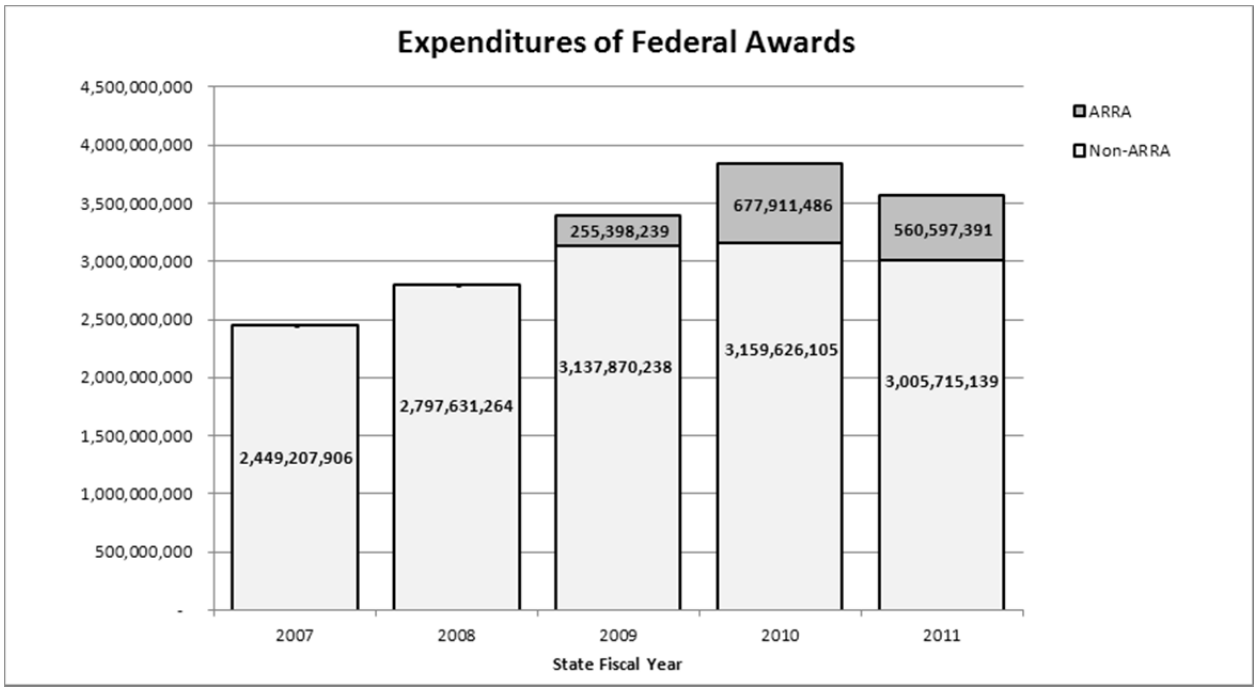
What is Maine's Single Audit?

Maine's Single Audit is a rigorous, independent review of the State's systems of internal control procedures over federally funded programs and compliance with program regulations. It is a single audit of many programs as required by the federal Single Audit Act of 1984. As part of this review, we also audited State expenditures required in most programs as a matching share. The Department of Audit performs the Single Audit pursuant to MRSA Title 5 § 243. In conducting the audit, we gained an understanding of the State's internal control structure, assessed the propriety of receipts and disbursements, and tested programs for compliance with State and federal laws and regulations.

The State Auditor, who is independent of the Executive branch of government, reports to the Legislature on the results of the Single Audit. The Single Audit Report includes our audit of the State's financial statements and 24 of the State's largest federal programs. These federal programs, administered by six State agencies, represented 92% of the $3.6 billion in federal financial assistance that the State expended in FY 2011.

Expenditures of Federal Awards

The amount of federal assistance expended by the State has increased over the last five years with the exception of a small downturn in fiscal year 2011. A detailed listing of all federal awards expended by the State is presented in the *Schedule of Expenditures of Federal Awards* (SEFA) on pages D-3 through D-13 of our Single Audit report. The following chart is a graphical representation of the State's SEFA totals over the last five years:



Federal financial assistance expended by the State increased by $1.1 billion, or approximately 44%, in the last five years, from $2.5 billion in fiscal year 2007 to $3.6 billion in fiscal year 2011. Over the past three years, the State expended a total of $1.5 billion in American Recovery and Reinvestment Act (ARRA) monies which were part of the federal government's stimulus package. A portion of these funds was used to pay the federal share of Medicaid payments made to hospitals for overdue Medicaid bills, some of which dated back to 2006.

Audit Findings

The federal Office of Management and Budget's OMB Circular A-133 implements the Single Audit requirements for States and defines several conditions that are required to be reported as audit findings. The three major types of audit findings are: noncompliance with federal laws and regulations; weaknesses in internal controls; and questioned costs.

Questioned costs are monies that may need to be refunded to the federal government because of unallowable expenditures. The total amount of questioned costs represented a very small portion of the total federal financial assistance expended during the year; however, some questioned costs could not be quantified and could result in the need to return significant grant funds to the respective federal grantor agencies. Internal control audit findings identified weaknesses in the design or operation of policies and procedures that are necessary to safeguard public funds and ensure compliance with laws and regulations. We reported a total of 52 audit findings this year. The noncompliance topic areas of these findings are listed below.

- Activities allowed or unallowed
- Allowable costs/cost principles
- Cash management
- Eligibility (client and provider)
- Matching, level of effort and earmarking
- Subrecipient monitoring
- Davis-Bacon Act (prevailing wage compliance)
- Procurement, suspension and debarment
- Reporting
- Special tests and provisions

Summary of Key Audit Findings

Department of Health and Human Services

(1) The Department's methodology for adjusting Medicaid claims was not consistent with federal guidelines. This resulted in the State submitting claims for reimbursements that may have to be returned. (For more information, see finding 11-1106-02 on pages E-30 and E-31)

(2) Procedures for the processing of Medicaid pharmacy claims were not adequate as noted below:
- The State Medicaid agency did not provide adequate oversight of the override of rejected claims
- Maximum allowable prices in the pharmacy claims system were not periodically reviewed and verified
- Upper payment limits were not considered when determining the lowest reimbursement rate for brand-name drugs

- Reconciliations were not performed to ensure that member eligibility data was completely transferred from one computer system to another. (For more information, see finding 11-1106-04 on pages E-33 and E-34)

(3) The computer edit process for ensuring that providers were licensed was turned off. (For more information, see finding 11-1106-12 on pages E-44 and E-45)

(4) Payments were made on behalf of ineligible clients because the Department of Health and Human Services did not determine why there were data differences between two computerized systems used for making Medicaid eligibility and payment determinations. (For more information, see finding 11-1106-16 on pages E-50 through E-52)

Department of Labor

(1) Procedures to detect and recover improper unemployment insurance payments need to be strengthened. These weaknesses adversely affected eligibility determinations, claim payments, and the return of overpayments. (For more information, see finding 11-1302-02 on pages E-87 and E-88)

(2) Documentation errors and omissions affected eligibility in 38 percent of the unemployment insurance cases sampled. (For more information, see finding 11-1302-06 on pages E-89 and E-90)