

STATE OF MAINE
SINGLE AUDIT SUMMARY
FOR THE YEAR ENDED JUNE 30, 2012

MAINE _____
POLA BUCKLEY
_____ STATE AUDITOR

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State of Maine Single Audit - Summary of Results

The Single Audit is inherently critical of internal control processes and the results of operations. We regret that professional standards do not allow us to comment on what we find that meets or exceeds what an individual would expect from good government.

We express our appreciation for the cooperation and professional courtesy extended to us by state agency personnel during the course of the audit.

All activities of State government are subject to audit. The State had revenues of \$7.8 billion and expenditures of \$7.7 billion in fiscal year 2012. This included \$3.3 billion in federal financial assistance. As a condition of receiving federal funds, the State is subject to an annual “Single Audit” of its financial statements and of its compliance with federal grant requirements.

What is Maine’s Single Audit?

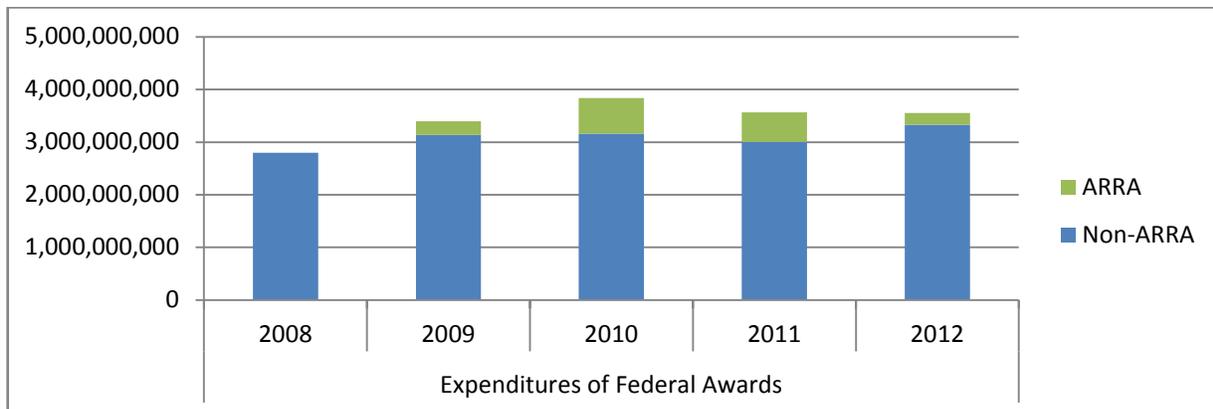
Maine’s Single Audit is a rigorous, independent review of the State’s systems of internal control procedures over federally funded programs and compliance with program regulations in accordance with the federal Single Audit Act of 1984. As part of this review, we also audited State expenditures required in most programs as a matching share. The Department of Audit performs the Single Audit as required by 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 specific to fiscal year 2012, 24 of the State’s largest federal programs. These federal programs, administered by six State agencies, represented 97% of the \$3.3 billion in federal financial assistance that the State expended in fiscal year 2012.

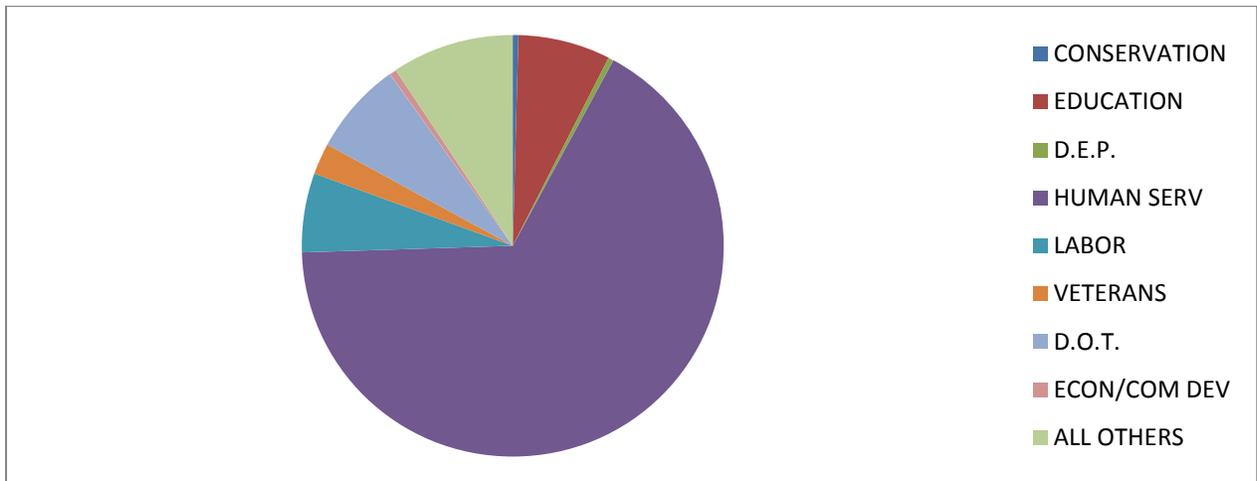
The Single Audit Report is available at <http://www.maine.gov/audit/reports/2012sareport.pdf>

Expenditures of Federal Awards

The amount of non-ARRA federal assistance expended by the State has increased over the last five years except for 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-15 of our Single Audit report. The following chart is a graphical representation of the State’s SEFA totals over the last five state fiscal years:



The following chart shows the State agencies that spent a total of \$3,332,084,340 in federal financial assistance during state fiscal year 2012:



Federal financial assistance expended by the State increased by \$535 million, or approximately 19%, in the last five years, from \$2.8 billion in fiscal year 2008 to \$3.3 billion in fiscal year 2012. Over the past four years, the State expended a total of \$1.7 billion in American Recovery and Reinvestment Act (ARRA) monies which were part of the federal government's stimulus package.

Audit Findings

The federal Office of Management and Budget's OMB Circular A-133 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, but could still 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 41 audit findings this year. The areas of noncompliance included in the findings are:

- Activities allowed or unallowed
- Allowable costs/cost principles
- Cash management
- Eligibility (client and provider)
- Matching, level of effort and earmarking
- Sub-recipient monitoring
- Period of availability
- Procurement, suspension and debarment
- Reporting
- Special tests and provisions

Summary of Key Audit Findings

Unemployment Insurance

A material weakness in internal control and material non-compliance were identified for this program. Approximately \$42 million in federally funded unemployment claims and \$61 million in claims funded by Maine's employers were paid to persons who did not submit work search logs, as required. We issued a qualified opinion on this program (for more information, see finding 12-1302-01 on pages E-79 and E-80 of the Single Audit Report).

Medicaid

We issued 15 audit findings regarding internal control deficiencies or noncompliance relative to Medicaid. These are listed on pages E-16 and E-17 of the Single Audit Report. All 15 findings were classified as a significant deficiency. This classification is less severe than a finding classified as material noncompliance or a material weakness.

Federal questioned costs of \$647,077 were identified for claims that should have been reversed (subtracted) from payments to pharmacies (for more information, see finding 12-0909-01 on page E-33 and E-34 of the Single Audit Report). The impact on the State General Fund can be estimated by applying the pertinent Federal Medical Assistance Percentage (FMAP).

Also, federal questioned costs of an undeterminable amount were reported relating to Medicare Part A and B. DHHS paid the United States Department of Health and Human Services' Centers for Medicare and Medicaid Services (CMS) \$117 million in fiscal year 2012 for these premiums without verifying that the beneficiaries listed were actually eligible for Medicaid (for more information, see findings 12-1106-08 on page E-40 and E-41 of the Single Audit Report). Since federal questioned costs are an indeterminable amount; so too is the impact on the State General Fund.

Children's Health Insurance Program (CHIP)

A material weakness in internal control and material noncompliance were identified for this program. In 11 of sixty claims examined, the CHIP program paid for expenditures that should have been paid by Medicaid. An extrapolation of the error rate results in likely federal questioned costs of \$4 million to the CHIP program; and an undercharge of \$3.4 million to the Medicaid program (for more information, see finding 12-1140-03 on pages E-62 through E-64 of the Single Audit Report). The impact on the State General Fund can be estimated by applying the estimated FMAP rates for the two programs.