

STATE OF MAINE
SINGLE AUDIT SUMMARY
FOR THE YEAR ENDED JUNE 30, 2014

MAINE _____
POLA BUCKLEY
_____ STATE AUDITOR

PUBLISHED MARCH 2015

State of Maine Single Audit – FY 14 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 personnel during the course of the audit.

All activities of State government are subject to audit. The State had revenues of \$7.5 billion and expenditures of \$7.6 billion in fiscal year 2014. This included \$3.3 billion in Federal financial assistance, as reported on the Schedule of Expenditures of Federal Awards. 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?

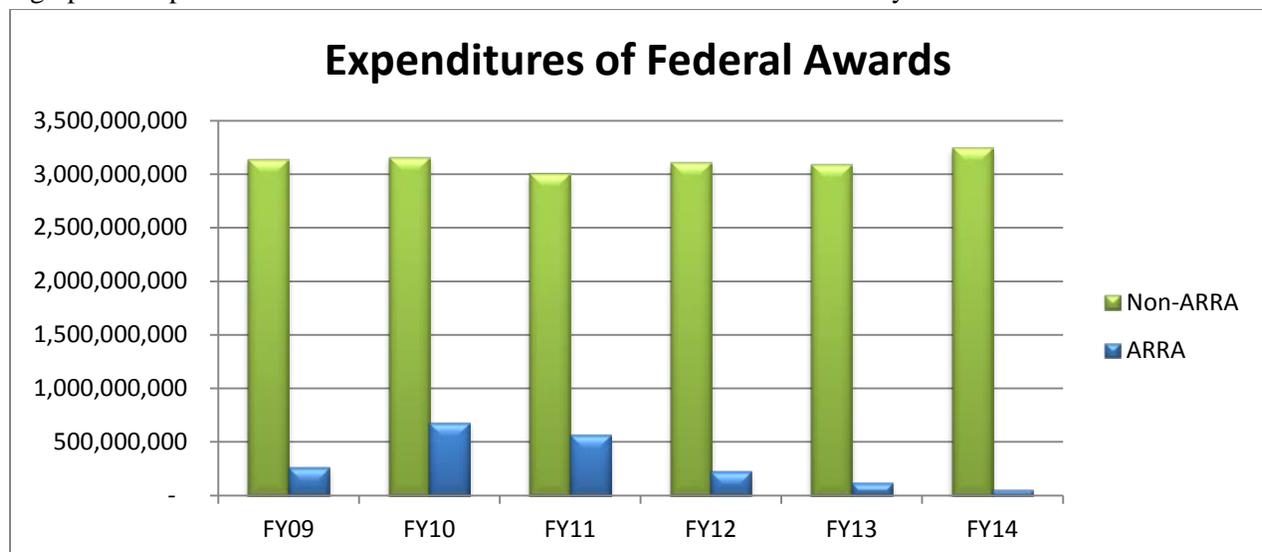
Maine’s Single Audit is a rigorous, independent review of the State’s systems of internal control over Federally funded programs and compliance with program regulations in accordance with the Federal Single Audit Act of 1984. We audited State expenditures required in several programs as a matching share. The Office of the State Auditor 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 is independent of the Executive branch of government, and reports to the Legislature regarding the results of the Single Audit. The Single Audit Report includes our audit of the State’s financial statements and specific to fiscal year 2014, twenty major Federal programs. These Federal programs, administered by six State agencies, represented 92% of the \$3.3 billion in Federal financial assistance expended by the State in fiscal year 2014.

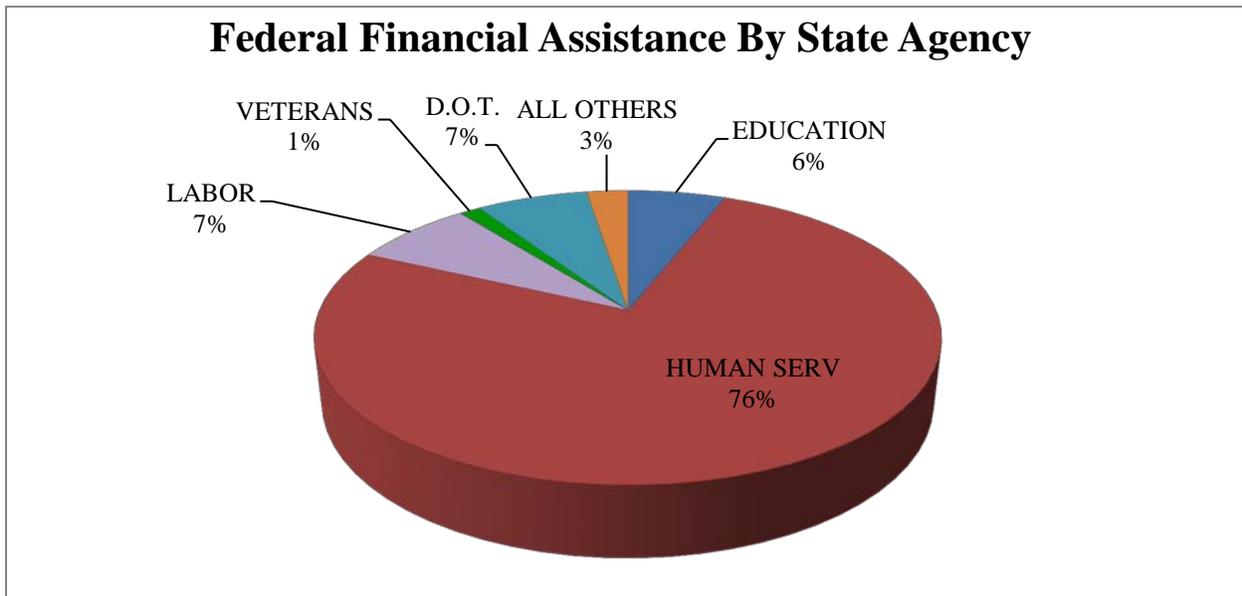
The Single Audit Report is available at <http://www.maine.gov/audit/reports/2014sareport.pdf>

Expenditures of Federal Awards

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 six fiscal years:



The following chart shows the State agencies that spent a total of \$3,295,500,679 in Federal financial assistance during fiscal year 2014:



From its high in fiscal year 2010, Federal financial assistance expended by the State decreased by \$542 million or approximately 14%, from \$3.8 billion in fiscal year 2010 to \$3.3 billion in fiscal year 2014. Since 2009, the State expended a total of \$1.9 billion in American Recovery and Reinvestment Act (ARRA) monies which were part of the Federal government's stimulus package. ARRA expenditures peaked at \$678 million in 2010 and gradually declined to \$51 million in fiscal year 2014.

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 43 audit findings this year. Two audit findings were related to Financial Reporting. Forty-one audit findings were related to Federal Program Compliance.

The areas of Federal Program noncompliance included in the findings are:

- Activities Allowed or Unallowed
- Allowable Costs/Cost Principles
- Cash Management
- Eligibility (client and provider)
- Procurement, Suspension and Debarment
- Reporting
- Special Tests and Provisions

Summary of Key Audit Findings

Audit Findings Applicable to Financial Reporting

A material weakness in internal control over the financial reporting process was identified for fiscal year 2014. This finding indicates that the Office of the State Controller (OSC) needs to improve internal control over the preparation of the State's Comprehensive Annual Financial Report (CAFR). Several significant misstatements in the financial statements were identified by auditors and discussed with OSC personnel. This resulted in OSC adjusting the financial statements prior to issuance. For more information, see finding 2014-001 on page E-9 of the Single Audit Report.

A significant deficiency in internal control over Private Non-Medical Institutions (PNMI) Cost of Care receivables was identified for fiscal year 2014. This finding indicates that there are inadequate subsidiary records to support amounts owed to the State and that these amounts are not fully recorded in the State's accounting system. For more information, see finding 2014-002 on page E-11 of the Single Audit Report.

Audit Findings Applicable to Federal Program Compliance

Unemployment Insurance

A material weakness in internal control and material non-compliance was identified for this program. One hundred eighty-six million dollars in unemployment benefits were paid in fiscal year 2014. This includes \$158 million of employer funded benefit payments and \$28 million in Federally funded benefit payments. We issued a qualified opinion on this program because internal control procedures are not adequate to ensure continuing eligibility. For more information, see finding 2014-039 on page E-92 of the Single Audit Report.

Medicaid

We issued 19 audit findings regarding internal control deficiencies or noncompliance relating to Medicaid. These are listed on pages E-17 and E-18 of the Single Audit Report and indexed from these pages to additional detail. All 19 findings were classified as questioned costs or significant deficiencies. These classifications are less severe than a finding classified as material noncompliance or a material weakness.

The Office of the State Auditor continues to find significant deficiencies in internal control over:

- the deduction of the resident's share from State payments to nursing homes and private non-medical institutions (known as the Cost of Care issue); and the collection and repayment of accumulated overpayments back to State and Federal coffers,
- the surveillance of Medicaid expenditures,
- provider eligibility,
- nursing facility desk reviews, and
- other findings.

With the enactment of the Affordable Care Act, on August 15, 2013, the Centers for Medicare and Medicaid Services (CMS) directed states to implement Medicaid and CHIP Eligibility Review Pilots in place of the Payment Error Rate Measurement (PERM) and Medicaid Eligibility Quality Control (MEQC) eligibility review requirements for fiscal years 2014 through 2016. The Medicaid and CHIP Eligibility Review Pilots are intended to provide more targeted, detailed information on the accuracy of eligibility determinations using the Affordable Care Act's rules and provide states and CMS with critical feedback, which will assist CMS in developing eligibility requirements when PERM resumes in fiscal year 2017. DHHS was not able to provide supporting documentation that adequate supervisory and peer review was completed in accordance with the Federally-approved Medicaid and CHIP Eligibility Review Pilot Sampling Plan.

Fiscal year 2014 Medicaid findings also include three confidential findings related to the Office of Information Technology. These matters have been properly communicated to appropriate officials.

Also included in the fiscal year 2014 findings, is a finding related to Riverview. The context of this finding states that it is our understanding that "... Federal officials are presently in the process of finalizing their decision regarding whether this amount should be disallowed as a Federal expenditure." In fiscal year, DHHS drew \$10.5 million from the Federal government that is the subject of a dispute between CMS and Maine DHHS.