Department of Health and Human Services
Maine People Living Safe, Healthy and Productive Lives
Paul R. LePage, Governor
Mary C. Mayhew, Commissioner

Department of Health and Human Services
Commissioner's Office
221 State Street
11 State House Station
Augusta, Maine 04333-0011
Tel.: (207) 287-3707; Fax (207) 287-3005
TTY Users: Dial 711 (Maine Relay)

January 3, 2013

Jane Oberton, Senior Analyst
Office of Policy and Legal Analysis
#13 State House Station
Augusta, ME 04333-0013

Dear Ms.Oberton:

Enclosed please find the Annual Report to the Legislature on the experience of the Department in relation to the **"Maine Uniform Accounting and Auditing Practices for Community Agencies"** (5MRSA c. 148-C). This report is being submitted in accordance with MAAP subsection 1660-L which states that an annual report to the Legislature must be prepared by the Advisory Committee.

If there are any questions or you need further information, please feel free to contact Herb Downs, Director of the Division of Audit, at 287-2778.

Sincerely,

Mary C. Mayhew
Commissioner

MCM/klv

Enclosure

cc: Herb Downs, Director, Division of Audit, DHHS

Department of Health and Human Services
Maine People Living Safe, Healthy and Productive Lives

Paul R. LePage, Governor
Mary C. Mayhew, Commissioner

Department of Health and Human Services
Commissioner's Office
221 State Street
11 State House Station
Augusta, Maine 04333-0011
Tel.: (207) 287-3707; Fax (207) 287-3005
TTY Users: Dial 711 (Maine Relay)

Maine Uniform Accounting and Auditing Practices for Community Agencies (MAAP)
Advisory Committee to the Commissioner of the Department of Health and Human Services

Annual Report to the Legislature
2012

Introduction

The MAAP (5 MRSA c. 148-C) regulations are framed as a process to provide accountability for financial stewardship of State and Federal funds; a stewardship involving over $250 million annually. This report is being submitted in accordance with 5 MRSA subsection 1660-L which states that an annual report to the Legislature must be prepared by the Advisory Committee to the Commissioner. An annual report has not been submitted to the Legislature since August 4, 2000. The Advisory Committee is made up of three representatives of the Department of Health and Human Services, three representatives of community agencies and one independent public accountant. The Committee has worked together as a group to repeal and replace MAAP III regulations with the new MAAP IV regulations effective July 1, 2012. In this report we will describe the experiences of MAAP III for the State fiscal year ended June 30, 2011 and introduce MAAP IV.

Statistical Report

Of the 303 community agencies that received State and Federal funding from the Department during 2011, financial statements were submitted by 91 community agencies. Under MAAP rules, Community Agencies expending less than $500,000 in contract funding from the Department did not have to file any financial statements with the Department. Accordingly, 212 agencies which expended less than $500,000 were not required to file financial statements. Desk reviews[1] were performed on 81 community agencies' A-133 Single Audits. Of those Single Audit submissions, 21 were rejected initially for varying forms of non-compliance such as: missing corrective action information, financial statement requirements not met and non-submission to the Federal Clearinghouse. The Division of Audit has issued 9 Management decisions[2] .

The agencies received 1,532 agreements totaling $252,139,475 from two departments:

Department of Health and Human Services - $251,487,513
Department of Transportation - $651,962

Total funding included State funds of $118,940,882 (47.2%) and Federal pass-through funds of $133,198,593 (52.8%).

---

[1] "desk review" means a review of an audit report to assure that it meets applicable reporting standards and single audit reporting requirements.

[2] "Management decision" means the evaluation by the Federal awarding agency or pass-through entity of the audit findings and corrective action plan and the issuance of a written decision as to what corrective action is necessary.

MAAP III

The MAAP III rule has been in place since 1996. Some changes have occurred throughout the years, which included: (5 MRSA § 1660-F) changing the financial statements audit requirement from $300,000 or more of revenue to $500,000 or more of expenditures; and changing the appeals process from the appeals board to a process in which community agencies have steps in place to appeal to the Department, a Fair Hearings officer and finally a judicial review, if necessary. Some of these changes came about as part of a process aimed at reducing administrative burdens on agencies and the Department. However, MAAP III did not achieve what the Department needed it to do; it was vague in several key areas including subcontracts, budget revisions and agency commitment. Also, the rule based an audit on the Schedule of Agreement Operations (SAO) instead of the agency's Agreement Settlement Form (ASF). The Agreement Settlement Form (ASF), which is what the settlement is based upon, was not being audited. All of these things, combined with the desire to more closely align the MAAP rules with the Federal A-133 rules, led to the conclusion that a revision to the rules was needed.

MAAP IV

A complete repeal and replacement of MAAP regulations was necessary due to significant changes that have occurred in accounting and auditing standards and federal regulations since the last major revision in December, 1996. The adopted MAAP regulations more closely align with the requirements of the Federal Circulars and are updated to reflect the latest auditing standards promulgated by the American Institute of Certified Public Accountants. Some of the changes include:

- Definitions are changed and expanded to mirror Federal definitions.
- Standards for the Schedule of Expenditures of Department Awards (SEDA) have been established.
- Community agencies with annual agreement expenditures of more than $100,000 but less than $500,000 are required to have an entity-wide review of their financial statements and supplemental SEDA conducted by a qualified Independent Public Accountant (IPA).
- Auditing requirements, standards, testing standards and compliance requirements have been updated to more closely align with the Federal requirements.
- Internal control standards are clarified to explicitly reference the five internal control standards issued by the Committee of Sponsoring Organizations (COSO) and adopted by the American Institute of Certified Public Accountants (AICPA).

While we tried to align the rules with the Federal regulations as much as possible, we did not want to simply adopt those rules, due to the fact that some of the thresholds are set much too high for the Department to be able to appropriately manage its risks.

A significant amount of time during fiscal year 2011 was spent finalizing the rules, meeting with the Advisory Committee, holding public hearings and presenting to the Legislature exactly why these changes were needed and how they would benefit the Department and community agencies. The new MAAP IV rules were effective on July 1, 2012. Accordingly, agencies with June 30 fiscal year-ends will be subject to the new rules beginning with their year ending June 30, 2013, their Tier 2 (IPA) audits will be due by March 31, 2014. The Advisory Committee thus plans to report on how the new MAAP IV rule is working beginning with its 2014 Annual Report to the Legislature.

MAAP Training

During the year training was done on an as requested basis and no formal training was given to community agencies or independent public accountants. There were, however, a significant number of trainings within the Department regarding the cost settlement process, budget reviews and imminent changes to the MAAP rules.

The Division of Audit has begun reviewing budgets prior to their approval in order to have a better budget that reflects program intent and avoids misunderstandings at the end of the agreement cycle, in hopes of a more efficient close out process. While this may slow down production of the Division of Audit in the short term, the long term goal would be to have a greater confidence in the reliability of the settlement.

Moving forward, as the transition to MAAP IV occurs, trainings have already begun with community agencies and independent public accountants. The Division of Audit conducted a recent training for the Maine Association of Nonprofits. Issues arising from the training session have been discussed by the Advisory Committee and have resulted in clarifications being released to clear up issues related to the effective date and low-risk status of community agencies.

Conclusion

Recognizing the ever changing climate, it was clear that a change to MAAP III was needed and desired by all parties involved (DHHS, community agencies and independent public accountants). We think we have created a better product that will better meet the needs of all constituents and more clearly define some of the ambiguous sections of MAAP III. The new regulations will also assist in the goal of improving the monitoring of the use of public funds. We would expect similar results in 2013 as 2012 while we await the results of the changes to MAAP IV.