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# Auditor's Presentation to the Joint Standing Committee on Health and Human Services, January, 2006

Maine Office of the State Auditor

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## **Introduction**

- Each year the Maine Department of Audit performs the Single Audit of the State of Maine, qualifying the State to receive over \$2.6 billion (FY 2004) in federal assistance for specific grants and programs. We audit programs that comprise 91% of that amount.
- Audit examines the State's financial statements, internal control systems and compliance with laws and regulations. We also report on individual federal programs, auditing 25 for FY 2004.
- Audit identifies instances of noncompliance with federal program/ grant requirements as well as weaknesses in internal control over the management of the programs/grants.
- These issues are reported as audit findings and are included in the Single Audit Report. See Executive Summary A-3 and DHHS Summary E-45.

## **Delivery of Single Audit Report 2004**

- I have made it a priority of my Administration as State Auditor to improve the communication of audit findings to all interested parties. I will meet with the various Committees of Jurisdiction to report and discuss those findings relating to the policy areas covered by the Committees.
- Field work for the Financial Statement Opinion was complete as of March 18, 2005: it was reported April 15, 2005, 51 days earlier than the prior year.
- The 2004 Single Audit Report was complete as of May 16, and issued June 30, 2005, 30 days earlier than the previous year.
- A copy of the 2004 Single Audit Report was delivered to the Governor, each State Legislator, the State Law Library, each Commissioner, agency accountants, and the federal government.
- Audit reports for the years 2000 – 2004 are posted on the internet at:  
<http://www.maine.gov/audit/reports.htm>.

To personally communicate findings, the State Auditor met with:

- The Governor,
- President of the Senate,
- Speaker of the House of Representatives,
- Commissioner of Health and Human Services, and
- The Commissioner of Administrative and Financial Services

## **General Summary**

- Audit issued an unqualified opinion on the **financial statements** effective March 18, 2005: the State of Maine's financial statements fairly present its financial position and the results of operations for the year ended June 30, 2004.
- We **qualified our opinion on compliance** with federal regulations for 3 programs: Foster Care, Social Services Block Grant and the Child Care Cluster. Why our opinion was qualified:

■ Child Care Cluster: reporting (04-40)

■ Foster Care: Title IV-E: eligibility (04-43); management of federal cash/allowability (04-45); reporting (04-46)

■ Social Services Block Grant: earmarking (04-50); Allowability (04-62)

■ We audited 25 programs in FY 2004 that covered \$2.4 billion in federal assistance, 11 in DHHS, which receives and expends over \$1.8 billion. Of 25 programs audited, 22 were in compliance in all material respects, 3 were not.

■ Audit identified 77 total federal findings: 76 were control deficiencies, with 49 at DHHS. The State administers over 300 different federal programs, 82 of them at DHHS.

■ \$17.9 Million of the \$18.7 Million in questioned costs in the Single Audit for FY 2004 are in DHHS programs.

### **Dialogue with DHHS, DAFS & OSC**

■ Audit is responsible for following-up on significant audit findings. To explain concerns in detail, the State Auditor has met several times with the:

Commissioner of Health and Human Services

Commissioner of Administrative and Financial Services

New Internal Audit Director at DHHS

New Internal Audit Director at OSC (Office of the State Controller)

***The State Auditor asked for regular meetings with the DHHS Commissioner and staff in the summer of 2005. Great progress was made.*** Dialogue moved us forward in a positive manner. Example: detailed discussion of specific convoluted account structures, cost allocation plan, financial management issues.

***Commissioner Nicholas clearly directed staff to provide solutions, not excuses. The Commissioner of DAFS added strength, vision and coordination to this problem-solving.*** Culture change began to grow. Resolving problems identified in the FY 2004 Single Audit is clearly a top priority for Governor Baldacci and his administration. The State Auditor will meet with the panel advising him on a new commissioner to identify qualities needed to continue this growth and culture change.

### **Summary of Significant Problem Areas**

- 81 findings reported in total, 77 of which are federal findings.
- 19 ---Financial management & reporting
- 4---Financial statement
- 5---Eligibility
- 13---Allowability
- 6---Information systems, 4 at DHHS
- 13---Management of federal cash
- 8---Subrecipient monitoring
- 13---Other compliance issues & errors

## ***DHHS Findings by Known & Likely Questioned Costs FY2004 Single Audit***

2004 Audit Finding	Program	Bureau	Finding Title	2003 Audit Finding	Known Questioned Cost*	Likely Q'd Cost**
04-45	Foster Care	Program Accounting & Cash Management Operations	Federal draws in excess of reported expenditures	03-59	\$12,400,000	
04-62	Various	Program Accounting & Cash Management Operations	Costs charged twice, cost allocation plan errors not detected	03-71	\$1,979,288	
04-50	SSBG	Community Services Center	Funds not spent in accordance with earmarking requirements	03-68	\$1,900,000	
04-44	Foster Care	Program Accounting & Cash Management Operations	Information system costs not charged in proportion with benefits received	03-60	\$530,340	
04-46	Foster Care / Adoption Assistance	Program Accounting & Cash Management Operations	Insufficient internal controls to ensure accurate reporting	03-61	\$420,224	
04-30	Immunization	Program Accounting & Cash Management Operations	Inadequate controls procedures over reporting/period of availability		\$390,085	
04-36	Child Support	Program Accounting & Cash Management Operations	Transfers for program services in excess of costs claimed	03-47	\$101,331	
04-52	Medicaid	Family Independence/Technology Services	Medicaid claims paid on behalf of ineligible recipients/inadequate controls		\$40,266	\$7,900,000
04-43	Foster Care	Child & Family Services	Payments made on behalf of ineligible recipients	03-56	\$38,267	\$617,939
04-47	Adoption Assistance	Child & Family Services	Payments made to ineligible clients		\$34,831	\$202,444
04-42	Foster Care	Child & Family Services	Override of controls to ensure that costs are claimed correctly	03-58	\$19,196	
04-41	Foster Care	Child & Family Services	Duplicate costs paid		\$18,999	
04-55	Medicaid	Medical Services/Child & Family Services	Unallowable case management claim payments		\$7,462	\$10,816,331
<b>Total</b>					<b>\$17,880,289</b>	<b>\$19,536,714</b>

\*Known questioned costs are specifically identified instances of non-compliance.

\*\*Likely costs are projected according to federal regulations from a sample.

### Conclusion

■ Audit completed fieldwork on the FY 2005 financial statements on December 9, 2005, and the financial opinion should be rendered before the end of January, in record time.

■ Audit is on target to complete the Single Audit for FY 2005, earlier than ever before.

■ The Department of Audit performed several reviews in support of the Single Audit in 2005: ACES, purchasing cards, and cash.

■ With audits being on completed years, expect some findings in FY 2004 to continue into FY 2005.

■ Audit will continue communication with DHHS to identify systemic problems for solution.