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## Presentation to the Joint Standing Committee on State and Local Government, 2007

Maine Office of the State Auditor

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**Joint Standing Committee on State and Local Government  
Presentation of Neria Douglass, JD, CIA State Auditor  
Maine Department of Audit  
January 16, 2007**

Chairwoman Schneider, Chairman Barstow and Honorable Members of the Committee: My name is Neria Douglass and I am pleased to tell you briefly about the Maine Department of Audit today. Carol Lehto, Deputy of Single Audit, accompanies me. Deputy Lehto has been with the Department for 24 years, through numerous changes in state government and the Department. She is a CPA, Certified Public Accountant, and a CIA, Certified Internal Auditor.

The Maine Department of Audit is an independent, non-partisan agency created by the Legislature and has been in existence since 1883. We are responsible to the Legislature and assess compliance with State and federal laws and regulations by the Executive Branch of state government for you the Legislature, for the people of Maine, and for the federal agencies that provide grants to Maine. Our mission is to assure that state government is accountable and that taxes and revenues of Maine are spent legally, recorded properly, and reported fairly. We are authorized to audit any entity receiving state funds, except the Governor's expense account. All employees of the Department are protected by civil service rules and must maintain independence from the Executive Branch at all times. Each must sign an annual statement of independence and must update it as circumstances change to avoid any potential lack of independence. We host the Fiscal Administrator of the Unorganized Territory, primarily because of our history of independence.

You may be familiar with bookkeepers, accountants and auditors. If not, I hope to illustrate some of the differences as I outline the work we do. We are external auditors. We do not work for the operational branch of state government, the Executive Branch, but are outside it so that we can independently evaluate our State's financial statements and compliance with State and federal laws. We have 28 auditors. At present we have 7 CPAs, 9 CIAs, 2 Certified Information Systems Auditors or CISAs, 1 Certified Fraud Examiner or CFE, 3 MBAs, 1 JD, and 2 with other advanced degrees including a Masters in Accounting. Our auditors are required to have 80 hours of Continuing Professional Education or CPE every two years, with at least

twenty-four hours on government auditing and at least twenty hours in each year. Our Department passed a federal quality control review in the summer of 2005 with flying colors. Our peer review conducted by the National State Auditors Association in 1998, 2001 and 2004 resulted in an unqualified opinion, with no Letter of Comment, the best report a state audit group can receive. Many important state functions are currently filled by former Audit staff, and our staff continues to be hired into those roles today.

## **Our Work - Financial Audit**

### **Comprehensive Annual Financial Report (CAFR)**

The Department audits the financial statements of the State of Maine annually. This includes an audit of the \$6.1 Billion in Revenues and the \$5.9 Billion in Expenses for governmental activities in Fiscal Year 2005 which ended June 30, 2005, as stated in the CAFR. We also audit the business-type activities, which had Revenues of \$406 Million and Expenses of \$353 Million in FY 2005. (B-8) We audit the financial presentation of Capital Assets, which totaled \$3.46 Billion in FY 2005. We audit each major fund of the State, the general fund, highway fund, federal funds, other special revenue funds, and other governmental funds. Further, we audit the aggregate presentation in the CAFR of financial information of component units of the State, such as the University system and Community College system, although we rely on the audited financial statements of other CPAs that perform the component unit audits. We use audit standards generally accepted in the United States of America (GAAS) and standards contained in *Government Auditing Standards* (GAS), which terms have special meaning. We audit the evidence supporting the amounts and disclosures in the financial statements on a test basis. Our work allows us to determine whether the financial statements fairly present information in all material respects in accordance with generally accepted accounting principles(GAAP).

Our financial audit of the State is akin to an annual medical exam of a person. You want more than a quick check of weight and blood pressure. You want the comfort of knowing that your doctor knows your history, your own past weaknesses and family susceptibilities for the

future. You get an in-depth examination and assessment of our State's financial health from all angles with the expertise of the Maine Department of Audit. For FY 2005, Maine had a "clean" audit opinion of its financial statements, which means that the financial statements were presented fairly in all material respects in accordance with GAAP.

## **Our Work - Single Audit**

### **Report on Compliance and Internal Control over Financial Reporting**

In order to qualify for \$2.7 Billion in federal funds in Fiscal 2005 (D-11), Maine's use of federal funds must be audited in specific detail: this is the Single Audit. Under its requirement of *Government Auditing Standards*, we perform tests of compliance with certain provisions of laws, regulations, contracts, and grants, for which noncompliance could have a direct and material effect on the financial statement amounts. Government Auditing standards also require consideration of internal control over financial reporting. In FY 2005 we reported internal control conditions in three areas that could adversely affect the State's financial statements: fixed asset reporting; lottery statement reconciliations; and the operation of the Maine Medicaid Claims Management System, MECMS.

### **Report on Compliance with Program Requirements for each Major Program and on Internal Control over Compliance**

The US Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* determines that we audit all major programs that get federal funds. We audit fourteen different compliance areas on whether:

1. **allowed or unallowed** activities have been funded;
2. **allowable costs or cost principles** have been followed;
3. **Cash Management Act** compliance has been met;
4. **Davis-Bacon Act** requirements have been followed;
5. **eligibility for participation** is properly determined;

6. **property or equipment** is used for authorized purposes;
7. **State matching, level of effort, and earmarking** is proper;
8. **the period of availability** of federal funds has not been exceeded;
9. **procurement and debarment** rules have been followed;
10. **program income** is in compliance;
11. **real property acquisition/relocation assistance** meets requirements;
12. **reporting** is proper, timely and as required;
13. **subrecipients are monitored** on pass-through funds;
14. **special tests and provisions** unique to certain programs are met.

In FY 2005, the A-133 required that we audit all programs that expended over \$8 Million as major programs. The twenty-five programs requiring audit included thirty-two separate grants (E-3), comprising 91% of the total federal funds received:

- Food Stamps; State Matching for Food Stamps
- Workforce Investment Act Adult Program; WIA Youth Activities; WIA Dislocated Workers
- Special Education Grants to States; Special Education Preschool Grants
- Child Care and Development Block Grant; Child Care Matching
- Medicaid Assistance; Medicaid Fraud Control; Medicaid State Survey and Certification
- Women, Infants and Children grant
- Child and Adult Care Food Program
- National Guard Military Operations Maintenance Projects
- Readiness, Sustainment Maintenance Center (Loring Rebuild)
- Community Development Block Grants/State's Programs\Unemployment Insurance
- Trade Adjustment Assistance Workers
- Highway Planning and Construction
- Performance Partnership Grants
- Title I Grants to Local Educational Agencies
- Rehabilitation Services Voc Rehab Grants

- Twenty-First Century Community Learning Centers
- Improving Teacher Quality State Grants
- Immunization Grants
- Temporary Assistance for Needy Families
- Child Support Enforcement
- Foster Care - Title IV-E
- Adoption Assistance
- Social Services Block Grant
- Homeland Security Grant Program.

As State Auditor, following on the excellent work of Maine Department of Audit staff, I issued a “clean” or “unqualified” opinion on compliance with twenty-three programs in Maine, nine at DHHS. We qualified our opinion for noncompliance with federal requirements in two programs, consisting of three grants at DHHS: the Medicaid Cluster for the inadequate MECMS and non-compliance in the Medicaid Waiver for the mentally retarded; and the Social Services Block Grant for non-compliance with earmarking. Our report resulted in seventy-one findings: sixty-nine reportable conditions on lack of internal control or non-compliance with federal requirements, fifty-one of which were reportable conditions at DHHS.

As we audit, we also check for noncompliance with State laws that could result in material misstatement in the financial statements. We found no such instances of noncompliance. In assessing internal control, we also consider the many information systems currently in use in the State.

## **Our Work - Other Audits and Services**

### **Municipal outreach program**

- Educational program helping towns learn how to prevent fraud
- Advice and service to over a dozen municipalities where the department has received complaints about bookkeeping and accounting
- Facilitation of Model Chart of Accounts Committee

- Help to State Planning Office on LD 1 of 122d Legislature

**Workers' Compensation Board**

- Performed tests of compensation rates in weekly benefits compensation rate tables

**Information System Audit of ACES (Automated Client Eligibility System of DHHS)**

**Audit of State use of Purchasing Cards**

**Surprise Audit of Cash**

**Baxter State Park Authority**

**Capital Riverfront Improvement District**

**Maine Science and Technology Foundation**

**Migrant Education Program**

**And over the years we have performed services for other departments and organizations such as:**

**Department of Agriculture**

**Department of Environmental Protection**

**Department of Labor**

**Department of Transportation**

**Tri-State Lottery**