

MAINE STATE LEGISLATURE

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**STATE OF MAINE
MANAGEMENT LETTER**

**For the Year Ended
June 30, 2006**



**State of Maine Department of Audit
Neria R. Douglass, JD, CIA
State Auditor**



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LETTER OF TRANSMITTAL

Honorable John Elias Baldacci
Governor of the State of Maine

Honorable Beth G. Edmonds
President of the Senate

Honorable Glenn Cummings
Speaker of the House

We are pleased to submit the State of Maine Management Letter for the Year Ended June 30, 2006. In the course of our audit of the basic financial statements of the State of Maine, and our consideration of internal control, we became aware of matters that offer opportunities for our government to improve its operations. Comments on these matters accompany the Management Letter as findings and recommendations.

Please feel free to contact me with any questions that you may have. Like you, we are committed to improving our State government for the benefit of our citizens. Healthy discussion of problems found, and solutions considered, is part of a dialogue that aims at improvement. I welcome your thoughts and inquiries on these matters.

Respectfully submitted,

A handwritten signature in black ink that reads "Neria R. Douglass".

Neria R. Douglass, JD, CIA
State Auditor
State of Maine

October 3, 2007

**State of Maine
Management Letter for the Year Ended
June 30, 2006**

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MANAGEMENT LETTER

In planning and performing our audit of the basic financial statements of the State of Maine for the year ended June 30, 2006, we considered the State of Maine's internal control. We did so to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We did not do so to provide assurance on internal control.

During our audit we became aware of several matters that offer opportunities for strengthening internal control and efficiency of operations. The following findings and recommendations summarize our comments and suggestions on those matters. We have issued two reports, dated January 31, 2007 and July 13, 2007, which address reportable conditions and material weaknesses in internal control. These can be found in the Single Audit Report and are titled:

Report on Internal Control over Financial Reporting and on Compliance and other matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards; and

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in accordance with OMB Circular A-133.

This letter does not affect those reports, nor does it affect the Independent Auditor's Report on the basic financial statements, which is dated January 31, 2007. The matters summarized in the following pages are in addition to the issues addressed in the reports noted above.

This report is intended solely for the information and use of management, the Legislature, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We have included responses to our findings by the audited agencies. We would be pleased to discuss these findings in further detail at your convenience.

Neria R. Douglass, JD, CIA
State Auditor
January 31, 2007



2006 Management Letter Comments

Department of Health and Human Services

(1) Medicaid account structure is inadequate

Bureau: Office of Management and Budget

Prior Year Finding: ML 2005

Condition: The Department of Health and Human Services (DHHS) has included non-Medicaid related accounts within the Medicaid appropriation accounts established on the State's official accounting records.

Context: This has been a perennial deficiency.

Cause: To date management has decided not to change the account structure.

Effects:

- Complicates financial monitoring and reporting processes
- Obscures the grantee's ability to track and monitor the source and application of program funds
- Noncompliance with federally promulgated fiscal policies

Recommendation: In order to facilitate the proper identification, monitoring and accurate reporting of federal expenditures, we recommend that DHHS establish separate appropriation accounts for Medicaid on the State's accounting system.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

DHHS and the Service Center have begun the process of reviewing the entire accounting structure for DHHS. The process includes working with several agencies to address this finding, as well as other issues with the current account structure. The new structure is targeted for submission in the fiscal year 2010/2011 biennial budget.

Contact: Colin Lindley, Director, MaineCare Finance, 287-1855

(2) Noncompliance with State law

Bureau: Office of MaineCare Services

Prior Year Finding: No

Condition: The Department did not comply with the Public Law 2005 Chapter 386 §AA-1 requiring reimbursement of the General Fund for billings related to Targeted Case Management services that had been submitted but not yet paid by the MaineCare program. This reimbursement was required to be made no later than August 31, 2005.

Context: \$8.6 million of the required \$11.5 million reimbursement was paid after the deadline.

Cause: No procedures were in place to ensure compliance with the deadline.

Effect: Possible cash shortfall.

Recommendation: We recommend that DHHS develop procedures to ensure compliance with State laws.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding. We would like to note that \$7.5 million out of the \$8.6 million was received in September 2005 after a modification to MECMs was implemented.*

Contact: *Liz Hanley, Director, Health and Human Services Service Center, 287-1861*

(3) Usual and customary charge not verified

Bureau: Office of MaineCare Services

Prior Year Finding: No

Condition: Payments to pharmacies cannot exceed the lower of certain established benchmarks, including the usual and customary charges (UCR) to the general public. The Department accepts the UCR data provided by pharmacies as up-to-date and accurate, without verification.

Context: During the fiscal year, the Medicaid program expended \$170 million for prescription drugs and the SCHIP program expended \$3 million. Additionally, the Department utilizes a nationally published average wholesale price against which the UCR is measured to determine the lower allowable payment. National concern exists regarding the accuracy of this published data, specifically that this average wholesale price is overstated. The accuracy of the UCR data provided by the pharmacies is essential to ensure that the correct price is paid.

Cause: Unknown

Effect: Potential overpayments to pharmacies in cases of overstated UCR charges.

Recommendation: We recommend that DHHS establish controls to verify UCR data provided by pharmacies.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

The Program Integrity Unit is in the process of filling a Comprehensive Health Planner I position. This position's focus will be on pharmacy reviews. The Pharmacy Unit will request a quarterly statement of the ten top drugs utilized. The report will list the average usual and customary charges per quarter. The pharmacy will be furnishing the UCR information to the Program Integrity Unit for audit purposes.

Contact: Carol Bean, Comprehensive Health Planner, 287-3941

(4) Rate payment error

Office: Office of MaineCare Services

Prior Year Finding: No

Condition: In a test of 60 Medicaid transactions, one provider was overpaid \$231 for nine units of service that were paid at an incorrect rate.

Context: Medical claims are processed by an automated system which requires periodic updating of rate changes to ensure appropriate payment.

Cause: DHHS personnel made an error loading rates into the Maine Claims Management System (MECMS); a rate change was never entered for this provider. This appears to be an isolated incident.

Effect: Medicaid costs will be paid at incorrect amounts when payment rates are incorrect.

Recommendation: We recommend that DHHS use due care to update systems information.

Management's Response/Corrective Action Plan: *The prospective rate for a Nursing Facility under §67 of the MaineCare Benefits Manual is entered manually on a quarterly basis. We are taking precautions to validate the rate amounts before final approval of the rate in the MECMS system. Nursing Facility rates are set prospectively and are cost settled through an audit after the facility's fiscal year end. An incorrect prospective rate will be adjusted at the time of the audit. Cost settlement payments will be issued on actual cost reports.*

Currently the adjustment functionality is not available in MECMS. We expect this functionality to be in production in the Spring of 2008. When the adjustment functionality is working, and the rate is corrected, the adjustment payment would be automatically calculated and issued.

Contact: Lisa Wilson, Healthcare Financial Analyst, 287-4254

(5) Required contract language omitted in error

Bureau: Center for Disease Control and Prevention

Prior Year Finding: No

Condition: Control procedures were not adequate to ensure compliance with suspension and debarment requirements. One vendor contract did not include suspension and debarment language.

Context: Isolated incident. One of six vendor contracts did not include the required language; however, it was determined that this vendor was not suspended or debarred.

Cause: Unknown; Rider D of this contract did not include the suspension and debarment language.

Effect: Possibility of contracting with a suspended or debarred party resulting in unallowable costs.

Recommendation: We recommend that DHHS ensure that all contracts exceeding \$25,000 include a suspension and debarment clause.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

This audit finding was due to human error and is an isolated incident. All State agreements (contracts) for services contain Rider D which includes all federal compliance areas. All agreements are subject to multiple reviews.

Contact: *Marie Hodgdon, Director of Purchased Goods, 287-3774*

(6) Payment made in error

Bureau: Office of Integrated Access and Support

Prior Year Finding: No

Condition: The Additional Support for people in Retraining and Employment-Temporary Assistance for Needy Families (ASPIRE-TANF) program made a double payment to a child care provider for the same week of service on behalf of the same client. Two separate child care authorizations at two different rates of service had been set up on the Automated Client Eligibility System for the same child.

Context: This is an isolated incident. The child was transitioning from preschool to school full-time during the period reviewed.

Cause: Lack of oversight by staff

Effect:

- Noncompliance with allowable costs requirements
- Possible questioned costs

Recommendation: We recommend that the ASPIRE-TANF program ensure that the proper amount is paid for support services. Particular attention should be paid to clients with changing circumstances.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

Management agrees that particular attention must be paid to situations where there is a change in an existing child care arrangement. There are internal controls in our MIS system. In the ACES system, ASPIRE Specialists automatically receive an 'alert' when a child receiving child care services ages into a new level of service. As a result, double payments are rare.

Effective October 1, 2007, child care benefits to ASPIRE participants (or to providers if the client chooses) will be paid prospectively. These payments will be made on a weekly basis. Payments will no longer be invoice-based, therefore providers will not have the opportunity to double-bill.

Contact: *Dean Henderson, Family Independence Program Manager, 287-5089*

(7) Contract requirements not met

Bureau: Office of Integrated Access and Support

Prior Year Finding: No

Condition: The federally approved Nutrition Education Plan and the contract with the University of Southern Maine to provide Nutrition Education Services required the Waldo County Seniors Project to expand their intervention sites from one to three. According to the 2005 Food Stamps Nutrition Education Annual Report, the Waldo County Seniors Project did not expand beyond the one site.

Context: Isolated incident

Cause: Insufficient monitoring of contract performance

Effect: Possible questioned costs

Recommendation: We recommend that the Food Stamps program monitor their contracts to ensure that the State receives the level of services for which they contracted.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

The Waldo County Seniors Projects did not expand their intervention sites from one to three because there was not enough interest when they offered the program to eligible participants.

The Office of Integrated Access and Support (OIAS) should have amended the contract to state “up to three sites” instead of three sites. OIAS will be working with the contract unit to make sure that the State plan is accurately reflected in future contracts.

Contact: Bob Thibodeau, Family Independence Program Manager, 287-5054

(8) Untimely transmittal of survey results/Untimely receipt of plans for correction from providers

Bureau: Division of Licensing and Regulatory Services (DLRS)

Prior Year Finding: No

Condition: A test of the survey process revealed that:

- Survey results noting deficiencies on behalf of a single nursing facility were not communicated until three working days after the prescribed ten day time frame ended
- Responses from providers who were cited for deficiencies were submitted late to the DLRS on behalf of three of twenty-five sampled facilities (with the number of days late ranging from three to nine working days beyond the prescribed ten day time frame)
- For one facility no documentation was on file to indicate when the survey results were received by the applicable provider

Context: DHHS is required to periodically survey nursing facilities to assess the quality of care given. Nursing facilities are predominantly funded by Medicaid.

Cause: Unknown

Effect: Noncompliance with requirements regarding the transmittal of survey results by the DLRS and the receipt of plans of correction from providers may delay corrective action for the deficiencies noted.

Recommendation: We recommend that the Medical Facilities Unit of DLRS timely communicate survey results and strengthen controls to ensure more timely responses from the surveyed providers who are cited with deficiencies. We further recommend that documentation be retained by the DLRS as evidence supporting the date of receipt by the provider(s) for any deficiencies communicated to them.

Management’s Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

As of July 2007, all staff in the Medical Facilities Unit of DLRS has been reminded to communicate deficiencies within the ten working day time frame. In order to strengthen the internal controls, copies of all certified mail receipts will be retained in the packet for

documentation. Staff can access the federal database daily to determine when plans of corrections are due. However, the ultimate responsibility is on the provider, who faces sanctions in the event it is not received timely.

Contact: Catherine Cobb, Director, Licensing and Regulation, 287-2979

Department of Administrative and Financial Services

(9) Untimely submission of the SF-269A Report

Bureau: Health and Human Services Service Center

Prior Year Finding: No

Condition: The Social Services Block Grant personnel did not submit the federal fiscal year 2005 Financial Status Report (SF-269A) to the federal agency within the required time frame of 90 days after federal fiscal year end.

Context: The report was due to the federal government on December 31, 2005. As of June 2007, this report had not been submitted.

Cause: Staff turnover

Effect: Noncompliance with federal reporting requirements

Recommendation: We recommend that the Department of Administrative and Financial Services (DAFS) submit the SF-269A Report for fiscal year 2005 to the federal agency. We further recommend that DAFS implement procedures to ensure compliance with federal reporting requirements.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services DHHS Service Center agrees with this finding.*

The SF-269A report will be submitted by August 15, 2007. The Service Center has developed a master schedule to track all due dates and will comply with the reporting requirements.

Contact: Matthew Halloran, Managing Staff Accountant, 287-5498

(10) Financial reports not filed

Bureau: Health and Human Services Service Center

Prior Year Finding: No

Condition: Internal control procedures were not adequate to ensure compliance with financial reporting requirements. Required quarterly financial status reports were not filed.

Context: This is a systemic problem.

Cause: Lack of written procedures and oversight

Effect: Potential sanctions for failure to file required reports

Recommendation: We recommend that DAFS implement procedures to ensure filing of required financial reports.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

On May 23, 2007, the Service Center developed a master schedule to track all due dates and will comply with the reporting requirements.

Contact: *Matthew Halloran, Managing Staff Accountant, 287-5498*

(11) Invoices paid late

Bureau: Health and Human Services Service Center

Prior Year Finding: ML 2005

Condition: Controls were inadequate to ensure timely processing of invoices. Of 40 randomly-selected invoices examined, the Child Support program did not pay eight invoices until two to eight months after the invoice was generated.

Context: This is a procedural problem. Five of the eight invoices were for internal data processing charges.

Cause:

- Complex methodology for allocating internal data processing charges
- Lengthy approval process
- Inadequate written procedures

Effect:

- Invoices not paid timely
- Cash shortages in the Internal Service Fund

Recommendation: We recommend that the Service Center develop and document procedures that will ensure timely and accurate processing of all invoices.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this finding.*

Effective March 2006, a review of all billing categories and cost allocation methods was completed for all internal data processing charges and a new cost allocation method was developed and procedures documented. Since the October 2005 billing cycle, the new allocation process has been used.

Previously, validation of the monthly computer charge detail was handled by one individual whose knowledge of department-wide activity was somewhat limited. This resulted in a lengthy research period in which cost was validated and account codes determined for payment of non-recurring items. All items were reviewed resulting in a duplication of effort for recurring charges. This process is now completed electronically with the assistance of the OIT Billing Coordinator. Attention is given primarily to new items because recurring items have already been validated and coding provided. This streamlines the entire review process.

Contact: Donna Wheeler, Financial Analyst, 287-1860
Laurie Doody, Management Analyst, 287-6331

(12) Inconsistent payroll certification practices

Bureau: Health and Human Services Service Center

Prior Year Finding: No

Condition: Central Payroll personnel in the Office of the State Controller rely upon payroll certifications by State agencies to ensure the reasonableness of payroll amounts. However, the level of review conducted as part of the payroll certification process varies across State agencies. While procedures conducted in some agencies are quite comprehensive, the review practices of the Health and Human Services Service Center are inadequate.

Context: One of the twelve agencies represented in our payroll sample did not perform adequate review procedures as part of their payroll certification process.

Cause: Insufficient training and staff turnover.

Effect: Possible payment of incorrect wage, salary, and benefit amounts.

Recommendation: We recommend that DAFS ensure that personnel responsible for payroll certifications are adequately trained.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services and the Department of Health and Human Services agree with this finding.*

DAFS Service Center has enlisted the assistance of an additional payroll supervisor. As a result, a written procedure will be developed that details the steps and level of review that is required for the payroll certification process. The Department expects to have these new procedures in place by December 31, 2007.

Contact: Liz Hanley, Director, Health and Human Services Service Center, 287-1861

(13) Inadequate controls over the One Stop Operating System (OSOS)

Bureau: Office of Information Technology (OIT)

Prior Year Finding: 05-68

Condition: The Department does not have adequate internal controls in place for the One-Stop Operating System (OSOS). OSOS is a case management system for Workforce Investment Act (WIA) programs. Control weaknesses identified in this system include:

- Lack of production capability to run all program changes to the OSOS in a test environment. This would impact program changes affecting multiple modules.
- Disaster contingency plans are not in place in the event of a massive computer failure.

Context: This is a systemic issue.

Cause: Insufficient resources

Effect: Data integrity could be compromised.

Recommendation: We recommend that DAFS continue to implement comprehensive controls for testing program changes and implementing a disaster recovery plan for the OSOS.

Management's Response/Corrective Action Plan:

- *Lack of production capability to run all program changes to the OSOS in a test environment. This would impact program changes affecting multiples modules*

Operations Services within the Office of Information Technology is actively involved in providing resources needed to test program changes in an environment that can replicate the OSOS application. Currently a new development area has been provided and there is an expectation that application programmers will be able to access the new test environment within the current program year ending June30, 2008.

- *Disaster contingency plans are not in place in the event of a massive computer failure*

Currently the Bureau of Employment Services is defining system recovery requirements for mission critical elements of its OSOS application. The Bureau will be working with Operations Services within the Office of Information Technology to develop the technical

resources needed to implement a recovery system. Completion of the project is contingent on funding requirements and OIT resources.

Contact: Dale Hinds, System Team Leader, 623-7984

(14) Insufficient oversight of payroll overpayments

Bureau: Office of the State Controller

Prior Year Finding: ML 2005

Condition: Systematic error detection controls over payroll processing, designed to prevent material misstatements to the financial statements, are set at a level that would not detect the typical overpayments resulting from human error. The Department considers the primary control for the smaller overpayments to be at the agency level pursuant to State Administrative and Accounting Manual §25.80.70 – Agency Internal Control System to Prevent Overpayments. However, the level of review conducted by the agencies varies across the State.

Context: This is a systemic problem.

Cause: Inconsistent review practices across State agencies

Effect: Possible payroll overpayments

Recommendation: We recommend that the Office of the State Controller ensure that the agencies are implementing adequate control policies.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services disagrees with this finding.*

The current Central Payroll Systems; Maine Financial and Administrative Statewide Information System (MFASIS-HR), Maine State Time and Attendance System (MS-TAMS) and the MFASIS Warehouse provide agencies with multiple system edits to prevent overpayments to employees and assure conformity to state and federal financial and legal obligations. We believe reports generated for agencies, as well as internal pay processes and system edits provide agencies with the ability to implement adequate controls as expected. Payroll offices are now interfacing directly with all three systems. The ability to understand the relationship of and analyze the data is a requirement for agency staff. Discussions with agencies during the audit process that identified inadequate internal controls at the agency level should result in a finding for the agency in question.

Contact: Betty Everatt, Payroll Systems Supervisor, 626-8442

(15) Noncompliance with State security policy passwords

Bureau: Office of the State Controller

Prior Year Finding: ML 2005

Condition: Individual user passwords to access the State's automated payroll system (MS-TAMS) are not set to expire within the 120 days required by the State's IT security policy.

Context: This is a systemic problem.

Cause: Policy decision

Effect: Possible compromise of timesheet data

Recommendation: We recommend that the Office of the State Controller implement procedures to comply with the State's Information Technology Security Policy regarding the expiration of user passwords.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services agrees with this finding.*

We are working to meet the requirements set forth in the State's IT policy to ensure MS-TAMS user passwords expire and are changed by individual user's. Estimated timeline for this system change is January 2008.

Contact: *Betty Everatt, Payroll Systems Supervisor, 626-8442*

(16) Inaccurate SEFA reporting

Bureau: Security and Employment Service Center

Prior Year Finding: No

Condition: The Department did not have adequate controls in place to ensure that it correctly reported expenditures to the Office of the State Controller (OSC) for the Schedule of Expenditures of Federal Awards (SEFA) for Rehabilitation Services-Vocational Rehabilitation grants program, CFDA #84.126.

Context: The Department incorrectly included approximately \$501,000 of other grant expenditures under this CFDA number. Conversely, approximately \$405,000 of expenditures was omitted from the SEFA amount reported for this grant.

Cause: The Department's internal cost accounting system is not programmed to correctly identify expenditures specific to this grant. Additionally, due to the complexity of the accounting structure, agency personnel were not aware of all the accounts relating to the grant.

Effect: Incorrect SEFA reporting

Recommendation: We recommend that DAFS establish a written chart of accounts to ensure a complete and accurate SEFA. We further recommend that the Department establish procedures to enable their cost accounting system to accurately report grant expenditures on the SEFA.

Management's Response/Corrective Action Plan: *We agree with this finding.*

When a request for a new fund ledger is received; the Department of Labor will do the following to ensure expenditures are reported under the correct CFDA number:

- *Request a copy of the original award letter from the awarding agency from the bureau receiving the funding. This will provide us with the CFDA number and the basic accounting information needed to setup the fund ledger. The Sr. Accountant in charge of the DOLARS System will receive this information from the various bureaus within the Department of Labor. This process began on July 1, 2007.*
- *The cost accounting system will be reviewed in its entirety during fiscal year 2008 to ensure expenditures are reported correctly in the SEFA schedule. The analyst will review the expenditures posted to the fund ledgers within the cost accounting system, making any necessary adjustments.*
- *We feel with the implementation of AdvantageME will eliminate the need to run two reporting systems. This change will reduce the errors when filing federal reports by having all expenditures reported by CFDA number from one system. The target date for implementation is October 1st, 2007 to correspond with the new federal year.*

Contact: Robert Schenberger, SESC Managing Staff Accountant, 623-6723

(17) Subsidiary accounting system not reconciled to the State's accounting system

Bureau: Security and Employment Service Center

Prior Year Finding: ML 2005

Condition: DAFS did not reconcile federal expenditures recorded on the Department of Labor Accounting and Reporting System (DOLARS), to the State's accounting system (MFASIS) on a timely basis. DOLARS is used to charge direct costs and allocate indirect costs to the applicable federal grant, as well as for federal financial reporting.

The June 2006 account reconciliation for the Unemployment Insurance grant identified an excessive number of reconciling items that related to current and prior fiscal years. These items were unresolved as of February 2007. An analysis of this reconciliation showed:

- Transactions totaling \$1.0 million recorded on DOLARS, but not yet matched to the same transactions recorded on MFASIS
- Transactions totaling \$1.3 million recorded on MFASIS, but not yet matched to the same expenditures recorded on DOLARS
- A net difference of \$300,000 between the two systems

Context: This is a systemic problem and has been an on-going exception for several prior audits. For fiscal year 2006, Department of Labor (DOL) received 27 federal grants with total federal expenditures of \$66.0 million. This amount excludes unemployment benefits of \$103.9 million.

Cause: Reconciliations are not performed on a timely basis.

Effect: Untimely account reconciliations may result in inaccurate federal financial reports.

Recommendation: We recommend that DAFS perform timely reconciliations. This reconciliation should identify the reasons for and dispositions of outstanding reconciling items.

Management's Response/Corrective Action Plan: *We concur with the finding.*

The existence of two systems to record and report expenditures for both state and federal purposes has been problematic for a number of years. The State of Maine's upgraded accounting system is expected to fully replace the need of the Department of Labor Accounting and Reporting System (DOLARS) by the end of 2007 which would eliminate the future reconciliation between MFASIS and DOLARS for transactions created in 2008.

Contact: *Dennis Corliss, Director, Service Center B, 623-6701*

Department of Education

(18) Incorrect allocations to local educational agencies (LEA)

Bureau: Special Services Team

Prior Year Finding: ML 2005

Condition: There was a transposition of census and poverty data between two schools on the spreadsheet used to calculate LEA allocations.

Context: The transposition error was not identified by the Maine Department of Education (DOE). This resulted in \$8,455 being sent incorrectly to one LEA rather than the LEA that was entitled to the funds. Also, the base allocation for one LEA was incorrect, resulting in an overpayment of \$630 to the LEA.

Cause: The spreadsheet was not reviewed for accuracy.

Effect: Non-compliance with allocation requirements

Recommendation: We recommend that DOE review the LEA allocation spreadsheet to ensure the accuracy of the allocations.

Management's Response/Corrective Action Plan: *The Department of Education agrees with this finding.*

The State Auditors found controls were not in place to ensure that LEA entitlement allocations were correctly calculated according to federal regulations.

The Maine Department of Education, Office of Special Services has made the changes to correlate different data bases when calculating the allocations. This problem existed because of back up of school districts into individual systems.

Contact: Tom Coulombe, Accountant, 624-6650

Department of Defense, Veterans, and Emergency Management

(19) Supporting documentation not maintained

Bureau: Maine Emergency Management Agency (MEMA)

Prior Year Finding: No

Condition: MEMA did not have adequate controls in place to ensure that sufficient documentation was maintained to support grant expenditures.

Context: Documentation was not maintained by the Department for three of 45 transactions tested. However, the Department was able to obtain the necessary documentation from their subrecipients upon request by the auditor.

Cause: Unknown

Effect: Noncompliance with grant regulations and potential questioned costs.

Recommendation: We recommend that MEMA follow established procedures to ensure the sufficient documentation is consistently maintained.

Management's Response/Corrective Action Plan: *We agree.*

MEMA feels that the issues identified in this grant year have been corrected to the best of our ability. Any documentation sent outside of our agency, for example, to the Service Center, becomes an operating procedure for that agency. We do take measures to maintain the integrity of our own files.

Contact: Bruce Fitzgerald, Homeland Security Division Director, 624-4474
Ginnie Ricker, Deputy Director, MEMA, 624-4471

Dirigo Health Agency

(20) Accounts receivable data not available

Prior Year Finding: No

Bureau: None

Conditions: Dirigo Health Agency (Dirigo) could not provide adequate documentation to support the accounts receivable balance reported on the financial statements.

Context: Dirigo relies on Anthem Blue Cross/Blue Shield of Maine to maintain documentation to support the State's accounts receivable balance related to Dirigo. At our request, Dirigo asked Anthem to produce an accounts receivable aging report. The first two reports provided to us contained significant errors. The third report was determined to be materially complete.

Causes: Dirigo does not maintain their own subsidiary accounts receivable ledger and did not ensure that Anthem could provide auditable documentation to support the accounts receivable balance.

Effect:

- A possibility that Dirigo's receivable balance is not accurate
- A possibility that the State's financial statements are misstated

Recommendation: We recommend that Dirigo work with Anthem to obtain the necessary data to create and maintain a subsidiary accounts receivable ledger.

Management's Response/Corrective Action Plan: *The Agency agrees with the audit findings detailed in the Conditions, Context, and Causes sections of the report. The Agency disagrees with the audit finding in the Effect section of the report. As stated in the report findings, the Agency was able to produce a materially complete report to support its stated receivables balance. While this report was produced late and after two reports with errors, it did ultimately justify the numbers produced in the State's financial statements. Therefore the Agency does not believe that there is a possibility that the Agency's receivable balance is not accurate or that there is a possibility that the State's financial statements are misstated.*

The Dirigo Health Agency contracts with Anthem Blue Cross and Blue Shield of Maine for the DirigoChoice product. As part of the contractual arrangement Anthem Blue Cross and Blue Shield of Maine follows their standard billing procedures; as such the Agency relies on Anthem to maintain the documentation to support the accounts receivable balance and aging data specific to the insurance coverage provided through the DirigoChoice product.

While Anthem and the Agency have been able to reconcile total amounts owed to the Agency by DirigoChoice accounts, Anthem was not able to quickly distinguish the portion of the total amount due in each State fiscal year at the State's fiscal year end.

There are over 7,000 separate DirigoChoice accounts that Anthem bills for at the end of each month for the following month's insurance coverage. Due to the volume of separate DirigoChoice accounts the State's financial system can not accommodate the establishment of a receivables ledger.

The Dirigo Health Agency has invested in the purchase of a financial software package (MAS-90) in order to create a subsidiary receivables ledger. Due to an identified bug in the software the Agency has been unable to load the necessary data to complete the ledger. The Agency is in discussions with the software vendor to correct this problem.

In the interim, the Agency has taken the following corrective action to ensure that the Dirigo Health Agency is able to provide adequate documentation to support the accounts receivable balance reported on the financial statements at year end:

- *Agency's managing staff accountant captures accounts and balances reported by Anthem for DirigoChoice accounts on the June 7th invoice to the Agency (for July services) (where there is a balance).*
- *All balances reported would be for fiscal year 2007 services.*
- *Applies all payments received from June 7th through June 30th, 2007, from these identified DirigoChoice accounts against outstanding balances.*
- *Sum of remaining balances is Agency's year end receivable.*

Contact: *Karynlee Harrington, Director, 287-9964*

Secretary of State

(21) Inadequate internal controls over revenue collected by a service provider

Bureau: Bureau of Motor Vehicles (BMV)

Prior Year Finding: No

Condition: BMV does not have procedures in place to ensure that revenue collected for the State by a third party vendor (InforME) is complete and accurate.

Context: Revenue collected by InforME associated with online driving record information provided to subscribers (e.g. insurance companies) cannot be independently verified by State personnel. Revenues collected for this information averages \$200,000 - \$250,000 per month.

Cause: No procedures are in place

Effect: Possible revenue lost to the State

Recommendation: We recommend that the BMV develop procedures to verify that revenue collected by third party vendors and submitted to the State is accurate and complete.

Management's Response/Corrective Action Plan: *The Secretary of State's Office agrees with this finding.*

We have assigned an IT project manager to work through the issue to ensure procedures are in place and a report developed to verify revenue. This project has been classified as high priority, with a completion date of January 2008.

Contact: *Barbara Redmond, Deputy Secretary of State, 626-8400*