

MAINE STATE LEGISLATURE

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1 (New Draft of S.P. 774, L.D. 1946)
2 (New Title)
3 SECOND REGULAR SESSION
4

5 ONE HUNDRED AND TWELFTH LEGISLATURE
6

7 Legislative Document

No. 2304

9 S.P. 924

In Senate, April 2, 1986

10 Reported by Senator Matthews of Kennebec from the Committee on
11 Audit and Program Review and printed under Joint Rule 2. Original bill
12 sponsored by Senator Clark of Cumberland. Cosponsored by Speaker Martin
of Eagle Lake, Representative Murphy of Kennebunk and Representative
Rolde of York.

JOY J. O'BRIEN, Secretary of the Senate

13
14 STATE OF MAINE
15

16 IN THE YEAR OF OUR LORD
17 NINETEEN HUNDRED AND EIGHTY-SIX
18

19 AN ACT to Ensure the Implementation of a
20 Single Audit.
21

22 Be it enacted by the People of the State of Maine as
23 follows:

24 Sec. 1. 5 MRSA §1653, sub-§1-A is enacted to
25 read:

26 1-A. Agency-wide audit. "Agency-wide audit"
27 means an audit which includes the entire operations
28 of the community agency.

29 Sec. 2. 5 MRSA §1653, sub-§9, as enacted by PL
30 1983, c. 716, §2, is amended to read:

31 9. Single audit. "Single audit" means one state
32 financial and compliance audit of all funds con-
33 tracted for between the State and community agency,
34 excluding Medicaid done on a grant by grant basis,

1 that will be conducted usually on an annual basis but
2 no less frequently than every 2 years, and may encom-
3 pass more than one community agency fiscal year. The
4 2-year period shall be calculated from the date of
5 the previous single state audit or the effective date
6 of ~~July 1, 1987~~ January 1, 1987. The single audit
7 may be conducted by licensed independent public ac-
8 countants engaged by the community agency, by the
9 State or by employees of the State.

10 Sec. 3. 5 MRSA §1654, sub-§2, ¶B, as enacted by
11 PL 1983, c. 716, §2, is amended to read:

12 B. Developing uniform and standard state admin-
13 istrative practices at least in the following ar-
14 eas:

15 (1) Uniform contract grant fiscal year
16 wherever possible;

17 (2) Standard and uniform contracts or
18 grants; and

19 ~~(3) Standard and uniform billing forms;~~

20 ~~(4) Standard and uniform financial reports;~~

21 ~~(5) Standard and uniform line items; and~~

22 (6) Standard and uniform state grant, con-
23 tract administrative policies and proce-
24 dures; and

25 Sec. 4. 5 MRSA §1654, sub-§3, as enacted by PL
26 1983, c. 716, §2, is amended to read:

27 3. Standard audit practices. Effective July 1,
28 1984, to ~~July 1, 1987~~ January 1, 1987, community
29 agencies may elect to have a single state audit, pro-
30 vided that they meet the conditions of election in
31 subsection 4, paragraph C.

32 Effective ~~July 1, 1987~~ January 1, 1987, the State
33 shall conduct a single audit of community agencies,
34 provided that the community agency meets the minimum
35 requirements for receiving a single state audit as
36 outlined in subsection 4, paragraph C. Such a single
37 state audit shall be intended to:

1 A. Meet the reasonable financial, administrative
2 and compliance requirements of each department
3 financially supporting the community agency, but
4 shall not involve program monitoring;

5 B. Meet generally accepted auditing standards as
6 established by the Comptroller General of the
7 United States and by the American Institute of
8 Certified Public Accountants; and

9 C. Meet the intent of this chapter.

10 The department shall accept such an audit as satisfy-
11 ing the department requirements, unless significant
12 omissions, errors or other conditions exist as deter-
13 mined by the commissioner or unless there is reason-
14 able justification to conduct an additional audit
15 based upon irregularities. Irregularities include
16 such matters as conflicts of interest, falsification
17 of records or reports and misappropriation of funds
18 or other assets. If the commissioner determines that
19 an additional audit is warranted, he shall determine
20 how this audit shall be performed.

21 Sec. 5. 5 MRSA §1654, sub-§4, ¶¶B and C, as en-
22 acted by PL 1983, c. 716, §2, are amended to read:

23 B. The lead agency shall:

24 (1) Direct, coordinate or conduct the sin-
25 gle state audit or coordinate the State's
26 interest in the conduct of agency-wide
27 audits;

28 (2) Maintain all audit workpapers on the
29 single audit. These workpapers and reports
30 shall be retained for a minimum of 3 years
31 from the date of the audit report, unless
32 the lead agency is notified in writing by
33 the commissioner of the need to extend the
34 retention period;

35 (3) Conduct a formal exit interview with
36 representatives of the community agency pri-
37 or to the issuance of the audit report and
38 include comments and responses from that
39 meeting in the report;

- 1 (4) Issue the single audit report;
- 2 (5) ~~Ensure that written response from the~~
3 ~~community agency shall become a part of the~~
4 ~~audit report;~~
- 5 (6) Maintain a follow-up system on audit
6 reports to assure that audit findings and
7 recommendations are resolved in writing
8 within a reasonable period of time;
- 9 (7) Provide technical advice and act as a
10 liaison between all interested parties;
- 11 (8) ~~Conduct the audit~~ Ensure that the audit
12 is conducted in accordance with generally
13 accepted auditing standards as prescribed by
14 the American Institute of Certified Public
15 Accountants and the United States General
16 Accounting Office; and
- 17 (9) Whenever possible rely upon any fiscal
18 audit already conducted on the community
19 agency.

20 C. The community agency shall:

- 21 (1) Maintain accounting records in accord-
22 ance with standards of accounting practices
23 and generally accepted accounting principles
24 as promulgated by the commissioner. Until
25 the standards of accounting practices have
26 been finally issued, the accounting records
27 shall be maintained in accordance with gen-
28 erally accepted principles;
- 29 (2) Meet by ~~July 1, 1987~~ January 1, 1987,
30 the minimum requirements necessary for ob-
31 taining a single state audit or obtain from
32 the commissioner a waiver to the single
33 state audit. The minimum requirements to
34 elect a single state audit include:
- 35 (a) A fiscal year filed with the Sec-
36 retary of State;

1 (b) At a minimum, annual financial
2 ~~review~~ statements ~~prepared~~ compiled by
3 an independent auditor registered with
4 the Maine Board of Accounting which in-
5 cludes:

6 (i) A balance sheet; and

7 (ii) A statement of revenue, ex-
8 penses and balance;

9 (c) Individual final grant statements
10 of revenue, expense and balance pre-
11 pared for each contract or grant.
12 These individual grant statements must:

13 (i) Be prepared in accordance
14 with the uniform state policies
15 and in accordance with generally
16 accepted accounting principles as
17 promulgated by the American Insti-
18 tute of Certified Public Account-
19 tants. Any deviations from these
20 Amercian Institute of Certified
21 Public Accountants' standards
22 shall include the necessary dis-
23 closures;

24 ~~(ii) Be prepared on uniform state~~
25 ~~forms;~~

26 (iii) Be reconciled with the fi-
27 nancial statements prepared by the
28 outside public accounting firm;

29 (iv) Be filed with the depart-
30 ment's grantor and be accompanied
31 by the auditor's comments and rec-
32 ommendations on internal control
33 and management practices, if any;
34 ~~be accompanied by an adjusted tri-~~
35 ~~al balance;~~ and

36 (v) Be dated and signed by ~~the~~
37 ~~community agency's internal ac-~~
38 ~~countant;~~ an authorized and appro-
39 prate representative of the com-
40 munity agency;

1 (3) If required, obtain an agency-wide au-
2 dit; and

3 (4) Notify the commissioner of the intent
4 to have an agency-wide audit performed.

5 (a) If the community agency elects to
6 satisfy the single state audit require-
7 ment as part of its agency-wide audit,
8 it must ensure the requirements of this
9 subsection are met.

10 (b) If the agency does not so elect,
11 any supplemental audit to meet state
12 compliance needs shall be conducted as
13 a single state audit.

14 Sec. 6. 5 MRSA §1654, sub-§5, as enacted by PL
15 1983, c. 716, §2, is amended to read:

16 5. Single audit report. At a minimum, the state
17 audit report shall include:

18 A. A final audited statement on a grant by grant
19 basis of revenue, expense and balance of the com-
20 munity agency;

21 B. The lead agency's comments on the audit
22 statement and which shall:

23 (1) Identify the initial statements exam-
24 ined and the period covered;

25 (2) Identify the various programs under
26 which the organization received funds con-
27 tracted by the State and the amount of the
28 awards received;

29 (3) State that the audit was done in ac-
30 cordance with standards specified in this
31 Act; and

32 (4) Express an opinion as to whether the
33 financial statements claims as reported to
34 the State are fairly presented in accordance
35 with generally accepted accounting
36 principles the terms and conditions of the

1 agreements. If an unqualified opinion can-
2 not be expressed, state the nature of the
3 qualification;

4 C. The lead agency's comments on compliance and
5 internal control and shall:

6 (1) Include comments on weaknesses in, and
7 noncompliance with, the systems of internal
8 control, separately identifying material
9 weaknesses;

10 (2) Identify the nature and impact of any
11 noted instances of noncompliance with the
12 terms of agreements and those provisions of
13 state or federal law or regulations ~~that may~~
14 have a material effect on the financial
15 statements and reports; and

16 (3) Contain a positive assurance with re-
17 spect to compliance with requirements for
18 tested items and negative assurance for
19 untested items;

20 D- ~~Comments on the accuracy and completeness of~~
21 the community agency financial reports submitted
22 to the department;

23 E. Comments on corrective action taken or
24 planned by a community agency on current and pri-
25 or audit findings; and

26 F. The community agency's written response and
27 shall become a part of the compliance and inter-
28 nal controls report; and.

29 G- ~~Settlement of all disputed items shall be~~
30 confirmed in writing by the lead agency within a
31 reasonable time frame and made a part of the au-
32 dit report.

33 Sec. 7. 5 MRSA §1655, as enacted by PL 1983, c.
34 716, §2, is amended to read:

35 §1655. Transition for implementation

1 1. Election for single audit. Prior to the ef-
2 fective date of July 1, 1987 January 1, 1987, a com-
3 munity agency may elect to request the performance of
4 a single audit. These agencies shall serve as models
5 for the purpose of determining an eventual final pro-
6 cess for implementation of the mandatory single au-
7 dit.

8 2. Conditions of elections. To elect the single
9 audit option during the transition period, the commu-
10 nity agency shall submit a written request to the
11 commissioner at least 6 months prior to the expected
12 date of audit but no sooner than 6 months after the
13 effective date of this chapter, and shall meet the
14 minimum requirements as stated in section 1654, sub-
15 section 4, paragraph C. The 6-month period may be
16 waived as determined by the commissioner.

17 3. Transition committee. The commissioner shall
18 convene a committee by July 1, 1984, to include at
19 least one representative from each department af-
20 fected by this chapter and at least 4 representatives
21 from community agencies of which one may be a repre-
22 sentative of the Maine Society of Certified Public
23 Accountants to develop the standards and process for
24 implementation of the mandatory single audit and uni-
25 form accounting practices requirement by July 1, 1987
26 January 1, 1987. Provisions shall be made to ensure
27 maximum input from other community agency personnel
28 prior to any final decisions. The transition com-
29 mittee shall include in its area of responsibility
30 the development of criteria for determining the des-
31 ignation of a lead agency.

32 4. Report. The commissioner shall report by Ju-
33 ly 1, 1985, July 1, 1986, and July 1, 1987 January 1,
34 1987, to the joint standing committee of the Legisla-
35 ture having jurisdiction over audit and program re-
36 view on the process of implementation of this chap-
37 ter. At these times any problems shall be identified
38 and any savings or cost associated with the implemen-
39 tation shall also be identified.

40 5. Public notice. The final decisions of the
41 transition committee and substantive changes made
42 thereafter by the commissioner shall be subject to
43 notifying the public through the Maine Administrative
44 Procedure Act, chapter 375.

1 4. Deleting references which were not adminis-
2 tratively practical to implement;

3 5. Enabling community agencies to contract with
4 licensed independent public accountants to conduct a
5 single audit which meets the State's guidelines;

6 6. Expanding the role of a lead agency from be-
7 ing that state agency which "directs" or "conducts"
8 the single audit to that state agency which "directs,
9 coordinates or conducts" the single audit; and

10 7. Making other administrative corrections to
11 provide the necessary flexibility for state and com-
12 munity agencies.

13 This new draft establishes an ongoing Advisory
14 Committee on Single State Audits to be composed of
15 persons represented from a cross section of inter-
16 ested groups.

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