

# MAINE STATE LEGISLATURE

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**STATE OF MAINE  
MANAGEMENT LETTER**

**For the Year Ended  
June 30, 2007**



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





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, 2007. 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

July 22, 2008

**State of Maine  
Management Letter for the Year Ended  
June 30, 2007**

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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, 2007, 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 pages summarize our comments and suggestions on those matters. We have issued two reports, dated December 19, 2007 and June 24, 2008, which address significant deficiencies and material weaknesses in internal control. These can be found in the Single Audit Report for FY 2007 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 (page C-3); and*

*Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in accordance with OMB Circular A-133 (page C-5).*

The matters summarized in the following pages are in addition to the issues addressed in the reports noted above and do not affect the Independent Auditor's Report on the basic financial statements, which is dated December 19, 2007.

This report is intended solely for the information and use of the Governor, management, others within the entity, 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  
December 19, 2007



# 2007 Management Letter Comments

## Department of Administrative and Financial Services

### (1) Excess federal costs charged to General Fund

**State Bureau:** Health and Human Services Service Center

**Prior Year Finding:** No

**Condition:**

- The Department charged the State's General Fund for expenditures that had already been paid with federal funds

**Context:**

- The Department spent \$2.7 million more of their General Fund appropriation than was necessary.

**Cause:**

- The Department charges allocated costs to federal programs based on estimates derived from prior period amounts and reconciles these estimates to actual costs quarterly. A supplemental general fund appropriation was requested to absorb regional operation personal services and all other costs residing in the federal fund, which the Department anticipated would not be adequately reimbursed through charges to federal programs through the cost allocation process. Since the final reconciliation would not be completed until after year-end, the Department, with the approval of the Office of the State Controller and the Bureau of Budget, transferred federal expenditures to the General Fund for the amount remaining in the General Fund supplemental appropriation (\$4.3 million). This transfer exceeded actual costs by \$2.7 million.

**Effect:**

- The Department inappropriately retained \$2.7 million of State funds in a federal fund account.

**Recommendation:** We recommend that the Department return the \$2.7 million to the General Fund.

**Management's Response/Corrective Action Plan:** *The Department of Health and Human Services and its Service Center agree that federal expenditures in a regional operations cost pool account were transferred to the general fund regional operations account.*

*In the FY07 supplemental budget, the Department received supplemental appropriations for the final processing and reconciliation of the Office of Management and Budget regional operations account under its former cost allocation plan. The Department's new cost allocation plan became effective July 1, 2007. Due to the timing of the budget submission, the Department requested an amount based on prior period estimates, which were higher than subsequent FY07*



*actual allocated costs. As a result, \$4.3 million remained in the general fund regional operations cost pool account at FY07 year-end. Because the final reconciliation of this account (and cost allocation plan) would not take place until FY08, the Department worked with members of the Bureau of the Budget and the State Controller's Office to retain the funds until this final reconciliation could take place. Because the general fund regional operations cost pool account is a lapsing account, the transfer of the funds to the federal regional operations cost pool account was approved and took place via JV10A8107DW0017. Final reconciliation of the account, posted via ABSJ10A8107DW0003, utilized \$1.6 million of the balance and left \$2.7 million of the original supplemental appropriation. The remaining balance of \$2.7 million was journaled to the general fund unappropriated surplus account on June 13, 2008.*

**Contact:** Donna Wheeler, Senior Staff Accountant, 287-1860

## **(2) Inadequate procedures to ensure balances due the State are timely collected**

**State Bureau:** Health and Human Services Service Center

**Prior Year Finding:** No

### **Condition:**

- DAFS has not established effective controls to ensure that balances due the General Fund as a result of provider audits are timely collected in order to safeguard assets.

### **Context:**

- DHHS' Division of Audit generates audit invoices resulting in amounts due the State (for overpayments) or due to the provider (for underpayments) for the Medicaid program. We selected ten audit invoices generated throughout the audit period. Of these, five resulted in the General Fund being due approximately \$100,000. Four of the five balances due have remained uncollected for more than a one year period. The Health and Human Services Service Center does not currently have a billing system in place to effect follow-up for amounts due.

### **Cause:**

- No active billing system in place to generate collection letters

### **Effect:**

- Impaired cash flow due to delay in collections

**Recommendation:** We recommend that the Department establish controls to ensure that the collection of balances due the General Fund, as a result of Medicaid provider audits, is performed promptly.

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

*In SFY 2008, the Department established an accounts receivable group responsible for the collection of all amounts due the Department. Currently the focus of the group is Medicaid-related receivables; however, this group will be expanding their collection efforts to include recoveries of contract settlements, program integrity recoupment, and other receivables due the Department. Daily collection efforts throughout the Department include: establishing repayment plans; noticing the debt; offset of future payments; withholding of contracts; withholding the next scheduled payment to an Agency until the balance is paid or the Agency has made arrangements for payment plan.*

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

### **(3) Procedures needed to ensure that all receivables are recorded and collected**

**State Bureau:** Security and Employment Service Center (SESC)

**Prior Year Finding:** No

**Condition:**

- The Social Security Administration (SSA) advised Bureau of Rehabilitation Services (BRS) personnel that reimbursements of \$38,933 would be processed for payment to the State of Maine in April 2007. SSA paid this amount in error to another state. The missing payment was not detected by BRS or SESC personnel.

**Context:**

- This Vocational Rehabilitation Grant receives approximately \$1 million per year in reimbursements from the Social Security Administration.

**Cause:**

- The Social Security Administration erroneously sent a reimbursement to another State that was intended for Maine.

**Effect:**

- Recovery of \$38,933

**Recommendation:** We recommend that the Department implement procedures to ensure that all amounts due from the Social Security Administration are received.

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

*This transaction was a payment error by the Social Security Administration that went undetected while the State was upgrading its accounting system. The checks and balance process that existed prior to the State systems upgrade has been restored so that the Bureau and the SESC will be alerted to future problems.*

**Contact:** Anke Siem, Rehabilitation Services Manager, 623-6722

#### **(4) Invoices paid late**

**State Bureau:** Health and Human Services Service Center

**Prior Year Finding:** ML-11

**Condition:**

- The Department did not pay the Office of Information Technology (OIT) for data process charges on a timely basis.

**Context:**

- Of 40 randomly-selected invoices, the Department did not pay 15 invoices until three to nine months after receipt of the invoice. All of these invoices were for data processing charges.

**Cause:**

- Overly complex process for allocating data processing charges

**Effect:**

- Adverse impact on the OIT's operations

**Recommendation:** We recommend that the Department develop procedures that will ensure timely processing of OIT invoices.

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

*By the end of State Fiscal Year 2007, the processing of invoices was caught up with an average lag time of 6 weeks, which includes a 3 week lag between the end of the month and issuance of the bill. The delay that was noted was the result of antiquated allocation methods, and not necessarily the complexity of the process for allocating data processing charges.*

*The Department has streamlined the payment process. Previously, validation of the monthly computer charge detail was handled by one individual who validated costs and account codes for all items, recurring and nonrecurring. The process was completed manually. By the end of State Fiscal Year 2007, the process was streamlined and is now completed electronically with the assistance of the OIT Billing Coordinator. Attention is given primarily to new items with the assumption that recurring items have already been validated and coding provided.*

**Contacts:** Donna Wheeler, Staff Accountant, 287-1860  
Mark Fisher, Managing Staff Accountant, 287-3160  
Deanna Boynton, Senior Staff Accountant, 287-5540

**(5) Rental payments not collected on time**

**State Bureau:** Security and Employment Service Center

**Prior Year Finding:** No

**Condition:**

- A subrecipient of the WIA program subleases space from the Department of Labor at several of the Department's CareerCenters. This subrecipient is in arrears on their rental payments by \$102,000. Of this amount, \$86,000 dates back to the 2004 program year.

**Context:**

- Annual rental charges associated with these subleases are \$79,000.
- The Security and Employment Service Center has implemented collection procedures in reference to rental payments in arrears.

**Cause:**

- The Service Center did not have adequate collection procedures in place.

**Effect:**

- Loss of rental income

**Recommendation:** We recommend that the Security and Employment Service Center pursue the collection of those rental payments in arrears.

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

*The Security & Employment Service Center is actively pursuing the collection of rental payments in arrears, and has changed processes to monitor these types of payments on a monthly basis.*

**Contact:** *Dennis Corliss, Director, Security and Employment Service Center, 623-6701*

**(6) Noncompliance with Maine Statutes**

**State Bureau:** Bureau of the Budget

**Prior Year Finding:** None

**Condition:**

- DAFS determines employer contribution rates on a biennial basis rather than after each actuarial valuation as required by statute: Employer contribution rates (3 MRSA §803(2)B, 4 MRSA §1303(2)B, 5 MRSA §17253); Budget estimates (5 MRSA §1665).

**Context:**

- Title 5 MRSA §17253 requires employer contribution rates to be determined after each actuarial valuation.

- Title 5 MRSA §17107(2)C requires the actuary to make annual valuations.
- Title 5 MRSA §1665 requires biennial budgeting.

**Cause:**

- Statutory requirements for submission of the biennial budget are inconsistent with statutory requirements specific to actuarial valuations and contribution rates.

**Effect:**

- Noncompliance with Maine Statutes

**Recommendation:** We recommend that the Department either comply with Maine Statute or revise the language in the Maine Statutes to coincide with the biennial budget practices being followed.

**Management's Response/Corrective Action Plan:** *Thank you for calling this issue to our attention.*

*As the Auditor has pointed out, the law governing the budget process requires the preparation, consideration and enactment of a biennial budget. The Auditor finds this in conflict with a requirement of MEPERS that it develop rates for each fiscal year. Note that the language governing the budget process employs the term "each year" frequently. 5 MRSA §1663 requires that the budget for State government must present a financial plan for each year of the ensuing biennium, as does 5 MRSA §1664 (1)(C). 5 MRSA §1665 specifically requires agencies to submit estimates of expenditure and appropriation requirements for each fiscal year of the biennium on or before September 1<sup>st</sup> of even-numbered years. 5 MRSA §1666-A requires the Legislature to adopt a biennial budget as opposed to a yearly budget. When examined in this context, the interpretation triggering this finding appears to be supported by too narrow a construction, rendering the implementation of the law governing budgeting by both the Executive and the Legislature inappropriate.*

*We will review the implications of a change in the law with MEPERS. The rate is an estimate for the biennial budget which is adjusted on a roll forward basis each year as deemed necessary to remain true to the actuarial schedule that has been adopted. The overall Net Pension Obligation has decreased each year over past several years and in FY 2007 remained flat.*

**Contact:** *Ed Karass, State Controller, 626-8421  
Ellen Schneider, State Budget Officer, 624-7810*

## **(7) Inadequate payroll certification practices**

**State Bureau:** Health and Human Services Service Center  
Office of the State Controller

**Prior Year Finding:** ML-12

### **Condition:**

- The level of review conducted at one large State agency as part of the payroll certification process is inadequate.
- Payroll checks were disbursed prior to the receipt of a payroll certification as required by 5 MRSA §11.

### **Context:**

- One of the 18 agencies represented in our payroll sample did not perform adequate review procedures as part of their payroll certification process.
- Although DAFS had not received a payroll certification at the time of disbursement, payment was still distributed for one of the 40 payroll disbursements we reviewed.

### **Cause:**

- Insufficient training
- Policy decision

### **Effect:**

- Possible payment of incorrect wage, salary, and benefit amounts
- Noncompliance with Maine Statute

**Recommendation:** We recommend that the Department ensure that personnel responsible for payroll certifications are adequately trained. We further recommend that DAFS comply with, amend, or repeal 5 MRSA §11.

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

*After consulting with both the Department of Transportation Service Center and the Department of Labor Service Center, the following procedure has been developed as a guide for the Department of Health and Human Services to follow to ensure that additional review procedures are performed in the payroll certification process. This written procedure was communicated to certifying personnel on 9/25/07 in advance of the 10/5/07 implementation date.*

### **DAFS Service Center – HHS Payroll Certification Process:**

*In preparation for the payroll certification process, all TAMS and manual timesheets are audited for accuracy of wage, salary, and benefit payment. Personnel technicians are required to view and approve each timesheet, thereby ensuring civil service rules, human resource policies, and contract agreements are correctly applied.*

*Once the payroll is locked down, edit reports are forwarded from the Office of the State Controller. The personnel technicians and their supervisor review the edits and are able to correct any discrepancies at this time.*

*With this preparatory work in place, the payroll certification proceeds as follows:*

- 1. The payroll supervisor reviews Report 59 (which delineates gross pay limit exceeded) with the personnel technicians. Exceptions are researched and justifications documented.*
- 2. The current Payroll Certification Report Summary is compared to the previous summary. Any large discrepancies are researched and documented. A photocopy is retained for the next bi-weekly payroll comparison.*
- 3. The payroll supervisor signs the Certification thereby ensuring payroll accuracy and amount appropriateness.*
- 4. The Certification is faxed to the Office of the State Controller to authorize the dispersal of funds. The original certification form and certification report summary are mailed to OSC.*
- 5. Copies of the Payroll Certification Report Summary and Employee Level Payroll Distribution are given to Accounting Technician Suzanne Ross (company 1400, 1410, 1420, 1440) and Staff Accountant Debbie Weston (company 1000) for funding draw down.*

**Contact:** *Georgie Thomas, Director, DHHS Service Center, 287-1861*

## **(8) Incomplete payroll data transfer**

**State Bureau:** Office of the State Controller  
Office of Information Technology

**Prior Year Finding:** None

### **Condition:**

- DAFS did not ensure that complete payroll data was available on the Human Resources (HR) warehouse as required by State Administrative and Accounting Manual (§25.15.30).

### **Context:**

- Information for payroll issued between October 1, 2006 and November 30, 2006 was not properly transferred to the Payroll Summary module within the HR warehouse.

### **Cause:**

- Manual processes necessary for proper data load were not completed

### **Effect:**

- Users of the Payroll Summary module within the HR warehouse did not have complete payroll information available to them.

**Recommendation:** We recommend that the Department ensure that all manual procedures for transferring payroll data are followed.

**Management's Response/Corrective Action Plan:** *We are working with the Office of Information Technology to improve controls over data loads to the warehouse.*

*Contact: Betty Everatt, Payroll System Manager, 626-8442*

## **(9) Noncompliance with State password policy**

**State Bureau:** Office of the State Controller

**Prior Year Finding:** ML-15

### **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 Information Technology Security Policy (§9.3.1).

### **Context:**

- This is a systemic problem.

### **Cause:**

- Policy decision

### **Effect:**

- Possible compromise of timesheet data

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

**Management's Response/Corrective Action Plan:** *We will review our current procedures with the Office of Information Technology and if warranted, seek an exception to the policy.*

*Contact: Betty Everatt, Payroll System Manager, 626-8442*



**(10) Cash management procedures need to be improved**

**State Bureau:** Security and Employment Service Center (SESC)

**Prior Year Finding:** 06-27

**Condition:**

- The Department's federal cash balances for the Vocational Rehabilitation Grant fluctuated widely throughout the year. The cash balances were mostly negative, although during the month of June cash was being held in excess of the amount allowed by federal requirements.

**Context:**

- We noted that in one of 12 months there was an excess cash balance, and there was an average negative cash balance in nine of 12 months.

**Cause:**

- Lack of written policies and procedures
- Inadequate training of personnel

**Effect:**

- Negative cash balances results in money being “temporarily loaned” to the federal program and potentially resulting in lost interest income to the State.
- Excess federal cash retained may result in the federal government imposing more stringent cash management requirements on the State.

**Recommendation:** We recommend that procedures be established to ensure that federal cash on hand is being used at approximately the same time as program expenditures are incurred.

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

*The agency is working to use the new accounting system to better match the timing of federal draws with expenditures. This work will be in place by June 30 2008.*

**Contact:** *Anke Siem, Rehabilitation Services Manager, 623-6722*

## Department of Education

### **(11) Incorrect allocation to local education agencies (LEAs)**

**State Bureau:** Division of Special Services

**Prior Year Finding:** ML-18

**Condition:**

- The allocation amount entered for one local educational agency (LEA) on a spreadsheet to calculate LEA allocations was incorrect as required by Assistance to States for the Education of Children with Disabilities regulations (34 CFR §300.707).

**Context:**

- The error was not identified by the Department of Education. This resulted in approximately \$56,000 being allocated incorrectly to one LEA rather than to other LEAs that were entitled to the funds.

**Cause:**

- The spreadsheet was not reviewed for accuracy.

**Effect:**

- Non-compliance with allocation requirements

**Recommendation:** We recommend that the Department review the LEA allocation spreadsheet to ensure the accuracy of the allocations prior to finalization. We further recommend that the Department recoup these funds and redistribute accordingly.

**Management's Response/Corrective Action Plan:** *The Department of Education agrees with the 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, Special Services, has made the changes to correlate different databases when calculating the allocations, which include procedures for the review and correction of any errors.*

**Contact:** David Stockford, Policy Director, 624-6650

## **(12) Discretionary contract procedures not followed**

**State Bureau:** Division of Special Services

**Prior Year Finding:** No

### **Condition:**

- Vendors that enter into special education grant discretionary contracts are required to provide the Department with progress reports to indicate that the grant funds are being used for allowable activities. One of the five contracts tested did not submit the required progress report required by Rider A of Provisions of MDOE discretionary contracts.

### **Context:**

- There were 17 discretionary contracts for fiscal year 2007.

### **Cause:**

- Responsibilities are not clearly delineated for receiving and reviewing progress reports.

### **Effect:**

- Contract provisions may not be met

**Recommendation:** We recommend that the Department assign responsibilities regarding the receipt and review of progress reports required by discretionary contracts.

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

*The State auditors found inadequate internal controls for the verification of the receipt of progress reports and for a review of those reports. Special Services has located misfiled progress reports of these contracts (agreements) and other deliverables which were outlined in the agreements' Rider A's. Special Services has established the Resource Coordination and Management Team (RCMT), which meets weekly to review agreements from the creation of each agreement through to the end of the contract period for each agreement. The Team consists of the Policy Director and Team Leader, the Management Analyst for Special Services, the Contract/Grant Specialist and three administrative assistants. The Team will monitor and approve deliverables and progress reports to verify receipt in a timely fashion of these and to review all deliverables to ensure compliance with the agreements. An Agreement Management Matrix has been developed to ensure the RCMT has oversight of all agreements and the dates deliverables and progress reports are due. A protocol for Program Managers has been established for their timely documentation, review and approval of all reports and deliverables. Records of reports and deliverables are now centralized within the RCMT files. The RCMT is developing and testing a web-based database program to follow agreement development and management.*

**Contact:** David Stockford, Policy Director, 624-6650

## *Department of Environmental Protection*

### **(13) Vendor payments classified as subawards**

**State Bureau:** Bureau of Land and Water Quality

**Prior Year Finding:** No

**Condition:**

- Vendor payments were incorrectly classified as subawards in the State accounting system, contrary to requirements in Attachment E, C 2(c) of Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87).

**Context:**

- Expenditures for three of twenty contracts tested in the amount of \$13,617 were for purchased services but were incorrectly coded as payments to subrecipients.

**Cause:**

- Lack of sufficient training

**Effect:**

- Understated indirect costs resulting in the Department not drawing all funds to which they are entitled.

**Recommendation:** We recommend that vendor payments be coded correctly in the State accounting system.

**Management's Response/Corrective Action Plan:** *D.E.P. concurs with the need to treat similar eligible direct costs consistently across all programs in order to maintain the integrity of the agency's U.S. Environmental Protection Agency Departmental Indirect Cost Allocation Plan.*

*Although we believe the individuals charged with overseeing invoice coding and approval both at D.E.P. and DAFS generally have sufficient training, we will continually revisit this issue as part of weekly discussions among D.E.P.'s responsible staff and monthly meeting we hold with DAFS in order to ensure the implementation of consistent practices.*

**Contact:** *Jim Dusch, Director, Policy Services, 287-8662*

*Department of Health and Human Services*

**(14) Timely determination of Medicaid disability eligibility**

**State Bureau:** Office of Integrated Access and Support

**Prior Year Finding:** No

**Condition:**

- Maine Medicaid eligibility specialists must determine eligibility for applicants who apply for Medicaid on the basis of disability within 45 days (Polk vs. Longley consent decree) although federal guidelines allow for 90 days (42 CFR §435.911).

**Context:**

- Medicaid regulations require that the State agency establish time standards for eligibility determinations; those not determined timely are eligible for 100% State paid medical coverage.

**Cause:**

- A 1976 consent decree (Polk vs. Longley) required the Maine Department of Human Services to act on all Medicaid applications within 45 days ; the current federal guidance allows 90 days. The Department would have to return to federal court to request that the existing consent decree be revised to be consistent with federal regulations.

**Effect:**

- DHHS eligibility specialists have half the time to determine disability applications as allowed by national practice; eligibility decisions may not be as thoroughly considered as more time would permit. Medical costs for applicants not timely assessed are paid entirely from State funds. For ineligible applicants, those costs are an unnecessary State expense; for eligible applicants two-thirds federal financial participation is available. It is not clear that federal financial reimbursement is requested once the determination is made.

**Recommendation:** We recommend that the Department request the federal court to revise the consent decree to incorporate the prevailing federal guidelines for timely determination of eligibility.

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

*The Department acknowledges that the federal law gives 90 days to process a Medicaid Application. However, the State of Maine is required to process MaineCare applications within 45 days as a result of the 1976 consent decree, Polk vs. Longley. The Department does not agree with the State Auditor's recommendation to pursue the reversal of this decision in federal court.*

**Contact:** *Beth Hamm, Family Independence Program Manger, 287-5093*

**(15) Error in hospital's prospective interim payment (PIP) calculation**

**State Bureau:** Office of Quality and Healthcare Management

**Prior Year Finding:** No

**Condition:**

- An incorrect outpatient cost amount was used in the Medicaid prospective interim payment calculation of behalf of one of the State's largest acute care non-critical access hospitals. This resulted in the PIP calculation being approximately \$500,000 over what it should have been.

**Context:**

- For the purpose of Medicaid reimbursement, Maine's hospitals are paid estimated prospective (a/k/a periodic) interim payments that are subjected to a financial settlement by comparing what was paid prospectively to actual discharges, costs incurred and/or charges. To calculate a hospital's PIP, a designated individual within DHHS' Office of Quality and Healthcare Management enters pertinent cost report data into computerized worksheets containing prescribed formulas that coincide with the prescribed calculation methodologies promulgated in the State plan. It should be noted that the detected data entry error did not equate to a questioned cost because PIPs are estimated amounts that are subsequently cost settled based on audited cost and/or discharge data.

**Cause:**

- Unintentional error

**Effect:**

- Inequitable distribution of prospective hospital payments

**Recommendation:** We recommend that individual PIP calculation work sheets be more closely scrutinized prior to payment.

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

*The Division of Audit will review prospective interim payments prior to future disbursements. This process will be effective July 2008.*

**Contact:** *Michael Ballard, Rate Setting Manager, 287-4254.*

## **(16) Inconsistent child support payment processing procedures**

**State Bureau:** Office of Integrated Access and Support

**Prior Year Finding:** No

### **Condition:**

- DHHS regional offices did not consistently follow established procedures to process child support payments
- Segregation of duties was not adequate

### **Context:**

- Various inconsistencies were noted among the three DHHS regional offices reviewed, such as:
  - Child support checks are not consistently photocopied for tracking purposes
  - Written receipts are not always provided
  - Checks are not always restrictively endorsed immediately upon receipt
  - The same staff person may restrictively endorse, document and mail the checks to the central office for deposit

### **Cause:**

- Insufficient understanding of documented procedures

### **Effect:**

- Potential for child support payments to be easily diverted

**Recommendation:** We recommend that the Department ensure all DHHS regional offices consistently apply the same documented child support payment processing procedures. We further recommend that the Department incorporate additional safeguards be put in place to ensure child support payments are not diverted.

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

*As a result of this audit finding, the Division of Support Enforcement & Recovery (DSE) in the Office of Integrated Access & Support contacted all District Supervisors to clarify and explain written procedures regarding the handling of monies intended for child support. DSE scheduled a monthly Supervisory Practice Review in April 2008 to further clarify all sections of the written procedures. Management plans to repeat these trainings in January and June of each year starting in 2009 to clarify and explain the check handling procedures and confidentiality of case information; this will ensure a consistent understanding and implementation of these policies.*

*Additionally, the Department is purchasing locking boxes to securely store checks during each day until they are processed and sent to Cashiers Section.*

**Contact:** *Stephen Hussey, Director, Division of Support Enforcement and Recovery, 287-2844*

**Department of Labor**

**(17) Contract not cost settled**

**State Bureau:** Rehabilitation Services

**Prior Year Finding:** No

**Condition:**

- A \$1.1 million agreement for a non-profit organization to provide rehabilitation services was not cost-settled as stipulated in the Compliance Requirements and Rider E sections of the contract as required by Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87).

**Context:**

- One of the three contracts reviewed includes provisions for cost settlement.

**Cause:**

- Procedures have not been established to cost-settle contracts with non-profit organizations

**Effect:**

- Potential overpayment for contracted services.

**Recommendation:** We recommend that the Department establish procedures to monitor actual spending by non-profit organizations when required on individual contracts.

**Management's Response/Corrective Action Plan:** *The Department agrees with the finding, and has taken action to resolve the matter going forward.*

*Contact: Kimberly Smith, Deputy Director, SESC, 623-6740*

**(18) The implementation of a modified policy on the return of reusable equipment could expand program resources**

**State Bureau:** Rehabilitation Services

**Prior Year Finding:** No

**Condition:**

- Vocational Rehabilitation clients did not sign the *Agreement for DVR Purchased Tools and Equipment*. This form specifies certain circumstances that require the client to return reusable equipment to the State so that it could be re-issued to other clients.
- The *Agreement for DVR Purchased Tools and Equipment* form does not include a requirement that a client's estate return equipment to the State.



**Context:**

- In a sample of 60 expenditures there were three instances where equipment was provided to clients. In one case the equipment became part of a deceased person's estate.

**Cause:**

- Management decisions

**Effect:**

- Additional program resources

**Recommendation:** We recommend that the Department implement existing procedures to help ensure that in specific circumstances equipment be returned to the State. We also recommend a revision to the *Agreement for DVR Purchased Tools and Equipment* to address instances where equipment could become part of an estate.

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

*The Department has implemented a revised policy and is training front line staff and supervisors. This will be completed in June 2008.*

**Contact:** *Jill Duson, Director, Bureau of Rehabilitation Services, 623-7942*

**Department of Defense, Veterans, and Emergency Management**

**(19) Federal draws not timely**

**State Bureau:** Maine Emergency Management Agency (MEMA)

**Prior Year Finding:** 06-92

**Condition:**

- The Department did not comply with the terms of the 2007 Treasury-State Agreement (TSA) on cash management as required by 31 CFR §205 Subpart A. Federal draws for the Homeland Security program were typically later than allowed.

**Context:**

- We tested 23 transactions. In seventeen of these transactions, federal draws were made three to 32 days later than allowed by the TSA. One federal draw was made 10 days early.

**Cause:**

- Cash was drawn without considering clearance patterns established by the Treasury-State Agreement.

**Effect:**

- Decrease interest income to the State.

**Recommendation:** We recommend that the Department establish procedures to request federal funds in accordance with the Treasury-State Agreement.

**Management's Response/Corrective Action Plan:** *The Department of Defense, Veterans, and Emergency Management agrees.*

*The process to request draw-downs has become over-complicated; it takes multiple people in order to complete the process. When individuals are out, a request can become overdue quickly. MEMA has been on estimated revenue since October 2006 and follows procedures to pay invoices expediently, requesting drawdowns to match expenditures as timely as possible. As of July 1, 2008, our funding for this grant dropped to 6.5 million and is no longer part of the Treasury –State agreement in SFY 2009.*

*It is the intent of the Agency to ensure efficient use of State and federal cash management requirements. It is the department's policy to retain all documentation to support federal drawdown requests as well as additional supporting documentation to ensure proper tracking and validation are completed.*

**Contact:** Ron Looman, Senior Contract Grant Specialist, 624-4450  
Ginnie Ricker, Deputy Director, MEMA, 624-4471

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