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STATE OF MAINE

MANAGEMENT LETTER

Fiscal Year Ending June 30, 2013

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State Auditor

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LETTER OF TRANSMITTAL

Honorable Justin L. Alfond
President of the Senate

Honorable Mark W. Eves
Speaker of the House of Representatives

Honorable Paul R. LePage
Governor of Maine

I am pleased to submit the State of Maine Management Letter for the year ended June 30, 2013. In the course of conducting the Single Audit of the State of Maine we became aware of matters that offer opportunities for our government to improve its operations. Audit findings and recommendations on these matters accompany the Management Letter as Management Letter Comments.

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 are part of a dialogue that aims at improvement. I welcome your thoughts and inquiries on these matters.

Respectfully submitted,

Pola Buckley

Pola A. Buckley, CPA, CISA
State Auditor

June 20, 2014

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Scott Ferguson, Director, Corrections Service Center

Mitch Boynton, Assistant Director of Fiscal Operations, Corrections Service Center

State of Maine
Management Letter for the Year Ended
June 30, 2013

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2013 Management Letter Comments

Department of Administrative and Financial Services

(ML-13-0305-01)

Title: Controls over accounts receivable need improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
ML-12-0305-01	ML-11-0305-01	ML-10-0305-01	ML-09-0305-01			

State Department: Administrative and Financial Services

State Bureau: Division of Financial and Personnel Services (DFPS)

Condition: The Lottery Fund accounts receivable balance reported on the State's financial statements was not supported by detail records. No subsidiary ledger of accounts receivable was maintained. DFPS did not perform alternative procedures to corroborate the balance.

Context: At fiscal year end, the accounts receivable balance was $21.5 million. Although the auditor could not preform tests of the detail, we were able to determine that the balance seemed reasonable.

Cause: The State's on-line and instant lottery games service provider cannot produce a report providing the accounts receivable balances by lottery agent to DFPS.

Effect:
- A possibility that the State's financial statements are misstated.
- A possibility that the State does not have an accurate account of the actual receivable from the lottery agents.

Recommendation: We recommend that the Department work with the service provider to ensure that future reports utilized for financial reporting by the State are complete and accurate.

Management's Response/Corrective Action Plan: *The Division of Financial and Personnel Services agrees with the Finding, and is working with the Bureau of Alcoholic Beverages and Lottery Operations and the contractor that administers the lottery accounts receivable system. A new contract period begins in April 2014, and it is expected that subsequent reports will provide the needed information. Testing will be conducted between April and June 2014 to ensure that the necessary information can be provided for the end of Fiscal Year 2014.*

Contact: *Deanne Lefebre, Managing Staff Accountant, 624-7384*

(ML-13-0204-01)

Title: Controls over the proper valuation of the allowance for uncollectible taxes receivable needs improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
ML-12-0204-01	ML-11-0204-01	ML-10-0204-01				

State Department: Administrative and Financial Services

State Bureau: Maine Revenue Services

Condition: The procedure used to calculate the Allowance for Uncollectible Taxes Receivable is not sufficient to ensure the proper valuation of Taxes Receivable.

Context: Maine Revenue Services collects over $3 billion per year in tax revenue. Fiscal year-end taxes receivable has averaged $465 million in the last two fiscal years. Currently, the Allowance for Uncollectible Taxes Receivable for the major tax types is valued based on a percentage of receivables.

Cause: The percentages used to value the allowance account for each of the major tax types is based largely on judgment rather than an acceptable quantitative/analytical method.

Effect: The valuation of Taxes Receivable could be inaccurate as presented in the Balance Sheet and Statement of Net Assets.

Recommendation: We recommend that Maine Revenue Services continue to refine their methodology for estimating the allowance account for taxes receivable.

Management's Response/Corrective Action Plan: *Maine Revenue Services agrees with the Office of the State Auditor's finding. MRS implemented new reports that compile collections and write-off data. This data applicable to each fiscal year-end receivables balance will continue to be tracked for 10 consecutive years beginning with receivables for fiscal year ending 2012. The data provided by these reports will be used to analyze collection and write-off activity trends and substantiate the allowance for uncollectible tax receivables. Last year was the first year MRS applied this methodology that will be refined each year until the mean period of measurement is ten years; the rates will then shift to a rolling weighted average.*

Along with the newly implemented reports, Maine Revenue Services will continue to analyze and review account activity with assistance from Compliance Division personnel in order to develop an appropriate valuation of the bureau's receivables.

Contact: *Christopher P. Batson, Chief Accountant, MRS, 624-9607*

(ML-13-0204-02)

Title: Disaster recovery plan not fully implemented

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Administrative and Financial Services

State Bureau: Maine Revenue Services

Condition: Maine Revenue Services is currently in the process of developing a business continuity and disaster recovery plan but it is in the initial development phase. Standard operating procedures for data identification and back-up support have been partially developed. The agency has not developed the requisite roles and responsibilities for all involved in recovery planning and has not defined or performed any recovery testing exercises.

Context: Disaster recovery (DR) and business continuity are management practices that relate to an organization's ability to recover from a disaster and/or unexpected event and resume operations.

Cause: Lack of resources

Effect:

- Lack of an effective risk management process
- Inability to deal with the consequences of a potential disaster resulting in crucial information technology services going down

Recommendation: We recommend that Maine Revenue Services:

(1) Continue to develop their business recovery plan beyond the business impact analysis phase;

(2) Document and distribute the recovery procedures to the appropriately authorized parties; and

(3) Test and review the disaster recovery plan.

Management's Response/Corrective Action Plan: *Maine Revenue Services agrees with the finding.*

Contingency Planning for MRS continued to focus on Disaster recovery in 2013. Our emphasis is shifting to address directly the requirements of Contingency planning and longer-term business interruption. Plans integrated with risk appreciation are being developed to address recovery priorities and test Disaster planning.

MRS, working closely with OIT's MRS Service Center, is testing critical systems to validate documentation. Various disciplines within MRS are developing plans to address security of data, safety for employees, and restoration of service in a layered approach that restores capability in *a prioritized management process. Testing will validate the process of business recovery and its dissemination within MRS management.*

Contact: *Christopher P. Batson, Chief Accountant, 624-9607*

(ML-13-1103-01)

Title: Costs not allocated in accordance with cost allocation plans

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
ML-12-1103-01	ML-11-1103-02	ML-10-1103-02	ML-09-1103-02	SD-08-38, SD-08-70	SD-07-91	SD-06-07, SD-06-08, SD-06-46

State Department: Administrative and Financial Services

State Bureau: Health and Human Services Service Center

Condition: The Department did not allocate all costs in accordance with the Office of Child and Family Services' (OCFS) Cost Allocation Plan approved by the Federal government. We tested the State's allocation methods to determine whether these methods are consistent with the Federally approved plan. For five of the twenty-seven allocation methodologies, costs were included in the allocated amounts that were not specifically included in the Federally approved plan. In addition, we noted four programs were not reconciling their respective final receiver reports to the State's accounting records.

Context: The OCFS Cost Allocation Plan allocated $79 million to various DHHS programs using approximately 27 different indirect allocation methods.

Cause:

- Human error
- Lack of communication and training
- Insufficient data for cost allocation

Effect: Not properly allocating costs could result in the following issues with Federal assistance programs:

- Inaccurate financial reports
- Cash shortages or overages
- Potential unallowable costs claimed
- Possible match deficiencies
- Programs may not be charged their fair share of allocated costs

Recommendation: We recommend that the Department continue its efforts to ensure that costs are being allocated consistent with the Federally approved plan. We further recommend that final receiver reports be reconciled to accounting records on a quarterly basis for all programs.

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

The Cost Allocation Team is implementing an additional process by use of SQL and Excel to run comparisons between what is included in the Narratives for Final Receivers that may be charged and what actually occurred for each indirect method. If the lookup identifies Final Receivers that cannot be found in the Narrative under an allocation method it will indicate an error. The error will send the message to the Cost Allocation Team to include the missing Final Receiver(s) to the next Narrative submission effective July 1, 2014.

In addition the DHHS Service Center will institute additional reconciliations to compare the amount billed to the DHHS programs compared to the amount that should be charged based on the Cost Allocation Plan Receiver Reports. These will in the short-term be based in Excel and will be reviewed by the Grant Accountants periodically effective July 1, 2014.

Contact: *William Korth, Cost Allocation Analyst, DHHSSC, 287-4260*

(ML-13-1103-02)

Title: Incorrect coding of Random Moment Time Studies

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Administrative and Financial Services

State Bureau: Health and Human Services Service Center

Condition: The Department conducts random moment time studies in order to allocate certain costs to programs administered by the Office of Child and Family Services. Twelve random moments were tested which included a total of eighty-two participants. In three of the eighty-two participants tested, the incorrect code was used to allocate an individual's time to the appropriate program.

Context: The Office of Child and Family Services' (OCFS) Cost Allocation Plan allocated $79 million to various programs using approximately twenty-seven different indirect allocation methods.

Cause: Human error

Effect:

- Programs may not be charged their fair share of allocated costs
- Potential unallowable costs claimed

Recommendation: We recommend that the Department implement additional controls to ensure that random moment time studies accurately reflect an employee's actual time spent on a particular activity.

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

As a control moving forward, when an observation form is returned to the RMTS State Coordinator, the Coordinator will verify that the language of the activity and the selected code align. When a questionable code is identified, the State Coordinator will e- mail the form back to the District Observer-Coordinator requesting the Observer to recheck the code to the description of activity. The RMTS Observer is instructed to resend the Random Moment Study observation form to the Random Moment Study State Coordinator with the corrected code. The Office of Child and Family Services will continue to provide annual training to all 32 RMTS Observers during calendar Year 2014 to strengthen their skills and the accuracy of their selections effective for the fourth quarter statistics of 2014.

Contact: *Robert Blanchard, Associate Director-OCFS, 624-7955*

(ML-13-1140-01)

Title: Procedures to ensure accurate financial reporting need improvement

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Administrative and Financial Services

State Bureau: Health and Human Services Service Center

Condition: On the quarter ending September 30, 2012 CMS-21 report, allocated costs were over-reported by a total of $67,781. We are not questioning costs because funds were returned on the quarter ending September 30, 2013 CMS-21 report.

Context: CHIP expended approximately $32 million in Federal funds during the fiscal year.

Cause: Formula error on supporting spreadsheet

Effect:

- Inaccurate financial reports
- Possible future questioned costs

Recommendation: We recommend that the Department ensure only actual, properly calculated costs are reported on the CMS-21 report.

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

To avoid future recurrence, we have initiated a comprehensive review of our reporting processes, with an emphasis on standardization and automation (of our excel worksheets). These enhancements, which began in June of 2013, include newly refined data mapping keys that steer downloaded data via formulas, eliminating human input error. Formula driven cells will be shaded one color, and password protected. Any cells requiring manual input will be shaded a different color, to enable a more precise review process. Finally, check digits will be worked in at a summary level, to highlight any foot/cross foot errors. This process will be standard across all reporting.

Contact: *Jason Grundy, MaineCare Accounting Manager, DHHSSC, 287-5917*

Statewide and Particularly the Department of Administrative and Financial Services

(ML-13-0903-01)

Title: Improvements to controls over information technology are needed

Consecutive Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Statewide and particularly the Department of Administrative and Financial Services

State Bureau: Statewide and particularly the Office of Information Technology

Condition:

- We discovered a number of information systems security weaknesses which are not disclosed in this report since disclosure to the general public would compromise security. We have notified senior management at the Office of Information Technology (OIT) regarding these specific security issues.
- Disaster recovery plans have not been developed and tested.
- OIT has not adequately followed-up on identified risks and has not recently conducted and documented a risk assessment.

Context: OIT is responsible for the confidentiality, integrity, and availability of the State's information technology network infrastructure and for providing systems to State agencies.

Cause:

- OIT has not given adequate consideration to security principles, adequate segregation of duties, and OIT's security policy.
- OIT has not provided adequate resources for business continuity and disaster recovery planning and risk assessment.

Effect:

- Weak internal controls over security and segregation of duties may allow inappropriate access, modification and/or disclosure of confidential or sensitive information.
- Inadequate planning and testing of disaster recovery plans puts essential government services at risk in the event of a disaster.
- Lack of a periodic risk assessment and prioritization of remediation plans to address those risks could put essential government services in jeopardy.

Recommendation:

- We recommend that OIT address specific security weaknesses noted in our audit and also consider whether similar security weaknesses could exist in other systems not specifically covered by our audit.

- We recommend that the Department test disaster recovery plans annually for critical systems and assess whether failover procedures should be implemented. Failover is a method of protecting computer systems from failure, in which standby equipment automatically takes over when the main system fails.
- We recommend that OIT periodically document risk assessments and follow up on identified risks.

Management's Response/Corrective Action Plan: *OIT agrees with the finding.*

Remediation by March 2015.

Contact: *B. Victor Chakravarty, OIT Enterprise Architect, 624-9840*

Department of Education

(ML-13-1201-02)

Title: Internal controls over annual child count need improvement

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
SD-12-1201-03						

State Department: Education

State Bureau: Special Services

Condition: Internal control procedures related to the annual child count need improvement. The Department did not obtain certifications from all Local Education Agencies (LEAs) that an unduplicated and accurate child count had been made. No follow-up procedures were performed to obtain these required certifications.

Context: Approximately $50 million was awarded to over 200 LEAs based on these child counts.

Cause:
- High staff turnover
- Lack of monitoring of child count reporting process

Effect: Inaccurate child count data could result in incorrect allocation of Federal funds to LEAs.

Recommendation: We recommend that the Department obtain certification from all LEAs ensuring that an unduplicated and accurate child count has been made. Follow-up procedures should be implemented to ensure that all child counts are certified by a responsible LEA official.

Management's Response/Corrective Action Plan: T*he Department accepts the finding.*

This finding was made a second year in a row because the certification for FY13 (current finding) had already been completed before the finding for FY12 was made. So the Department had no time to implement internal controls to avoid a second consecutive finding. We now have an internal process for obtaining certifications. At this point in time we have only 3 FY13 uncertified counts which are being pursued and are due no later than April 2, 2014. We do not expect a repeat of this finding for FY14.

Our strengthened process involves the following steps:
- *Special Services staff monitor which LEAs have/have not certified the child count form by checking the Infinite Campus database and by collecting and maintaining a paper copy of the signed Child Count Certification form. This responsibility has been assigned to the Statistician with support from an Office Associate II.*

- *These staff members follow up in January of each year with any LEAs that have not certified the child count. The deadline for reporting for the 2013-14 school year is April 2, 2014 so a January follow-up gives plenty of time.*
- *All subsequent child counts will be made in October concurrent with the count that is made for subsidy purposes. It will no longer be made in December as a separate count. It is our expectation that by requiring SAUs to certify the count at the same time that they count for subsidy, we should get better compliance with less need for follow up.*

Contact: *Janice E. Breton, Director of Special Services, Education, 624-6676*

(ML-13-1203-02)

Title: Records to support the monitoring of subrecipient net cash resources were not maintained

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
		SD-10-1203-01	SD-09-1203-01			

State Department: Education

State Bureau: Child Nutrition Services

Condition: The Department did not have corrective action plans on file for two of the eight School Food Authorities with excess net cash resources.

Context: Eight school food authorities had approximately $114,900 over the net cash limit for the three-month average allowed.

Cause: Incomplete record keeping

Effect: We were unable to determine that appropriate action was taken in all cases where school food authorities had excess net cash resources.

Recommendation: We recommend that the Department continue to implement procedures to ensure that records are properly maintained to verify appropriate action was taken relative to excess net cash resources.

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

Child Nutrition Staff who are responsible for excess balance monitoring have been provided additional guidance on record keeping procedures.

Letters and correspondence will be kept in central files with all other District paperwork. Filing will be completed by support staff. The process will begin when districts send letters at the completion of school year 2014. The Supervisor will follow-up annually.

Contact: *Walter Beesley, Child Nutrition Coordinator, 624-6875*

(ML-13-1213-06)

Title: Payroll and fringe benefit costs not properly reported

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Education

State Bureau: School Finance and Operations

Condition: The Department did not initiate a budget amendment to reflect how funds were actually being spent by the Statewide Data Systems program. Amounts were reported in the annual performance report based on the original budget in the grant application.

Context: Salaries and fringe benefit expenditures for two employees in the amount of $149,629 were reported as Contractual costs on the annual performance report. These costs should have been reported in the budget categories of Personnel and Fringe Benefits.

Cause: On the original grant application budget, personnel working directly on the grant were budgeted as contractual personnel and not State employees.

Effect: Expenditures were not reported in a manner that ensured proper accounting for Federal funds.

Recommendation: We recommend that the Department report costs of State employees working directly on the grant as Personnel and Fringe Benefit costs on its annual performance report.

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

Steps have been taken to correct the payroll and fringe benefits costs reporting issue. The United States Department of Education has approved correcting the budget for the current extension year (Year 4) but has not yet determined whether the budgets for Years 2 and 3 can be amended to reflect the correct categories.

Contact: *William Hurwitch, Director, Statewide Longitudinal Data System, 624-6816*

Department of Health and Human Services

(ML-13-0903-02)

Title: Control Deficiencies in the DHHS Automated Client Eligibility System (ACES)

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Health and Human Services

State Bureau: Office for Family Independence

Condition: We discovered a number of information systems security weaknesses which are not disclosed in this report since disclosure to the general public would compromise security. We have notified Senior management at the Office of Information Technology (OIT) regarding these specific security issues. In addition, we found that disaster recovery plans have not been developed and tested.

Context: ACES records client information, determines eligibility for multiple programs, issues benefits, notifies clients and performs tracking and reporting functions.

Cause:
- The Department has not given adequate consideration to security principles, segregation of duties and OIT's security policy.
- The Department has not provided adequate resources for business continuity and disaster recovery planning.

Effect:
- Weak internal controls over security and segregation of duties may allow inappropriate access, modification and/or disclosure of confidential or sensitive information.
- Inadequate planning and testing of disaster recovery plans puts essential government services at risk in the event of a disaster.

Recommendation:
- We recommend that OIT address specific security weaknesses noted in our audit and also consider whether similar security weaknesses could exist in other systems not specifically covered by our audit.
- We recommend that the Department test disaster recovery plans annually for critical systems and assess whether failover procedures should be implemented. Failover is a method of protecting computer systems from failure, in which standby equipment automatically takes over when the main system fails.

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

- *The Department will assign representation to establish a meeting with the OIT application team assigned to ACES to review the noted ACES security weaknesses and determine if other weaknesses exist in other DHHS applications* ***by April 30, 2014.***
- *Corrective action steps will be planned and carried out to completion* ***by Nov 30, 2014****.*

Contact: *Anthony Pelotte, Division Director Business Technology, OFI, 624-4104*

(ML-13-1106-15)

Title: MaineCare Benefits Manual Principles of Reimbursement need to be updated

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Health and Human Services

State Bureau: Division of Audit

Condition: The business practices of the Division of Audit deviate from the requirements set forth in the MaineCare Benefits Manual Principles of Reimbursement for hospitals and nursing facilities. We noted the following:

- Since some hospitals submitted their Medicare Cost reports electronically, there were no accompanying certifications or original signatures.
- Medicare cost reports were not requested from nursing facilities by the Division.

Context: Medicaid paid approximately $626 million to 39 in-state hospitals and $206 million to nursing facilities during fiscal year 2013.

Cause: The MaineCare Benefits Manual Principles of Reimbursement for hospitals and nursing facilities is not updated to reflect current practices within the Division of Audit.

Effect: Noncompliance with the MaineCare Benefits Manual.

Recommendation: We recommend that the Division of Audit update the MaineCare Benefits Manual to reflect current business practices.

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

The Division of Audit will submit, by April 1, 2014, recommended changes to the two policy sections identified in the finding, to the Office of MaineCare Services Policy Unit to update the MaineCare Benefits Manual.

Until the MaineCare Benefits Manual is updated, starting with cost report filings for fiscal years ending December 31, 2013, the Division of Audit will require all Nursing Facilities to file a copy *of their Medicare Cost report. Additionally, the Division of Audit will require a signature page for all hospital cost reports whether they are filed electronically or paper copy.*

Contact: *Herbert Downs, Director, Division of Audit, 287-2403*

(ML-13-1106-18)

Title: Controls to ensure eligibility for Medicare Buy-In is consistent between systems need improvement.

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Health and Human Services (DHHS)

State Bureau: Office for Family Independence

Condition: Procedures were not adequate to ensure that the type of Medicare Buy-In eligibility is consistent between the State's Automated Client Eligibility System (ACES) and the USHHS Centers for Medicare and Medicaid Services (CMS). Of the sixty Medicare Part B Buy-In recipients tested, the type of Buy-In eligibility differed in two instances. The inconsistency is related to the sub-category (QMB-Qualified Medicare Beneficiary, SLMB-Specified Low Income Medicare Beneficiary, QI-Qualifying Individual, and QDWI-Qualified Disabled and Working Individual) of Buy-in that the individual qualifies for, and has no effect on the individual's overall eligibility.

Context: Maine DHHS paid $110 million to CMS for Medicare Part B premiums in fiscal year 2013.

Cause: Lack of controls to ensure that the type of Medicare Buy-In eligibility is consistent between ACES and CMS.

Effect: Inaccurate classification of the type of Medicare Part B Buy-in program (QMB, SLMB, QI and QDWI) by the Department or CMS

Recommendation: We recommend that the Department ensure the type of Buy-In eligibility is consistent between ACES and CMS.

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

The Department will establish a technology task with the ACES IT application group to create requirements for the development of a monthly reconciliation report that will list any mismatches between the ACES eligibility system Buy-in codes and CMS listed Buy-in codes.

Report completed and implemented ***by Nov 30, 2014***.

Contact: *Anthony Pelotte, Division Director Business Technology, OFI, 624-4104*

(ML-13-1118-01)

Title: Hours worked for the program not adequately documented

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
12-1118-03						

State Department: Health and Human Services

State Bureau: Centers for Disease Control

Condition: An employee's time was charged to the Immunization Program based on budgeted percentages rather than actual hours worked, time studies or an approved cost allocation plan, as required by OMB Circular A-87.

Context: One administrative assistant who supports various functions and programs within the Centers for Disease Control (CDC) consistently charged the same percentage of their time to the Immunization Program.

Cause: The original study that was conducted to include this position in the cost allocation plan contained unrepresentative data, so the implementation was delayed.

Effect: Potential disallowance of expenditures by the Federal government

Recommendation: We recommend that the Department continue efforts to include the employee's payroll expenditures in the cost pool and allocate hours based on an approved cost allocation plan.

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

Corrective action has been completed and consists of the employee recording her actual hours worked in the TAMS system beginning on 5/1/13. A time study was completed between 5/1/13 to 1/07/14 to ensure employee time was maintained within the budgeted allocation. Adjustments may be made in order to meet grant deliverables that fund her work.

Contact: *Lori Wolanski, Division Director of Infectious Disease, MeCDC, 287-6448*

Department of Labor

(13-0308-02)

Title: Procedures are not in place to adequately identify and recover receivables resulting from payments made to claimants who do not provide proper evidence of continuing eligibility.

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
ML-12-0308-02						

State Department: Labor

State Bureau: Unemployment Compensation

Condition: The Department of Labor, Bureau of Unemployment Compensation does not have procedures in place to ensure that continuing unemployment benefits are paid only to claimants who are eligible. Auditors examined sixty-five claims and found that for twenty-two of these claims no work search log was received after the Department requested the documentation. There was no evidence of Department follow-up. This presents a risk that payments were made to ineligible claimants. It is likely that appropriate follow-up procedures would have resulted in determinations of ineligibility, collections procedures, and the recording of accounts receivable in the State's financial statements.

Context: Maine's enterprise fund for Employment Security provides an accounting of revenue from Maine's employers, State-funded payments to claimants, and related assets and liabilities.

Payments of $173 million in State-funded benefits were made to unemployment claimants in fiscal year 2013.

Cause: Inadequate internal control procedures

Effect: Approximately $58 million in State employer-funded unemployment claims were paid to persons who might not have been actively searching for a job and obtaining timely re-employment. The effect of this would be to reduce Maine's Unemployment Fund held by the U.S. Treasury, and to cause an unemployment tax rate increase in order to replenish the Fund.

Recommendation: We recommend that the Department of Labor be provided sufficient resources and an adequate labor force to take corrective action.

Management's Response/Corrective Action Plan: *We believe that the Department of Labor has already taken the appropriate corrective action to address deficiencies identified in prior audit findings concerning its work search requirement monitoring. The department implemented a work search audit program in April of 2013 which is fully compliant with federal and State work search laws [Maine Statute Title 26, chapter 13 §1192(2)] and Federal Work Search Statues Section 303(a) of the Social Security Act for State Unemployment Insurance Programs and Public Law 112-96 for the Federal Emergency Unemployment Compensation Program]. Additionally, the work search audit program currently in place meets the requirements of the* *federal guidance issued by the U.S. Department of Labor in Unemployment Insurance Program Letters 05-13 (State UI programs) and 04-10 (Federal EUC program).*

Neither federal nor State law mandates the collection and review of work search documentation from every claimant, every week. Although laudable, it is not realistic and would place an administrative burden on the department that simply could not be met. As pointed out in the Auditor's recommendation above, the level of staffing required to follow up on 12,000 to 35,000 weekly work search logs (depending on the time of year) does not currently exist and the program simply does not – nor is it realistic to expect to – receive the increased federal funding that would be needed to support this level of effort (which is not required in law).

*The formal work search audit procedure realistically and effectively addresses the identified inadequacies in our prior work search policy. It was modeled on the federal work search monitoring requirements that Congress established for the federal Emergency Unemployment Compensation program. All claimants are notified (through multiple messaging means and media), that they must actively seek work each week in which a claim is filed unless they are in an approved training program or under a department-approved work search waiver. They are further instructed to maintain a record of their work search efforts and documentation, and to be prepared to turn in these documents to the department upon written notice. 200 claimants are randomly selected for work search audit each week (**10,400** audits annually) and receive a notice to submit their work search logs and documentation for a stated period of time. All messaging includes the fact that failure to comply without good cause results in a denial of benefits and the requirement to repay benefits received for the week or weeks involved.*

We acknowledge that the new work search audit procedure had only been in effect for part of the FY 2013 audit period, but the department's records demonstrate that all claim weeks selected for work search audit were duly followed up. If the required work search logs were not provided, benefits were denied unless the claimant could prove "good cause" for not doing so in accordance with Maine statute. Work search documentation provided was reviewed and contact made with the employers listed to attempt to verify that the stated work search effort was made. If the work search effort for the audit period was found inadequate, benefits were denied and required to be repaid.

This Management Letter alleges that "approximately $58 million" was paid out to individuals who might not have been actively looking for work. This figure is an extrapolation against all benefits paid during the audit year based on sampling results that the department finds to be flawed. As was explained to us at the time of the audit, the sampling included claims paid both under the prior work search policy requiring all claimants to turn in work search logs every 5 weeks (for all 5 weeks); and also claims paid after the implementation of the work search audit program. However, it was also explained that claim weeks sampled under the new audit procedures were determined to be paid in error if no work search log was on file even if the individual had not been selected for a work search audit. This is inaccurate as individuals are instructed not to submit work search documentation unless they are selected for audit. Therefore, no conclusion can be drawn that the benefits paid in these weeks were erroneous unless the individual had been selected for audit and given the opportunity to provide their work search documentation. This also raises a question for the department about the validity of using an extrapolation of approximately $58 million as at risk of having been paid improperly.

The Management Letter states as a concern that the department failed to take follow-up action on the claim weeks identified in the audit as potentially having been paid in error due to the absence of a work search log on file. In communication with the Principal Auditor, we understand that the intent of this letter is to communicate a need for the department to record the benefits paid in the claims identified as possible eligibility findings during the State Audit as 'accounts receivable.' This is problematic. Maine law prohibits the agency from reconsidering a benefit payment after one year [Title 26, §1194(10)]. At the time of the audit, the claim weeks pulled for review had been paid at least a year earlier; which exceeds our statutory authority for reconsideration.

If it is the expectation of the State Audit Office that the department should have recorded the benefits as an accounts receivable debt even if we could not reconsider the claim weeks in question, this raises a serious legal concern. We cannot establish an accounts receivable debt for a payment for which no due process was afforded. Both State and Federal laws require that States provide a due process opportunity to an individual prior to denying or modifying a benefit payment. In the case of a potential work search eligibility issue, this affords the claimant the opportunity to demonstrate whether there was good cause for not providing the work search log, or for the department to prove that no work search activity took place or the work search effort made was inadequate. Once established as an account receivable debt, the department is then obligated to pursue recovery of these funds. As explained above, the department is ***prohibited*** *from pursuing legal reconsideration of a payment made a year or more in the past.*

It is the department's position that we took the appropriate corrective action in April of 2013 to address deficiencies identified in prior audit findings concerning our work search monitoring process. The work audit procedures adopted are fully compliant with both State and federal work search laws and our current practice of auditing more than 10,000 claimants annually is effectively sending the message to the claimant population that ongoing, active work search is a serious eligibility requirement and failure to comply will result in benefit denial and repayment of benefits already received. As explained above, the department cannot legally comply with the intention communicated in this letter to establish accounts receivable for benefits identified during the Annual Audit process as possibly erroneous. In light of this, the department believes this Management Letter should be rescinded.

Contact: *Laura Boyett, Bureau Director, Unemployment Compensation, 621-5156*

Auditor's Concluding Remarks:

This finding is included in our management letter because of a lack of internal control over claimants' continuing eligibility and the probable effect on the accounts receivable balance of the Employment Security Proprietary Fund in the Proprietary Fund financial statements. The related federal OMB Circular A-133 Single Audit internal control and compliance finding is reported in the State of Maine Single Audit Report for fiscal year ended June 30, 2013 on page E-99. The federal Single Audit Report finding as well as this financial statement management letter finding are repeat findings despite the changes implemented in April 2013 by the Bureau of Unemployment Compensation (BUC). We disagree that appropriate corrective action was taken to address the deficiencies identified in our findings concerning work search eligibility and the likely effect on accounts receivable.

Management's response above references the Social Security Act Section 303(a) which states, "The Secretary of Labor shall make no certification for payment to any State unless he finds that the law of such State includes provisions for…a requirement that, as a condition of eligibility…(a claimant must be) actively seeking work". We found that State law does comply with this requirement by requiring claimants to document evidence of work search efforts made for each week a claim is filed, see Maine Statute Title 26, Chapter 13, Subsection 1192(2). During fiscal year 2013, from July 2012 through March 2013 the Department procedure was to request all work search evidence for all claims weeks. From April 2013 through June 2013 the Department procedure was to request evidence for 200 claims per week and subject them to examination procedures.

Management's response states that "Neither federal nor state law mandates the collection and review of work search documentation from every claimant, every week". We believe that work search evidence for every claimant every week is indicated by the inclusion of work search requirements as a condition of eligibility. The Federal and state law clearly state the work search requirement as a condition of eligibility each week a claimant files a claim. Controls must be adequately designed to meet this requirement. As auditors we use independent professional judgment to prepare our findings. In light of work search eligibility requirements being a condition of eligibility coupled with the existence of known noncompliance among the claimant population, it is our opinion that action should be taken to ensure weekly unemployment compensation benefits are paid only to eligible claimants. Otherwise, it is to the detriment of the federal and state governments, and the taxpayers who fund and support the unemployment insurance program. Audit evidence suggests that significant and material overpayments are in fact being paid to claimants who do not comply with work search eligibility requirements. To further support this fact the U.S Department of Labor publishes overpayment information pertaining to each state, which is self-reported by each state at http://www.dol.gov/dol/maps/map-ipia.htm. The information published therein identifies the State of Maine among the top five states with the highest rate of overpayments noting that the vast majority of those projected overpayments are the result of claimant work search noncompliance.

While the Office of the State Auditor does place some value on the formal work search audit procedure undertaken by the BUC we believe it falls significantly short of adequate procedures for determining proper work search eligibility among claimants. Two hundred claims audited each week as a means of determining work search eligibility translates to less than one percent of total annual claims paid. This procedure is better termed a monitoring process rather than an internal control activity over eligibility. It simply is not a large enough sample size to appropriately determine individual weekly claimant eligibility or effect positive change in the claimant population. As noted in Management's Response to our eligibility finding (page E-99 of the 2013 State of Maine Single Audit Report) the BUC Work Search Audit process from April

2013 through January 2014 resulted in denials of benefits for 52.5% of the claims tested. Denials were based on incomplete or inadequate work search documentation. If those results were applied to claims paid in fiscal year 2013 of $263 million it would represent $138 million in overpayments.

This management letter finding relates specifically to the accounts receivable balance of the State of Maine Employment Security Proprietary Fund which pays state funded benefits to claimants. Fiscal year 2013 state funded claims paid totaled $173 million of the $263 million in benefit payments. The $58 million estimate of potential overpayments/accounts receivable noted in this finding is based upon the error rate in the tests we performed. Our error rate was equal to 22 of the 65 claims we tested or 33.8%. The 22 errors noted are defined by instances where the BUC requested missing work search documentation from a claimant via automatic mailings but did not receive it. Additional follow-up, whether or not conducted by the BUC, did not result in obtaining the evidence sought. In all these cases no subsequent denial decisions were made nor were collection activities undertaken.

Concerns noted in the Management’s Response that we proposed adjustments for the claims we tested are unfounded. We understand that the BUC cannot reconsider and deny a claim paid in excess of one year prior to the payment date. We have not asked them to do so. We simply have attempted to communicate a lack of appropriate eligibility considerations related to 22 exceptions in the sample of 65 in which the BUC did not receive work search evidence after requesting it. Through this management letter communication we have attempted to illuminate the risk of benefit overpayments and the likely result that a material understatement of accounts receivable could exist.

The finding remains as stated.

Department of Transportation

(ML-13-0208-01)

Title: Vendor code changes in FREE2000

Prior Year Findings: None

FY12	FY11	FY10	FY09	FY08	FY07	FY06

State Department: Transportation

State Bureau: Finance and Administration

Condition: The FREE2000 system does not have controls in place to prevent changes to the vendor code. The FREE2000 system allows the final approver to change the vendor code on certain payments (GAX) that are not tied to contracts. If the vendor code is changed by the final approver there is no system alert or the requirement for secondary approval.

Context: Approximately $8 million in GAX payments are at risk.

Cause: No system edit was included in the FREE2000 system to prevent the final approver from having the ability to change the vendor code.

Effect: The final approver can change the recipient of payments without further review. This could potentially lead to fraudulent or erroneous payments.

Recommendation: We recommend that the Department implement system controls that do not allow the final approver from changing a vendor code on GAX documents.

Management's Response/Corrective Action Plan: *We agree with this finding and are currently developing system edits/controls in Free2000 to prevent the final approver from changing a vendor code in the future.*

The Corrective Action should be complete before the end of March 2014.

Contact: *Doreen Corum, Director of Financial Processing, MDOT, 624-3139*

(ML-13-1401-01)

Title: DOT information system security weakness

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
ML-12-907-01						

State Department: Transportation (DOT)

State Bureau: Office of Information Technology (OIT)

Condition: We discovered security weaknesses in information systems which are not disclosed in this report. Public disclosure would further compromise security. We have notified appropriate personnel at OIT and DOT regarding the specific security issues.

Context: DOT's information systems process over $245 million in Federal expenditures as well as the Department's payroll.

Cause: OIT has not committed the resources to address the security risks.

Effect: Weak internal controls over security may allow inappropriate access, modification and/or disclosure of sensitive or confidential information.

Recommendation: We recommend that DOT work with the Office of Information Technology to ensure that the information system is adequately protected from security risks.

Management's Response/Corrective Action Plan: *The Office of Information Technology (OIT) and MaineDOT agree with the finding.*

OIT and MaineDOT will review specific security issues and expect this finding will be remediated by Dec 31, 2014.

Contact: *Jim Smith, CIO, OIT, Department of Administrative and Financial Services, 624-7568*

(ML-13-1401-02)

Title: Business continuity and disaster recovery (BCDR) planning procedures need to be implemented

Prior Year Findings:

FY12	FY11	FY10	FY09	FY08	FY07	FY06
ML-12-907-02						

State Department: Transportation (DOT)

State Bureau: Office of Information Technology (OIT)

Condition: A well-documented disaster recovery plan is not in place and periodic disaster recovery testing is not performed.

Context: DOT's information systems process over $245 million in Federal expenditures as well as the Department's payroll.

Cause: OIT has not committed the resources to develop a comprehensive plan.

Effect: If the information systems are not available, payments to contractors, employee payroll and access to project information would be disrupted.

Recommendation: We recommend that OIT develop, document and test a BCDR.

Management's Response/Corrective Action Plan: *The Office of Information Technology (OIT) and MaineDOT agree with the finding.*

OIT is developing a basic framework for addressing the issue of disaster recovery planning and periodic disaster recovery testing for all the applications we support. OIT will work to get resources in place and engage the various business partners in coming up with a strategy and plan by Dec 31, 2014.

Contact: *Jim Smith, CIO, OIT, Administrative and Financial Services, 624-7568*

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