

# MAINE STATE LEGISLATURE

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# STATE OF MAINE



## MANAGEMENT LETTER

Fiscal Year Ending June 30, 2016

Office of the State Auditor  
Pola A. Buckley, CPA, CISA  
State Auditor

**State of Maine  
Management Letter for the Year Ending  
June 30, 2016**

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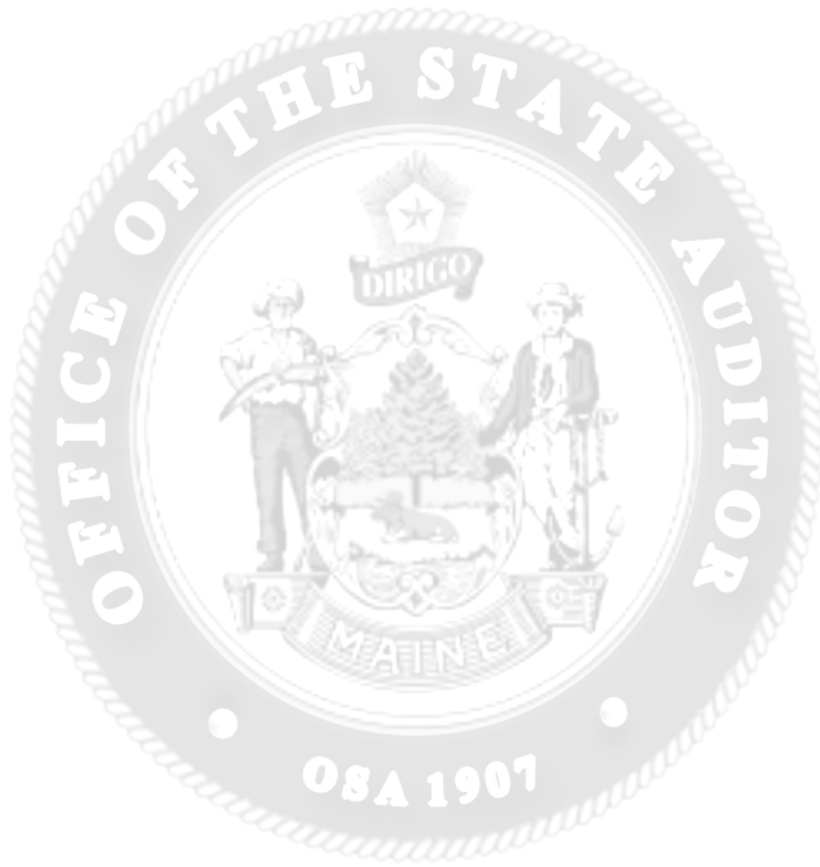
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**STATE OF MAINE  
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**LETTER OF TRANSMITTAL**

Senator Michael D. Thibodeau  
President of the Senate

Representative Sara Gideon  
Speaker of the House of Representatives

Honorable Paul R. LePage  
Governor of Maine

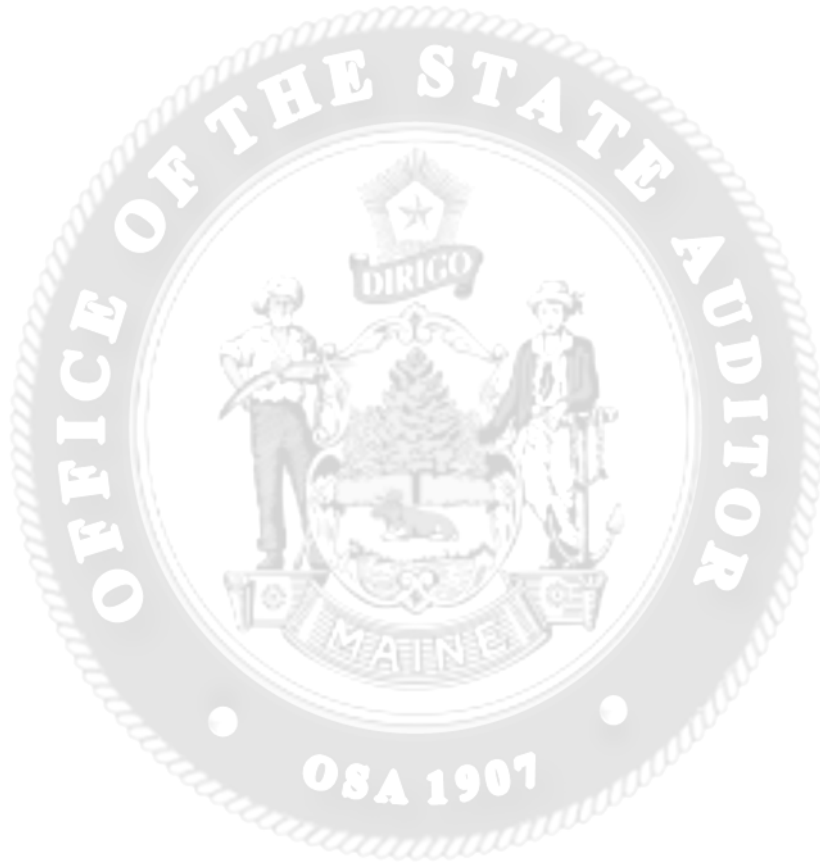
I am pleased to submit the State of Maine Management Letter for the year ended June 30, 2016. In the course of conducting the Single Audit of the State of Maine, we became aware of matters that offer opportunities for our government to improve its operations. Recommendations regarding these matters accompany this Management Letter as Management Letter Comments.

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

Respectfully submitted,

Pola A. Buckley, CPA, CISA  
State Auditor

May 3, 2017







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**MANAGEMENT LETTER**

In planning and performing the Single Audit of the State of Maine for the year ended June 30, 2016, we considered the State of Maine's internal control. We did so to plan our auditing procedures for the purpose of expressing an opinion on the financial statements and Federal program compliance, but not for expressing our opinion on the effectiveness of the State of Maine's internal control over financial reporting or compliance.

During our audit, we became aware of several matters that resulted in "management letter comments" that offer opportunities for strengthening internal control and improving operating procedures of the State. These matters were not identified as material weaknesses and/or significant deficiencies. These matters are a result of audit procedures performed based on risk assessment procedures and not all deficiencies or weaknesses in controls may have been identified. The following pages contain our comments and suggestions regarding those matters and are in addition to the more significant issues addressed in the following reports that are included in Maine's 2016 Single Audit Report:

- Independent Auditor's 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*
- Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

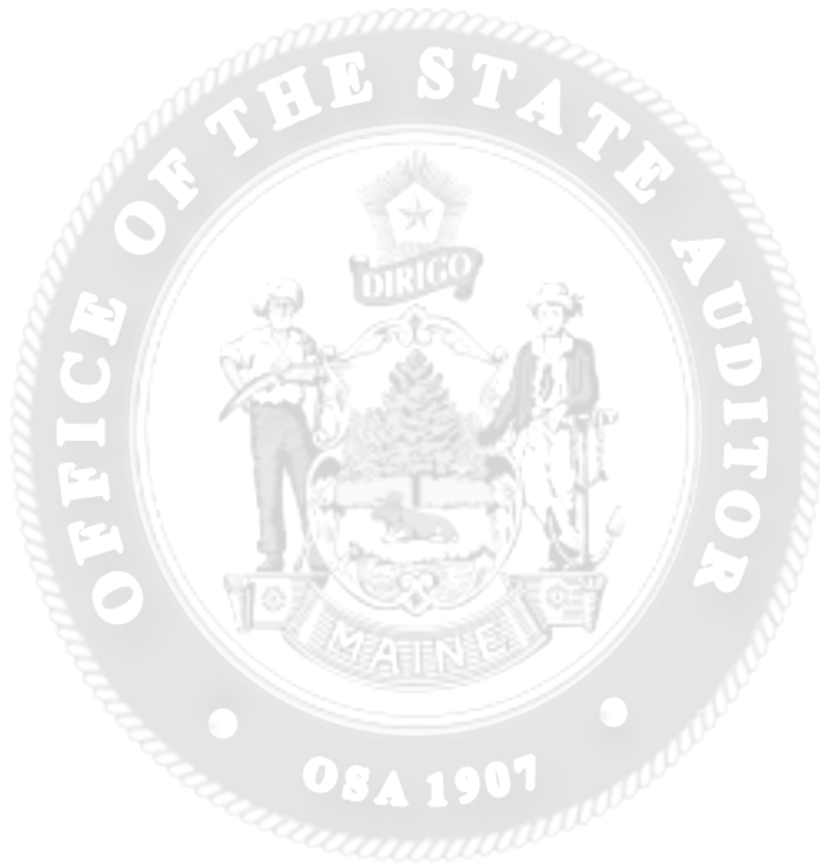
This Management Letter is intended solely for the information and use of the Governor, management, others within the entity, the Legislature, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Several findings are redacted because they relate to confidential and sensitive information. Redacting this information is consistent with Government Auditing Standards promulgated by the U.S. Government Accountability Office.

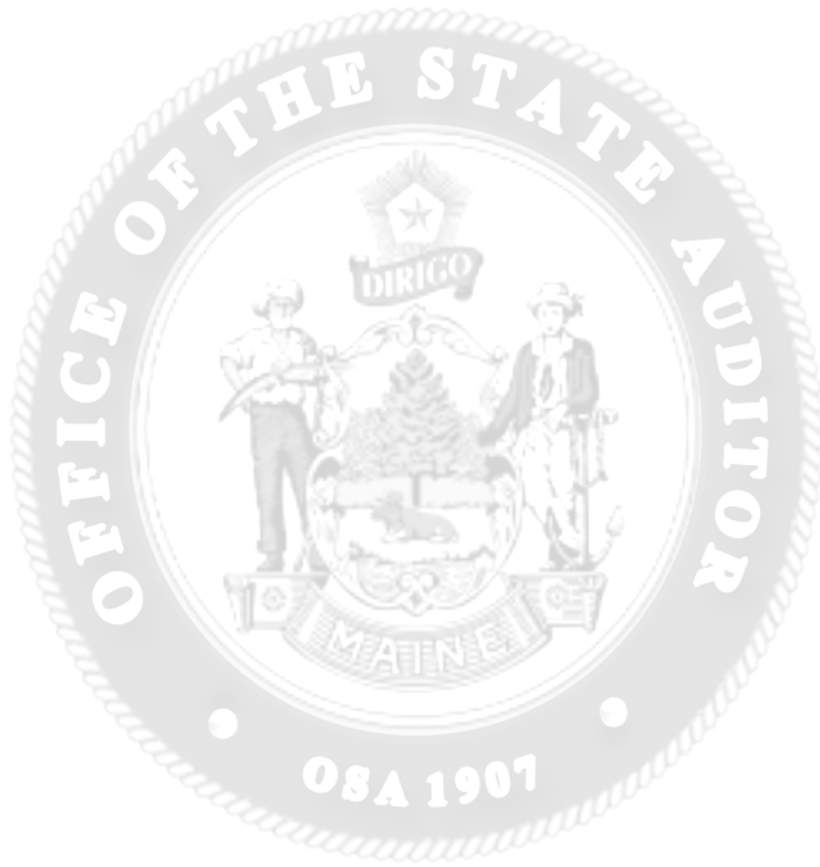
Included with the management letter comments are the audited agencies' responses. We would be pleased to discuss these management letter comments in further detail at your convenience.

Pola A. Buckley, CPA, CISA  
State Auditor

May 3, 2017



**DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**



**ML-16-0320-01**

**Title:** State cash on deposit with a fiscal agent should be recorded in the State’s financial statements, and auditor makes other related recommendations.

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Administrative and Financial Services

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

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Generally Accepted Accounting Principles

**Condition:** A cash balance of \$20,716,158 on deposit with a fiscal agent on June 30, 2016 was not included in the State’s financial statements.

**Context:** The fiscal agent that is holding this cash deposit processes medical claims for State employees and State retirees.

**Cause:** A year-end entry to ensure these health benefit accounts are adjusted to conform to generally accepted accounting principles was not posted by the financial reporting staff.

**Effect:** The total net position for the Employee Health Insurance Fund and the Retiree Health Insurance Fund is understated by \$20,716,158.

**Recommendation:** We recommend that the Department make year-end adjusting entries related to the Employee Health Insurance Fund and the Retiree Health Insurance Fund. This will result in properly reported balances consistent with generally accepted accounting principles.

Also, we recommend that the OSC work with the Bureau of Human Resources Division of Employee Health and Benefits and the Treasurer to enforce the contractual provision with the fiscal agent that “Any interest generated on funds in the Plan Account shall accrue to the benefit of our Customer”. It is noteworthy that the \$20.7 million account has not accrued more interest than the \$15,276 the fiscal agent credited to the State during the 2016 fiscal year.

**Management's Response:** The Department agrees with the finding. The Office of the State Controller will work with the Bureau of Human Resources, Division of Employee Health and Benefits to ensure that the reserve amount for prepaid claims is reported appropriately on the State's financial statements. Additionally, the Office of the State Controller is researching, along with the Bureau of Human Resources, Division of Employee Health and Benefits as to the reason why the \$20.7 million account has not accrued more than \$15,276 in interest.

**Contact:** Sandra Royce, CPA, Director of Financial Reporting & Analysis, 207-626-8451

**ML-16-0600-01**

**Title:** Assets not appropriately capitalized

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Administrative and Financial Services

**State Bureau:** Office of the State Controller (OSC)  
Natural Resources Service Center (NRSC)

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** State Administrative & Accounting Manual, Chapter 30, Part 30.20 Valuing, Capitalizing and Depreciating Fixed Assets; and Part 30.45 Fixed Asset Physical Inventory Policy

**Condition:** The Department should have capitalized fiscal year 2016 land and equipment purchases totaling \$3.3 million. In addition, the NRSC had a backlog of incomplete accounting procedures (Fixed Asset Shells) that would likely result in an additional asset capitalization of over \$10 million. Also, our review of fixed asset inventory practices revealed that the Department of Agriculture, Conservation and Forestry; the Department of Environmental Protection; the Department of Marine Resources; and the Department of Inland Fisheries and Wildlife have not provided annual physical inventory certifications to the OSC in several years.

**Context:** Agencies supported by the NRSC must initiate capital purchases correctly in the Advantage accounting system in order to generate the proper fixed asset accounting. NRSC staff is responsible for finalizing the capital asset accounting set-up. The OSC requires annual certification of fixed asset inventories by all agencies.

**Cause:** Lack of training and oversight, and competing priorities.

**Effect:** Capital asset balances recorded in the State’s financial statements are understated and expenses are overstated.

**Recommendation:** We recommend that the Department:

- complete capital asset accounting in a timely manner.
- implement procedures to ensure all agencies are completing the required physical inventories and submitting certifications on a timely basis.

- provide training to agency staff as needed to ensure that correct commodity codes are used to ensure proper capitalization.

**Management's Response:** The Department agrees with the finding.

The Department's Natural Resources Service Center (NRSC) will provide staff training to ensure that appropriate procedures are in place and followed. The NRSC will work with the Division of Purchases and the Natural Resource agencies to identify resources to assist in resolving the backlog of work. In addition, the NRSC will work with the Division of Purchases to educate our staff, and the Natural Resource agency staff, in the proper use of commodity codes in an effort to ensure proper capitalization. The anticipated completion date is June 30, 2017.

The NRSC will work with the Natural Resource agencies to identify resources in each agency that will be responsible for completing annual physical inventories in order to provide the required annual inventory certifications to the Office of the State Controller. We anticipate that by June 30, 2017 we will have made progress towards completing this certification, and by no later than June 30, 2018 we will be able to provide the required annual inventory certification.

**Contact:** Gilbert M. Bilodeau, Director, Natural Resources Service Center, 624-6363



**ML-16-0900-02 CONFIDENTIAL**

**Title:** \_\_\_\_\_ need improvement (The content of this finding has been redacted. This appears as blank underlining).

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Administrative and Financial Services

**State Bureau:** Office of Information Technology (OIT)

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** State of Maine \_\_\_\_\_; Standards and Best Practices \_\_\_\_\_; Federal \_\_\_\_\_

**Condition:** \_\_\_\_\_. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

**Context:** OIT personnel manage and provide \_\_\_\_\_ for the majority of the State. OIT has an obligation to \_\_\_\_\_.

**Cause:** Lack of formal \_\_\_\_\_ procedures, and competing priorities.

**Effect:** This situation creates a potential for \_\_\_\_\_

**Recommendation:** We recommend that the \_\_\_\_\_ are established and adhered to in accordance with the State of Maine \_\_\_\_\_.

**Management's Response:** The Department agrees with the finding. The Department's \_\_\_\_\_.

**Contact:** Victor Chakravarty, Associate CIO for Infrastructure, 207-624-9840

**ML-16-0901-01**

**Title:** The Lottery contractor’s disaster recovery plan was not examined by an independent auditor

**Prior Year Findings:**

FY15	FY14	FY13	FY12	FY11	FY10	FY09
ML-15-0903-01						

**State Department:** Administrative and Financial Services  
**State Bureau:** Alcoholic Beverage and Lottery Operations (BABLO)

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal Information System Controls Audit Manual (FISCAM) AS-5.3; State of Maine Information Security Policy

**Condition:** The description and testing of internal controls related to the Lottery system business continuity and disaster recovery (BCDR) plan were not included in an independent auditor’s report.

**Context:** The State has an agreement with a contractor to host and manage the system, including all aspects of disaster recovery.

**Cause:** The Department has not yet required the Lottery system contractor to include coverage of BCDR controls in an annual Service Organization Control (SOC) report as part of their service level agreement (SLA) with the contractor. The type of SOC report that would provide this assurance is a SOC 2, Type II report with a focus on the Trust Services Principle (TSP) of Availability.

**Effect:** Not including an examination of the disaster recovery plan by an independent auditor could result in the breach of sensitive information, corrupted or lost information, downtime and extended shutdowns.

**Recommendation:** We recommend that the Department require the Lottery system contractor to include adequate and appropriate coverage of the disaster recovery plan in an annual SOC report. To accomplish this, we also recommend the State add language to the SLA with the Lottery system contractor to require an independent audit and testing (SOC 2, Type II) of the BCDR plan.

**Management’s Response:** The Bureau of Alcoholic Beverages and Lottery Operations (“Bureau”) agrees that a SOC 2, Type II audit of the Maine State Lottery’s Business Continuity and Disaster Recovery (BCDR) plan was not conducted. The Bureau, in

conjunction with the Lottery system contractor (“contractor”), has developed controls and procedures to ensure that the BCDR plan is adequate to support continued operations.

The Bureau and the contractor maintain primary operations in Maine and back-up operations in Georgia. The system configurations in Maine and Georgia are identical; if there is an interruption in either location, the system will failover and be fully functional in the other location within one minute. Between the two locations, there are eight separate servers; each of which is operated in “real-time” and synced with all of Lottery’s activity. In the event that one or more servers failed, there would be no interruption to the Lottery’s ability to operate. Additionally, there are sufficient and knowledgeable staff located in both locations to ensure continuity of operations.

The Lottery has internal control systems located in Gardiner and Hallowell that independently monitor Lottery transactions and the contractor maintains staffing in both locations to monitor and manage the system. In May 2016, the Bureau and the contractor conducted multiple disaster recovery table top tests to ensure that Lottery operations would continue without interruption.

The current contract between the State and the contractor requires the contractor to have a SOC 1, Type II audit conducted. The Lottery system contractor had a SOC 1, Type II audit performed in FY2016 and there were no findings issued. The Bureau will request that the contractor research the cost of having a SOC 2, Type II audit performed and report the estimated cost to Management. The Bureau will consider the cost-benefit relationship prior to amending the contract to require the contractor to have a SOC 2, Type II audit conducted and expect to have this analysis completed by June 30, 2017.

**Contact:** Timothy Poulin, Deputy Director, 207-287-6750

**Auditor’s Concluding Remarks:** The Lottery system contractor had an agreed-upon SOC 1, Type II audit performed in FY2016 to provide the State with assurance that the Lottery system was hosted, managed and functioning as expected during the course of normal operations. However, the Bureau does not yet require the Lottery system contractor to include coverage of BCDR controls in an annual SOC 2, Type II report as part of their SLA with the contractor. Not including such an examination of the disaster recovery plan by an independent auditor could result in the breach of sensitive, corrupted or lost information, down time and extended shutdowns.

Testing results we were provided by BABLO for review this year were conducted internally by the vendor, rather than by an unbiased independent auditing firm. Therefore, we considered the results unreliable; and not in compliance with State policy for remotely hosted information systems which are relied upon for State operations.

The finding remains as stated.

**ML-16-0902-01 CONFIDENTIAL**

**Title:** \_\_\_\_\_ controls provided by the \_\_\_\_\_ operating \_\_\_\_\_, should enhance \_\_\_\_\_. (The content of this finding has been redacted. This appears as blank underlining).

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Administrative and Financial Services (DAFS)

**State Bureau:** Office of Information Technology (OIT)

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal \_\_\_\_\_; Office of Information Technology (OIT), State of Maine \_\_\_\_\_

**Condition:** Controls provided by \_\_\_\_\_ need improvement. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

**Context:** DAFS requires the \_\_\_\_\_.

**Cause:** The \_\_\_\_\_ did not adequately ensure that the identified controls were in place and operating effectively \_\_\_\_\_.

**Effect:** Inadequately implemented \_\_\_\_\_ controls created \_\_\_\_\_.

**Recommendation:** We recommend that controls over the \_\_\_\_\_.

**Management’s Response:** The Department agrees with the finding. \_\_\_\_\_.

**Contact:** Dan Andrews, General Manager, InforME, 207-621-2600

**ML-16-0911-01**

**Title:** The Statewide accounting system contractor’s disaster recovery plan was not examined by an independent auditor

**Prior Year Findings:**

FY15	FY14	FY13	FY12	FY11	FY10	FY09
ML-15-0911-01	ML-14-0911-04					

**State Department:** Administrative and Financial Services

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

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal Information System Controls Audit Manual (FISCAM) AS-5.3; State of Maine Information Security Policy

**Condition:** The description and testing of internal controls related to the State accounting system business continuity and disaster recovery (BCDR) plan were not included in an independent auditor’s report.

**Context:** The State has an agreement with a contractor to host and manage the system, including all aspects of disaster recovery.

**Cause:** The Department had not yet required the State accounting system vendor to include coverage of BCDR controls in an annual Service Organization Control (SOC) report as part of their service level agreement (SLA) with the contractor. The type of SOC report that would provide this assurance is a SOC 2, Type II report with a focus on the Trust Services Principle (TSP) of Availability.

**Effect:** Not including an examination of the disaster recovery plan by an independent auditor could result in the breach of sensitive information, corrupted or lost information, down time and extended shutdowns.

**Recommendation:** We recommend that the Department continue in their process to require the State accounting system contractor to include adequate and appropriate (SOC 2, Type II) testing of their BCDR plan in an independent annual SOC report.

**Management’s Response:** The Department agrees with the finding.

In June 2016, Maine signed a contract extension with CGI where the following provisions were included as part of the contract. Each year, CGI will cause its external auditors to (i) perform (a) an SSAE16 SOC 1 Type I audit, as applicable, regarding internal controls that CGI applies on a common basis, to the primary hosting facility and

associated activities provided to its outsourcing clients and (b) an SSAE16 SOC 2 Type II audit of the following three (3) current trust principals: security, availability, processing integrity (individually and collectively, the “Internal Controls Audit”) and (ii) produce an audit report in connection therewith (the “Internal Controls Audit Report”). The SSAE16 SOC 2 Type II audit will be in place for the 2017 State of Maine audit of the Advantage application.

**Contact:** Phillip Platt, ERP Business Systems Manager, 207-626-8426

**ML-16-0911-02 CONFIDENTIAL**

**Title:** \_\_\_\_\_ controls provided by the \_\_\_\_\_ need improvement (The content of this finding has been redacted. This appears as blank underlining).

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Administrative and Financial Services (DAFS)

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

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal \_\_\_\_\_; Office of Information Technology (OIT), State of Maine \_\_\_\_\_

**Condition:** Controls \_\_\_\_\_ need improvement. Specifically, \_\_\_\_\_. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

**Context:** DAFS requires \_\_\_\_\_.

**Cause:** The \_\_\_\_\_ did not ensure that the identified controls were in place and operating effectively \_\_\_\_\_.

**Effect:** Inadequately implemented controls created \_\_\_\_\_.

**Recommendation:** We recommend that controls over the \_\_\_\_\_.

**Management's Response:** We disagree that the Office of the State Controller's \_\_\_\_\_ should be strengthened. \_\_\_\_\_.

**Contact:** Phillip Platt, ERP Business Systems Manager, 207-626-8426

**Auditor's Concluding Remarks:** The management response indicates that \_\_\_\_\_ has taken necessary action to \_\_\_\_\_. This would be a positive step toward \_\_\_\_\_. However, our recommendation is that the Office of the State Controller \_\_\_\_\_.

The finding remains as stated.

**ML-16-0915-01 CONFIDENTIAL**

**Title:** A \_\_\_\_\_. (The content of this finding has been redacted. This appears as blank underlining).

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Administrative and Financial Services

**State Bureau:** Maine Revenue Services (MRS)

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal \_\_\_\_\_; State of Maine \_\_\_\_\_

**Condition:** The Department does not have a \_\_\_\_\_. MRS is currently in the process of developing a \_\_\_\_\_ for this purpose. However, the \_\_\_\_\_ is only in the initial phase of development. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

**Context:** \_\_\_\_\_

**Cause:** Lack of resources

**Effect:** In the event of a \_\_\_\_\_.

In addition, there could be potential \_\_\_\_\_.

**Recommendation:** We recommend that MRS continue to develop and then implement their \_\_\_\_\_.

**Management's Response:** The Department agrees with the finding.

This finding will be addressed through the Office of Information Technology's and Maine Revenue Services' \_\_\_\_\_ that are currently underway.

**Contact:** Vicki Roy, Director of Accounting, 207-441-5852



**ML-16-0915-02**

**Title:** No recovery time objective and recovery point objective have been established for the Maine Revenue Integrated Tax System

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Administrative and Financial Services

**State Bureau:** Maine Revenue Services (MRS)

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal Information System Controls Audit Manual (FISCAM) CP-1.1, CP-1.2, CP-1.3, AS-5.1; MRS Business Continuity Policy

**Condition:** The Department has not identified, formally documented, and approved a recovery time objective (RTO) and recovery point objective (RPO) for the Maine Revenue Integrated Tax System (MERITS). MRS is in the process of formally establishing business function recovery priorities utilizing recommendations generated through the MRS Business Impact Analysis.

**Context:** MERITS is the system used by MRS for collecting approximately \$3.8 billion per year in tax revenue. This includes the processing and storage of confidential information.

**Cause:** Due to a lack of resources, MRS has not yet identified critical sub-systems. Therefore, MRS cannot prioritize these sub-systems for recovery in the event of a failure.

**Effect:** Potential system downtime and data loss

**Recommendation:** We recommend that the Department:

- identify, assign and approve MRS business function recovery priorities
- establish appropriate RTO and RPO for MERITS to align with business priorities

**Management’s Response:** The Department agrees with the finding.

MERITS is the tax and accounting program of record, supporting the collection of revenues by MRS. The establishment of business function recovery priorities is a priority as MRS continues to develop its Business Continuity Disaster Recovery Plan, which

includes MERITS as a key system. MRS will also establish RTOs and RPOs for MRS systems including MERITS.

The determination of the RTO and the RPO will require the input of the Office of Information Technology (OIT). OIT is currently developing its own Business Continuity Disaster Recovery Plan and resource timelines. MRS will work closely with OIT to establish critical benchmarks for MRS applications, including MERITS,

**Contact:** Vicki Roy, Director of Accounting, 207-441-5852

**ML-16-0918-01 CONFIDENTIAL**

**Title:** \_\_\_\_\_ (The content of this finding has been redacted. This appears as blank underlining).

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Administrative and Financial Services (DAFS)

**State Bureau:** Human Resources, Benefit Administration

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal \_\_\_\_\_; Office of Information Technology (OIT), State of Maine \_\_\_\_\_

**Condition:** Controls \_\_\_\_\_ need improvement. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

**Context:** DAFS requires \_\_\_\_\_.

**Cause:** The \_\_\_\_\_ did not ensure that the \_\_\_\_\_.

**Effect:** Controls that were not adequately implemented created an \_\_\_\_\_.

**Recommendation:** We recommend that controls over the \_\_\_\_\_ be strengthened to include \_\_\_\_\_.

**Management’s Response:** The Department agrees with the finding.

In response to this finding, \_\_\_\_\_. We agree with the findings but understand the corrective actions to be complete.

**Contact:** Christine Brawn, Executive Director, 207-624-7361

**ML-16-0919-01 CONFIDENTIAL**

**Title:** \_\_\_\_\_ (The content of this finding has been redacted. This appears as blank underlining).

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Administrative and Financial Services (DAFS)

**State Bureau:** Human Resources, Benefit Administration

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal \_\_\_\_\_; Office of Information Technology (OIT), State of Maine \_\_\_\_\_

**Condition:** Controls \_\_\_\_\_ need improvement. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

**Context:** DAFS requires the \_\_\_\_\_.

**Cause:** The \_\_\_\_\_ did not ensure that the \_\_\_\_\_.

**Effect:** \_\_\_\_\_ controls created an \_\_\_\_\_.

**Recommendation:** We recommend that controls over the \_\_\_\_\_ be strengthened to include \_\_\_\_\_.

**Management's Response:** The Department agrees with the finding.

In response to this finding, \_\_\_\_\_. We agree with the findings, but understand the corrective actions to be complete.

**Contact:** Christine Brawn, Executive Director, 207-624-7361

**ML-16-1005-02**

**Title:** Federal cash monitoring needs to be enhanced

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Administrative and Financial Services

**State Bureau:** Office of the State Controller (OSC)

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** State Administrative and Accounting Manual 50.40.40

**Condition:** Neither the OSC or the Office of the State Treasurer (OST) is performing monthly monitoring of Federal cash balances for programs designated as Major by the Code of Federal Regulations. The OSC has stated that the Manual does not reflect the current expectation that OSC, not OST, will monitor these cash balances.

**Context:** There are eleven Major programs covered by the Treasury-State Agreement (TSA). In fiscal year 2016, a total of \$2.5 billion in Federal cash was drawn by State agencies administering these programs.

**Cause:** The Manual has not been updated to reflect the current expectation, and the OSC has yet to assume this responsibility in practice.

**Effect:** Agency compliance with the TSA is not being enhanced by a control at the Statewide level.

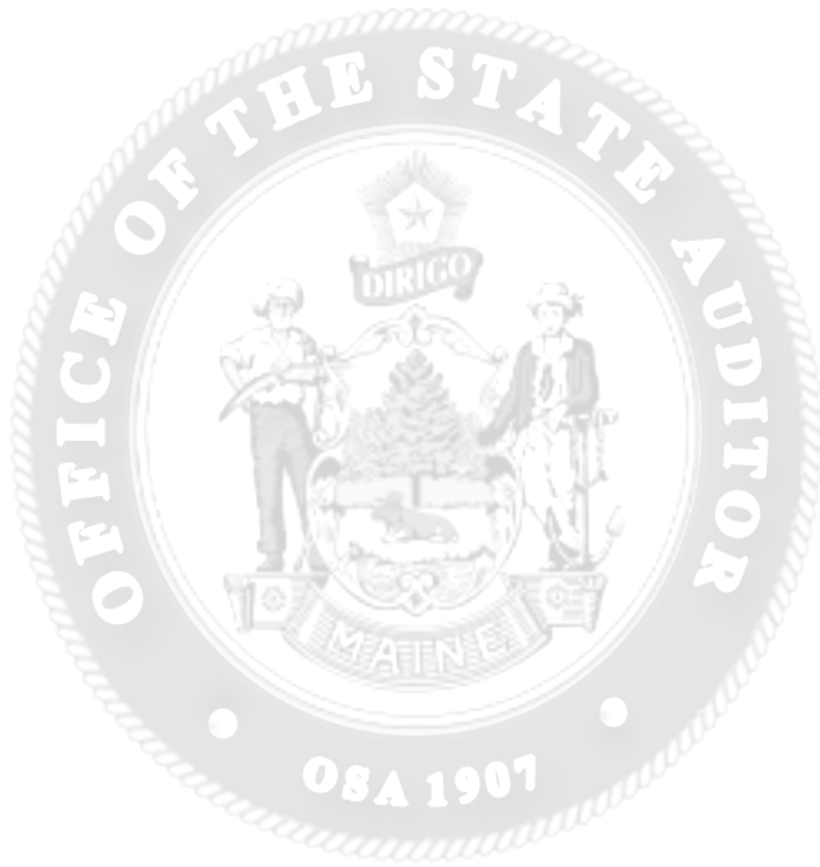
**Recommendation:** We recommend that the OSC:

- implement procedures to ensure agency compliance with drawdown techniques by monitoring cash balances for programs designated as Major by the Code of Federal Regulations, and
- update the Manual to reflect their intent to monitor agency compliance with Federal regulations.

**Management's Response:** The Department agrees with the finding. The Office of the State Controller (OSC) will update the *State Administrative & Accounting Manual* (SAAM) to ensure that roles and responsibilities related to CMIA are understood and well defined. Additionally, the OSC will implement cash monitoring procedures for programs designated as Major by the Code of Federal Regulations. The Department anticipates that full corrective action will be implemented June 30, 2017.

**Contact:** Darryl Stewart, Director of Internal Audit, 207-626-8441

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**





**ML-16-0900-04 CONFIDENTIAL**

**Title:** \_\_\_\_\_ (The content of this finding has been redacted. This appears as blank underlining).

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Health and Human Services

**State Bureau:** Office of Family Independence, Division of Support Enforcement and Recovery

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal \_\_\_\_\_

**Condition:** The Department was unable to \_\_\_\_\_. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

**Context:** \_\_\_\_\_

**Cause:** Lack of resources and competing priorities

**Effect:** The lack of a \_\_\_\_\_ could potentially result in \_\_\_\_\_.

**Recommendation:** We recommend that the Department develop a \_\_\_\_\_. We also recommend that the Department \_\_\_\_\_.

**Management's Response:** The Department agrees with the finding and is working with the \_\_\_\_\_ to complete \_\_\_\_\_. The Department anticipates that corrective action will be completed by September 30, 2017.

**Contact:** Bethany Hamm, Director, Office for Family Independence, 207-624-4103

**ML-16-0900-05**

**Title:** DHHS has not recently performed a business impact analysis that complies with government standards and has not established a recovery time objective and recovery point objective for their child support enforcement and recovery system operations

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Health and Human Services (DHHS)

**State Bureau:** Office of Family Independence, Division of Support Enforcement and Recovery (DSER)

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal Information System Controls Audit Manual (FISCAM) CP-1.0 and AS-5.0

**Condition:** We were unable to test the results and adequacy of the Department’s business impact analysis (BIA) because the agency has not completed one. We were also unable to test DSER’s ability to recover their child support enforcement system within a pre-established recovery time objective (RTO) and recovery point objective (RPO) because the objectives are not identified, formally documented, and approved.

**Context:** The Department’s child support enforcement and recovery system supported over \$109 million in gross collections during fiscal year 2016. DSER also receives and processes eligibility data, address changes, dates of birth, and social security numbers through related data exchanges.

**Cause:** Lack of resources and competing priorities

**Effect:** The lack of a BIA, RTO and RPO increases the risk that critical business functions and systems will not be recoverable in a timely manner and that sensitive data will be lost.

**Recommendation:** We recommend the Department conduct a BIA in compliance with government standards. We also recommend the Department identify and approve RTOs and RPOs for resources and systems that support DSER business functions, including their child support enforcement and recovery system.

**Management's Response:** The Department agrees with the finding and is working with the Office of Information Technology to complete a business continuity disaster recovery policy. The Department anticipates that corrective action will be completed by November 15, 2017.

**Contact:** Bethany Hamm, Director, Office for Family Independence, 207-624-4103

**ML-16-0900-06 CONFIDENTIAL**

**Title:** The Maine Immunization program has no \_\_\_\_\_. (The content of this finding has been redacted. This appears as blank underlining).

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Health and Human Services

**State Bureau:** Maine Center for Disease Control and Prevention, Maine Immunization Program

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal \_\_\_\_\_

**Condition:** The Department was unable to \_\_\_\_\_. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

**Context:** The Department tracked \_\_\_\_\_.

**Cause:** Lack of resources and competing priorities

**Effect:** The lack of a \_\_\_\_\_ could potentially result in \_\_\_\_\_.

**Recommendation:** We recommend that the Department develop a \_\_\_\_\_. We also recommend that the Department \_\_\_\_\_.

**Management's Response:** The Department agrees with the finding. The Department will develop a \_\_\_\_\_. The Department anticipates that corrective action will be completed by September 30, 2017.

**Contact:** Danielle Hall, Health Program Manager, 207-287-2586

**ML-16-0900-07**

**Title:** DHHS has not recently performed a business impact analysis that complies with government standards and has not established a recovery time objective and recovery point objective for their immunization inventory system operations

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Health and Human Services (DHHS)

**State Bureau:** Maine Center for Disease Control and Prevention, Maine Immunization Program (MIP)

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal Information System Controls Audit Manual (FISCAM) CP-1.0 and AS-5.0

**Condition:** We were unable to test the results and adequacy of the Department’s business impact analysis (BIA) because the agency has not completed one. We were also unable to test the MIP’s ability to recover its immunization inventory tracking system within a pre-established recovery time objective (RTO) and recovery point objective (RPO) because the objectives are not identified, formally documented, and approved.

**Context:** The Department tracked over \$23 million of Federal and State funded immunization inventory with their MIP system this year.

**Cause:** Lack of resources and competing priorities

**Effect:** The lack of a BIA, RTO and RPO increases the risk that critical business functions and systems will not be recoverable in a timely manner and that sensitive data will be lost.

**Recommendation:** We recommend the Department conduct a BIA in compliance with government standards. We also recommend the Department identify and approve RTOs and RPOs for resources and systems that support MIP business functions, including their immunization inventory tracking system.

**Management's Response:** The Department agrees with the finding. The Department will conduct a BIA in compliance with government standards. The BIA will identify the recovery time objective and the recovery point objective to ensure the support of the Maine Immunization Program including the immunization inventory tracking system. The Department anticipates that corrective action will be completed by September 30, 2017.

**Contact:** Danielle Hall, Health Program Manager, 207-287-2586

**ML-16-0909-02**

**Title:** Controls to ensure the ongoing accuracy of the contractor-operated pharmacy payment system, using a combination of end-to-end, regression, and scenarios testing and to track and escalate issues as needed, needs improvement

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Health and Human Services (DHHS)

**State Bureau:** Office of MaineCare Services (OMS)

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal Information System Controls Audit Manual (FISCAM) CP-3.1, AS-5.3; State of Maine Information Security Policy

**Condition:** The Department authorization and approval of Maine Point of Purchase System (MEPOPS) related technology and business rule changes are not based on formally developed and implemented OMS testing procedures.

**Context:** MEPOPS is the outsourced electronic system used to process Medicaid and CHIP pharmacy claims. These claims total over \$250 million annually. It functions as an integral part of Maine’s Medicaid Management Information System (MMIS).

**Cause:** Control procedures to test technology and business rule changes have not been established for MEPOPS at the State level. DHHS has relied on the contractor to test and approve changes.

**Effect:** The lack of effectively implemented controls over the contractor creates unnecessary risk for the possibility of:

- noncompliance with Federal funding requirements
- extended downtime
- system failure
- administrative inefficiencies

**Recommendation:** We recommend that OMS establish a method to test system business rule changes prior to formal OMS approval.

**Management's Response:** The Department agrees with the finding.

Additional scrutiny can be added to the change management process with the MEPOPS vendor. There are currently a variety of operational checks including biweekly operations meetings, monthly claim audits, and a dedicated State change management analyst who works with State and vendor staff to resolve any issues. These are sufficient for the routine State/MEPOPS operations.

The State will add rigorous scrutiny and oversight of major system changes to include:

1. Annual review and approval of the Disaster Recovery and Business Continuity plans by OMS and OIT staff.
2. For every significant system change, a walkthrough of the change management protocol for the project including approval by OMS Change Management of the technical Scope of Work prior to State acceptance of the Change Request.
3. Review by OMS of MEPOPS vendor biweekly updates of each project plan covering the status of milestones, problems, progress and any necessary changes to timelines.
4. OMS review of system testing results before the Change Request is formally approved by OMS for production. Post-production validation will be conducted both by the vendor and by State Change Management team.

The estimated corrective action implementation date is 6/30/17.

**Contact:** Stefanie Nadeau, Director Office of MaineCare Services, 207-287-2093



**ML-16-1106-09**

**Title:** Controls over eligibility case reviews included in the Medicaid and CHIP Eligibility Review Pilot Sampling Plan need improvement

**Prior Year Findings:**

FY15	FY14	FY13	FY12	FY11	FY10	FY09
	2014-005					

**State Department:** Health and Human Services

**State Bureau:** Office of MaineCare Services

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federally-approved Medicaid and CHIP Eligibility Review Round 4 Pilot Proposal

**Condition:** The Department did not perform eligibility case reviews for the fourth round of the pilot project in accordance with its Federally-approved Pilot Proposal. The Department specified in its proposal that each case review would be cross-checked by another reviewer before it would be considered final. Of the forty case reviews tested, thirty-two had not been cross-checked as required.

The Office of the State Auditor selected a non-statistical random sample.

**Context:** With the enactment of the Affordable Care Act on August 15, 2013, the Centers for Medicare and Medicaid Services (CMS) directed states to implement Medicaid and CHIP Eligibility Review Pilots in place of the Payment Error Rate Measure (PERM) and Medicaid Eligibility Quality Control (MEQC) eligibility review requirements for fiscal years 2014 through 2017. The Medicaid and CHIP Eligibility Review Pilots will provide more targeted, detailed information on the accuracy of eligibility determinations using the Affordable Care Act’s rules and will also provide States and CMS with critical feedback. This will assist CMS in developing eligibility requirements when PERM resumes in fiscal year 2018.

**Cause:** Lack of staff

**Effect:**

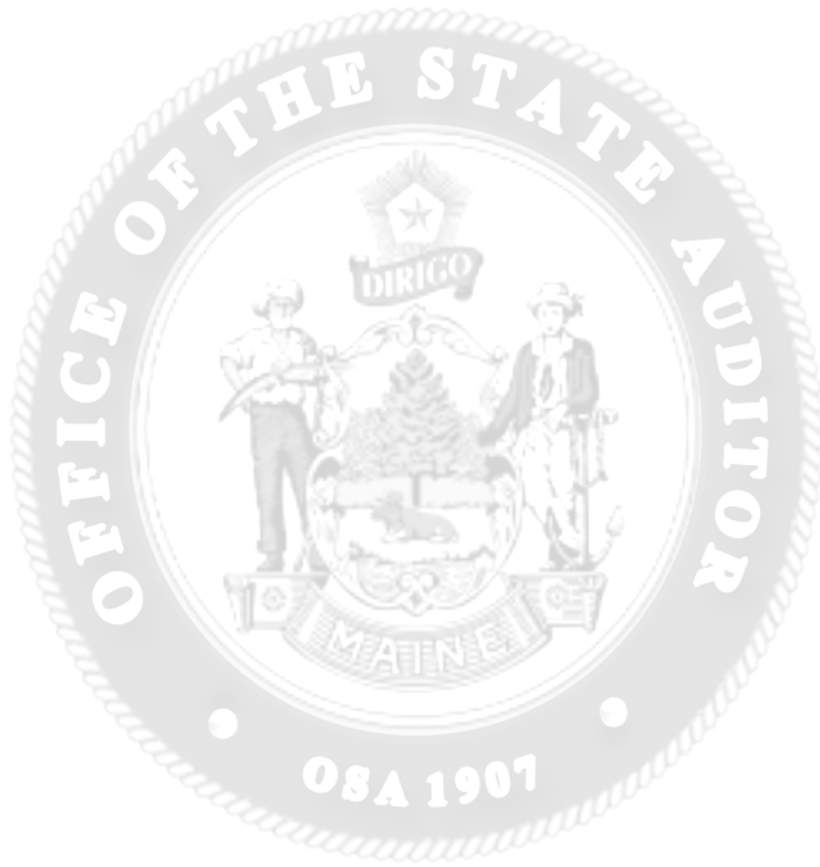
- Noncompliance with the Federally approved Medicaid and CHIP Eligibility Round 4 Pilot Proposal
- Risk that errors in the eligibility review process will remain undetected

**Recommendation:** We recommend that the Department perform their eligibility case reviews in accordance with its Federally-approved Pilot Proposal.

**Management's Response:** The Department agrees with the finding. The Payment Error Rate Measure (PERM) unit was unable to cross-check all of the eligibility reviews before the review deadline, as stated in the pilot proposal. In the future we will cross-train staff to meet the requirements of the PERM eligibility audits. The Department anticipates that corrective action will be completed by December 31, 2017.

**Contact:** Stefanie Nadeau, Director, Office of MaineCare Services, 207-287-2093

**DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**  
**AND**  
**DEPARTMENT OF HEALTH AND HUMAN SERVICES**



**ML-16-0922-04**

**Title:** No recovery time objective and recovery point objective have been established for the DHHS Automated Client Eligibility System

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Administrative and Financial Services

Health and Human Services

**State Bureau:** Office of Family Independence (OFI)

Office of Information Technology

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal Information System Controls Audit Manual (FISCAM) CP-1.1, CP-1.2, CP-1.3, AS-5.1; State of Maine Information Security Policy

**Condition:** The Department has not identified, formally documented, and approved a recovery time objective (RTO) and recovery point objective (RPO) for the Automated Client Eligibility System (ACES).

**Context:** ACES is the system that determines eligibility and stores confidential client information for major Federal assistance programs such as Medicaid, CHIP, TANF and SNAP. The total Federal and State shares of benefits or claims resulting from ACES eligibility determinations exceeds \$2 billion each year.

**Cause:** Lack of resources

**Effect:** Potential system downtime and data loss

**Recommendation:** We recommend that the Department:

- identify, assign and approve business function recovery priorities
- establish appropriate RTO and RPO for ACES to align with those business priorities

**Management's Response:** The Department agrees with the finding.

The OFI Compliance and Program Integrity Program Manager will begin assessing business recovery priorities and develop documented RTO and RPO protocols April 4, 2017, with a completion date target of April 28, 2017.

**Contact:** Bethany Hamm, Director, Office for Family Independence, 624-4103

**ML-16-1128-01**

**Title:** Periodic reconciliations between collections reports and AdvantageME were not performed

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Administrative and Financial Services (DAFS)

Health and Human Services (DHHS)

**State Bureau:** Office for Family Independence

Health and Human Services Service Center

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** 2 CFR 200.400(a) Subpart E – Cost Principles; 2 CFR 200.303(a) Internal Control

**Condition:** The Department did not perform periodic reconciliations of Child Support collections reported by the Child Support Enforcement system (CSEME) and the statewide accounting system, AdvantageME.

**Context:** The Child Support Enforcement program collected \$106 million of child support revenue during fiscal year 2016.

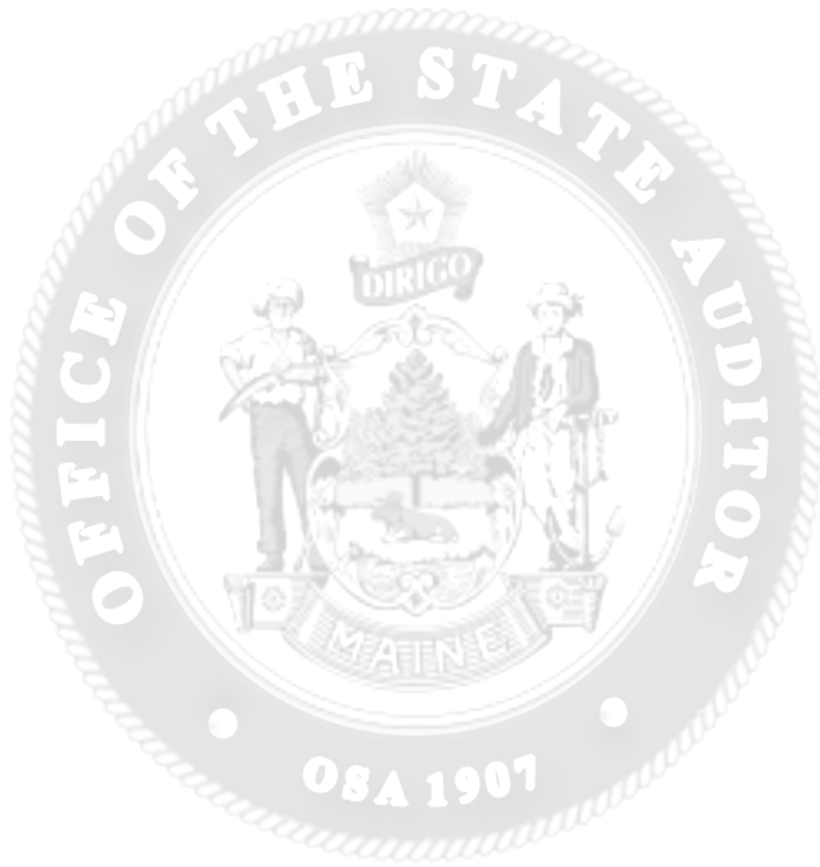
**Cause:** Resources were not utilized to perform the reconciliation

**Effect:** Potential for undetected errors between the two reporting systems

**Recommendation:** We recommend that the Department perform periodic reconciliations between CSEME’s OCSE-34 Collections Reports and the statewide accounting system, AdvantageME.

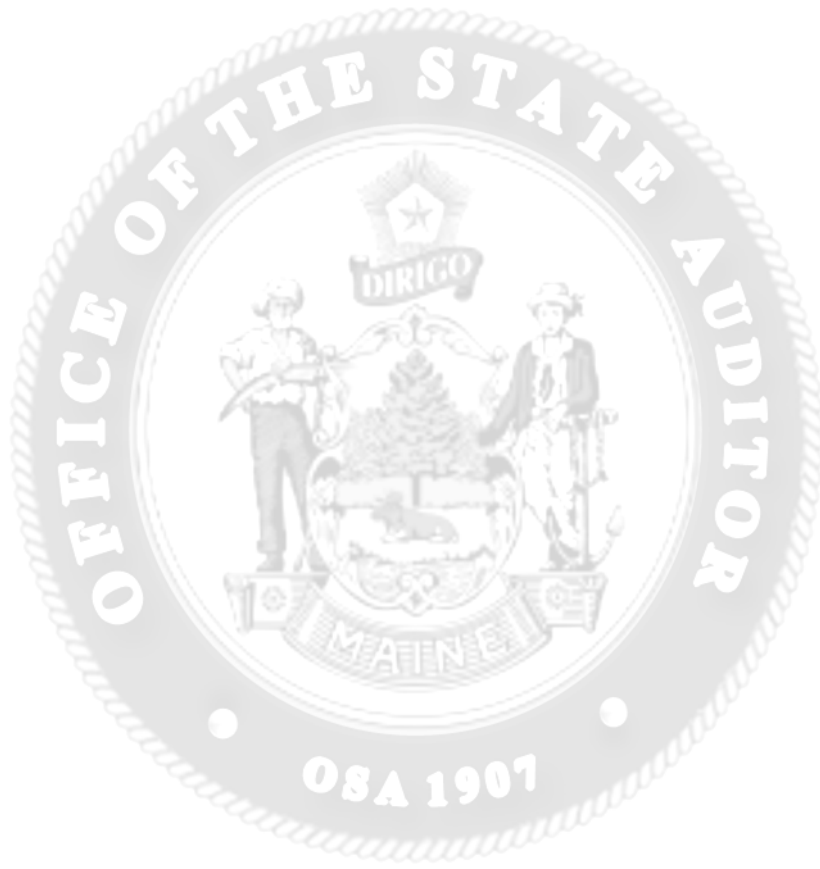
**Management’s Response:** The Department agrees with the finding. The DAFS DHHS Service Center will partner with DSER to develop a reconciliation procedure to readily explain variances between the General Ledger and Child Support Enforcement system reporting. The Department anticipates that corrective action will be completed by December 31, 2017.

**Contact:** David Whitt, Director, 207-248-7150





**DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**  
**AND**  
**DEPARTMENT OF LABOR**



**ML-16-0308-01**

**Title:** Procedures to value the allowance for uncollectible accounts need improvement

**Prior Year Findings:**

<b>FY15</b>	<b>FY14</b>	<b>FY13</b>	<b>FY12</b>	<b>FY11</b>	<b>FY10</b>	<b>FY09</b>
ML-15-0308-01	ML-14-0308-01	13-0308-01	12-0308-01			

**State Department:** Administrative and Financial Services (DAFS)  
Labor (DOL)

**State Bureau:** Office of the State Controller (OSC)  
Unemployment Compensation (BUC)

**Type of Finding:** Management letter

**Condition:** DAFS and DOL did not have proper procedures in place to value the allowance for uncollectible accounts. Personnel did not take into account relevant collection experience and general economic conditions. The same percentages and assumptions have been used to estimate the allowance for uncollectible accounts within the Employment Security Enterprise Fund for at least twenty years.

**Context:** For fiscal year 2016, the Employment Security Enterprise Fund’s allowance for uncollectible accounts of \$25.2 million was calculated for receivables totaling \$54 million.

**Cause:** Quantitative analysis to support valuation assumptions is not adequate

**Effect:** Net receivables may be inaccurate in the State’s financial statements.

**Recommendation:** : We recommend that the Departments perform additional analysis to ensure that the allowance for uncollectible accounts is properly valued.

**Management’s Response:** The Department does not agree with the finding.

The Office of the State Controller (OSC) is responsible for determining the estimates included in the financial statements. The accounting estimates are based on subjective, as well as, objective factors; therefore, professional judgment is required to estimate an amount at the date of the financial statements. The OSC has a process for estimating the reserve amount for uncollectible receivables using an aging methodology, which is considered a common and acceptable method within the industry. Management’s opinion is that this method is not overly sensitive to variations, is consistent with historical patterns and is not overly subjective or susceptible to bias. Applying this methodology, the OSC and the Department of Labor (DOL) accumulate relevant, sufficient and reliable data on which to base the estimate. Additionally, we believe that the estimate is presented in conformity with applicable accounting principles and that disclosure is adequate.

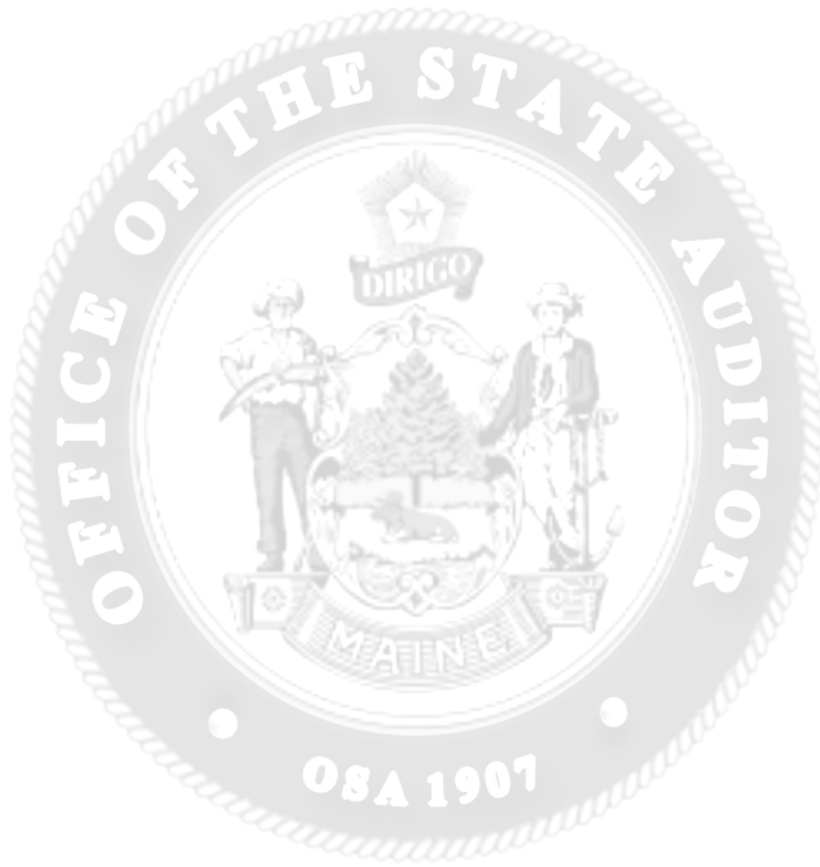
With information provided by the DOL, the OSC performed a five year trend analysis of historical collections. The OSC compared the percentages and assumptions used in the past and updated the reserve percentage accordingly. The OSC will continue to use a rolling five year trend analysis with actual collection data, as provided by the DOL, to update the reserve percentage.

**Contact:** Sandra Royce, CPA, Director of Financial Reporting & Analysis, 207-626-8451

**Auditor's Concluding Remarks:** Quantitative support is not available to substantiate the valuation assumptions used for the Allowance for Uncollectible Accounts or to support the conclusion that the collectability of Employment Security Trust Fund receivables is not overly sensitive to variations. We continue to recommend that OSC, working together with the BUC, refine its valuation method for financial statement purposes.

The finding remains as stated.

**DEPARTMENT OF TRANSPORTATION**



**ML-16-0907-01**

**Title:** Change management policies and procedures related to the DOT financial transaction processing system are not adequate

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Transportation (DOT)

**State Bureau:** Finance and Administration

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal Information System Controls Audit Manual (FISCAM) CM-1.0 and AS-3.0

**Condition:** The Department was unable to provide any formal change management policies and procedures applicable to their financial transaction processing and accounting system. DOT does comply with the State Application Deployment Certification Policy that requires testing prior to initial implementation into the production environment. However, there are no policies or procedures that govern subsequent changes throughout the entire life cycle.

**Context:** DOT’s financial accounting system processes all Highway Fund transactions.

**Cause:** Unknown

**Effect:** The lack of formal documented policies and procedures results in changes that are loosely managed and inadequately tracked. This increases the risk that unauthorized changes are deployed into the production environment. Unmanaged and unauthorized application changes could potentially lead to a loss of system and data confidentiality, integrity, and availability.

**Recommendation:** We recommend that DOT design and implement policies and procedures related to the management of application changes in their financial accounting system. Policies and procedures should document the software development lifecycle methodology in use by DOT that is consistent with generally accepted concepts and practices.

Additionally, the policies and procedures should:

- be thoroughly documented to provide guidance to staff with varying levels of skill and expertise;

- provide a means of controlling changes from their initial request through to the closure of the change ticket; and
- outline specific documentation requirements.

DOT was in the process of improving their documentation requirements during our audit. While we encourage the implementation of these controls, our recommendation addresses the requirement that DOT document both current and newly designed controls within change management policies and procedures.

**Management's Response:** The Department agrees with the finding.

The Department follows all OIT policies related to change management, but we agree that a standard operating procedure (SOP) should be created to document the specific Free2000 application management processes. Our goal is to have the SOP completed within the next three months.

For clarification purposes, all of the Department's financial transactions are processed in Free2000, not only the Highway Fund transactions (see Context of finding).

**Contact:** Doreen Corum, Financial Processing Director, 207-624-3139



**ML-16-0907-02 CONFIDENTIAL**

**Title:** DOT has \_\_\_\_\_ (The content of this finding has been redacted. This appears as blank underlining).

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Transportation (DOT)

**State Bureau:** Finance and Administration

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal \_\_\_\_\_

**Condition:** The Department was unable to provide a \_\_\_\_\_. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

**Context:** DOT’s financial accounting system processes all Highway Fund transactions.

**Cause:** Lack of resources

**Effect:** When no \_\_\_\_\_ in place there is \_\_\_\_\_. The missing \_\_\_\_\_ could potentially result in \_\_\_\_\_.

**Recommendation:** We recommend that DOT develop a \_\_\_\_\_. We also recommend that DOT \_\_\_\_\_.

**Management’s Response:** The Department agrees with the finding.

The Department will engage with the \_\_\_\_\_. We will have a plan outlined, with milestones developed, within 9 months.

\_\_\_\_\_

**Contact:** Doreen Corum, Financial Processing Director, 207-624-3139

**ML-16-0907-03**

**Title:** DOT has not recently performed a business impact analysis that complies with government standards and has not established a recovery time objective and recovery point objective for their financial accounting system

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Transportation (DOT)  
**State Bureau:** Finance and Administration

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal Information System Controls Audit Manual (FISCAM) CP-1.0 and AS-5.0

**Condition:** We were unable to test the results and adequacy of the Department’s business impact analysis (BIA) because the agency has not recently completed one. We were also unable to test DOT’s ability to recover their financial accounting system within a pre-established recovery time objective (RTO) and recovery point objective (RPO) because the objectives are not identified, formally documented, and approved.

DOT recently provided auditors a copy of the high-level application impact analysis performed of their financial accounting system in November 2008. However, we did not consider that analysis during our audit procedures because it had not been updated or reviewed since 2008.

DOT also provided auditors a portion of the DOT Security and Emergency Operations Plan, which included sections similar to those that would be included in a BIA. However, the analysis was not conducted in compliance with government standards. Additionally, the Security and Emergency Operations Plan has not been updated since its publication in 2009. DOT is currently in the process of reviewing the plan and hopes to complete this effort within the next few months.

**Context:** The Department’s financial accounting system processes all Highway Fund transactions.

**Cause:** Lack of resources

**Effect:** The lack of a BIA, RTO and RPO increases the risk that critical business functions and systems will not be recoverable in a timely manner and that sensitive data will be lost.

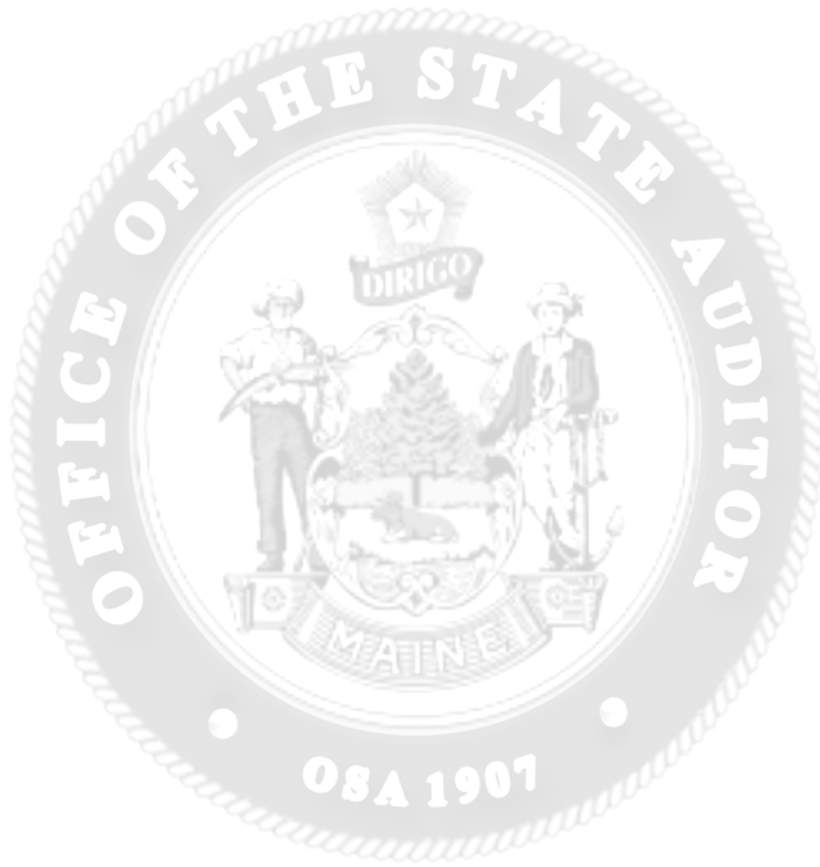
**Recommendation:** We recommend DOT conduct a BIA in compliance with government standards. We also recommend DOT identify and approve RTOs and RPOs for resources and systems that support DOT business functions, including their financial accounting system.

**Management's Response:** The Department agrees with the finding.

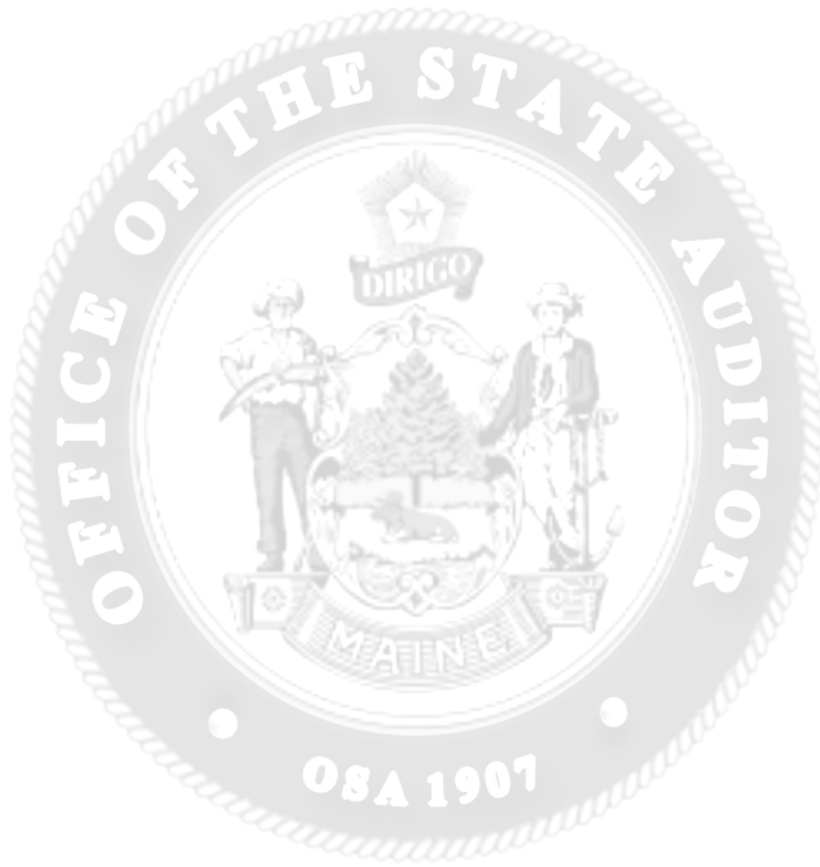
The Department will engage with the OIT BCDR group to develop a plan that works in conjunction with our Security and Emergency Operations Plan. As part of that process we will be conducting a BIA and identifying RTOs and RPOs that support DOT business functions. We will have a plan outlined, with milestones developed, within 9 months.

For clarification purposes, all of the Department's financial transactions are processed in Free2000, not only the Highway Fund transactions (see Context of finding).

**Contact:** Doreen Corum, Financial Processing Director, 207-624-3139



**DEPARTMENT OF LABOR**



**ML-16-1308-03**

**Title:** Individualized Plans for Employment do not include all planned payments

**Prior Year Findings:**

FY15	FY14	FY13	FY12	FY11	FY10	FY09
ML-15-1308-03						

**State Department:** Labor

**State Bureau:** Rehabilitation Services

**Type of Finding:** Management letter

**Questioned Costs:** \$540

Questioned Costs	Total	Federal	State
<i>Known</i>	\$540	\$540	\$0

**Criteria:** 34 CFR 361.45(a)(2); 29 USC 723(a)

**Condition:** Out of the sixty expenditures selected for audit, four were for minor items that were not included in the Individualized Plan for Employment (IPE) as required by Federal regulation.

**Context:** Services provided to clients are based upon an IPE which is specific to each case. Payments were made for items that were not included in the IPE for the case involved.

**Cause:** Incomplete IPE's

**Effect:** Potential questioned costs

**Recommendation:** We recommend that the Department implement procedures to ensure that the IPE is amended prior to making payments for otherwise allowable items.

**Management's Response:** The Department agrees with the finding. The Department acknowledges that although some expenditures are allowed prior to the development of an Individualized Plan for Employment (IPE), such as for eligibility determination or vocational assessment, the four exceptions noted in the finding should have been documented in an IPE.

The documentation of the procurement of approved goods and services on IPE's is included as a performance expectation for all VR counselors. The performance

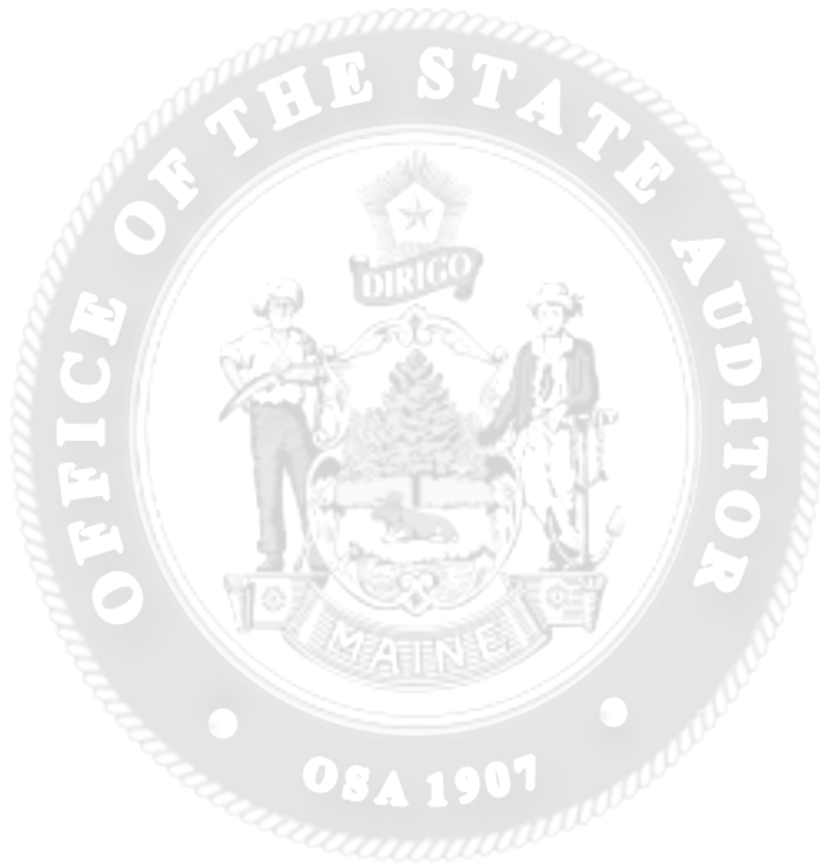
management system is used with individuals who do not meet this requirement. The Department will continue with this process.

Additionally, regional managers and supervisors conduct random case reviews to monitor ongoing compliance; corrective action is developed and implemented when noncompliance is identified. The Department will continue with this process.

**Contact:** Betsy Hopkins, Director, Division of Vocational Rehabilitation, 207-623-6745



**DEPARTMENT OF EDUCATION**



**ML-16-0900-01**

**Title:** No assurance that the Department of Education’s outsourced information system includes an adequate internal control framework

**Prior Year Findings:**

FY15	FY14	FY13	FY12	FY11	FY10	FY09
ML-15-0903-02						

**State Department:** Education (DOE)

**State Bureau:** Not applicable

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** Federal Information System Controls Audit Manual (FISCAM) AS 5.3; State of Maine Remote Hosting Policy

**Condition:** There is no assurance that internal controls over the outsourced financial and Federal transaction service operations provided by the vendor are adequate to ensure that DOE transactions are accurate, complete, available and secure.

**Context:** DOE contracts with a vendor to provide the software and to host and manage this system, including all aspects of disaster recovery. Reports on Service Organization Controls (SOC) measure the degree to which a user-entity and their auditors can rely on the suitability of the design and operating effectiveness of specific controls provided by a vendor.

**Cause:** Although DOE required the vendor to provide the results of independent SOC testing as part of their fiscal year 2016 to 2018 contractual agreement, no timeframe was specified for providing this information. The vendor opted to provide the testing results in the Spring/Summer of 2017. The two types of annual SOC reports that would provide DOE with adequate assurance are:

- a SOC 1, Type II report (formerly known as a SSAE 16 or SAS 70) on the controls over outsourced technology services for the year ending June 30, and
- a SOC 2, Type II report with a focus on the Trust Services Principle (TSP) of Availability (business continuity and disaster recovery) for the year ending June 30.

**Effect:** Not including an independent audit of the services provided could potentially result in the breach of sensitive information, corrupted, lost or inaccurate information, downtime, and extended shutdowns.

**Recommendation:** We recommend that DOE require that the vendor provide the Department with an annual SOC 1, Type II report and an annual SOC 2, Type II (TSP of Availability) report.

We also recommend that the Department add specific language to the contract requiring these two audits annually.

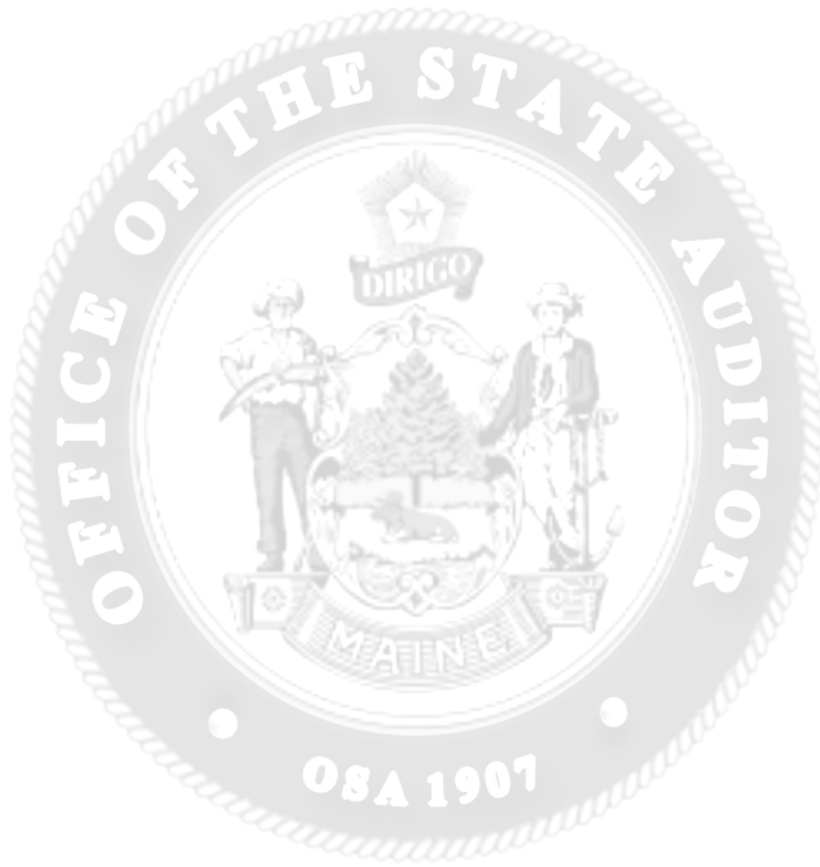
**Management's Response:** The Department agrees with the finding.

As part of the two year contract renewal, the Department has required the vendor to provide the Department with an annual SOC 1, Type II report and an annual SOC 2, Type II (TSP of Availability) report. The vendor has provided a timeline of late spring, or early summer, to complete the testing and provide us with the required reports.

Additionally, the Department will begin transitioning to Advantage grant management software during fiscal year 2018, under a contract managed by the Office of the State Controller.

**Contact:** Janice E. Breton, Director of Special Services, 207-624-6676

**OFFICE OF THE STATE TREASURER**



**ML-16-1005-01**

**Title:** Insufficient documentation of quarterly agency monitoring

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Office of the State Treasurer (OST)

**State Bureau:** Not applicable

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** State Administrative and Accounting Manual 50.40.40

**Condition:** The OST was not able to provide documentation that they sampled programs designated as Major by the Code of Federal Regulations and that they tested for compliance with drawdown techniques defined in the Treasury-State Agreement (TSA).

The Office of the State Auditor selected a non-statistical random sample.

**Context:** The OST monitors agency compliance with the drawdown techniques as defined in the TSA. One of the ways monitoring is achieved is by OST’s quarterly sampling of Major programs. There are eleven Major programs in the TSA.

**Cause:** Employee turnover

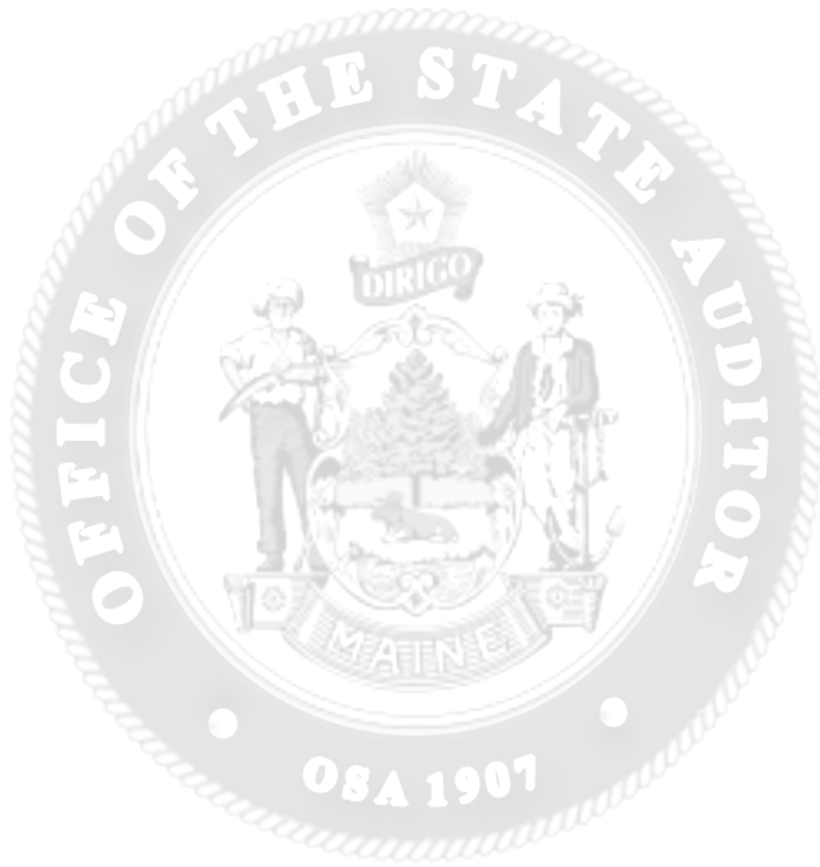
**Effect:** The detection of instances of noncompliance could potentially be delayed.

**Recommendation:** We recommend that the OST perform the quarterly sampling and testing of Major programs and ensure that documentation is retained.

**Management’s Response:** The Office of State Treasurer's (OST) responsibilities regarding the Cash Management Improvement Act are to negotiate and file the Treasury-State Agreement annually. As the designated liaison between State agencies and the Financial Management Service (FMS), OST is responsible for filing the Annual Report by December 31 and transmitting State interest liabilities to FMS when applicable. OST is not required by FMS or the TSA to perform any sampling or monitoring.

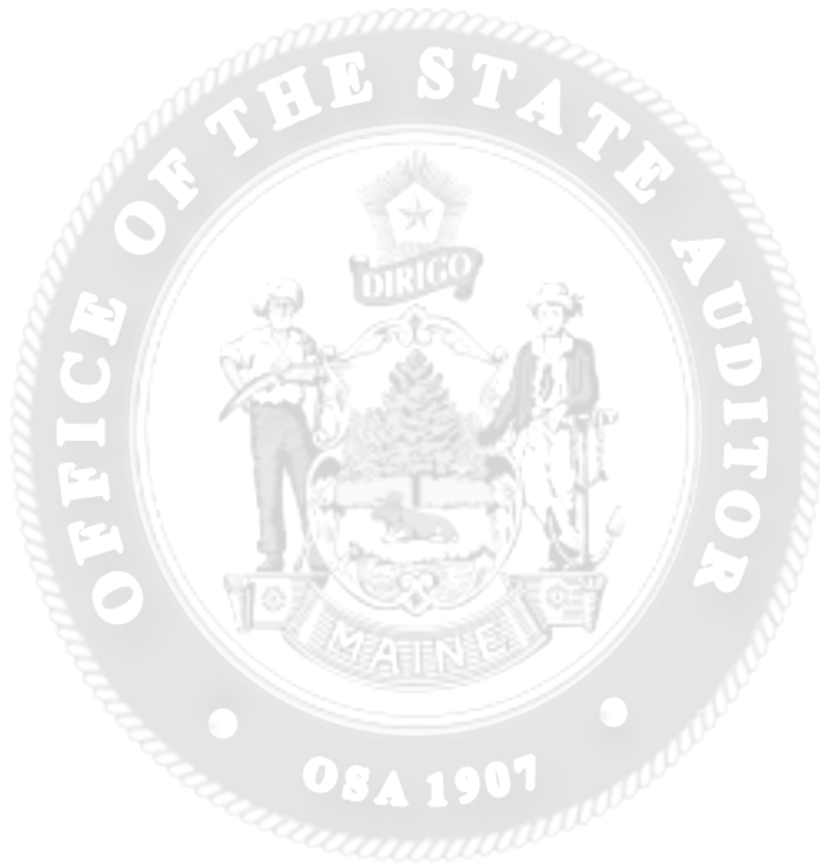
The OST will work with the Office of the State Controller to ensure that the roles and responsibilities related to CMIA are understood and well defined in the State Administrative & Accounting Manual (SAAM).

**Contact:** Tim Rodriguez, Director of Internal Operations, 207-624-7460





**DIVISION OF PURCHASES**



**ML-16-1010-01**

**Title:** Cost savings information related to bid contracts is not publicly available on the internet

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Division of Purchases

**State Bureau:** Bureau of General Services

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** 5 MRSA 1813-B; 2 CFR 200.317

**Condition:** The Director of the Bureau of General Services must make cost savings information for all awarded, competitively bid contracts for services, available to the public on the Department’s website. When applicable, the cost savings information must include projected savings over the State’s cost of providing the same service. Additional requirements in certain conditions apply. We were unable to access this information on the State website. In addition, it was not provided to us upon request.

**Context:** The posting of cost savings information for public viewing increases the transparency of State fiscal information and encourages optimal use of the State’s resources.

**Cause:** The requirements of this law that took effect on October 15, 2015 are still being reviewed and defined. Rules and regulations need to be drafted and completed before savings information can be collected and readied for posting to the State website.

**Effect:** Cost savings information required by State law is not available to citizens on the State website or by request.

**Recommendation:** We recommend that the Department implement procedures to ensure that State law is followed.

**Management’s Response:** The Department agrees with the finding.

Currently, the Department is reviewing the statutory requirements and defining the intent, and the extent, of the legislation. Before the required information can be collected and posted to the State’s website, rules and regulations need to be drafted and approved. The Department anticipates that the rule making process will be completed by March 31, 2018.

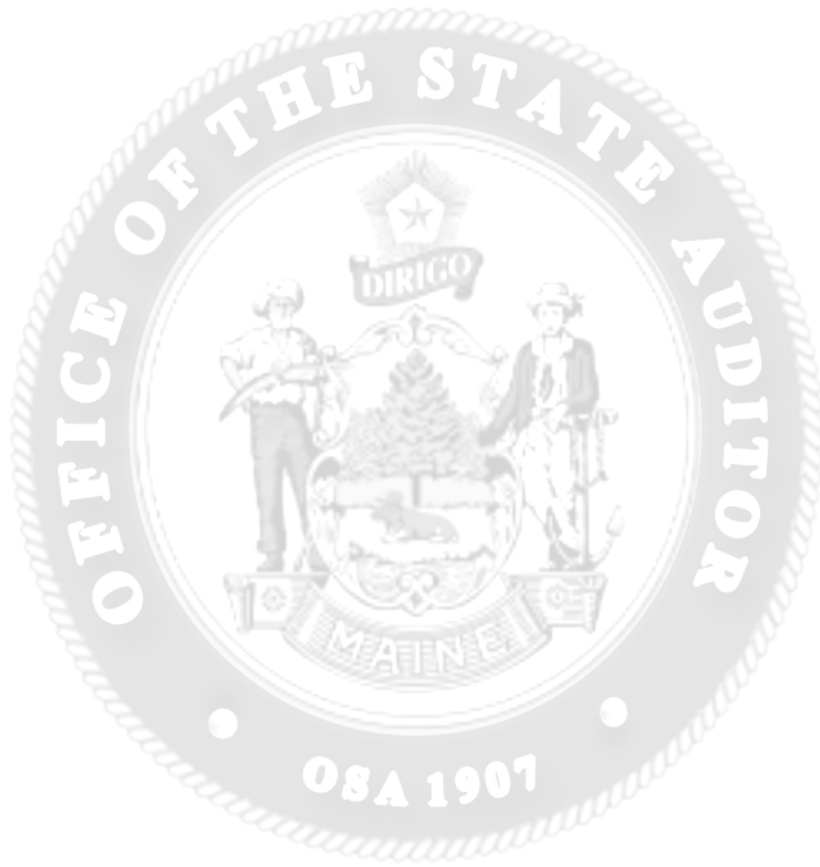
In concurrence with the rule making process, the Department intends to:

- Develop the procedures and forms necessary to capture, collect and post savings information to the State's website;
- Communicate the requirements and procedures to the State agencies; and,
- Perform an impact analysis to assess whether current staff can assume the new responsibilities, or, if the half-time position provided in the legislation will be necessary.

The Department anticipates that corrective action will be completed by March 31, 2018.

**Contact:** Kevin Scheirer, Director of Purchases, 207-624-7349

**DEPARTMENT OF ENVIRONMENTAL PROTECTION**



**ML-16-1520-02**

**Title:** Internal control over suspension and debarment verification needs improvement

**Prior Year Findings:** None

FY15	FY14	FY13	FY12	FY11	FY10	FY09

**State Department:** Environmental Protection

**State Bureau:** Air Quality

**Type of Finding:** Management letter

**Questioned Costs:** None

**Criteria:** 2 CFR 180.300

**Condition:** For one of eight contracts sampled, the Department did not determine whether the awardee was suspended or debarred from participating in Federal assistance programs.

The Office of the State Auditor selected a non-statistical random sample.

**Context:** Payments of \$29,862 were made in fiscal year 2016 for the contract identified in the Condition.

**Cause:** Department staff did not include the standard contract Rider D in anticipation of a change to Federal funding.

**Effect:** The Department was not in compliance with procurement and suspension and debarment requirements.

**Recommendation:** We recommend that the Department ensure compliance with procurement and suspension and debarment requirements.

**Management's Response:** The Department agrees with the finding. The Department has historically included the Rider D (Suspension and Debarment Rider) in all federally funded contracts. The referenced contract in this finding was an unencumbered service retainer contract typically funded with Other Special Revenue funds. The Department has issued guidance to all affected staff to ensure that the Rider D (Suspension & Debarment Rider) is included with all retainer contracts. The Department considers corrective action completed.

**Contact:** Sherrie Kelley, Director of Resource Administration, 207-287-4852

