

MAINE STATE LEGISLATURE

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STATE OF MAINE



MANAGEMENT LETTER

Fiscal Year Ending June 30, 2017

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

**State of Maine
Management Letter for the Year Ending
June 30, 2017**

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**This finding has been redacted consistent with Government Auditing Standards, also known as the Yellowbook (Chapter 4, Standards for Financial Audits, Reporting Confidential and Sensitive Information, paragraph beginning 4.40)*

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**This finding has been redacted consistent with Government Auditing Standards, also known as the Yellowbook (Chapter 4, Standards for Financial Audits, Reporting Confidential and Sensitive Information, paragraph beginning 4.40)*

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**This finding has been redacted consistent with Government Auditing Standards, also known as the Yellowbook (Chapter 4, Standards for Financial Audits, Reporting Confidential and Sensitive Information, paragraph beginning 4.40)*





**STATE OF MAINE
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Pola A. Buckley, CPA, CISA
State Auditor

B. Melissa Perkins, CPA
Deputy State Auditor

LETTER OF TRANSMITTAL

The Honorable Michael D. Thibodeau
President of the Senate

The Honorable Sara Gideon
Speaker of the House of Representatives

The Honorable Paul R. LePage
Governor of Maine

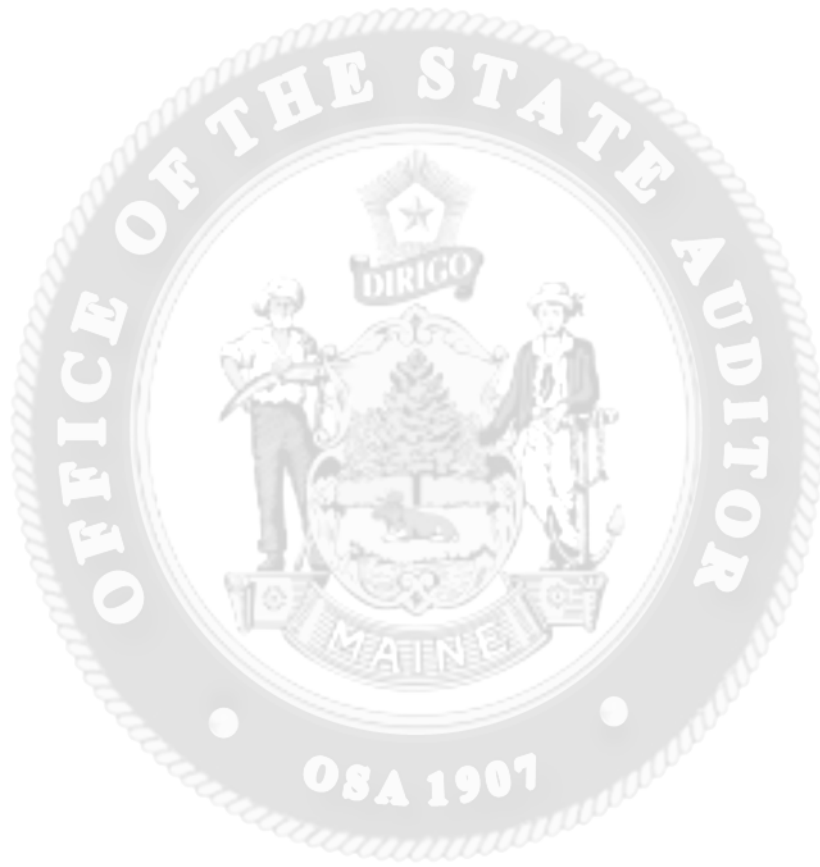
I am pleased to submit the State of Maine Management Letter for the year ended June 30, 2017. In the course of conducting the Single Audit of the State of Maine, we became aware of matters that offer opportunities for our government to improve its operations. Recommendations regarding these matters accompany 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 7, 2018





**STATE OF MAINE
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B. Melissa Perkins, CPA
Deputy State Auditor

MANAGEMENT LETTER

In planning and performing the Single Audit of the State of Maine for the year ended June 30, 2017, 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 of Maine. These matters were not identified as material weaknesses 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 fiscal year 2017 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

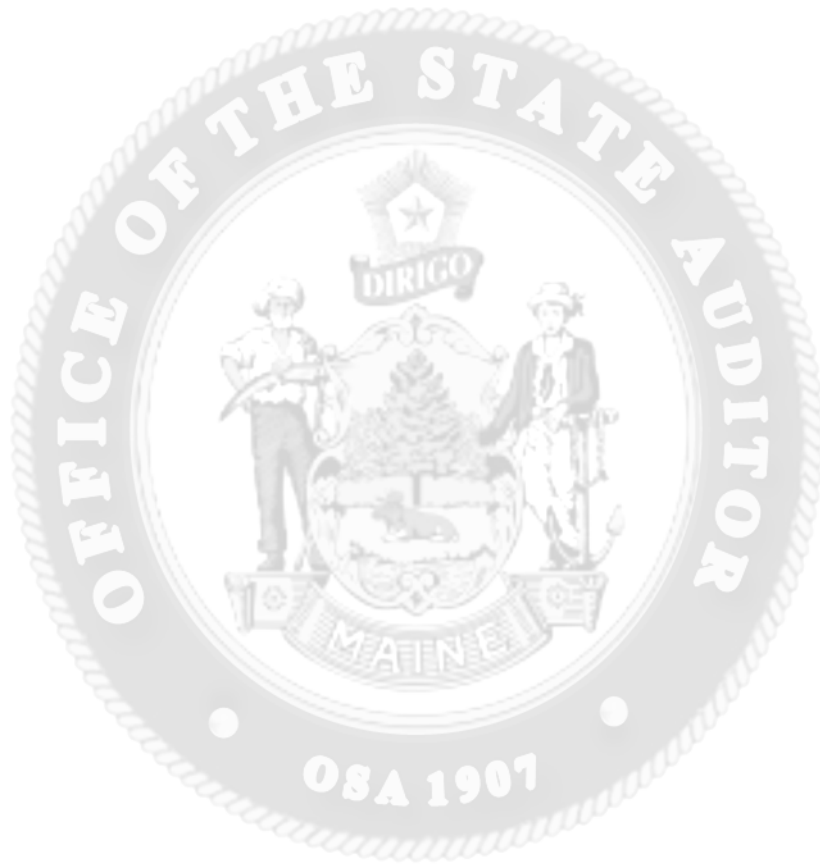
This Management Letter is intended solely for the information and use of the Legislature, the Governor, others within State government, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Thirteen of the twenty-three 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.

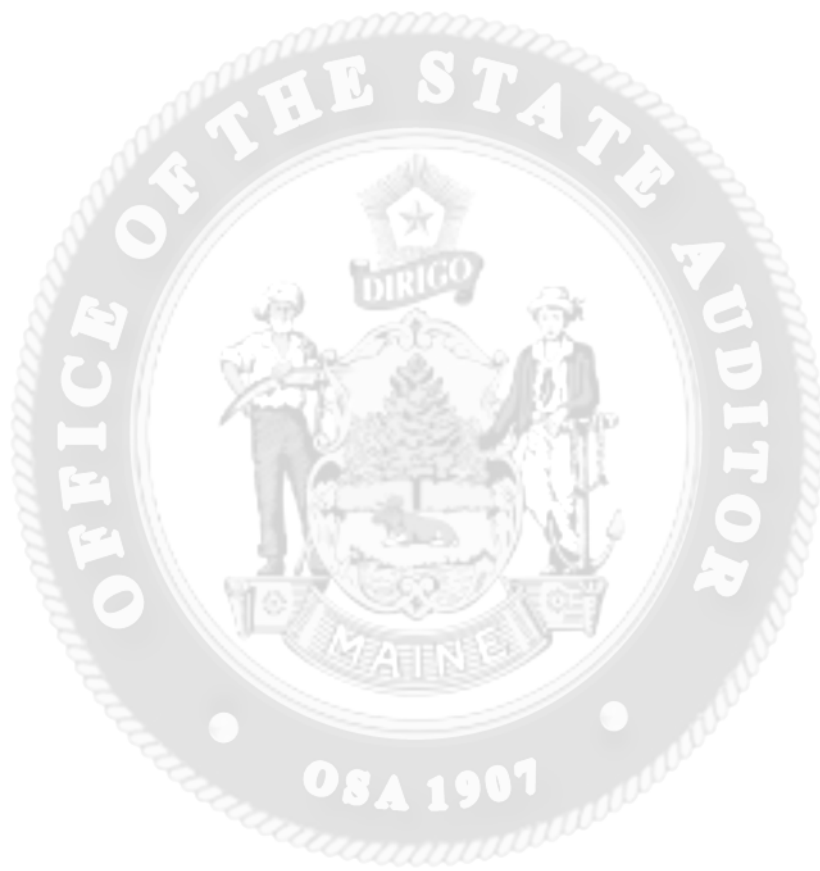
Included with the management letter comments are the audited agencies' responses. We would be pleased to discuss these management letter comments in further detail at your convenience.

Pola A. Buckley, CPA, CISA
State Auditor

March 30, 2018



DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES



ML-17-0901-01

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

Prior Year Findings:

FY16	FY15	FY14	FY13	FY12	FY11	FY10
ML 16-0901-01	ML 15-0903-01					

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

Type of Finding: Management letter

Questioned Costs: None

Criteria: Federal Information System Controls Audit Manual (FISCAM) AS-5.3; State 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 Department agrees with this finding. The Bureau has conducted a cost benefit analysis and determined the cost to be paid is not unreasonable.

The Bureau will enter into contract negotiation with the lottery gaming system vendor to add the SOC 2, Type II requirement to our SLA for the FY18 gaming system audit.

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

ML-17-0901-02 CONFIDENTIAL

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

Prior Year Findings: None

FY16	FY15	FY14	FY13	FY12	FY11	FY10

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

Type of Finding: Management letter

Questioned Costs: None

Criteria: Federal _____; State _____

Condition: The Department does not provide _____. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

Context: BABLO has an agreement with a _____. During fiscal year 2017, approximately \$58 million of net income was processed for the State _____. Therefore, it is important that _____.

Cause: _____.

Effect: Inadequate _____ controls are a potential _____.

Recommendation: We recommend that the Bureau implement additional controls to prevent this from reoccurring.

Management’s Response: The Department disagrees with the finding. _____.

The Department has established additional controls over _____.

Contact: Tim Poulin, BABLO, Deputy Director, 207-287-6750

Auditor’s Concluding Remarks: The State _____.

We agree that the additional controls identified as established by the Department over _____ since our testing this year are appropriate steps toward resolution of this matter.

The finding remains as stated.

ML-17-0902-01 CONFIDENTIAL

Title: _____ testing results indicate that control objectives identified as being provided _____ are not adequate for _____ (The content of this finding has been redacted. This appears as blank underlining.)

Prior Year Findings:

FY16	FY15	FY14	FY13	FY12	FY11	FY10
ML 16-0902-01						

State Department: Administrative and Financial Services (DAFS)

State Bureau: Office of Information Technology (OIT)

Type of Finding: Management letter

Questioned Costs: None

Criteria: Federal _____; State _____; State of Maine _____

Condition: Control objectives understood to be provided _____ transactions 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 _____ controls were in place and operating effectively to provide assurance that _____.

Effect: The _____ controls created an _____.

Recommendation: We recommend that OIT controls over the State _____ be strengthened to include _____.

Management's Response: The Department agrees with this finding. OIT has reached out to _____. This will be a proactive step to see if there are any findings for the new year similar to the findings in this year's audit. _____ will assess whether there is any impact on Maine directly, as well as to _____ prevent the issues noted this year.

It should be noted that the _____ concerns raised in this management letter comment are similar and repetitive when compared to the _____ issue raised in management letter comment 17-0902-03, correspondingly, the response for both of these management letter comments will be similar.

Contact: Eric Stout, OIT, IT Consultant, 207-624-9981

Auditor's Concluding Remarks: It is our position that having one finding that identifies _____ controls were either missing or lacking would be misleading.

More importantly, we believe that oversimplification of the issues by combining the results of the two audit findings (ML-17-0902-01 and ML-17-0902-03) may serve to confuse matters required for resolution. This creates a _____.

The finding remains as stated.

ML-17-0902-02 CONFIDENTIAL

Title: _____ controls provided by the Department for the State’s _____ need to be implemented (The content of this finding has been redacted. This appears as blank underlining.)

Prior Year Findings: None

FY16	FY15	FY14	FY13	FY12	FY11	FY10

State Department: Administrative and Financial Services

State Bureau: Office of Information Technology (OIT)

Type of Finding: Management letter

Questioned Costs: None

Criteria: Federal _____; State _____

Condition: The Department does not provide adequate controls to prevent _____. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

Context: OIT manages a _____ to manage and operate the _____. During fiscal year 2017, approximately \$59 million was processed using this _____. Therefore, it is important that _____.

Cause: _____.

Effect: Inadequate _____ controls are a potential _____.

Recommendation: We recommend that OIT personnel implement additional controls to prevent this situation in the future.

Management’s Response: The Department agrees with this finding. _____.

Working with our contact administrator (currently Eric Stout of OIT), we will implement a quarterly review process. We will provide each agency that has assigned _____. This will be done quarterly, ongoing.

Contact: Eric Stout, OIT, IT Consultant, 207-624-9981

ML-17-0902-03 CONFIDENTIAL

Title: _____ testing results indicate that certain _____ are not adequate in the event of _____ (The content of this finding has been redacted. This appears as blank underlining.)

Prior Year Findings: None

FY16	FY15	FY14	FY13	FY12	FY11	FY10

State Department: Administrative and Financial Services (DAFS)

State Bureau: Office of Information Technology (OIT)

Type of Finding: Management letter

Questioned Costs: None

Criteria: Federal _____; State _____; State of Maine _____

Condition: Internal controls provided by the _____ need improvement. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

Context: DAFS requires _____ to provide adequate _____ controls over _____. Maine government must be able to rely on the _____.

Cause: The _____ did not adequately ensure that the _____ controls were in place and operating effectively. These controls provide assurance that _____.

Effect: The _____ controls created an _____.

Recommendation: We recommend that OIT controls over the _____ be strengthened to include monitoring of their corrective action plan. This is to ensure that detected _____ control deficiencies are resolved.

Management's Response: The Department agrees with this finding. _____.

It should be noted that the _____ concerns raised in this management letter finding are similar and repetitive when compared to the _____ issues raised in management letter comment 17-0902-01, correspondingly, the response for both of these management letter comments will be similar.

Contact: Eric Stout, OIT, IT Consultant, 207-624-9981

Auditor's Concluding Remarks: It is our position that having one finding that identifies _____ controls were either missing or lacking would be misleading.

More importantly, we believe that oversimplification of the issues by combining the results of the two audit findings (ML-17-0902-01 and ML-17-0902-03) may serve to confuse matters required for resolution. This creates a _____.

The finding remains as stated.

ML-17-0911-01 CONFIDENTIAL

Title: _____ controls provided by the Department for the _____ (The content of this finding has been redacted. This appears as blank underlining.)

Prior Year Findings: None

FY16	FY15	FY14	FY13	FY12	FY11	FY10

State Department: Administrative and Financial Services

State Bureau: Office of State Controller (OSC)

Type of Finding: Management letter

Questioned Costs: None

Criteria: Federal _____; State _____

Condition: Controls that should be provided by the Department to prevent _____ are not adequate and are not _____. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

Context: _____.

Cause: _____ are not adequate.

Effect: Inadequate _____ controls are a potential _____.

Recommendation: We recommend that Department personnel implement additional controls to remediate the deficiency.

Management's Response: We agree that _____. Compensating controls, in place, limit _____. Compensating controls include the _____.

The Office of the State Controller continues to work with the _____. The Controller's Office is also implementing an _____. This will allow for easier review of _____. We have also reconciled _____.

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

ML-17-0911-02 CONFIDENTIAL

Title: _____ controls related to the _____ need improvement (The content of this finding has been redacted. This appears as bland underlining.)

Prior Year Findings: None

FY16	FY15	FY14	FY13	FY12	FY11	FY10

State Department: Administrative and Financial Services (DAFS)

State Bureau: Office of State Controller (OSC)

Type of Finding: Management letter

Questioned Costs: None

Criteria: Federal _____; State _____; State of Maine _____

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

Context: DAFS requires the _____ to provide adequate controls over _____. Maine government must be able to rely on the suitability of the design and operating effectiveness of specific controls _____.

Cause: The _____ did not follow _____.

Effect: The missing _____ control created an unnecessary _____.

Recommendation: We recommend that controls over the State _____ of their corrective action plan. This should result in audit resolution.

Management's Response: The Department agrees with the condition stated in this finding but disagrees with the stated effect. The _____.

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

Auditor's Concluding Remarks: To maintain the _____, it is very important to _____.

In response, the Department requires the _____.

The finding remains as stated.

ML-17-0915-01 CONFIDENTIAL

Title: _____ controls related to the _____ need improvement (The content of this finding has been redacted. This appears as blank underlining.)

Prior Year Findings: None

FY16	FY15	FY14	FY13	FY12	FY11	FY10

State Department: Administrative and Financial Services

State Bureau: Maine Revenue Services (MRS)

Type of Finding: Management letter

Questioned Costs: None

Criteria: Federal _____; State _____

Condition: _____ controls that prevent _____ need improvement because testing of all _____ indicated that _____. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

Context: _____.

Cause: _____ are not adequate.

Effect: Inadequate _____ controls are a _____.

Recommendation: We recommend that MRS implement additional controls to remediate the deficiency.

Management's Response: The Department agrees with the finding. Additional controls will be implemented to remediate the _____. To limit the _____ the Department is working with the Office of Information Technology (OIT) to develop an _____. The Department is also developing a process to periodically review _____. The anticipated corrective action completion date is September 30, 2018.

Contact: Vicki Roy, MRS, Deputy Executive Director, 207-624-9853

ML-17-0915-02 CONFIDENTIAL

Title: A _____ is not in place to _____ (The content of this finding has been redacted. This appears as blank underlining.)

Prior Year Findings:

FY16	FY15	FY14	FY13	FY12	FY11	FY10
ML 16-0915-01						

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 this finding. The development and implementation of a _____ continues to be a priority for the Department. The establishment of a _____, will require substantial input from the Office of Information Technology (OIT). OIT is currently developing its own _____ the resources available to assist MRS are limited. MRS will continue to work closely with OIT to establish _____. The anticipated corrective action completion date is December 31, 2019.

Contact: Vicki Roy, MRS, Deputy Executive Director, 207-624-9853

ML-17-1005-01

Title: Monitoring of Federal cash balances and drawdown methods need improvement

Prior Year Findings:

FY16	FY15	FY14	FY13	FY12	FY11	FY10
ML 16-1005-01 16-1005-02						

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 & Accounting Manual (SAAM) 50.40.40; 31 CFR A and B

Condition: Neither OSC nor the Office of the State Treasurer (OST) performs monthly monitoring of Federal cash balances or quarterly sampling of programs designated as major by the Code of Federal Regulations, nor do they perform periodic sampling of programs designated as non-major by the Code of Federal Regulations. They also do not have direct and frequent communications with agencies regarding Federal cash management. The OSC has stated that the SAAM does not reflect the current expectation that OSC, not OST, will perform these requirements.

Context: There are eleven major programs covered by the Treasury-State Agreement and approximately 270 programs designated as non-major. In fiscal year 2017, approximately \$2.7 billion in Federal cash was drawn by State agencies administering these programs.

Cause: The SAAM has not been updated to reflect the current expectation that OSC will perform these responsibilities, and the OSC has yet to assume these responsibilities in practice.

Effect:

- Agency compliance is not being enhanced by controls at the Statewide level.
- The detection of potential noncompliance could be delayed.

Recommendation: We recommend that OSC:

- update the SAAM to reflect their intent to monitor agency compliance with Federal regulations
- implement OSC procedures to monitor Federal cash balances and drawdown methods

Management's Response: The Office of the State Controller (OSC) agrees that neither the OSC nor the Office of the State Treasurer (OST) performs monthly monitoring of Federal cash balances or sampling of programs on a predetermined frequency. OSC has other compensating controls in place that limit the risk that agencies will draw outside of their authorized draw patterns. We do not agree with the auditor regarding agency communication. OSC does have direct and frequent communications with agencies regarding Federal cash management and related compliance. We are in the process of revising section 50.40 of the State Administrative and Accounting Manual to ensure that agencies monitor compliance with cash management in accordance with federal requirements.

Contact: Shirley Browne, OSC, Deputy State Controller, 207-626-8423

Auditor's Concluding Remarks: The finding remains as stated.

ML-17-1010-01

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

Prior Year Findings:

FY16	FY15	FY14	FY13	FY12	FY11	FY10
ML 16-1010-01						

State Department: Administrative and Financial Services

State Bureau: Real Estate Management (BREM)

Type of Finding: Management letter

Questioned Costs: None

Criteria: 5 MRSA 1813-B; 2 CFR 200.317

Condition: The Director of BREM 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.

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.

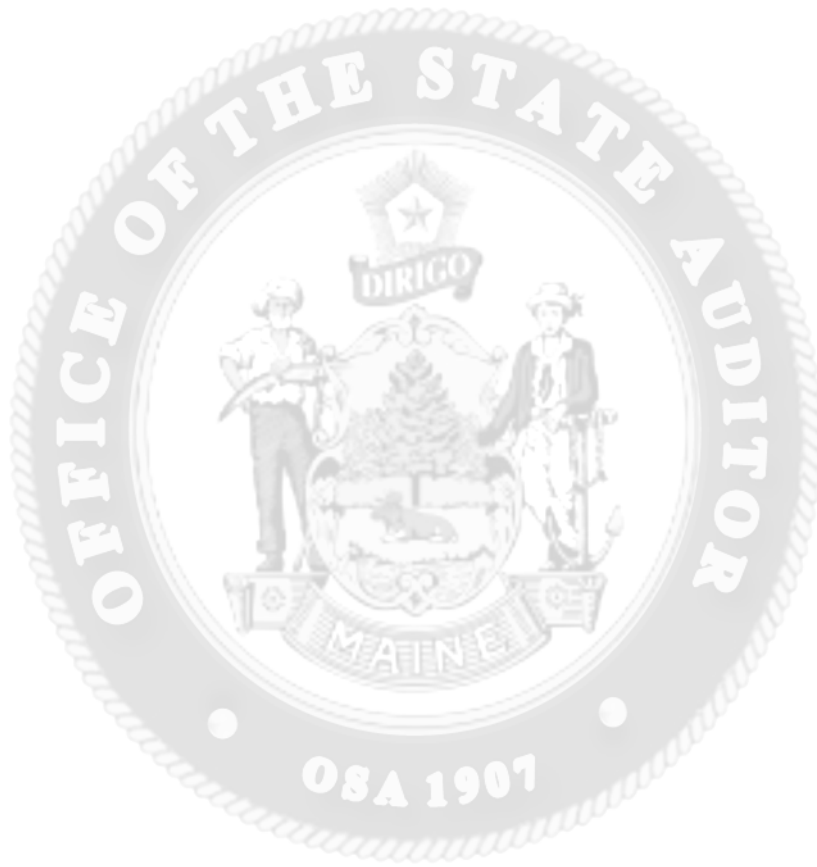
Cause: The requirements of this law that took effect on October 15, 2015 were still being reviewed and defined throughout fiscal year 2017.

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

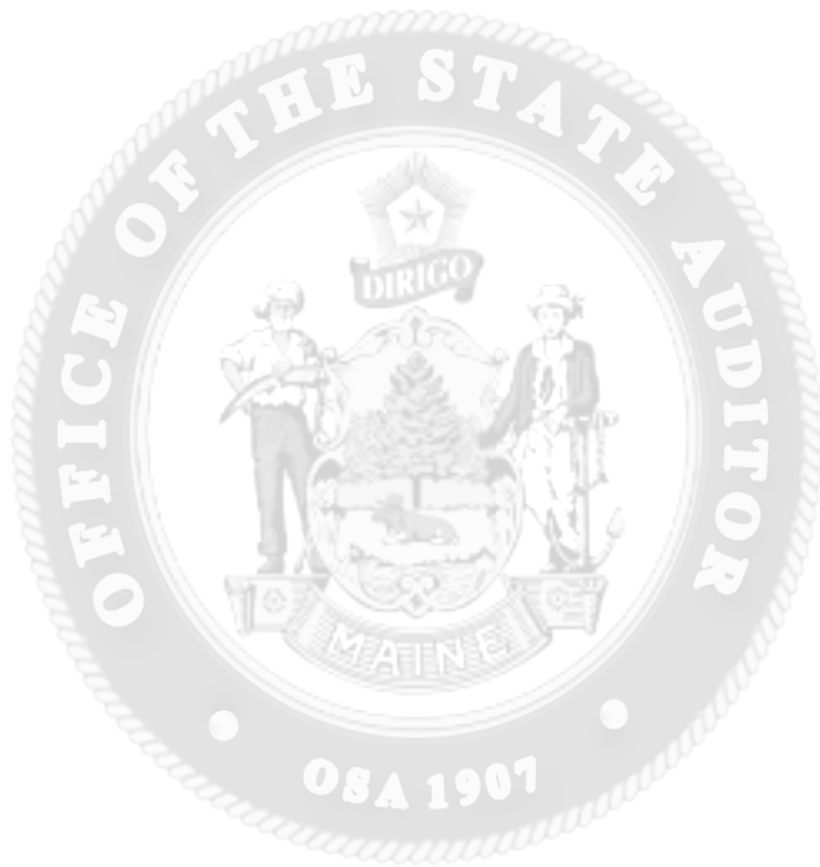
Recommendation: We recommend that the Department implement procedures to ensure that State law is followed.

Management’s Response: The Department agrees with the finding. The required cost savings information was not available on the Department’s webpage during the audit period, however as of March 15, 2018, the cost savings information is now available.

Contact: David R.L. Morris, BREM, Deputy Director, 207-624-7335



DEPARTMENT OF HEALTH AND HUMAN SERVICES



ML-17-0900-01

Title: No assurance that internal controls over the outsourced ASPIRE information system are adequate

Prior Year Findings: None

FY16	FY15	FY14	FY13	FY12	FY11	FY10

State Department: Health and Human Services (DHHS)

State Bureau: Office of Family Independence (OFI)

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 information system related internal controls provided by the contractor for the provision of ASPIRE services and records processing are adequate to ensure financial and other TANF information is accurate, complete, available, and secure.

Context: OFI has a seven year, \$63 million service agreement with a contractor to operate the ASPIRE program. This includes contractor management of the related information system. During fiscal year 2017, \$19 million of Federal and State expenditures were documented for the ASPIRE program. Therefore, it is important that related 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 the contractor.

Cause: Although the Department required the contractor to comply with Federal and State policy, rules, laws, and regulations, there was no specific requirement to provide the results of independent SOC testing as part of their contractual agreement.

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 the Department require that the contractor provide them with the results and conclusions of annual SOC testing. This will provide assurance to the State regarding whether contractor-provided controls over the ASPIRE information system are adequate.

Management's Response: The Department agrees with this finding. DHHS-OFI will request and review a copy of the vendor's SOC report in future periods. Any issues that

are identified in the report will be addressed with the vendor. Additionally, future contracts will contain the requirement for the vendor to obtain and provide a SOC audit report to ensure controls over information systems are adequate.

Contact: Bethany Hamm, OFI, Director, 207-624-4103

ML-17-1117-02

Title: The method used to allocate Community Services Block Grant funds was not in accordance with Maine Revised Statute

Prior Year Findings: None

FY16	FY15	FY14	FY13	FY12	FY11	FY10

State Department: Health and Human Services
State Bureau: Office of Child and Family Services (OCFS)

Type of Finding: Management letter

Questioned Costs: None

Criteria: 22 MRSA 5327; 10-144 DHHS, Chapter 2: Community Services Block Grant (CSBG) Program, 1.10 Allocation

Condition: The allocation method identified in the State Plan did not reflect that twenty percent must be divided equally among all ten agencies before the balance of funds is distributed according to rules adopted by the Department.

Context: Approximately \$3.3 million was passed-through to ten designated Community Action Agencies.

Cause:

- The Department changed State Rulemaking 10-144, chapter 1.10 covering the allocation of CSBG funds. This resulted in an allocation methodology that was not consistent with State law.
- Lack of oversight
- Staff turnover

Effect: The allocation method identified in the Federally-approved CSBG State Plan is not consistent with State law.

Recommendation: We recommend that the Department work with the Legislature to ensure the allocation method of funds awarded to Community Action Agencies as identified in the program’s State Plan is in accordance with State law.

Management’s Response: The Department disagrees with this finding. OCFS' CSBG program is in accordance with state law. Maine State Statue Title 22: Chapter 1477, states that Maine must allocate 20% of the amount passed through all eligible entities equally. Department rules 10-144: Chapter 2 goes beyond that 20% and allocates an additional 30% equally among the eligible entities, for a total of 50% of the passed through funds

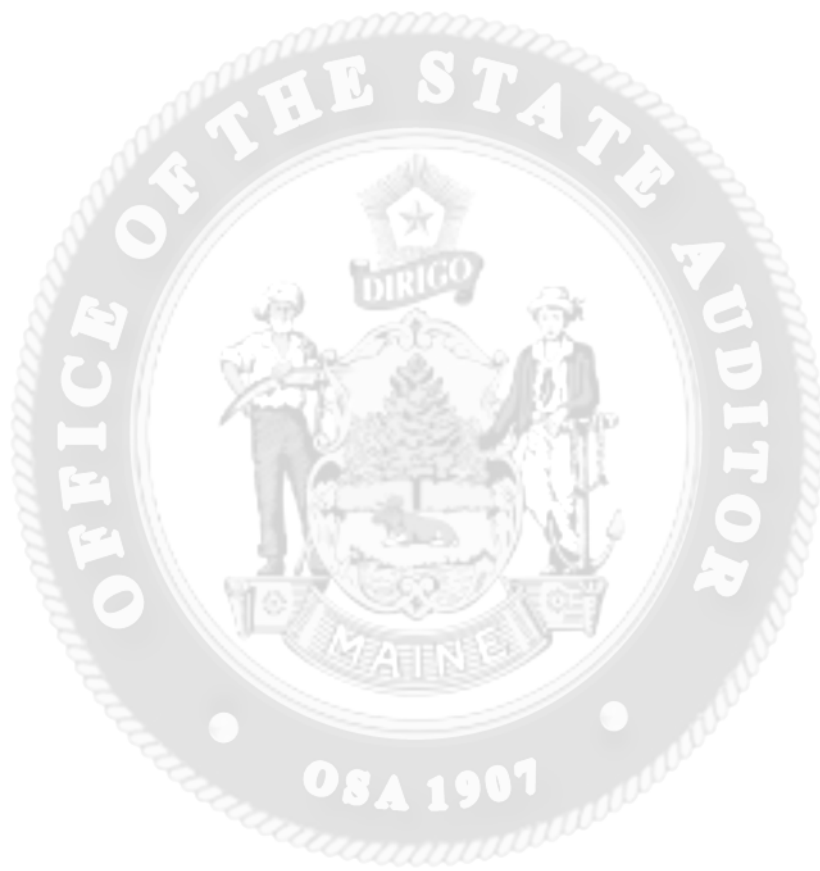
divided equally. This allocation method has been in use for the last two decades and has since passed several reviews by state and federal governments. Additionally, this allocation is outlined in Maine's CSBG State Plan, which is reviewed by the public via internet publication and by public hearing which is attended by community action agencies, The Maine Community Action Association, and any other interested parties.

Contact: Robert Blanchard, OCFS, Associate Director, 207-624-7955

Auditor's Concluding Remarks: According to 22 MRSA 5327, of the amount passed through to designated Community Action Agencies, "twenty percent...must be divided equally among all designated agencies...the balance of the funds must be distributed according to rules adopted by the division." According to rules adopted by the Department, of the amount passed through to designated agencies, "fifty percent...shall be divided equally among all designated agencies...fifty percent...shall be divided among all designated agencies based on each agency's percentage of the State's low-income households." The Department states that they are in compliance with 22 MRSA 5327 as they allocate thirty percent more than the percentage required by State law. However, the actual allocation that was calculated by the Department did not follow their own interpretation. The allocation of funds distributed to designated agencies must be clear, well defined, and leave no room for various interpretations.

The finding remains as stated.

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



ML-17-0922-02

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

Prior Year Findings:

FY16	FY15	FY14	FY13	FY12	FY11	FY10
ML 16-0922-04						

State Department: Administrative and Financial Services
Health and Human Services (DHHS)

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) which supports DHHS critical business functions for everyday operations of 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:

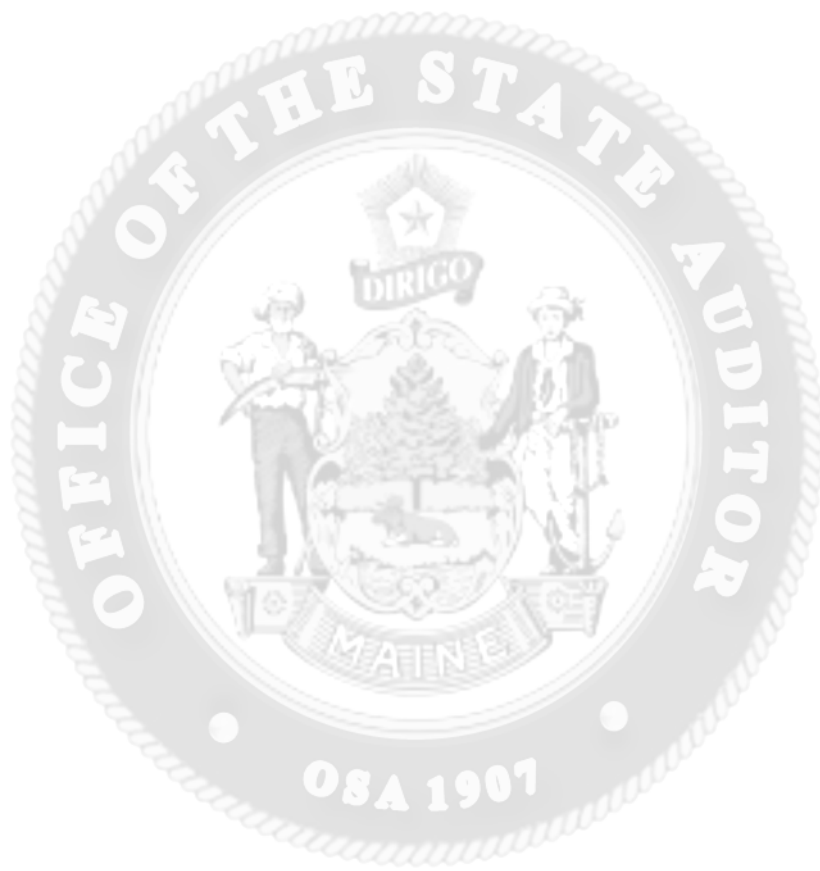
- prepare a business impact analysis for ACES
- identify, assign, and approve business function recovery priorities
- establish appropriate RTO and RPO for ACES to align with those business priorities

Management's Response: The Department agrees with this finding. DHHS-OFI is in the process of drafting a Business Impact Analysis (BIA) for ACES. In addition, it is found that the Department does not have a BCDR in place over ACES, which is referenced in Single Audit finding 2017-023, corresponding to recovery time objective (RTO) and

recovery point objective (RPO) metrics for ACES. The BIA will identify, assign and approve business function recovery priorities for all elements of OFI's business process, in conjunction with appropriate RTO and RPO metrics, that will align with the business priorities in the result of a disaster. Any comprehensive BCDR plan is built around predefined RPO and RTO metrics.

Contact: Bethany Hamm, OFI, Director, 207-624-4103

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES
AND
DEPARTMENT OF LABOR



ML-17-0308-01

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

Prior Year Findings:

FY16	FY15	FY14	FY13	FY12	FY11	FY10
ML 16-0308-01	ML 15-0308-01	ML 14-0308-01	13-0308-01	12-0308-01		

State Department: Administrative and Financial Services (DAFS)
Labor (MDOL)

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

Type of Finding: Management letter

Questioned Costs: None

Criteria: State Administrative & Accounting Manual (SAAM) 80.30.05

Condition: DAFS and MDOL 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.

The auditor tested sixty client records with overpayments established in fiscal year 2017.

During testing, the auditor found that the percentages used to calculate the allowance for uncollectible accounts were not supported by information obtained. The recovery of overpayments delinquent over one year is considered to be uncollectible by OSC and MDOL. However, audit testing results showed an improvement in collectability over time when compared to currently established overpayments. For example, OSC and MDOL considers receivables that are ninety days or less overdue to be 100% collectible in contrast with lower percentages for later aging periods.

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

Context: For fiscal year 2017, the Employment Security Enterprise Fund’s allowance for uncollectible accounts of \$24 million was calculated for receivables totaling \$48 million.

Cause: Evidential matter does not support valuation assumptions. Appropriate quantitative analysis has not yet been developed to arrive at valuation assumptions.

Effect: Net receivables may be inaccurate in the State's financial statements. In addition, the separately disclosed amount for the Allowance of Uncollectibles in Note 6 of the Financial Statements would not be accurate.

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.

In 2016, 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, OSC, 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 are 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.

ML-17-0914-01 CONFIDENTIAL

Title: _____ controls related to the Unemployment Insurance Benefit _____ need improvement (The content of this finding has been redacted. This appears as blank underlining.)

Prior Year Findings:

FY16	FY15	FY14	FY13	FY12	FY11	FY10
2016-006	2015-034	2014-042				

State Department: Administrative and Financial Services
Labor (MDOL)

State Bureau: Office of Information Technology
Unemployment Compensation

Type of Finding: Management letter

Questioned Costs: None

Criteria: Federal _____; State _____

Condition: Controls that prevent _____ are not adequate and are not based on _____. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

Context: The Unemployment Insurance (UI) Benefits _____ processed over \$122 million in benefits during fiscal year 2017.

Cause: _____ are not adequate.

Effect: Inadequate _____ controls are a _____.

Recommendation: We recommend that MDOL implement additional controls to remediate the deficiency.

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

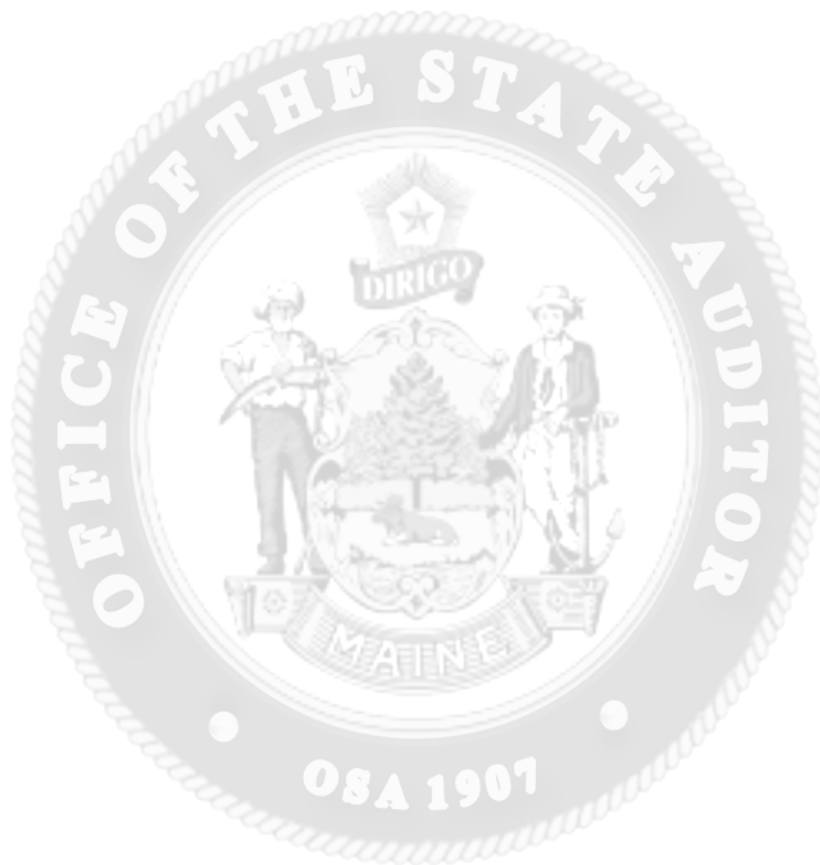
The UI Benefits _____. This issue has been remediated with the implementation of the _____ that went live December 6, 2017.

_____ review will include a report that will be run on a monthly basis that will _____ this report will be reviewed by the Bureau’s _____ officer. In addition to the monthly report, a quarterly report will be run to provide a list of _____. The current _____ will be modified to reflect the new _____ process and will be provided to the appropriate management staff.

The Department has implemented the full corrective action upon implementation of the _____.

Contact: Patricia O'Brien, MDOL, Deputy Bureau Director, 207-621-5161

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES
AND
DEPARTMENT OF DEFENSE, VETERANS AND EMERGENCY MANAGEMENT



ML-17-0600-01

Title: Internal control over the capitalization of assets needs improvement

Prior Year Findings: None

FY16	FY15	FY14	FY13	FY12	FY11	FY10

State Department: Administrative and Financial Services
Defense, Veterans and Emergency Management (DVEM)

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

Type of Finding: Management letter

Questioned Costs: None

Criteria: State Administrative & Accounting Manual, Chapter 30, Part 20; Valuing, Capitalizing and Depreciating Fixed Assets

Condition: The Military Bureau’s office personnel used the wrong account code when inputting a \$1.1 million land purchase into the State’s AdvantageME accounting system. This was not detected by OSC as part of year-end monitoring procedures.

Context: In order for financial information to be meaningful, cash outlays must be properly classified. Assets, including land, typically have inherent value now and in the future. Expenditures/expenses are typically associated with the past.

Cause:

- Human error
- Lack of training
- Lack of oversight

Effect: Asset balances recorded in the State’s financial statements are understated and expenditures/expenses are overstated.

Recommendation: We recommend that DVEM personnel continue to attend training provided by the OSC. We also recommend that OSC establish periodic, possibly quarterly, monitoring procedures to ensure that capital asset spending is properly recorded for financial statement purposes.

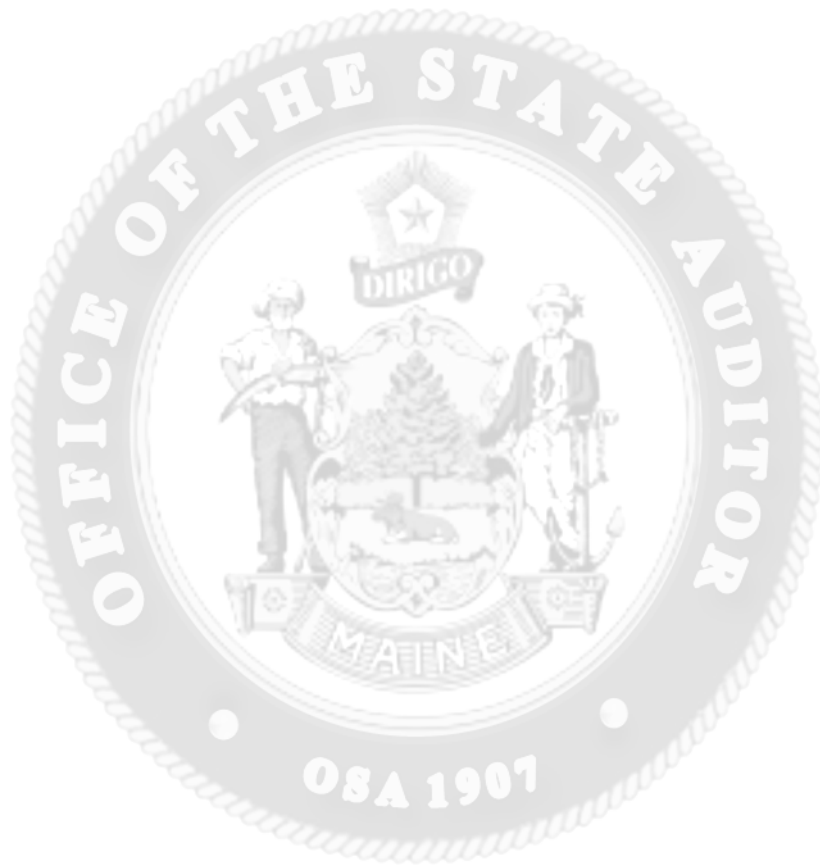
Management’s Response: The Department of Defense, Veterans and Emergency Management agrees with the finding. An error in the commodity code was discovered and corrected on November 15, 2017. All future payments for buildings and land will

flow through the Department's fixed asset accountant to ensure assets are properly set up in Advantage. Corrective action was completed in November 2017.

The Office of the State Controller (OSC) performs an overall analytical review during the preparation of the *Comprehensive Annual Financial Report (CAFR)* in an effort to detect potential errors that may have an effect on the financial statements. In accordance with the *State Administrative and Accounting Manual (SAAM)*, the departments are responsible for entering all financial information for fixed assets in the State's accounting system (Advantage). This was simply a coding error. OSC does not believe that additional monitoring procedures would be necessary, feasible or effective. OSC will continue to provide fixed assets training to departments and agencies.

Contact: Frances Lapointe, DVEM, Business Manager II, 207-430-5696
Sandra Royce, CPA, OSC, Director of Financial Reporting and Analysis,
207-626-8451

DEPARTMENT OF TRANSPORTATION



ML-17-0907-01 CONFIDENTIAL

Title: The Department has _____ (The content of this finding has been redacted. This appears as blank underlining.)

Prior Year Findings:

FY16	FY15	FY14	FY13	FY12	FY11	FY10
ML 16-0907-02						

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: Primarily all of the DOT’s financial accounting transactions are processed by the DOT _____ before interfacing with the State accounting system.

Cause: Lack of resources

Effect: When no _____ in place there is _____. The missing _____ could potentially result in _____.

Recommendation: We recommend that the Department develop a _____. Additionally, we recommend that DOT _____.

Management’s Response: The Department agrees with the finding. To date, the Department has outlined a plan with deliverables; however, due to a variety of competing priorities and resource constraints, neither a timeline nor an anticipated corrective action plan completion date have been determined.

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

ML-17-0907-02 CONFIDENTIAL

Title: The Department has _____(The content of this finding has been redacted. This appears as blank underlining.)

Prior Year Findings:

FY16	FY15	FY14	FY13	FY12	FY11	FY10
ML 16-0907-03						

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

Type of Finding: Management letter

Questioned Costs: None

Criteria: Federal _____

Condition: We were unable _____. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

Context: Primarily all of the DOT’s financial accounting transactions are processed _____.

Cause: Lack of resources

Effect: The lack of _____.

Recommendation: We recommend that DOT conduct _____. Additionally, we recommend that DOT _____.

Management’s Response: The Department agrees with the finding. To date, the Department has outlined a plan with deliverables; however, due to a variety of competing priorities and resource constraints, neither a timeline nor an anticipated corrective action plan completion date have been determined.

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

ML-17-0907-03 CONFIDENTIAL

Title: _____ controls related to the Department’s _____ need improvement (The content of this finding has been redacted. This appears as blank underlining.)

Prior Year Findings: None

FY16	FY15	FY14	FY13	FY12	FY11	FY10

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

Type of Finding: Management letter

Questioned Costs: None

Criteria: Federal _____; State _____

Condition: _____ controls to prevent or limit _____ need improvement. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

Context: _____.

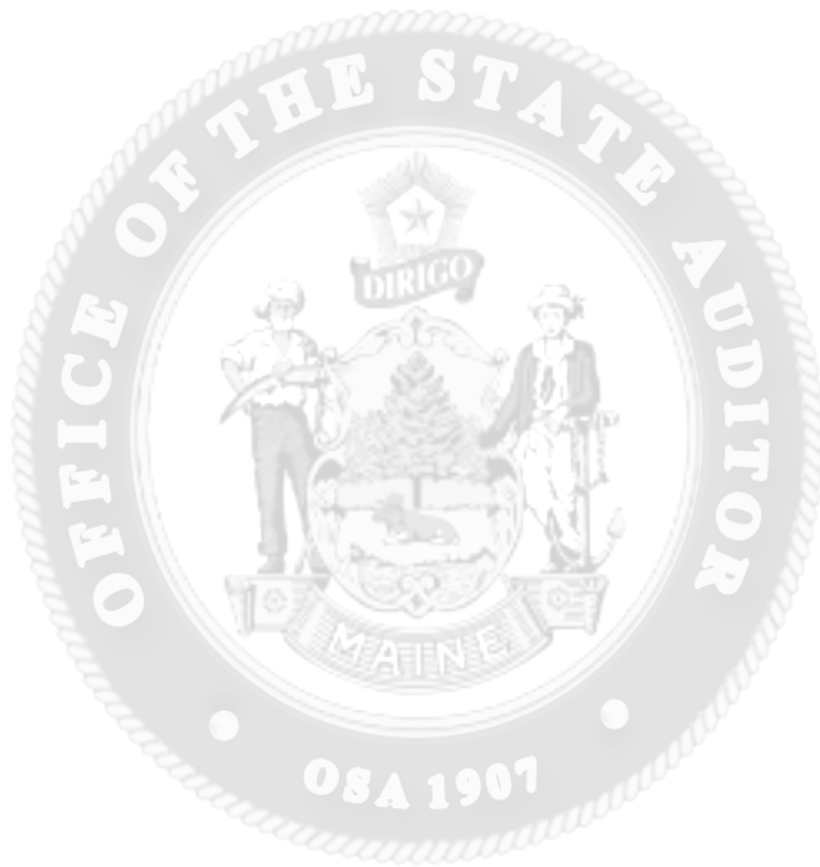
Cause: Controls have not evolved over the past eighteen years. It was then standard for _____.

Effect: Inadequate _____ controls are a _____.

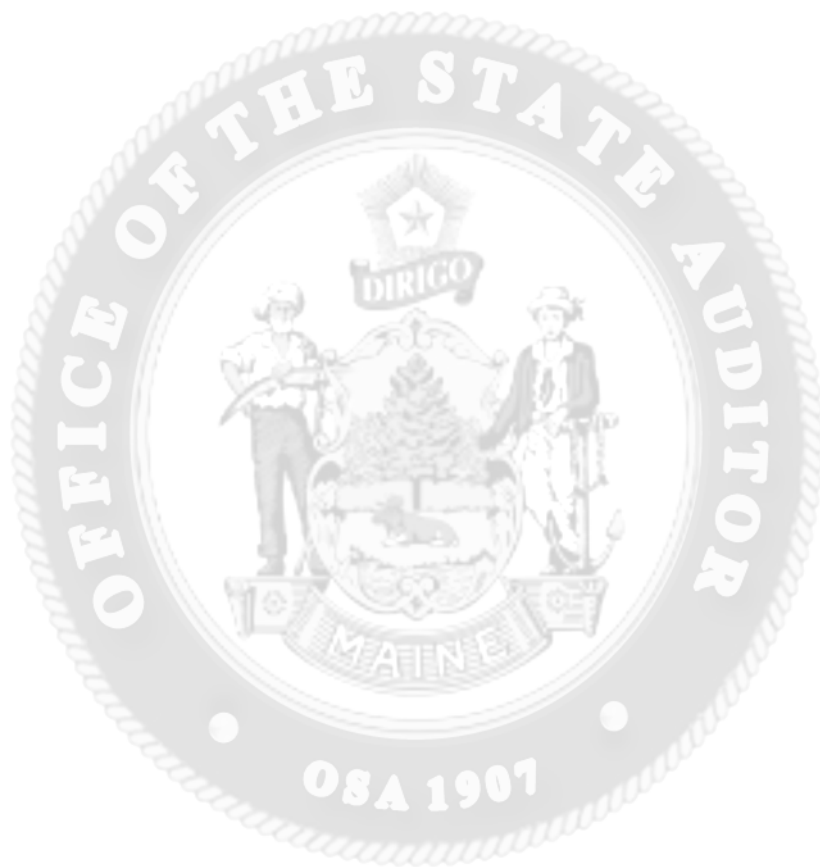
Recommendation: We recommend that the Department implement additional controls to remediate the deficiency.

Management’s Response: The Department agrees with the finding. _____ was developed because at the time it was standard practice. The Department will implement corrective action as part of the _____ project which will be completed by December 31, 2018.

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



DEPARTMENT OF EDUCATION



ML-17-0904-01

Title: There is no assurance that the Department’s outsourced information system includes an adequate internal control framework

Prior Year Findings:

FY16	FY15	FY14	FY13	FY12	FY11	FY10
ML 16-0900-01	ML 15-0903-02					

State Department: Education (DOE)

State Bureau: None

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. Office of Information Technology support personnel informed DOE personnel that testing was not completed during fiscal year 2017 because the GEM software application (GEM) should have been replaced by June 1, 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
- a SOC 2, Type II report with a focus on the Trust Services Principle (TSP) of Availability, also known as 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 the Department require that the vendor provide DOE 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 condition stated in this finding. The vendor for the GEM system did not provide a properly scoped SOC report covering FY 2017 internal controls relating to systems security, availability, processing integrity, confidentiality and privacy related to non-financial reporting. The Department developed a request for proposal to replace the GEM product in 2013, but it was determined that a solution through the state's accounting software would be developed. Implementation of this solution began in 2015. The solution was to be in place, ready to be used by March of 2017, but in early January of that year it was determined the product could not successfully be utilized for the upcoming fiscal year. Therefore, it was determined, the GEM software would need to be utilized to manage the FY2018 grant, as well. To accommodate this change, the department had to shift resources that had been allocated to complete a properly scoped SOC report, to complete development on the GEM software required to meet federal requirements for each of the grants. In December of 2017 it was determined that the solution would not provide needed system functionality and the Executive Steering Committee ordered an end to those negotiations. When it was determined that the department would not transition to the new solution, the GEM contract was extended. The GEM contract extension does, however, include the requirement for the vendor of the GEM system to provide a SOC I Type II and SOC II Type II report. Furthermore, the Department is currently drafting an RFP that will include a contractual provision to require the selected vendor to provide a properly scoped SOC audit.

Contact: Tyler Backus, DOE, School Finance and Compliance Coordinator, 207-624-6635

ML-17-0916-01 CONFIDENTIAL

Title: Internal control over _____ is not adequate (The content of this finding has been redacted. This appears as blank underlining.)

Prior Year Findings: None

FY16	FY15	FY14	FY13	FY12	FY11	FY10

State Department: Education (DOE)
State Bureau: School Finance and Operations

Type of Finding: Management letter

Questioned Costs: None

Criteria: Federal _____; State _____

Condition: Controls that prevent _____ are not adequate and are not based on _____. This is a confidential finding containing sensitive information. The complete finding has been communicated to appropriate personnel.

Context: This _____ for the Department. _____ should be adequately _____.

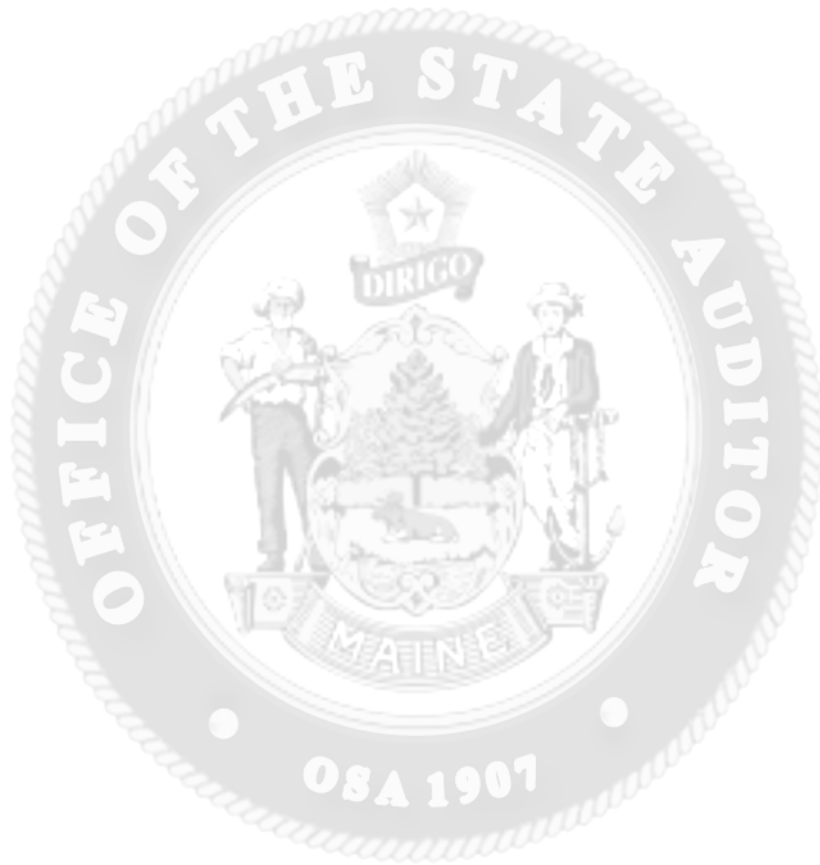
Cause: There is no quarterly or annual review process for all _____ within DOE procedures. Also, DOE has not established any methods to _____ within a certain timeframe.

Effect: Inadequate _____ controls are a _____.

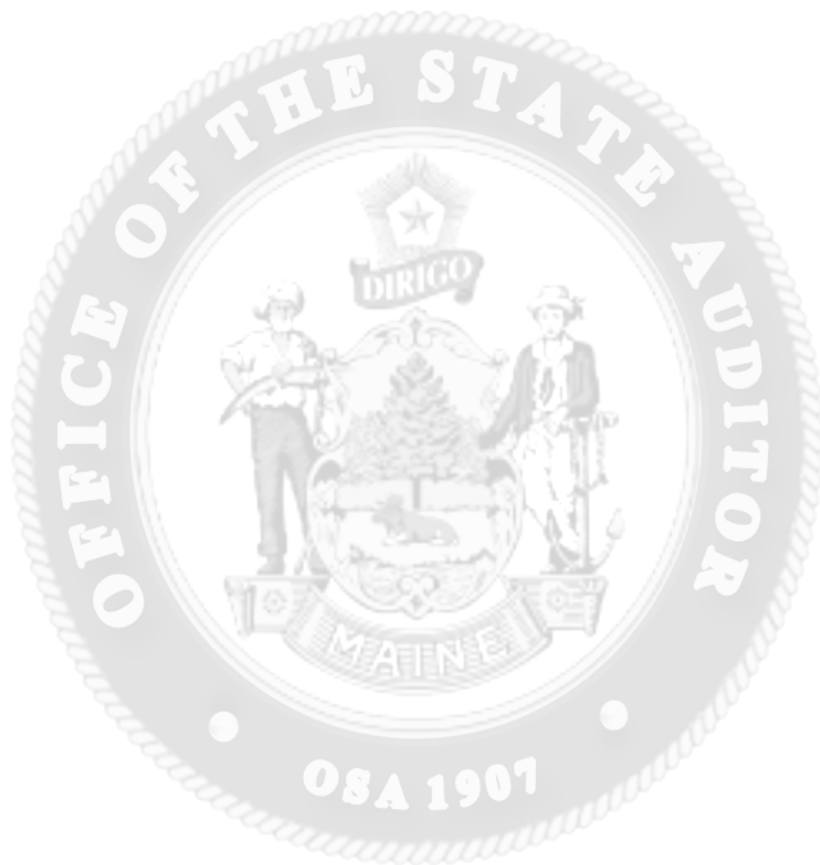
Recommendation: We recommend that the Department implement a periodic review process of all _____ to remediate the deficiency. Additionally, we recommend that DOE implement a _____ policy.

Management’s Response: The Department agrees with this finding. MDOE is planning to enhance controls over _____. Beginning April 1, 2018, MDOE will conduct quarterly reviews of the MDOE and OIT _____. Two additional controls are expected to be implemented effective September 30, 2018. First, MDOE will institute a policy by which district superintendents will be required to perform an annual review and reauthorization of _____. Secondly, MDOE will institute a _____.

Contact: Charlotte M. Ellis, DOE, Education Data Manager, 207-624-6696



OFFICE OF THE STATE TREASURER



ML-17-1005-02

Title: Insufficient documentation of certification of Treasury-State Agreement compliance

Prior Year Findings: None

FY16	FY15	FY14	FY13	FY12	FY11	FY10

State Department: Office of the State Treasurer (OST)

State Bureau: None

Type of Finding: Management letter

Questioned Costs: None

Criteria: State Administrative & Accounting Manual (SAAM) 50.40.40 and 50.40.50

Condition: OST requests certifications from State agency personnel who administer programs designated as major by the Code of Federal Regulations. These certifications document that the State agency has received, reviewed, and understood the Treasury-State Agreement (TSA) and related Federal requirements, as they pertain to their respective major program. OST was unable to provide signed certifications for six of the eleven major programs. Additionally, the wrong effective date was printed on the certifications and certifications were not consistently sent to the director of a major program with direct responsibility over compliance with the TSA.

Context: In fiscal year 2017, approximately \$2.6 billion in Federal cash was drawn by the State’s eleven major programs.

Cause: Staff turnover and lack of oversight

Effect: Major programs may not be drawing Federal funds in accordance with the TSA.

Recommendation: We recommend that OST implement procedures to ensure that signed certifications are obtained from the director of each major program in a timely manner and retained for each major program included in the TSA.

Management’s Response: The Department agrees with the finding. The OST will implement procedures to ensure that the certifications are acknowledged by directors responsible for oversight for each of the major programs identified in the TSA. The OST will ensure that all certifications are retained and available for review. This will be accomplished by re-assigning CMIA responsibility to the Director of Internal Operations who will identify the directors responsible for TSA compliance for each CFDA, re-

sending certifications for FY18 if necessary and digitizing each required certification on a common drive that will be accessible to future OST staff.

Contact: Tim Rodriguez, Director of Internal Operations, Office of the State Treasurer,
207-624-7460