

# MAINE STATE LEGISLATURE

The following document is provided by the  
**LAW AND LEGISLATIVE DIGITAL LIBRARY**  
at the Maine State Law and Legislative Reference Library  
<http://legislature.maine.gov/lawlib>



Reproduced from scanned originals with text recognition applied  
(searchable text may contain some errors and/or omissions)

EXECUTIVE DIRECTOR'S  
OFFICE  
2009 FEB 24 4 10:12

**State of Maine  
Report on Internal Control  
Over Financial Reporting**

**For the Year Ended  
June 30, 2009**



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



STATE OF MAINE  
DEPARTMENT OF AUDIT

66 STATE HOUSE STATION  
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250  
FAX: (207) 624-6273

RICHARD H. FOOTE, CPA  
DEPUTY STATE AUDITOR

MARY GINGROW-SHAW, CPA  
SINGLE AUDIT COORDINATOR

MICHAEL J. POULIN, CIA  
DIRECTOR OF AUDIT AND ADMINISTRATION

NERIA R. DOUGLASS, JD, CIA  
STATE AUDITOR

**LETTER OF TRANSMITTAL**

Honorable Elizabeth H. Mitchell  
President of the Senate

Honorable Hannah M. Pingree  
Speaker of the House

Honorable John Elias Baldacci  
Governor of the State of Maine

We are pleased to submit our Report on Internal Control Over Financial Reporting for the Year Ended June 30, 2009. In the course of our audit of the basic financial statements of the State of Maine, and our consideration of internal control, we identified certain deficiencies in internal control that we consider to be significant deficiencies according to Statement on Auditing Standard No. 112 (SAS 112) issued in May 2006 by the American Institute of Certified Public Accountants Auditing Standards Board. SAS 112 applies whenever an auditor expresses an opinion on financial statements. It establishes standards on communicating matters related to internal control over financial reporting and requires written communication of control deficiencies identified in an audit of financial statements within sixty days of issuing the audited financial statements. Our opinion on the basic financial statements of the State of Maine was issued on December 23, 2009.

Please feel free to contact me with any questions that you may have. Like you, we are committed to improving our State government for the benefit of our citizens. I welcome your thoughts and inquiries on these matters.

Respectfully submitted,

Neria R. Douglass, JD, CIA  
Maine State Auditor  
February 23, 2010



STATE OF MAINE  
DEPARTMENT OF AUDIT

66 STATE HOUSE STATION  
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250  
FAX: (207) 624-6273

NERIA R. DOUGLASS, JD, CIA  
STATE AUDITOR

RICHARD H. FOOTE, CPA  
DEPUTY STATE AUDITOR

MARY GINGROW-SHAW, CPA  
SINGLE AUDIT COORDINATOR

MICHAEL J. POULIN, CIA  
DIRECTOR OF AUDIT AND ADMINISTRATION

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Legislative Council members for the 124<sup>th</sup> Legislature and  
John Elias Baldacci, Governor, State of Maine

In planning and performing our audit of the financial statements of the State of Maine (the "State") as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the State's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the States' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined below. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies, and communicate them to management and those charged with governance on the following pages. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

This communication is intended solely for the information and use of management and the Legislature and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Neria R. Douglass".

Neria R. Douglass, JD, CIA  
State Auditor  
February 23, 2010

(09-0110-01)

**Title:** Highway Fund expenditures understated

**Prior Year Finding:** No

**State Department:** Administrative and Financial Services

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

**Type of Finding:** Significant deficiency (financial)

**Criteria:** GASB 34 paragraph 112, *Reporting Interfund Activity*

**Condition:** Highway fund expenditures for fiscal year 2009 were incorrectly reduced by approximately \$31 million, an amount material to this fund.

**Context:** The Highway Fund is reported as a major fund in the state's financial statements; fund materiality is low relative to other opinion units because the major fund designation is based on qualitative rather than quantitative criteria.

**Cause:** Interpretation of accounting standards

**Effect:** The State's draft financial statements were materially misstated prior to the audit adjustment.

**Recommendation:** We recommend that additional analysis be performed relative to the Highway Fund to ensure that the financial statements are free of material misstatement.

**Management's Response/Corrective Action Plan:** *The Department of Administrative and Financial Services disagrees that this issue represents a control deficiency in our financial reporting process.*

*We believe the issue was a lack of clarity in the GASB guidance as admitted by GASB staff in a conference call that included the auditors. It is common for GASB to issue statements and later issue implementation guides and/or interpretations when the intent of the standard is unclear. The Controller's Office believes our procedures are adequate and that reanalyzing Highway Fund financial statements is unnecessary.*

**Contact:** Heidi McDonald, Principal Financial Management Coordinator

**Auditors conclusion:** We believe that a significant deficiency in the internal controls over financial reporting did exist because a misstatement that was more than inconsequential was not prevented or detected by the OSC's internal control system.

Our finding and recommendation stands.

(09-0309-01)

**Title:** Accounting for interfund activity

**Prior Year Finding:** No

**State Department:** Administrative and Financial Services

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

**Type of Finding:** Significant deficiency

**Criteria:** GASB Statement No. 34, Paragraph 112

**Condition:** The Department did not properly account for the transfer of funds between Dirigo Health Enterprise Fund and the Fund for a Healthy Maine. This activity was accounted for as a reduction of expenses (reimbursement) rather than a transfer (non-operating revenue).

**Context:** An audit adjustment totaling \$5 million was proposed to ensure the financial statements were reasonably stated. The adjustment, however, was not posted to the financial statements.

**Cause:** A management decision was made to account for the transaction as a reimbursement.

**Effect:** Understatement of both non-operating revenues and operating expenses within the enterprise fund set up to account for the activity of the Dirigo Health Program.

**Recommendation:** We recommend that the Department provide appropriate oversight to ensure that non-routine accounting transactions are properly recorded.

**Management's Response/Corrective Action Plan:** *The Department of Administrative and Financial Services disagrees that this issue represents a control deficiency in our financial reporting process.*

*The Office of the State Controller has procedures in place to analyze and review non-recurring, significant and unusual transaction activity for proper presentation in our financial statements. We were aware of these transactions and we believe they were properly reported as a reimbursement within the operating activities of our Proprietary Fund financial statements.*

**Contact:** Heidi McDonald; Principal Financial Management Coordinator; 626-8437

**Auditor's Conclusion:** We disagree that this accounting treatment resulted in proper presentation in the Dirigo Health Enterprise Fund. Our finding remains as stated.