STATE OF MAINE
MANAGEMENT LETTER

For the Year Ended
June 30, 2012

State of Maine Department of Audit
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State Auditor

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LETTER OF TRANSMITTAL

Honorable Justin L. Alfond
President of the Senate

Honorable Mark W. Eves
Speaker of the House of Representatives

Honorable Paul R. LePage
Governor of Maine

I am pleased to submit the State of Maine Management Letter for the year ended June 30, 2012. In the course of conducting the Single Audit of the State of Maine we became aware of matters that offer opportunities for our government to improve its operations. Audit findings and recommendations on these matters accompany the Management Letter as Management Letter Comments.

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

Respectfully submitted,

Pola Buckley

Pola A. Buckley, CPA, CISA
State Auditor

April 16, 2013

State of Maine
Management Letter for the Year Ended
June 30, 2012

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MANAGEMENT LETTER

In planning and performing the Single Audit of the State of Maine for the year ended June 30, 2012, we considered the State of Maine's internal control. We did so to determine our auditing procedures for the purpose of expressing an opinion on the financial statements 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 referred to as "management letter comments" that offer opportunities for strengthening internal control and improving operating procedures of the State. The following pages summarize our comments and suggestions on those matters and are in addition to the more significant issues addressed in the following reports included in Maine's 2012 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 With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

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 Buckley

Pola A. Buckley, CPA, CISA
State Auditor

April 16, 2013

2012 Management Letter Comments

Department of Administrative and Financial Services

(ML12-0204-01)

Title: Controls over the proper valuation of the allowance for uncollectible taxes receivables need improvement

Prior Year Finding: ML 11-0204-01

State Bureau: Maine Revenue Services

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

Context: Maine Revenue Services collects over $3 billion per year in tax revenue. Fiscal year-end taxes receivable/e has averaged $465 million in the last two fiscal years. Currently, the Allowance for Uncollectible Taxes Receivable for the major tax types is valued based on a percentage of receivables. Subsequent to the balance sheet date, Maine Revenue Services began a process to quantitatively analyze receivables recognized as uncollectible in order to better support their estimation of this balance for financial reporting purposes.

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

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

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

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

During the past 12 months, Maine Revenue Services' accounting staff has been working with systems support staff refining the output received from preliminary reports developed to track collection and write-off data. Collections and write-off data will be tracked for each of the 10 consecutive fiscal year-ends beginning with fiscal year ending 2012. The data provided by these reports will be used to analyze collection and write-off activity trends and substantiate the allowance for uncollectible tax receivables. Analytical review of account activity will continue to be provided by Compliance Division personnel and utilized as necessary in developing an appropriate valuation of the bureau's receivables.

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

(ML12-0305-01)

Title: Controls over accounts receivable need improvement

Prior Year Finding: 11-0305-01

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

Condition: The Lottery Fund's accounts receivable balance is not supported by detail records. No accounts receivable subsidiary ledger has been established. Additionally, DFPS did not perform alternative procedures to corroborate the balance.

Context: At fiscal year end the accounts receivable balance was $19.6 million. Although the auditor could not perform tests of the detail, we were able to determine that the balance seemed reasonable.

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

Effect:

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

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

Management's Response/Corrective Action Plan: *The Division of Financial and Personnel Services agrees with the recommendation.*

Attempts have been made with the current service provider to obtain an accounts receivable report for reconciling and verification of our accounts, but the current provider has been unable to provide this information. A Request for Proposals has been issued for this service going forward, and a requirement of the successful bidder will be to provide an accounts receivable report so that this issue will be addressed.

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

(ML12-0309-01)

Title: Controls over non-routine accounting for Dirigo Health inadequate

Prior Year Finding: 11-0309-01

State Bureau: Office of the State Controller

Criteria: GASB 34 paragraph 112, Reporting Interfund Activity

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: During fiscal year 2012, $1.16 million was recorded as a reduction of expenses rather than a transfer.

Cause: Based on differing professional opinions, 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 the Department ensure that non-routine accounting transactions are properly recorded.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services disagrees that these transactions were incorrectly reported in the State's financial statements.*

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, Manager, Financial Reporting and Analysis, OSC, 626-8437*

Auditor's Conclusion: According to MRSA Title 24 §6916, "the Dirigo Health Enterprise Fund is created as an enterprise fund for the deposit of…..any funds received from any public or private source." The Department of Audit believes that this includes funding provided by the State's Fund for a Healthy Maine, the source of the $1.16 million described in the finding. Our finding remains as stated.

(ML12-0320-01)

Title: Record keeping procedures over Internal Service Fund capital assets within OIT need improvement

Prior Year Finding: 11-0320-01

State Bureau: Office of Information Technology

Criteria: GASB 34 "Reporting Capital Assets" Paragraphs18-22

Condition: Internal Service Fund capital assets are not correctly reported. We noted the following:

- Existing Radio Network buildings and equipment valued at $2.5 million and related accumulated depreciation of $2.3 million were not reported
- Information Services Fund included $7.8 million of fully depreciated capital assets that had been disposed of by the fund
- Information Services Fund's capital asset records are not being adequately maintained

Context: The Information Services Fund reported $52.6 million in fixed assets and $30.5 million in accumulated depreciation.

Cause: Information Services Fund capital asset records are not being properly maintained

Effect: Internal Service Fund capital assets were not accurately reported on the State's financial statements.

Recommendation: We recommend that the Department follow procedures outlined in the State Administrative and Accounting Manual to ensure more accurate reporting of Internal Service Fund capital assets.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services (DAFS) agrees that since physical inventories of the Information Services Fund were not performed in recent years, the Department could not readily determine if assets mentioned above were still in service.*

DAFS is currently working with the Office of Information Technology, and other Executive agencies which held IT assets, to reconcile all inventories and make adjustments to the assets as needed.

As a remediation plan, OIT will initiate an audit of Asset records by cost center. OIT will appoint a lead person to coordinate asset review sessions on an ongoing basis. The asset review will examine each record, identify asset disposition and correct records as needed. Implementation will begin before Fiscal Year End 2013; however, an anticipated completion date of the audit of Asset records is February 28, 2014.

Contact: *Thomas Howker, OIT Contracts and Procurement, 624-8878*

(ML12-0907-01)

Title: DOT information system security weakness

Prior Year Finding: No

State Bureau: Office of Information Technology

Criteria: OIT Security Policy; Industry standard information technology internal control practices.

Condition: We discovered security weaknesses in DOT's system which are not disclosed in this report since disclosure to the general public would compromise security. We have notified the appropriate OIT and DOT management of the specific security issues.

Context: DOT**'s** information systems process over $370 million in federal expenditures as well as the Department's payroll.

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

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

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

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

The Department has developed a basic framework for addressing the detailed findings and expect these will be remediated by September 30, 2013.

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

(ML12-0907-02)

Title: Business Continuity and Disaster Recovery (BCDR) Planning

Prior Year Finding: No

State Bureau: Office of Information Technology

Criteria: Industry standard information technology internal control practices.

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

Context: The Agency's information systems process over $370 million in expenditures as well as the Department's payroll.

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

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

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

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

OIT is working on developing a basic framework for addressing the issue of disaster recovery planning and periodic disaster recovery testing and expect to have a plan for moving forward by September 30, 2013.

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

(ML12-1000-01)

Title: Internal controls over agency Schedule of Expenditures of Federal Awards (SEFA) submissions needs improvement

Prior Year Finding: No

State Bureau: Health and Human Services Service Center

Criteria: Office of the State Controller (OSC) guidelines for agency SEFA submissions

Condition: The Health and Human Services Service Center did not submit accurate financial data to the OSC for inclusion on the SEFA, specifically:

- Temporary Assistance for Needy Families (CFDA#93.558) expenditures were over reported by $949,640.
- Child Care Development Fund Cluster (CFDA#'s 93.596 & 93.575) expenditures were over reported by $557,455.
- State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA#10.561) ARRA expenditures of $1,083,907 were reported as non-ARRA expenditures.

Context: The Health and Human Services Service Center reported $ 2.4 billion in expenditures to the OSC for inclusion on the SEFA in FY12.

Cause: Human error

Effect: The potential for errors on the SEFA.

Recommendation: We recommend that the Department improve internal control procedures to detect and correct errors during the SEFA preparation process prior to submitting the data to the OSC.

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

Beginning 03/31/2013, Managing Staff Accountants for the Supplemental Nutrition Assistance Program, Child Care Development Fund and Temporary Assistance for Needy Families programs will review and sign off on the Quarterly SEFA reports before submitting to Financial Analyst.

Senior Staff Accountants will notify the Financial Analyst when SEFA is completed by sending the link to the submitted quarterly reports. These reports will be reviewed by Financial Analyst to verify the reported expenditure amounts on the SEFA match the amounts submitted on the Federal Quarterly Reports.

Contact: *Donna Wheeler, Financial Analyst, DHHS Service Center, 287-1860*

(ML12-1000-03)

Title: Internal control over the Schedule of Expenditures of Federal Awards (SEFA) needs improvement

Prior Year Finding: No

State Bureau: Security and Employment Service Center

Criteria: Office of the State Controller (OSC) guidelines for agency Schedule of Expenditure of Federal Awards (SEFA) submissions

Condition: The Security and Employment Service Center did not submit accurate financial data to the OSC for inclusion on the SEFA for the WIA Cluster (CFDA 17.258, 17.259, 17.278). Specifically, WIA Dislocated Workers program expenditures of $716,802 were incorrectly reported under CFDA 17.260. During fiscal year 2012 the Federal Government replaced CFDA 17.260 with two other CFDAs (17.277 – National Emergency Grants; 17.278 – Dislocated Workers). CFDA 17.277 – National Emergency Grants was removed from the WIA Cluster, while CFDA 17.278 – Dislocated Workers remained a part of the WIA Cluster.

Context: Fiscal Year 2012 WIA Cluster expenditures were $10,622,060 after reclassifying Dislocated Workers expenditures from CFDA 17.260 to CFDA 17.278.

Cause: Confusion over how renumbered CFDA designations should be reported on the SEFA

Effect: The potential for errors on the SEFA

Recommendation: We recommend that the Security and Employment Service Center improve internal control procedures to detect and correct errors during their SEFA preparation process prior to submitting data to the OSC. When CFDA numbers change, the OMB Circular A-133 Compliance Supplement should be reviewed to assess the impact on SEFA reporting.

Management's Response/Corrective Action Plan: *We agree with the finding.*

As noted above, during SFY12 the CFDA number for the Dislocated Workers program changed from 17.260 to 17.278. The Service Center changed the CFDA number for the Program Year (PY) 11 and PY12 grants but maintained the 17.260 number for the PY10 grant, thinking that was correct because 17.260 was in effect when the PY10 grant was issued. With the PY11 and PY12 grants already having the new 17.278 CFDA number, there should be no future problem with the Dislocated Workers CFDA number.

Contact: *Dennis A. Corliss, Director, Security & Employment Service Center, 623-6701*

(ML12-1000-05)

Title: Internal controls over agency Schedule of Expenditures of Federal Awards (SEFA) submissions needs improvement

Prior Year Finding: None

State Bureau: General Government Service Center

Criteria: Office of the State Controller (OSC) guidelines for agency SEFA submissions

Condition: The Department of Education Service Center did not submit accurate financial data to the OSC for inclusion on the SEFA. Donated foods for the National School Lunch Program were under reported by $4,472,221.

Context: The Department of Education Service Center reported $ 42.8 million in expenditures for the Child Nutrition Program to the OSC for inclusion on the SEFA in FY12.

Cause: Human error

Effect: The potential for errors on the SEFA.

Recommendation: We recommend that the Department improve internal control procedures to detect and correct errors during their SEFA preparation process prior to submitting them to the OSC.

Management's Response/Corrective Action Plan: *The Department agrees with the finding and will review its process for SEFA preparation before the 2013 submission.*

Contact: *Darlene Tarr, Managing Staff Accountant, General Government Service Center, 624-7395*

(ML12-1103-01)

Title: Costs not allocated in accordance with cost allocation plans

Prior Year Finding: 11-1103-02

State Bureau: Health and Human Services Service Center

Criteria: General Administration – Cost Allocation Plans (45 CFR §95.507, §95.519)

Condition: The Department did not allocate all costs in accordance with the Department of Health and Human Services' and Office of Child and Family Services' (OCFS) Cost Allocation Plans. We tested the costs allocated for one quarter of the fiscal year and we found that certain allocation statistics were based on erroneous data. This resulted in various programs being overcharged amounts ranging from $0.01 to $9,874 and various programs being undercharged amounts ranging from $1 to $482. In addition, we noted three programs were not reconciling their respective final receiver reports to the State's accounting records.

Context: The DHHS Cost Allocation Plan (DCAP) and the OCFS Cost Allocation Plan allocated $133.7 million to various DHHS programs using approximately 61 different allocation methods.

Cause:

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

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

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

Recommendation: We recommend that the Department continue in its efforts to allocate costs utilizing proper allocation statistics. We further recommend that final receiver reports be reconciled to accounting records on a quarterly basis for all programs.

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

A database is being phased in to help with the calculation of Walk-In Counts and the receptionists have been provided with more training on what type of individuals should be included in the walk-in count information. Most of the offices have transitioned to using the database for the walk-in information. The district offices will still maintain logs for a few quarters to ensure data integrity and accuracy. Procedures were also changed to ensure that all formulas are double-checked for accuracy before being entered into the cost allocation model.

In addition, the Service Center is planning to add forms to the cost allocation plan (CAP) new model (M.S. infopath based) that will eliminate some potential for human error in that it will require data input on the front end from the actual offices and there will be no more transposing or re-keying of this information at the Service Center. This new model is scheduled to go into production July 1, 2013. Longer term we are looking to further automate the process by the pulling of data directly from department databases into the cost allocation model.

Contact: *William Korth, Management Analyst II, DHHS Service Center, 287-4260*

(ML12-1103-03)

Title: Unallowable administrative expenditures charged

Prior Year Finding: No

State Bureau: Health and Human Services Service Center

Criteria: 45 CFR §95.507, §95.519 General Administration – Cost Allocation Plans; 45 CFR §1356.60(c)(2)(vii) Public Welfare, Fiscal Requirements for Title IV-E; 2 CFR Part 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, Attachment B)

Condition: The Office of Child and Family Services purchased movie tickets as part of a group activity for foster care parents and children. OMB Circular A-87, Attachment B states that entertainment costs, including tickets for shows, are unallowable.

Context: The Federal share of administrative expenditures was $10.6 million in fiscal year 2012. Recruitment and retention activities are a component of these costs. The unallowability of the purchase of movie tickets was verified by Federal officials.

Cause: Failure to properly apply cost principles

Effect: Potential disallowance of costs

Recommendation: We recommend that the Department adhere to the applicable cost principles for all program expenditures, including those related to recruitment and retention activities.

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

The Office of Child and Family Services will comply with the cost principles of OMB Circular A-87. Management staff has been directed to follow appropriate program regulations and cost principles.

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

(ML12-1103-04)

Title: Internal controls to ensure disbursements are made only for allowable activities need improvement

Prior Year Finding: None

State Bureau: Health and Human Services Service Center

Criteria: 45 CFR §95.507, §95.519 General Administration – Cost Allocation Plans; State Administrative and Accounting Manual (SAAM)

Condition: The Office of the State Controller (OSC) maintains a list of DHHS personnel that are authorized to approve non-payroll transactions. In a sample of 40 Office of Child and Family Service's (OCFS) non-payroll transactions, there was one transaction for which DHHS could not provide supporting documentation showing that an authorized official had approved the expenditure. In another instance, a travel voucher was approved by an individual not authorized to approve travel vouchers.

Context: There were $9.1 million in OCFS indirect non-payroll expenditures in FY12.

Cause:

- Human error
- Unfamiliarity with State policy

Effect: Potential payments made for unallowable activities

Recommendation: We recommend that the Department follow the Office of the State Controller's policies regarding the approval of expenditures.

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

Effective July 2012, the process for review of travel invoices has been revised to add an extra layer of control to prevent invoices being processed without authorized signatures. The revised process includes three staff members on the Accounts Payable team reviewing the travel invoices. The first layer involves the travel coordinator for DHHS reviewing the invoices to ensure the forms are properly filled out including authorized signatures. The second layer involves the person entering the invoice into Advantage to check to ensure that the invoice has all the required information and the third check involves the "approver" re-checking that the pertinent information is inputted accurately in Advantage and authorizing the release of the payment. Every layer checks for the authorized signature. If the authorized signature is missing then the invoice will be sent back to the travel coordinator to obtain the signature before the invoice is approved.

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

(ML12-1106-13)

Title: Procedures to ensure accurate financial reporting need improvement

Prior Year Finding: 11-1106-07; ML11-1106-18

State Bureau: Health and Human Services Service Center

Criteria: Medicaid Program Integrity Manual, Chapter 11, Section 11035; State Medicaid Manual (Chapter 2 Section 2500.2(D); Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87, attachment A) – 2 CFR Part 225

Condition: Expenditures of the State's Medicaid and Medicaid Expansion programs are reported on the CMS-64 report; and the CubCare program expenditures are reported on the CMS-21 report. A review of each program's respective Federal financial reports noted the following errors:

- During the implementation of the new claims processing system, the State paid "bridge" payments to providers and recorded claims in a miscellaneous object code. Subsequent claim submissions related to the bridge payments did not always result in the claim being appropriately debited to the correct object code ("zero-pay" claims). This resulted in incorrect detail being reported on the CMS-64 report.

- Audit cost settlement overpayments were incorrectly reported on the CMS-64 report. Instead of reporting these overpayments totaling $10.6 million in fiscal year 2012 as a prior period adjustment on the CMS-64 report, the overpayments were netted against current period expenditures.

- Payments were made for family planning services on behalf of clients eligible for the Children's Health Insurance Program (CHIP); however, the Department claimed these costs on Medicaid's CMS-64 report at a higher Federal reimbursement rate than was allowed under the CHIP program. We are not questioning costs as the funds were subsequently returned to Medicaid and expenditures were appropriately charged to CHIP both in the State's accounting system and on the Federal financial reports for the quarter ending September 30, 2012.

Context: Medicaid and CHIP are Federal/State-funded programs expending $2.5 billion in fiscal year 2012.

Cause:
- Competing priorities
- Misunderstanding that audit cost settlements due the State are considered overpayments for reporting purposes
- CHIP family planning claims are recorded in a Medicaid program account
- Control procedures were not in place to ensure that CHIP family planning claims were reported correctly

Effect:

- Programmatic decisions could be based on inaccurate data
- Current period expenditures are understated and prior period expenditures are overstated
- Inaccurate financial reports
- Costs were overcharged to Medicaid and may be undercharged to other State or Federal programs including CHIP
- Possible future questioned costs
- Noncompliance with Federal regulations

Recommendation: We recommend that the Department:

- Develop procedures to ensure accurate financial reporting related to the bridge payment process and audit cost settlement overpayments
- Ensure only allowable payments are made from the correct Federal program and reported at the correct reimbursement rate

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

Regarding the first issue, the State has already taken corrective action to address this concern by reviewing all prior period zero pay data from the go-live of MIHMS and reporting the differences on the CMS 64 ending 12/31/2012. The State has additionally done journals to correct the differences in the accounting system. In addition, the State has submitted a change request to the MIHMS vendor in order to ensure all "zero pay" data is transferred in the GAX interface to AdvantageME. The State will continue its manual analysis of zero pay claims data and make the appropriate reporting and journal adjustments in the accounting system until the change request is fully implemented in the claims processing system. After which, no further manual reconciliation processes will be necessary.

Regarding the second issue, the State has fully investigated the issue and submitted a change request to Molina, the MIHMS vendor. This change request will tag all claims, adjustments, reversals, voids, etc. with a data element (in the program code field) that relates to its "original paid date" that will allow the State accounting and finance teams to accurately report these items in the correct period. Beginning 1/1/2013 receivables, which include cost settlements, have been tagged with similar "program codes" in Flexi that relate to their original paid dates so that when they are recouped in the cycle, the same information relating to their "original paid date" flows through the GAX interface (in the Program Code field) into Advantage. This program code field will enable cost settlements to be separated from current period claims and reported in the correct time period. If they are recouped via cash receipt it is applied in both Flexi and AdvantageME and the same program code is added manually, again, to allow reporting of this item in the correct time period.

Regarding the third issue, the State has a manual quarterly process of correcting CHIP payments until the rate matrix can be corrected.

Contact: *David Whitt, Deputy Director, DHHSSC, 215-1586*
Sarah Gove, Senior Managing Accountant, DHHSSC, 287-6390

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Department of Administrative and Financial Services and Department of Health and Human Services

(ML12-1106-16)

Title: "Cost of Care" collected in excess of PNMI room and board charges should not be retained by the General Fund

Prior Year Finding: No

State Bureaus: Office of MaineCare Services
Health and Human Services Service Center

Criteria: 2 CFR Part 225 Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87 - Attachment A); MaineCare Eligibility Manual, Part 12

Condition: The Department imposed a "Cost of Care" for Private Non-Medical Institutions (PNMI) to offset the cost of room and board paid by the State. The claims processing system deducts "cost of care" from the room and board charge billed by the PNMI; any excess amount was retained by the provider. However, beginning in December 2011, the Department also began a manual process to collect the excess amount. These collections were credited to the General Fund.

Context: In fiscal year 2012, approximately $1.5 million was collected by the Department relating to the difference (excess) between the Cost of Care assessment and the room and board charges.

Cause: Misunderstanding of how to treat instances where the Cost of Care assessment exceeds room and board charges for PNMI claims

Effect: The Department recouped an excessive amount of Cost of Care from the providers.

Recommendation: We recommend that the Department discontinue collection of the difference between the Cost of Care assessment and the room and board charge from PNMIs. Excess amounts collected from PNMIs should be returned.

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

Due to changes being made in reimbursement for these facilities, State Plan Amendment request for 7/1/2014, we will keep the current process in place until we move to our new payment methodology.

Contact: *Beth Ketch, Director of Policy, OMS, 287-4078*

(ML12-1106-17)

Title: Federal share of paid claims reported incorrectly

Prior Year Finding: 11-1106-02

State Bureaus: Health and Human Services Service Center
Office of MaineCare Services

Criteria: 2 CFR Part 225 Cost Principles for State, Local, and Indian Tribal Governments; State Medicaid Manual (Chapter 2, Section 2500.2(D))

Condition: The Department's claims adjustment methodology was not consistent with Centers for Medicare and Medicaid Services' (CMS) interpretation of Federal regulations. Incorrect Federal Medical Assistance Percentages (FMAP) were used in calculating the adjustments. The Medicaid claims system was not developed to process claims in accordance with Section 2500.2 of the State Medicaid Manual, resulting in inaccurate Federal reporting.

Context: On the State fiscal year 2012 CMS-64 reports, claims adjusted for a prior period were incorrectly reported at the current FMAP rate as current period expenditures resulting in current period expenditures being over reported and prior period expenditures being under reported.

Cause: Maine's Medicaid claims system was not designed to comply with CMS' interpretation of the Federal regulations related to claims adjustments.

Effect:
- Potential disallowances
- Inaccurate Federal financial reports
- Noncompliance with Federal regulations

Recommendation: We recommend that the Department develop procedures to ensure claims transactions are processed and reported in compliance with CMS' interpretation of the Federal regulations.

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

The corrective action for this audit finding is twofold. State Medicaid accounting has developed an automated solution to fix the problem of being unable to sort out prior period claims/adjustments and current period adjustments in the State accounting system and submitted a change request (CR) to Molina. This CR is known as the FMAP CR. It is in the development stage and has been given priority. After this CR goes live all claims, reversals, and adjustments running through the GAX interface into AdvantageME will be tagged with information related to the "original paid date" so appropriate accounting can be done.

In the interim, and for the period until the go-live of this CR, the State is planning to reconcile the Medicaid accounts, report all differences on CMS 64 reporting, and make the appropriate adjustments manually through journals.

Contact: *David Whitt, Deputy Director, DHHS Service Center, 215-1586.*

Department of Administrative and Financial Services and Department of Labor

(ML12-1302-02)

Title: Match with IRS 1040 Federal Unemployment Tax (FUTA) tax form submitted late

Prior Year Finding: No

State Bureaus: Unemployment Compensation
Office of Information Technology

Criteria: 26 CFR §31.3302(a) - 3(a) Proof of credit; IRS Publication 4485

Condition: The FUTA certification file was not submitted on a timely basis. According to IRS Publication 4485 the FUTA certification file is to be submitted to the IRS by January 31, 2012 The file was not submitted to the IRS until May 17, 2012.

Context: The FUTA certification file contains 35,770 employer/taxpayers that filed a Form 940 with the IRS for FUTA tax credits

Cause: Staff turnover and lack of necessary IRS certifications for secure file transfer

Effect: Employers/taxpayers could be erroneously granted FUTA tax credits

Recommendation: We recommend that the Department implement procedures to ensure that secure file transfer certification is up to date.

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

The Employer Services Division of the Bureau will work with OIT to update its standard operating procedures to include methods for assuring that the necessary certifications for sending the files to the IRS are maintained and updated as necessary. The Standard Operating Procedure for handling the 1040 FUTA tax file will be revised by April 19, 2013.

Contact: *Patricia O'Brien, Deputy Director, Bureau of Unemployment Compensation, 621-5161*

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Department of Defense, Veterans and Emergency Management

(ML12-1000-02)

Title: Internal controls over agency Schedule of Expenditures of Federal Awards (SEFA) submissions needs improvement

Prior Year Finding: None

State Bureau: Air and Army National Guard

Criteria: Office of the State Controller (OSC) guidelines for agency SEFA submissions

Condition: Department of Defense, Veterans and Emergency Management (DVEM) did not submit accurate financial data to the OSC for inclusion on the SEFA, specifically:

- Expenditures of the National Guard Military Operations and Maintenance Projects (CFDA # 12.401) were over reported by $655,661 and expenditures of the National Guard Military Construction Projects (CFDA # 12.000) were under reported by $655,661

Context: DVEM reported $58.5 million in expenditures to the OSC for inclusion on the SEFA.

Cause: Human error

Effect: The potential for errors on the SEFA.

Recommendation: We recommend that the Department improve internal control procedures to detect and correct errors in their SEFA preparation process prior to submitting them to the OSC.

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

On February 22, 2013, a new unit was created within the Military Training/Operations Program to separately track expenditures for the National Guard Military Construction Projects under CFDA#12.400. Year-to-date expenses pertaining to CFDA# 12.400 were corrected in the State's accounting system using the new unit.

Contact: *Nelda Valentine, Defense, Veterans, and Emergency Management, Financial Analyst, 430-5825*

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Department of Education

(ML12-1221-01)

Title: Noncompliance with transferability requirements

Prior Year Finding: No

State Bureau: Learning Systems Team – Title II-A, Teacher Quality

Criteria: The Elementary and Secondary Education Act of 1965 (ESEA), as amended by the No Child Left Behind Act of 2001; 20 USC 7305b (a) and (b)

Condition: Two out of three subrecipients tested transferred more than the allowable 50% of Improving Teacher Quality funds between education programs. The amounts transferred were based on each Local Education Agency's (LEA) original allocations; both had their allocations decreased, resulting in transfers exceeding the amount allowed by less than $900.

Context: The program awarded funds to approximately 155 sub-recipients.

Cause: Unexpected rescission of funds due to a Congressional action resulting in an adjustment of allocations to LEAs

Effect: LEAs may be allowed to transfer more than the maximum percentage allowed.

Recommendation: We recommend that the Department implement additional procedures to address the effects of the reallocation of program funding should it occur in the future.

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

Additional procedures have been implemented with our software vendor to prevent this issue from reoccurring. The online No Child Left Behind (NCLB) Consolidated Application has been reprogrammed so that any action which results in a change to annual allocations, such as cuts due to a rescission or sequestration from the federal level, shall prompt all financial pages, including the transfer page, to reopen for review and approval.

Contact: *Rachelle Tome, No Child Left Behind Title I Director, Education, 624-6708*

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Department of Education and Office of the Governor

(ML12-1212-01)

Title: Award identification procedures need improvement

Prior Year Finding: No

State Bureau: Commissioner's Office (Education)

Criteria: OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations, Subpart D, §__.400(d)(1), Pass-through entity responsibilities

Condition: The Department did not properly identify Federal award information regarding the Education Jobs Fund to subrecipients. The notice of award sent with the original allocation of funds to the Local Educational Agencies (LEAs) did not include the award number. When the notice of the supplemental award was issued, the award number was included. Therefore, LEAs that did not receive supplemental funding were not notified of the necessary Federal award information. As a result, five out of twenty-two subrecipients tested were not notified of grant information.

Context: Approximately 220 local educational agencies were allocated $27.6 million of Education Jobs Funds.

Cause: Department personnel were unaware of the requirement to provide award numbers to sub-grantees.

Effect: Subrecipients may not be aware of the source of funds. This could result in non-compliance with applicable Federal regulations.

Recommendation: We recommend that the Department implement additional procedures to ensure that all necessary Federal award information is provided to the Local Educational Agencies.

Management's Response/Corrective Action Plan: *As indicated above when the supplemental award was issued, the award number was included in correspondence to the school administrative units. The Department is including the award number in the SAUs initial application for each of the federal funds. All Ed Jobs funds have been flowed to the SAUs and the ARRA Reporting for those funds has been completed.*

Contact: *Joanne C. Holmes, Federal State Legislative Liaison, 207-624-6669*

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Department of Health and Human Services

(ML12-0908-01)

Title: Maine Immunization Information System (IMMPACT) users have elevated security permissions

Prior Year Finding: No

State Bureau: Centers for Disease Control (CDC)

Criteria: OIT security policies - principle of least access privilege.

Condition: The user roles specified and authorized on signed IMMPACT User Agreement forms were not always consistent with the roles actually assigned in the system. Eleven of the 40 users' roles in the system were inconsistent with that authorized on the form. In addition, almost all Centers for Disease Control's Immunization Program employees have administrative access privileges in the IMMPACT system.

Context: We sampled 40 IMMPACT user access accounts and compared their roles in the system with that authorized on the user agreement form. Providing an administrator role to all CDC staff provides everyone with the ability to perform tasks such as create user accounts, approve vaccine orders, and change system settings. Not all administrative users are assigned the responsibility for performing these tasks, but they have the ability.

Cause: The security functions of the IMMPACT system were not designed to provide a user role that has a lessor level of security than that of an administrator, but a higher level of security permissions than an average user that will allow CDC staff to view activity and provide assistance to users.

Effect: Providing elevated access privileges to a large number of employees may increase the risk of improper use of the system.

Recommendation: We recommend that the Maine CDC ensure the user roles assigned in the IMMPACT system agree with the roles authorized on the IMMPACT User Agreement forms. We recommend further that the IMMPACT security function be redesigned to provide additional layers of user roles so that the appropriate permissions can be provided to personnel.

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

I recommend that this corrective action plan is separated into two areas. One is a business process (1a) and the other requires a technical solution (1b) from the Office of Information Technology.

> *1a. The IIS business project manager is working with his team to address business work flow changes and secondary QA process designed to minimize improper role assignment.*

This should be complete by mid to late April 2013. Once the new processes are documented in full, they will be provided to the Maine Immunization Program Director for distribution.

1b. Solutions will need to be explored by the Office of Information Technology. Currently default users have views that are hardcoded into the application. Any effort towards this in our current environment would have to be prioritized against already time sensitive and outstanding deliverables.

***Contact:** Shawn Box, IMMPACT Manager, MECDC, 287-2586*

(ML12-0908-02)

Title: IMMPACT system security weaknesses

Prior Year Finding: No

State Bureau: Centers for Disease Control (CDC)

Criteria: OIT Information Security Policy; Industry standard information technology internal control practices.

Condition: Security weaknesses in the CDC's IMMPACT system were discovered which are not disclosed in this report since disclosure to the general public would compromise security. We have notified appropriate OIT and CDC management of the specific security issues.

Context: The IMMPACT system, which serves as Maine's immunization registry, is a web-based application accessible by immunization providers throughout the State of Maine.

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

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

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

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

Maine CDC and OIT/Applications Development have laid out a plan with the vendor to make necessary corrections for implementation with the next release. Maine CDC and OIT/Application Development will work with Core Technology Services to ensure that deployment certification is performed and documented adequately. The next release and certification should be completed by April 30, 2013.

***Contact:** Ray Vensel, IT Manager, MeCDC, 215-9581*

(ML12-0908-03)

Title: Business Continuity and Disaster Recovery Planning

Prior Year Finding: No

State Bureau: Centers for Disease Control (CDC)

Criteria: Industry standard information technology internal control practices.

Condition: The CDC does not have a well-documented disaster recovery plan for the IMMPACT system and periodic disaster recovery testing is not performed.

Context: The IMMPACT system is a web-based application accessible by immunization providers throughout the State of Maine that is classified as a high risk, high availability system.

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

Effect: If the system is not available, immunization providers' inability to obtain and track information about patient immunization may have serious consequences related to the public health.

Recommendation: We recommend that the Maine CDC work with the Office of Information Technology to ensure that the recovery plan of the IMMPACT system is adequately documented and tested.

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

Maine CDC and Applications Development will work with Core Technology Services to follow the deployment certification testing of recovery procedures and will ensure that there is an adequate level of documentation by April 30, 2013.

Contact: *Ray Vensel, IT Manager, MeCDC, 215-9581*

(ML12-1118-01)

Title: Guidance for vaccine provider site reviews not followed

Prior Year Finding: No

State Bureau: Centers for Disease Control (CDC)

Criteria: CDC Vaccines for Children (VFC) Operations Guide

Condition: During vaccine provider site reviews, CDC personnel did not test the temperature of refrigeration units with their own calibrated thermometers as required by the Federal CDC Operations Guide.

Context: Thirty-two of 40 site reviews sampled did not comply with this requirement.

Cause: The site review survey software provided by the U.S. CDC allows users to change a software setting that deactivates the data field that site reviewers use to enter their thermometer readings. Therefore, the requirement for site reviewers to test storage unit temperatures with their own thermometers was ambiguous.

Effect: Storage of vaccines between acceptable temperature ranges will not be assured.

Recommendation: We recommend that the Department test refrigeration unit temperatures as required by the U.S. CDC and document the results in the software provided by the CDC.

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

Requirements for checking the temperature and documenting the temperatures were reviewed with all site visit staff and Maine Immunization Program Managers. This was reviewed during a training that was performed on January 23-25th, 2013.

Documentation will be reviewed monthly by Program Managers.

Contact: *Tonya Philbrick, Director, Maine Immunization Program, 287-2541*

(ML12-1118-02)

Title: Improper charges for technology services

Prior Year Finding: No

State Bureau: Centers for Disease Control (CDC)

Criteria: 2 CFR Part 225 Cost Principle for State, Local and Indian Tribal Governments (OMB Circular A-87)

Condition: The Immunization Program was charged $1,121 for desktop support and other technology services provided by the Office of Information Technology (OIT) for two temporary employees who no longer worked for the program.

Context: OIT charges State agencies for activities such as file services, desktop support, Blackberry messaging, e-mail, network access and laptop subscription fees.

Cause: OIT was not informed that information technology services for these two individuals should be terminated. OIT's monthly charges were not adequately reviewed by Immunization staff.

Effect: Potential disallowance of expenditures by the federal government

Recommendation: We recommend that Immunization staff review monthly OIT service charges to determine whether the billing is correct.

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

We do acknowledge that increased interaction needs to exist between Maine Centers for Disease Control and Prevention (MECDC) and the Office of Information Technology (OIT). However, OIT had been notified that that the staff was no longer employed and had been terminated. We have implemented, as of January 1, 2013, a more detailed review of the OIT monthly charges.

Contact: *Anne Redmond Sites, Manager, Infectious Disease Epidemiology, MeCDC, 287-7273*

(ML12-1106-06)

Title: Assertions should be tested by the fiscal agent's service auditor

Prior Year Finding: ML11-0906-04

State Bureau: Office of MaineCare Services

Criteria: Maine Integrated Health Management Solution (MIHMS) Project, Security Specification Document, Version 1.0, page 6 of 79

Condition: The fiscal agent's assertions subjected to annual testing by the service auditor did not include the following critical areas explicitly required by the MIHMS Security Specification Document:

- Security of electronic information in transit
- Adherence with the State of Maine policy to govern public key infrastructure (PKI) security requirements and certification requirements
- Disaster recovery
- Contingency planning

Context: The MIHMS system processes Medicaid and Children's Health Insurance Program (CHIP) claims totaling approximately $2.5 billion per year. The operation and management of the system has been contracted out to a fiscal agent. It is the fiscal agent's responsibility to annually engage a certified public accounting firm to evaluate and test controls that are critical to processing Medicaid and CHIP transactions.

Cause: The State's relationship with MaineCare's fiscal agent is relatively new. As State personnel become more knowledgeable about the requirements and potential value of the service auditor's report, it will become less likely that critical areas will be excluded.

Effect: Lack of proper control could potentially lead to fraud, abuse, disclosure of personal health information, unintentional errors, disruption of claims processing, or disruption of payments to providers.

Recommendation: We recommend that MaineCare personnel work with the fiscal agent to explicitly include these additional areas in the evaluation and testing of controls contained in the service auditor's report.

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

We have directed the fiscal agent to have these areas included in the FY12 SSAE-16 audit. We will monitor the final report to ensure that this has been completed.

Contact: *Roger Bondeson, Director of Operations, MaineCare Services, 287-2705*

(ML12-1106-15)

Title: Medicaid eligibility quality control case file review results should be retained for the required three year period.

Prior Year Finding: No

State Bureau: Office for Family Independence

Criteria: 45 CFR § 92.42(b) Retention and access requirements for records

Condition: The Medicaid Eligibility Quality Control Unit (MEQC) was unable to provide documentation for two of the forty cases selected for review. Federal regulations require retention of this information for three years.

Context: The MEQC unit reviewed approximately 600 positive and 200 negative cases during State Fiscal Year 2012. A positive case occurs when an applicant has been deemed eligible; a negative case occurs when an applicant has been deemed ineligible.

Cause: MEQC staff were unable to locate files.

Effect:

- Noncompliance with documentation retention requirements
- Potential disallowances

Recommendation: We recommend that the MEQC unit maintain reviews for the three year period required for documentation retention.

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

MEQC supervisors have been instructed to maintain paper files for the required three years.

Implementation of a document imaging solution will allow for MEQC case files to be imaged and retained. This will enhance our ability to retain files for the minimum three year period outlined by federal regulations. This implementation should be accomplished by 12/31/2013.

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

(ML12-1111-03)

Title: Client work activity requirements not established or exempted

Prior Year Finding: No

State Bureau: Office for Family Independence

Criteria: 42 USC 609(a) (14); 45 CFR section 261

Condition: The State did not require one recipient of those tested to engage in qualified work activities or document their good cause or other allowable exception. As a result of this omission the recipient was not subjected to potential sanctions under the "refusal to work" requirements of the TANF program because no measurable criteria had been established. This exception is considered an isolated incident.

Context: We reviewed 40 case files from a population of TANF recipients which did not reflect any employment activities. The one exception that we noted came from the case load of a new staff member whose supervisor was reassigned during the training process. The eventual reassignment of this case resulted in "work activity" requirements being established.

Cause: A new staff member's training was interrupted by the reassignment of his or her supervisor

Effect: Potential financial penalty from the Federal government

Recommendation: We recommend that the Office for Family Independence ensure that TANF recipients are required to engage in work activities in accordance with program regulations.

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

A comprehensive work plan has been developed by the Office for Family Independence (OFI). OFI is in the process of revitalizing its employment and training program in collaboration with the Department of Education (DOE) and the Department of Labor (DOL). Commissioner

Paquette from the DOL, Commissioner Mayhew from the DHHS, and Commissioner Bowen from the DOE have all reviewed and approved of this plan. The results will include more TANF recipients being actively engaged immediately upon TANF receipt. Please note one of the objectives of this work plan states just that. With these initiatives going forward and the changes made recently to the sanction (failure to comply) process in TANF rules, the ASPIRE Program will ensure that TANF recipients are required to engage in work activities in accordance with program regulations. The work plan implementation should be completed by June 30, 2014.

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

Department of Labor

(ML12-0308-02)

Title: Unemployment benefits were not discontinued or recovered when claimant did not submit a work search log

Prior Year Finding: None

State Bureau: Unemployment Compensation

Criteria: 26 MRSA §1192.2 Eligibility conditions

Condition: The Department of Labor's Bureau of Unemployment Compensation does not have controls in place to ensure that unemployment benefits are paid only to claimants who submit work search logs. We examined 120 claims and found that in one third of these claims no work search log was received. Additionally, no accounts receivable was established in the State's general ledger to identify and possibly recover related overpayments.

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

Payments of $183 million were made to unemployment claimants in fiscal year 2012.

Cause: Inadequate internal control procedures

Effect: Approximately $61 million in State employer-funded unemployment claims were paid to persons who might not have been actively searching for a job and obtaining timely re-employment. The effect of this would be to reduce Maine's Unemployment Fund held by the U.S. Treasury, and to cause an unemployment tax rate increase in order to replenish the Fund.

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

Management's Response/Corrective Action Plan: *MDOL management agrees with this finding. As a result of our acknowledgement of a need to improve our process related to work search, we implemented an increased work search review for Extended Unemployment Compensation (EUC) claimants in November 2012. This process involves claimants being randomly selected for a thorough review and verification of their work search efforts; but this process is only in place for claims associated with federally funded EUC unemployment insurance benefits.*

Each week, 50 EUC claimants are randomly selected. These claimants are sent a EUC work search selection notification and are advised to send work search documentation to a specific work unit in the Bureau. The review of work search documentation is done to confirm that work search efforts include verifiable contacts for each week in which a claim for benefits is filed. "Verifiable" contact information includes: Employer names & addresses, Name or title of the *individual contacted, Telephone numbers or WEB site addresses (URLS). The review and verification process is detailed.*

Unless claimants have work search waivers, claimants that fail to seek work or submit your work search record (including verifiable contact information and proof of any online work search) are advised that this will likely result in a denial of benefits as well as the requirement to repay benefits already received.

This finding is about regular Unemployment Insurance, not federally funded unemployment insurance. We anticipate expanding the process used for federally funded EUC to regular UI claimants by the end of March 2013. The weekly sampling for regular UI claimants will be 150 weekly claims. If you have any questions, feel free to contact me.

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

Department of Transportation

(ML12-0302-01)

Title: Depreciation calculation for fiscal year 2012

Prior Year Finding: No

State Bureau: Finance and Administration

Criteria: State Administrative & Accounting Manual – Depreciation policy 30.20.70.b

Condition: Depreciation expense was incorrectly calculated for State Transit, Air and Rail (STAR) Fund's (053) fixed assets.

Context: A recalculation of the current year depreciation expense in the STAR fund revealed that it was understated for seven of the 12 assets added to the Equipment category during fiscal year 2012. Additionally, depreciation expense was understated for two assets included in the Structures and Improvement category added during fiscal year 2011.

Cause: The current year depreciation formula was not updated to reflect the correct number of months the assets were in service during fiscal year 2012.

Effect: Fiscal year 2012 depreciation expense in the Star Fund was understated by approximately $104,000.

Recommendation: We recommend the Department implement procedures to ensure that correct information is utilized when calculating depreciation expense for assets recorded in the STAR fund.

Management's Response/Corrective Action Plan: *The Department agrees that the depreciation expense, although materially correct, did not include an updated formula resulting in an understated depreciation expense of $104,000.*

We have rectified this issue by correcting the formula errors in the spreadsheet used by the Department for calculating depreciation expense and will double check them again before processing any further depreciation journals. The STAR account was eliminated during State Fiscal Year 2013 and is now divided into several multimodal special revenue accounts whereby asset depreciation will be calculated in the State's accounting system Advantage, so this should not be an issue moving forward.

Contact: *Mike McKenna, Department of Transportation Financial Analyst, 624-3134*

(ML12-1401-01)

Title: Procedures related to subrecipient monitoring need improvement

Prior Year Finding: No

State Bureau: Finance and Administration

Criteria: Office of Management and Budget (OMB) Circular A-133, Subpart B, _ .200 (a) and Subpart C, _ .320 (a)

Condition: MDOT does not have a process in place to determine whether subrecipients that expend more than $500,000 in total federal funds in a fiscal year have an A-133 audit performed within nine months of an entity's fiscal year end. Out of four subrecipient audits tested, two had not submitted their audit report within the required nine month time frame.

Context: During the 2012 fiscal year, MDOT passed-thru $ 10.8 million to subrecipients.

Cause: Staff turnover / lack of staff

Effect: If an audit report is not submitted on a timely basis, prompt and appropriate corrective action might not be taken on any audit findings.

Recommendation: We recommend that the Department establish a process to ensure that subrecipient A-133 audit reports are received within the nine month time frame.

Management's Response/Corrective Action Plan: *We agree with the recommendation. The Office of Audit is currently in the process of training newly hired replacement staff. Additionally, our procedures have been updated with a newly enacted Sub-recipient A-133 Audit Certification Request letters for sub-recipients identified to receive federal funds in the fiscal year thereby helping ensure the identification of sub-recipients required to complete the A-133 audit report and their nine month time requirement is met.*

Contact: *Helen Eagen, Audit Analyst, Department of Transportation, 624-3112*

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