STATE OF MAINE

MANAGEMENT LETTER

Fiscal Year Ending June 30, 2015

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

State of Maine
Management Letter for the Year Ending June 30, 2015

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STATE OF MAINE
OFFICE OF THE STATE AUDITOR

66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

POLA A. BUCKLEY, CPA, CISA
STATE AUDITOR

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

LETTER OF TRANSMITTAL

Senator Michael D. Thibodeau
President of the Senate

Representative 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, 2015. 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 Buckley

Pola A. Buckley, CPA, CISA
State Auditor

April 28, 2016

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MANAGEMENT LETTER

In planning and performing the Single Audit of the State of Maine for the year ended June 30, 2015, we considered the State of Maine's internal control. We did so to plan our auditing procedures for the purpose of expressing an opinion on the financial statements and federal program compliance, but not for expressing our opinion on the effectiveness of the State of Maine's internal control over financial reporting or compliance.

During our audit we became aware of several matters that resulted in "management letter comments," that offer opportunities for strengthening internal control and improving operating procedures of the State. These matters were not identified as material weaknesses and/or significant deficiencies. 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 2015 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 OMB Circular A-133

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

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 28, 2016


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DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES


DIRIGO
MAINE

(ML-15-0115-01)

Title: Procedures to identify related party transactions need improvement

Prior Year Findings: None

FY14	FY13	FY12	FY11	FY10	FY09	FY08

State Department: Administrative and Financial Services

State Bureau: Office of the State Controller (OSC)

Condition: The State of Maine must disclose in the financial statements certain related party transactions. These are transactions between parties that have a close relationship, where a reasonable observer could conclude that the transaction wasn't equitable. To meet this requirement, the OSC sends out related party questionnaires to selected legislators and other State government executives. Twenty-eight percent of the legislators selected by the OSC did not respond.

Context: Of forty-three related party questionnaires sent to legislators, only thirty-one responded.

Cause: The OSC did not perform additional procedures to ensure the adequacy of note disclosure over related party transactions.

Effect: Potential for incomplete note disclosure of related party transactions.

Recommendation: We recommend that the OSC implement procedures to ensure completeness of related party note disclosure when related party questionnaires cannot be relied upon.

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

A minimum of three attempts were requested for related party responses from those who did not respond. Additionally, the State Controller sent an email requesting that the survey be completed by those who did not respond.

Next year we will work with a Legislative liaison to help ensure we receive responses from all members surveyed.

Contact: Sandra Royce, CPA, Director of Financial Reporting and Analysis, 626-8451

(ML-15-0130-01)

Title: Over allocation of Net Pension Liability to the Maine Military Authority

Prior Year Findings: None

FY14	FY13	FY12	FY11	FY10	FY09	FY08

State Department: Administrative and Financial Services

State Bureau: Office of the State Controller

Condition: The Department's method for allocating the Net Pension Liability (NPL) as of June 30, 2015 to the various Funds of the State resulted in an excessive allocation to the Maine Military Authority (MMA). The estimation method was reasonable for most Funds but did not take into consideration the much shorter existence of the MMA.

Context: The NPL reported on the Statement of Net Position for the Primary Government was $1.9 billion. Of this amount, $34.9 million related to Business-Type Activities. The MMA is accounted for as an Enterprise Fund, and as such, is included in Business-Type Activities.

Cause: The estimating technique did not take into account certain differences between MMA and the remaining Funds of the State.

Effect: We estimate that the NPL allocated to the MMA was overstated by $14.1 million. Alternately, we estimate that the NPL allocated to the Governmental and Internal Service Funds was understated by $14.1 million.

Recommendation: We recommend that the Department consider issues that could distort the results of potential estimation procedures.

Management's Response/Corrective Action Plan: The Department disagrees with this finding.

A fair and consistent methodology was used to allocate the estimated liability to the various funds. We will agree to consider an alternate allocation method for FY 2016.

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

Auditor's Concluding Remarks: We agree that the methodology used to allocate the NPL was applied consistently to the various funds. However, since fiscal year 2015 was the first year the NPL was allocated and because MMA has not been in existence for as many years compared to the other funds of the State, the methodology resulted in an excessive allocation to the MMA.

The finding remains as stated.

(ML-15-0203-01)

Title: Data entry and the review of journals in AdvantageME needs improvement

Prior Year Findings: None

FY14	FY13	FY12	FY11	FY10	FY09	FY08

State Department: Administrative and Financial Services

State Bureau: Office of the State Controller

Condition: A transfer to the Fund for a Healthy Maine was requested and approved in the amount of $4 million. The journal entry used to make this transfer was incorrectly entered and subsequently approved in AdvantageME for $12 million. This resulted in an additional $8 million being transferred to the Fund for a Healthy Maine without the explicit approval of the State Controller.

Context: Four million dollars was authorized to be transferred to the Fund for a Healthy Maine but $12 million was actually transferred.

Cause: A journal entry was entered incorrectly and the AdvantageME approver did not detect the error during the approval process.

Effect: Eight million dollars was transferred without the documented approval of the State Controller. This amount was eventually netted against future advances by the Service Center.

Recommendation: We recommend that Department personnel apply due care when entering and approving transactions in AdvantageME and in the event of an error, obtain retroactive approval or reverse the entry that was entered in error.

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

Another layer of review has been added when processing advances to the Fund for a Healthy Maine.

Contact: Sandra Royce, Director of Financial Reporting & Analysis, 626-8420

(ML-15-0204-01)

Title: Policies and procedures addressing risk of undue influence in tax collection activities should be documented by Maine Revenue Services

Prior Year Findings: None

FY14	FY13	FY12	FY11	FY10	FY09	FY08

State Department: Administrative and Financial Services

State Bureau: Maine Revenue Services

Condition: The Department does not have written and clearly communicated policies and procedures to address the risk that influential persons could interfere with the proper tax collection activities of Maine Revenue Services (MRS). These policies will assist MRS employees in performing their jobs by defining appropriate standards of ethical conduct and establishing protocols to report incidents or contacts that could potentially result in improper influence or loss of efficiency.

Context: MRS collects over $3 billion per year in tax revenue. Amounts due from an individual or corporate taxpayer can be significant to the taxpayer and to the State. Undue influence and preferential treatment have been detected in the tax collection activities of other States.

Cause: Inherent risk of tax collection

Effect: The lack of written or clearly communicated policies increases the risk of undue influence and preferential treatment. This could reduce State revenue and resources available for other public purposes.

Recommendation: We recommend that MRS establish well-communicated written policies and procedures that address the possibility of undue influence and preferential treatment.

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

MRS is researching information from other states as well as reviewing existing State of Maine policies in order to develop a comprehensive Executive Level Ethics Policy that will be shared with the MRS staff. MRS plans to release the policy by April 1, 2016.

Contact: Christopher P. Batson, Deputy Director of Financial Risk, (207) 624-9607

(ML-15-0211-01)

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

Prior Year Findings:

FY14	FY13	FY12	FY11	FY10	FY09	FY08
ML-14-0211-04						

State Department: Administrative and Financial Services

State Bureau: Office of the State Controller (OSC)

Condition: The procedures used to calculate the allowance for uncollectible accounts are not sufficient to ensure the proper valuation of accounts receivable.

Context: For fiscal year 2015, MaineCare's allowance for uncollectible accounts of $51.6 million was calculated for receivables totaling $89.6 million.

Cause:

- Lack of supporting documentation that validate the assumptions used to estimate the allowance for uncollectible accounts
- Flawed methodology in calculating the age of the receivable

Effect: The valuation of accounts receivable could be inaccurate as presented in the State's financial statements.

Recommendation: We recommend that the Department refine its methodology for estimating the allowance for uncollectible accounts.

Management's Response/Corrective Action Plan: The Department does not agree with this finding.

The allowance estimate was calculated in a manner similar to previous years and no adjustment was recommended. We will agree to review the process and determine if another methodology would be more appropriate.

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

Auditor's Concluding Remarks: This is a repeat finding. As in prior years, the Department did not have quantitative support to substantiate the valuation method used for the allowance for uncollectible accounts for MaineCare receivables. We continue to recommend that the Department refine and document its valuation method for financial statement purposes.

The finding remains as stated.

(**ML-15-0301-01)**

Title: A required audit of vendor's activities was not performed

Prior Year Findings: None

FY14	FY13	FY12	FY11	FY10	FY09	FY08

State Department: Administrative and Financial Services

State Bureau: Alcoholic Beverages and Lottery Operations

Condition: The Department did not ensure that the State's wholesale liquor supplier met the audit and accounting requirements specified in Request For Proposal (RFP) No. 2014106780.

Context: The Department entered into an agreement with a vendor to provide warehousing, distribution and administration services for Maine's wholesale spirits business beginning in fiscal year 2015. The agreement required the vendor to meet specific auditing and accounting obligations. The audit requirements included providing the Department with audited financial statements, including the auditor opinion and the report on internal control.

Cause: Oversight

Effect: The State's wholesale liquor supplier did not meet the audit requirements as specified in the RFP.

Recommendation: We recommend that the Department communicate with the vendor to ensure that audit requirements are met in subsequent years.

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

The Bureau has discussed this audit finding with the State's wholesale liquor supplier. The Supplier understands that they will be required to provide audited financial statements for the services provided; including the Auditor's Opinion, Report on Internal Control and Report on Compliance with Laws and Regulations, no later than forty-five days after the close of the State's fiscal year.

Contact: Tim Poulin, Deputy Director, Bureau of Alcoholic Beverages & Lottery Operations, 287-6750

(ML-15-0600-01)

Title: Procedures used to estimate the historical cost of capital assets need improvement

Prior Year Findings: None

FY14	FY13	FY12	FY11	FY10	FY09	FY08

State Department: Administrative and Financial Services

State Bureau: Office of the State Controller (OSC)

Condition: In accordance with the 126th Maine Legislature Public Law Chapter 586 Sec. F-4, the State of Maine sold 1.9 miles of Interstate 95 to the Maine Turnpike Authority for $30 million. To record this sale in the State's financial statements, the OSC had to estimate the historical cost of this asset. The methodology used by OSC to calculate this estimate was insufficient.

Context: The OSC's approach estimated the historical cost of the asset to be $1.2 million.

Cause: Lack of information

Effect: The calculated gain resulting from this transaction that is recorded in the State's financial statements could be overstated.

Recommendation: We recommend that the OSC use a more acceptable method for estimating the historical cost of capital assets.

Management's Response/Corrective Action Plan: The Office of the State Controller disagrees with this comment.

The data available from the Department of Transportation's system is limited. The Office of the State Controller's estimate was based on the historic capitalized costs for roads and the number of miles associated with the capitalized costs. We believe the estimate is reasonable and not materially misstated.

Contact: Sandra Royce, CPA, Director of Financial Reporting and Analysis, 626-8451

Auditor's Concluding Remarks: While we agree that the estimated historical cost and resulting gain from the sale of this asset was not materially misstated in the State's financial statements, we do not believe that enough consideration was given to the data that was available to the OSC when considering the estimation approach.

The finding remains as stated.

(ML-15-0903-01)

Title: The Lottery vendor's disaster recovery plan was not examined by an independent auditor

Prior Year Findings: None

FY14	FY13	FY12	FY11	FY10	FY09	FY08

State Department: Administrative and Financial Services

State Bureau: Alcoholic Beverages and Lottery Operations

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: LOTTERY is the Maine State Lottery accounting and transaction processing system. The State contracts with a vendor to host and manage the system, including all aspects of disaster recovery.

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

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

Recommendation: We recommend that the Department require the LOTTERY system vendor 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 vendor to require an independent audit and testing (SOC 2, Type II) of the BCDR plan.

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

The Maine State Lottery has discussed this finding with the LOTTERY system vendor and will collaboratively develop a plan to have the BCDR plan audited and tested during SFY16.

Contact: Tim Poulin, Deputy Director, Bureau of Alcoholic Beverages & Lottery Operations, 287-6750

(ML-15-0911-01)

Title: AdvantageME vendor's disaster recovery plan not examined by an independent auditor

Prior Year Findings:

FY14	FY13	FY12	FY11	FY10	FY09	FY 08
14-0911-04						

State Department: Administrative and Financial Services

State Bureau: Office of the State Controller

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

Context: AdvantageME is the State's accounting system. The State contracts with a vendor to host and manage the system, including all aspects of disaster recovery.

Cause: The Department has not yet required the AdvantageME system vendor to include coverage of BCDR controls in an annual service organization control (SOC) report as part of their service level agreement (SLA) with the vendor. 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 of Availability.

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

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

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

We agree that the BCDR plan has not been subjected to independent audit. This was not a requirement in the State's Remote Hosting Policy at the time our contract was implemented. As part of the contract, OSC participates in testing the BCDR plan annually and has done so, successfully, since implementation. We are working with the vendor to add the SOC 2, Type II audit requirement into the ongoing service level agreement. Currently, we are evaluating the approach and timing for implementing the five Trust Service Principles (Security, Availability, Processing Integrity, Confidentiality and Privacy).

The effect of not including “Availability” at this time is the potential for down time or extended shutdown. Our annual BCDR testing, however, provides additional assurance that the State will not experience significant downtime or lost data in the event of a disaster as both the recovery time objective (RTO) and recovery point objective (RPO) have been successfully tested each year since go-live. The effect of not including “Availability” in an independent audit could not result in the breach of sensitive information. This would be covered by the “Security, Confidentiality and Privacy” principles. Likewise, the risk of corrupted information would be addressed by the “Processing Integrity” principle.

Contact: Phillip Platt, ERP Business Systems Manager, 626-8420

(ML-15-1128-01)

Title: Internal controls over reporting need improvement

Prior Year Findings: None

FY14	FY13	FY12	FY11	FY10	FY09	FY08

State Department: Administrative and Financial Services

State Bureau: Health and Human Services Service Center

Condition: The Department did not complete the OCSE-396 quarterly expenditure report in accordance with the U.S. DHHS requirement that explanations be provided for current to prior quarter variances that exceed five percent.

Context: Revised instructions for completion of Form OCSE-396 were issued in December 2014 by the Administration for Children and Families-Office of Child Support Enforcement (ACF-OCSE). This revision included a new requirement to explain current to prior quarter variances that exceed five percent.

Cause: The Department was unaware of the new requirement.

Effect: Non-compliance with Federal reporting requirements

Recommendation: We recommend that the Department adhere to Federal reporting requirements.

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

The Department has already implemented the new requirement starting with the quarter ending 12/31/15 to explain current to prior quarter variances that exceed five percent.

Contact: David Whitt, Acting Director of DHHS Service Center, 248-7150

(ML-15-1130-01)

Title: Cash management procedures need improvement

Prior Year Findings: None

FY14	FY13	FY12	FY11	FY10	FY09	FY08

State Department: Administrative and Financial Services

State Bureau: Health and Human Services Service Center

Condition: The Department did not minimize the time between drawdown and disbursement of Federal funds in accordance with Federal regulations.

Context: The Department held Federal cash for an average of eight days during three of the four months tested.

Cause: Procedures to minimize the number of days of cash on hand were not adequate.

Effect:

- The Federal government may require the use of a more stringent cash drawdown method for the program
- Potential interest liability

Recommendation: We recommend that the Department improve its procedures to ensure that Federal cash is requested based on immediate cash needs.

Management's Response/Corrective Action Plan: The Department disagrees with this finding.

The calculation State Audit used to determine average days of cash on hand included a transaction not related to the Social Services Block Grant. When this transaction was identified and removed from the calculation, the average days was within compliance for all months. The unrelated transaction was processed effective SFY 2016.

Contact: David Whitt, Acting Director of DHHS Service Center, 248-7150

Auditor's Concluding Remarks: The three transactions referred to in the Management's Response above were adjusting entries in the general ledger (GL) accounts for the Social Services Block Grant. These entries related to activity from fiscal year 2010, and the adjusting entries were not recorded in the State's accounting system until fiscal year 2016. The Department should have identified and processed these adjustments on a more timely basis. Ultimately, cash on hand in the Federal accounts should be considered before additional Federal cash is drawn. Cash balances reported in the GL accounts should be reviewed and reconciled on a timely basis. If a discrepancy is noted, the correcting entries should be processed on a timely basis.

The finding remains as stated.

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

AND

DEPARTMENT OF HEALTH AND HUMAN SERVICES

(ML-15-1010-03)

Title: Inadequate internal control over subrecipient payment approval

Prior Year Findings: None

FY14	FY13	FY12	FY11	FY10	FY09	FY08

State Department: Health and Human Services
Administrative and Financial Services

State Bureau: Substance Abuse and Mental Health Services (SAMHS)
Health and Human Services Service Center

Condition: The Department must have adequate internal controls in place to ensure that subrecipients meet contract requirements. Therefore, it is reasonable to require that invoice payments against major contracts include the explicit and unequivocal written approval of program personnel with first-hand knowledge of the subrecipient's performance.

Context: Subrecipients of the Federal program titled Shelter Plus Care were paid approximately \$8 million in fiscal year 2015. Our random sample of Statewide Federal contracts included the selection of one Shelter Plus Care grant contract to ensure that program personnel were approving the associated subrecipient payments. We noted that subrecipient payments made under the contract selected were not approved by program personnel. There were no control procedures in place that required program personnel to approve payments to subrecipients.

Cause: Inadequate internal control procedures relating to payment approval

Effect: Payments could have been made to subrecipients that were not adequately performing contract requirements**.**

Recommendation: We recommend that the Department implement procedures to ensure that program personnel with first-hand knowledge of individual subrecipient performance provide explicit and unequivocal written approval of payments to subrecipients.

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

SAMHS Program personnel conduct regular (at least twice monthly) face to face site visits with the sub-recipient to review all aspects of the program, including policy, payment, census, and invoicing.

Additionally, SAMHS and the sub-recipient conduct annual monitoring visits of the local Administration Agents. Typically we test 20% of the census during these reviews.

Other entities involved in monitoring this program include annual review and monitoring by the Authorized Collaborative Applicant, as well as the US Department of HUD, which conducts spot reviews every few years.

This program is subject to the internal control through the DHHS RFP, contracting a payments/invoices process through our Division of Contact Management and Service Center respectfully.

SAMHS Program staff will work with Contract Management and the Service Center to ensure Program Personnel sign off on invoicing prior payments.

Contact: Sheldon Wheeler, Director of SAMHS, 287-2595

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

AND

DEPARTMENT OF DEFENSE, VETERANS, AND EMERGENCY MANAGEMENT


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MAINE

(ML-15-0310-01)

Title: Maine Military Authority (MMA) financial statements were not prepared in accordance with the accrual basis of accounting

Prior Year Findings: None

FY14	FY13	FY12	FY11	FY10	FY09	FY08

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

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

Condition: The transactions related to the Transit Bus Program for the MMA were not reported in accordance with the accrual basis of accounting in the State's financial statements. Related expenses were recorded as they were incurred, and revenues were recorded only after the customer's payment was received upon delivery of a completed bus. Therefore, expenses were not always recognized in the same period in which revenue was earned.

Context: The MMA entered a multi-year, non-military contract to refurbish buses for the Massachusetts Bay Transit Authority (MBTA).

Cause: OSC did not make the necessary adjustments to convert MMA's accounting information from a cash basis to an accrual basis of accounting.

Effect: The MMA reported an operating loss for the fiscal year ending June 30, 2015 of $4 million. This represents forty-six percent of general operating expenses. It is not clear whether this is a true operating loss or whether it is simply the result of accounting procedures that are not consistent with Generally Accepted Accounting Principles (GAAP).

Recommendation: We recommend that the Departments work together to ensure that the financial statements for the MMA are reported in accordance with the accrual basis of accounting.

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

The Department will provide OSC with the necessary information to convert MMA's accounting information from cash basis to accrual basis as part of the year end closing package. The Department will also implement a process to recognize income and expenses related to long term contracts in accordance with Generally Accepted Accounting Principles. Staff will be advised of changes to procedures or policies.

Contact: Rae-Lynn A. Jansen, Director of Finance, 287-3016


DIRIGO
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DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

AND

DEPARTMENT OF LABOR


DIRIGO
MAINE

(ML-15-0308-01)

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

Prior Year Findings:

FY14	FY13	FY12	FY11	FY10	FY09	FY08
ML-14-0308-01	13-0308-01	12-0308-01				

State Department: Administrative and Financial Services (DAFS)
Labor (DOL)
State Bureau: Office of the State Controller (OSC)
Bureau of Unemployment Compensation (BUC)

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

Context: For fiscal year 2015, the Employment Security Enterprise Fund's allowance for uncollectible accounts of $24.9 million was calculated for receivables totaling $60.6 million.

Cause: Inadequate quantitative analysis to support valuation assumptions

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

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

Management's Response/Corrective Action Plan: The Department does not agree with the finding.

OSC is responsible for making the accounting estimates included in the financial statements. Estimates are based on subjective as well as objective factors and, as a result, judgment is required to estimate an amount at the date of the financial statements. OSC has a process for estimating the amount to be reserved for uncollectible receivables using an aging method, which is a common, acceptable method within the industry. We believe that this method is not overly sensitive to variations, is consistent with historical patterns and is not overly subjective or susceptible to bias. Using this method, OSC and Labor 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.

OSC will perform an analysis of historical collections in comparison to the percentages and assumptions used currently. We will also work with BUC to review the percentages applied.

Contact: Sandra Royce, CPA, Director of Financial Reporting and Analysis, 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.

DEPARTMENT OF EDUCATION


DIRIGO
MAINE

(ML-15-0903-02)

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

Prior Year Findings: None

FY14	FY13	FY12	FY11	FY10	FY09	FY08

State Department: Education (DOE)

State Bureau: N/A

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: DOE has not yet required the vendor to provide the results of independent SOC testing as part of their contractual agreement. The two types of annual SOC reports that would provide the Department needed assurance are:

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

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

Recommendation: We recommend that the Department require that the vendor provide the Department with an annual SOC 1, Type II report; and an annual SOC 2, Type II report.

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

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

The Department will require the vendor to provide the Department with annual SOC 1, Type II report and an annual SOC 2, Type II (TSP of Availability) report. The Department is currently developing a contract with the Vendor for the 2016-2017 fiscal year. These requirements have been written into the contract.

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


DIRIGO
MAINE

DEPARTMENT OF HEALTH AND HUMAN SERVICES


DIRIGO
MAINE

(ML-15-1113-01)

Title: Internal controls over subrecipient cash management need improvement

Prior Year Findings:

FY14	FY13	FY12	FY11	FY10	FY09	FY08
ML-14-1113-03	13-1113-02					

State Department: Health and Human Services

State Bureau: Division of Contract Management (DCM)

Condition: The Department did not adjust payments to four of the eight subrecipients in accordance with its own written procedures when the subrecipient had excessive cash on hand. DCM policy permits a variance of ten percent over or under budgeted expenditures before a contract payment requires adjustment. There were payments totaling $8,877 in excess of the permitted ten percent variance and the subsequent payments were not adjusted.

Context: Payments to the eight subrecipients totaled $4 million dollars for fiscal year 2015.

Cause: Procedures for processing quarterly reports are not being consistently followed by DCM staff.

Effect: Potential Federal interest liability

Recommendation: We recommend that the Department provide training to contract administrators so that they may fully utilize the new process for tracking and adjusting contract payments to providers.

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

In order to have a consistent application of policy the Department revised its policy effective October 29, 2015 and provided trainings to all contract administrators by December 2015.

The Department is adding a management level report that will show when quarterly reports have not been submitted and when adjustments have not been made. The implementation date for this report is April 2016, at which point training will be provided to the management team.

Contact: Jim Lopatosky, Director of Contract Management, 287-5075

(ML-15-1155-01)

Title: Internal control over subrecipient cash management needs improvement

Prior Year Findings: None

FY14	FY13	FY12	FY11	FY10	FY09	FY08

State Department: Health and Human Services

State Bureau: Division of Contract Management (DCM)

Condition: The Department did not adjust payments for two of twelve subrecipients in accordance with its written procedures when the subrecipient had excessive cash on hand. DCM policy permits a variance of ten percent over or under budgeted expenditures before a contract payment requires adjustment. There were payments totaling $18,534 in excess of the permitted ten percent variance and the subsequent payments were not adjusted.

Context: Payments to subrecipients totaled $7.1 million dollars for fiscal year 2015.

Cause: Procedures for processing quarterly reports are not being consistently followed by DCM staff.

Effect: Potential Federal interest liability

Recommendation: We recommend that the Department provide training to contract administrators so that they may fully utilize the new process for tracking and adjusting contract payments to providers.

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

In order to have a consistent application of policy, the Department revised its policy effective October 29, 2015 and provided training to all contract administrators (completed December 2015).

The Department is adding a management level report that will identify when quarterly reports have not been submitted and/or adjustments have not been made. The implementation date for this report is April 2016, at which time training will be provided to the management team.

Contact: Jim Lopatosky, Director of Contract Management, 287-5075

DEPARTMENT OF INLAND FISHERIES AND WILDLIFE


DIRIGO
MAINE

(ML-15-0203-02)

Title: Systematic detailed reconciliations are not being conducted as required

Prior Year Findings: None

FY14	FY13	FY12	FY11	FY10	FY09	FY08

State Department: Inland Fisheries and Wildlife

State Bureau: Division of Licensing and Registration

Condition: The Department is no longer conducting scheduled and detailed reconciliations between InforME data and bank statements. The Department indicated that they are performing unscheduled periodic reviews; however, they could not provide documentation that these reconciliations were actually being done.

Context: The InforME internet portal processes $10.1 million in annual revenue for the Inland Fisheries and Wildlife department.

Cause: The Department discontinued the process of preparing daily detailed reconciliations after the determination was made that variances found during the reconciliations were not significant to the operation.

Effect: There is no systematic reconciliation to serve as the complementary control identified in the SSAE 16 report covering the InforME system.

Recommendation: We recommend that the Department implement procedures to ensure that the reconciliations identified in InforME's SSAE 16 report are prepared regularly.

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

The Department has reviewed the complementary user entity controls identified in the NIC (parent company of InforME) SSAE 16 audit report covering the period of October 1, 2014 to June 30, 2015. We agree that complementary user entity controls are required per this audit report. The Department agrees to formally document our current practices in this area.

Contact: Bill Swan, Director, Licensing and Registration, Inland Fisheries and Wildlife, 287-5225


DIRIGO
MAINE

DEPARTMENT OF LABOR

(ML-15-1308-03)

Title: Procedures are not adequate to ensure that payments are made only for allowable costs

Prior Year Findings: None

FY14	FY13	FY12	FY11	FY10	FY09	FY08

State Department: Labor

State Bureau: Rehabilitation Services

Condition: Two of the sixty expenditures randomly selected for audit were for goods or services that should have been but were not included in the associated client's Individualized Plan for Employment (IPE).

Context: An IPE is uniquely developed for each individual client. Both expenditures that were not supported by the client's IPE pertained to the Division of Vocational Rehabilitation (DVR). We do note, however, that although not included in the IPE, the expenditures were consistent with other case information.

Cause: Incomplete IPEs

Effect: Potential questioned costs

Recommendation: We recommend that the Department implement procedures to ensure that payments are only for items included in the IPE.

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

As noted above, although the Individualized Plans for Employment (IPE) were not amended to itemize the two expenditures, they were consistent within the other case record documentation and allowable. IPE amendments are the procedures that need to be taken when an expenditure is approved after the IPE has been written; management will review this finding with supervisors and regional managers. Additionally, expenditures and IPE's are included in the case review process, which results in feedback provided directly to the counselors on a case-by-case basis.

Contact: Betsy Hopkins, DVR Director, 623-6754
Karen Fraser, BRS Director, 623-7961

DEPARTMENT OF TRANSPORTATION


DIRIGO
MAINE

(ML-15-0907-01) - CONFIDENTIAL

Title: __________ are not adequate________. (The content of this finding has been redacted. This appears as blank underlining).

Prior Year Findings: None

FY14	FY13	FY12	FY11	FY10	FY09	FY08

State Department: Transportation

State Bureau: Finance and Administration

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

Context: ________ is the Maine Department of Transportation accounting system for payment transactions.

Cause: Lack of ________ in the __________ system that prevent the ___________.

Effect: This could potentially lead to ___________.

Recommendation: We recommend that the Department implement _________ controls.

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

The Department has already implemented _________ controls which will require __________. This change was implemented in December 2015.

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

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