STATE OF MAINE

MANAGEMENT LETTER

to the Single Audit Report and
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2019

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

This report will be posted to the
Office of the State Auditor website on May 4, 2020.
www.maine.gov/audit/osa-reports/2019MgmtLetterSARandCAFR.pdf

State of Maine
Management Letter to the Single Audit Report and the Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2019

Table of Contents

Page

Continued on the back of this page ....

---

[1] The Management Letter to the Single Audit Report is transmitted on April 23, 2020, to those charged with governance and to management, related to the Single Audit Report dated March 31, 2020.

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

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

STATE OF MAINE
OFFICE OF THE STATE AUDITOR
66 STATE HOUSE STATION
AUGUSTA, ME 04333-0066
TEL: (207) 624-6250

Pola A. Buckley, CPA, CISA
State Auditor

B. Melissa Perkins, CPA
Deputy State Auditor

LETTER OF TRANSMITTAL

Honorable Troy D. Jackson
President of the Senate

Honorable Sara Gideon
Speaker of the House of Representatives

Honorable Janet T. Mills
Governor of the State of Maine

I am pleased to submit the State of Maine Management Letter for the fiscal year ended June 30, 2019. During our 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.

This publication of our Management Letter includes two sections: Management Letter Comments previously issued in relation to the Comprehensive Annual Financial Report (CAFR) audit; and Management Letter Comments newly issued in relation to the Single Audit. Management Letter Comments related to the CAFR audit were separately issued on January 27, 2020 and are included in this report to provide the reader with a comprehensive set of our recommendations.

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 23, 2020

STATE OF MAINE
OFFICE OF THE STATE AUDITOR
66 STATE HOUSE STATION
AUGUSTA, ME 04333-0066
TEL: (207) 624-6250

Pola A. Buckley, CPA, CISA
State Auditor

B. Melissa Perkins, CPA
Deputy State Auditor

MANAGEMENT LETTER

Honorable Members of the Legislative Council for the 129th Legislature

Honorable Janet T. Mills
Governor of the State of Maine

In planning and performing the Single Audit of the State of Maine for the year ended June 30, 2019, we considered the State of Maine's internal control. We did so to plan our auditing procedures for the purpose of expressing an opinion on the financial statements and Federal program compliance, but not for expressing our opinion on the effectiveness of the State of Maine's internal control over financial reporting or compliance.

During our audit, we became aware of several matters that resulted in "Management Letter Comments" that offer opportunities for strengthening internal control and improving operating procedures of the State of Maine. These matters were not identified as material weaknesses or significant deficiencies. These matters are a result of audit procedures performed based on risk assessment procedures and not all deficiencies or weaknesses in controls may have been identified. The following pages contain our comments and suggestions regarding those matters and are in addition to the more significant issues addressed in the following reports that are included in Maine's fiscal year 2019 Single Audit Report:

- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

Three of the thirteen Management Letter Comments are redacted because they relate to confidential and sensitive information. Redacting this information is consistent with *Government Auditing Standards* promulgated by the U.S. Government Accountability Office.

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

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

March 31, 2020

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

ML-19-0905-04 CONFIDENTIAL

Title: Policy and procedures over ________ need improvement (The content of this finding has been redacted. This appears as blank underlining.)

Prior Year Findings: None

FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11
None	None	None	None	None	*	*	*

**The system was not audited in this fiscal year.*

State Department: Administrative and Financial Services
State Bureau: Office of Information Technology

Type of Finding: Management letter

Questioned Costs: None

Criteria: 2 CFR 200.303; ________; ________; ________; ________

Condition: ________ are designed to ensure that end users do not ________ outside the State network. Testing indicated that ________ are in place and protecting ________ in accordance with ________, ________, ________, ________, and ________. However, there is currently no ________ in place. Instead, the Office of Information Technology relies on ________ to ________ from ________ by authorized users.

Context: State government is entrusted with a vast repository of ________. Reliance is placed on the State to ________, and to ________ from harm, manipulation or undetected theft.

Cause: ________

Effect: Potentially ineffective ________ due to the ________ of the established ________

Recommendation: We recommend that the Department develop a ________ that ________ and requirements for ________ in accordance with ________ for all State agencies and personnel.

Management's Response: The Department agrees with this finding. As the condition above states, there are ________ in place that ________ in accordance with Federal requirements; however, the Office of Information Technology has not completed a ________. The Office of Information Technology has established a July 2020 deadline to complete a ________ along with accompanying procedures that will address ________.

Contact: Sharon Horne, Enterprise Architect, OIT, 207-624-9925

ML-19-1000-02

Title: Compilation of the Schedule of Expenditures of Federal Awards needs improvement

Prior Year Findings: None

FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11
None	None	None	None	None	None	None	None

State Department: Administrative and Financial Services
State Bureau: Office of the State Controller

Type of Finding: Management letter

Questioned Costs: None

Criteria: 2 CFR 200.510(b)(4); State Controller's Bulletin #FY20-01

Condition: The auditee must prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements that must include the total Federal awards expended. The Schedule must include, but separately present, the amount provided to subrecipients for each Federal program. All State agencies receiving Federal assistance must enter data into exhibits and related spreadsheets, and then submit this information to the Office of the State Controller (OSC). The OSC is responsible for compiling this information on behalf of State government.

The OSC incorrectly reported non-cash awards passed through to subrecipients as direct expenditures on the SEFA for the fiscal year ended June 30, 2019.

Context: Total non-cash awards passed through to subrecipients for food commodities was approximately $11 million in fiscal year 2019. Total Federal expenditures for all awards reported on the SEFA was $3.2 billion.

Cause: Lack of adequate internal control to ensure non-cash awards that pass through to subrecipients are classified appropriately on the SEFA

Effect: The OSC subsequently corrected the amounts reported for non-cash awards passed through to subrecipients on the SEFA. The SEFA is submitted to the Federal government and may be used by them for programmatic, policy or statistical purposes. It is also public information.

Recommendation: We recommend that the OSC implement procedures to ensure non-cash awards that pass through to subrecipients are classified appropriately on the SEFA.

Management's Response: The Department agrees with this finding. The Office of the State Controller has updated the SEFA template used by State agencies to compile expenditures to include language that requires agencies to consider whether non-cash amounts were provided to subrecipients.

Contact: Thomas Randall, Financial Management Coordinator, OSC, 207-626-8492

DEPARTMENT OF HEALTH AND HUMAN SERVICES

ML-19-1113-01

Title: Control over WIC's infant food and formula rebate process needs improvement

Prior Year Findings:

FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11
2018-007	*	*	None	None	None	None	None

**The program was not audited as a major program in this fiscal year.*

State Department: Health and Human Services
State Bureau: Maine Center for Disease Control & Prevention

Type of Finding: Management letter

Questioned Costs: None

Criteria: 2 CFR 200.303; 7 CFR 246.14

Condition: WIC infant food and formula rebates received by the State from the manufacturers must be wire transferred by WIC staff to the WIC Food Account in the month in which the payments are received from the manufacturers. The WIC Food Account is a bank account established by and held at WIC's banking intermediary. These rebates must be used to offset the cost of food.

One rebate in the amount of $7,341, received in July 2018, was not wire transferred to the Food Account established at WIC's banking intermediary.

Context: The WIC program received $3.9 million in rebates in fiscal year 2019 that must be used to offset the cost of food.

Cause:
- Unfilled vacancy (Finance Manager)
- Lack of adequate internal control

Effect: Noncompliance with Federal regulations

Recommendation: We recommend that:
- $7,341 be immediately transferred to the Food Account at WIC's banking intermediary;
- the Department work with the manufacturers to possibly implement direct deposit of rebate payments to WIC's banking intermediary; and
- the Department implement quarterly review procedures of rebate wire transfers which will enhance oversight of the infant food and formula rebate process.

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

- the $7,341 attributable to the rebate received during July 2018 was wired to the banking intermediary on January 22, 2020;
- research was conducted on having rebates directly deposited with the banking intermediary, it was determined that State law prohibits the WIC Nutrition Program from receiving funds through ACH; and
- the WIC Nutrition Program will be implementing a quarterly review of rebate wire transfers by July 1, 2020 now that the Finance Manager position has been filled.

Contact: Ginger Roberts-Scott, Director, Maine WIC Nutrition Program, DHHS, 207-287-5342

STATE OF MAINE
OFFICE OF THE STATE AUDITOR
66 STATE HOUSE STATION
AUGUSTA, ME 04333-0066
TEL: (207) 624-6250

Pola A. Buckley, CPA, CISA
State Auditor

B. Melissa Perkins, CPA
Deputy State Auditor

MANAGEMENT LETTER TO THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

Honorable Members of the Legislative Council for the 129th Legislature

Honorable Janet T. Mills
Governor of the State of Maine

In planning and performing our audit of the financial statements of the State of Maine as of and for the year ended June 30, 2019, on which we have issued our report dated November 27, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the State of Maine's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Maine's internal control. This report is based on our knowledge as of the date of our report on the financial statements, obtained in performing our audit thereof, and should be read with that understanding.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all weaknesses or deficiencies in internal control. Given these limitations, not all weaknesses or deficiencies in controls may have been identified. However, during our audit, we became aware of certain matters that resulted in "management letter comments" which are presented for your consideration and offer opportunities for strengthening internal control and improving operating procedures of the State of Maine. These matters were not identified as material weaknesses or significant deficiencies in a separate report titled the 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*. The following pages contain our comments and suggestions regarding those matters.

Two of the ten management letter comments are redacted because they relate to confidential and sensitive information. Redacting this information is consistent with *Government Auditing Standards* promulgated by the U.S. Government Accountability Office.

This communication is intended solely for the information and use of the Legislature, the Governor, and others within State government, and is not intended to be, and should not be, used by anyone other than these specified parties.

We would be pleased to discuss these management letter comments in further detail at your convenience.

Pola A. Buckley

Pola A. Buckley, CPA, CISA
State Auditor

November 27, 2019

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

ML-19-0116-01

Title: The *Schedule of State Government Full Time Equivalent Employees by Policy Area* included in the Comprehensive Annual Financial Report does not meet the requirement provision of the Governmental Accounting Standards Board

Prior Year Findings:

FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11
ML 18-0116-01	None	None	None	None	None	None	None

State Department: Administrative and Financial Services
State Bureau: Office of the State Controller

Type of Finding: Management letter

Questioned Costs: None

Criteria: Governmental Accounting Standards Board (GASB) 44, paragraph 36

Condition: According to the GASB, the purpose of the statistical schedule titled *Schedule of State Government Full Time Equivalent Employees by Policy Area* (Schedule 14) of the Comprehensive Annual Financial Report (CAFR) is to present the number of persons employed by function, program, or identifiable activity. This information is presented to contribute to the reader's assessment of the government's actual economic condition.

The State of Maine CAFR presents the number of budgeted full time equivalent (FTE) employees rather than the number of actual FTE employees by year and by policy area for 2009 through 2019.

Context: The government of the State of Maine is one of the largest employers in Maine. A significant variance exists between budgeted FTE employees and actual FTE employees due to ongoing vacancies in State government positions.

Cause: The Office of the State Controller (OSC) has identified disclosure of the budgeted number of State government FTE employees on Schedule 14 as sufficient.

Effect: Schedule 14 does not report actual FTE employees which could be misleading. The current format of the schedule does not contribute to government transparency.

Recommendation: We recommend that the Department report the actual number of FTE employees by policy area, rather than budgeted numbers, on Schedule 14 of the CAFR.

Management's Response: The Department disagrees with this finding. OSC has reported budgeted employees since 2006 and clearly indicates on the face of this schedule that the information presents budgeted positions. Consequently, the information presented in the schedule is not misleading to the reader.

Based on preliminary review, OSC has determined that the budget to actual employee count varies by fewer than 500 employees, which is not a significant variance. The number of budgeted employees provides the maximum hiring level and corresponding approved salary budget, which reflects the economic impact of the State's positions, if filled.

The State of Maine has received the GFOA "Certificate of Achievement for Excellence in Financial Reporting" since 2007. There are other States that report budgeted employees as we do, and they have also received the GFOA "Certificate of Achievement for Excellence in Financial Reporting".

Given the 10-year historical data that is included in the CAFR, OSC plans to continue reporting the budgeted employees.

Contact: Sandra Royce, CPA, Director of Financial Reporting and Analysis, OSC, 207-626-8451

Auditor's Concluding Remarks: Though the presentation of budgeted FTE totals provides information about a government's "maximum hiring level and corresponding approved salary budget", it does not contribute to the reader's assessment of actual economic conditions, nor does it present the "number of persons employed" which, as described by GASB 44, is the purpose of this schedule.

Consistent application of a process in which the actual numbers are presented will contribute to transparency of State government. Schedule 14, as presented, does not "help the reader to understand and assess the economic impact of Maine's employee base" because the actual employee base is not truly presented.

The Office of the State Auditor does not agree that OSC continues to perpetuate the omission of critical information in the CAFR. Each year of the ten-year historical data presented on the *Schedule of State Government Full Time Equivalent Employees by Policy Area* should present the actual number of employees, not the budgeted number of employees.

The finding remains as stated.

ML-19-0320-02

Title: Accounting and other procedures over capital leases need improvement

Prior Year Findings: None

FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11
None	None	None	None	None	None	None	None

State Department: Administrative and Financial Services
State Bureau: General Governmental Service Center

Type of Finding: Management letter

Questioned Costs: None

Criteria: Governmental Accounting Standards Board (GASB) Codification – Leases, Sections L.111, L.112(b), and L.113

Condition: A lessee should record a capital lease as an asset and an obligation at an amount equal to the present value of the minimum lease payments at the beginning of the lease term or the fair value of the asset at lease inception; whichever is less. The asset, in this case an office building, should be depreciated and the lease obligation should be amortized.

The State signed a 360-month lease with a developer in June 2017 to construct a State office building at 109 Capitol Street. The developer purchased the property, demolished the old building, and constructed a new building that was completed in March 2019. A real estate firm provided the State a written estimate indicating the fair value of the new building was $23.1 million.

The following issues were noted during our review:

- The State recorded the leased asset and the lease obligation at an estimated fair value of $15.2 million which was less than the present value of minimum lease payments of $40 million. The fair value of $15.2 million was the City of Augusta's valuation calculated by adding the value of permitted improvements to the tax assessment value of the original building that was demolished. Though the City of Augusta's documented amount may be readily available at no cost to the State for valuation purposes, it does not accurately reflect the fair market value of the newly constructed building at 109 Capitol Street. It is the auditor's position that the leased asset and lease obligation should have been recorded at $23.1 million, the estimated fair value provided by the real estate firm.
- Amortization of the lease obligation and depreciation of the leased asset commenced in July 2017, effectively amortizing and depreciating the 360-month lease over 385 months. The actual term of the lease started in March 2019 when the State moved into the new building and lease payments commenced. The asset and the related amortization and depreciation should have commenced in March 2019, rather than July 2017.

Context: As of June 30, 2019, the State's financial statements indicate that the capitalized lease asset net of accumulated depreciation for 109 Capitol Street in Augusta is $14.3 million and that the corresponding lease obligation is $14.5 million.

The Statewide totals for these classifications are $53.2 million for capitalized lease assets net of accumulated depreciation, and $70.8 million for lease obligations.

Cause: State controls do not ensure that capitalized leases are properly valued and amortized, and that associated assets are properly depreciated.

Effect:

- Capital assets are understated by $8.8 million and lease obligations are understated by $8.6 million at June 30, 2019.
- Amortization of the lease and depreciation of the asset are recognized prior to the State's occupancy of the building, and before lease payments commence.

Recommendation: We recommend that the Department revise lease accounting policies to include:

- proactively obtaining an independent private sector appraisal to support the valuation of major leased spaces when the Department suspects or should suspect the tax assessment may not be accurate or reflective of market value; and
- ensuring that capital lease-related amortization and depreciation are recorded as of the occupancy date rather than the date the lease contract is executed.

Management's Response: The Department partially agrees with this finding. DAFS agrees that the lease in question was recorded too early, resulting in premature lease amortization and depreciation expense; however, we do not agree with the auditor's estimated valuation at lease inception, nor do we agree with the utilization of a Broker's Opinion of Value as the basis to determine the fair value of the leased asset for this finding. It is important to note that it is management's responsibility to estimate the fair value of the leased asset at the lease inception date. DAFS, carrying out that responsibility, has elected to utilize tax assessments as the basis for estimating the fair value of lease assets because this methodology is objective, reliable and cost effective.

Contact: Janre Mullins, Director, General Government Service Center, DAFS, 207-624-7399

Auditor's Concluding Remarks: The Office of the State Auditor agrees that using a tax assessment as the basis for estimating fair value can potentially be an objective, reliable and cost-effective method. However, in this case, the City tax assessment was not developed using logical assumptions. This resulted in an asset to be undervalued by an estimated $7.9 million. Developing policies that require a market appraisal when the Department should suspect the tax assessment is improperly valued will ensure that the Department is properly valuing leased property in accordance with GASB pronouncements.

The finding remains as stated.

ML-19-0320-03

Title: Internal control over accounting for construction in progress needs improvement

Prior Year Findings:

FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11
None	None	None	2015-003	ML 14-0320-01	ML 13-0320-01	ML 12-0320-01	ML 11-0320-01

State Department: Administrative and Financial Services
State Bureau: Office of Information Technology (OIT)
General Government Service Center

Type of Finding: Management letter

Questioned Costs: None

Criteria: State Administrative and Accounting Manual Section 30

Condition: Costs accumulated for construction in progress should be capitalized to the appropriate asset classification when the project is substantially complete, accepted, and placed into service.

During our testing of capital assets, we noted construction in progress accounts for the Office of Information Technology (OIT) and Statewide Radio Network (SRN) included the accumulation of costs associated with projects completed several years ago. These assets should have been capitalized into the appropriate asset classification and depreciated based on the placed-in-service date. In addition, some of these costs may be expenses that are not subject to capitalization.

Context: Construction in progress totaling $3.5 million for OIT and $8 million for SRN represent completed projects that have not been capitalized or expensed.

Cause: The Department does not maintain detailed construction in progress records that accumulate costs and track placed in service dates by project. In addition, indirect project costs that should be shared among multiple projects are not being allocated.

Effect:

- Accumulated depreciation and depreciation expense are understated in the State's financial statements (assets are overstated and expenses are understated).
- Note Eight to the financial statements contains an error.

Recommendation: We recommend that procedures be implemented to ensure construction in progress is tracked by project, and that projects are reclassified to capital assets when placed into service.

Management's Response: The Department agrees with this finding. The General Government Service Center (GGSC) will be implementing procedures to track work in progress (WIP) by project and to capitalize appropriate assets when placed in service. Additionally, GGSC will review the previously accumulated WIP balances and properly reclassify those amounts.

Contact: Janre Mullins, Director, General Government Service Center, DAFS, 207-624-7399

ML-19-0320-05

Title: Internal control over the preparation of the Combining Statement of Cash Flows for Business-Type Activities needs improvement

Prior Year Findings: None

FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11
None	None	None	None	None	None	None	None

State Department: Administrative and Financial Services
State Bureau: Office of the State Controller

Type of Finding: Management letter

Questioned Costs: None

Criteria: Governmental Accounting Standards Board (GASB) Codification Section 2450

Condition: Cash flows from "Capital and Related Financing Activities" for enterprise funds and internal service funds should reflect only cash inflows and outflows from purchases, sales, and financing of capital assets.

During our review of the Combining Statement of Cash Flows in the Combining and Individual Fund Financial Statements and Schedules, it was noted that "Payments for the Acquisition of Capital Assets" and "Proceeds from Sale of Capital Assets" did not properly present only cash inflows and cash outflows of related transactions. In addition, a non-cash effect, the $5.6 million loss on a sale of capital assets, was treated as a cash outflow.

Context: Proceeds from the sale of capital assets by Maine Military Authority, an enterprise fund, were initially presented incorrectly as a *cash* outflow of $5.6 million dollars. This activity (a loss on sale), should have been recorded as "*Non Cash* Investing, Capital and Financing Activities" on the cash flow statement. Management corrected the error.

Cause: Staff relies solely on a computer-generated report to prepare the Combining Statement of Cash Flows for Business-Type Activities. This report does not break out cash inflows and outflows for "Payments for Acquisition of Capital Assets" and "Proceeds from Sale of Capital Assets" within "Cash Flows from Capital and Related Financing Activities". Also, it does not adequately segregate non-cash activity.

Effect:

- Payments for the acquisition of capital assets may be understated.
- Proceeds from the sale of capital assets may not be reflective of actual cash proceeds from the sale.
- Non-cash investing and financing activities may not be identified.

- The loss on the sale of Maine Military Authority's assets was originally recorded as a cash outflow of $5.6 million dollars when it should have been recorded as a "Non Cash Investing, Capital and Financing Activity".

Recommendation: We recommend that the Department develop a process to properly identify cash and non-cash transactions within the "Cash Flows from Capital and Related Financing Activities" section of the Statement of Cash Flows.

Management's Response: The Department agrees with the finding. OSC has not formally documented the procedures that are used to prepare the cash flow statements. These procedures do include steps to address the limitations in the State's financial reporting software; however, one of these steps was inadvertently omitted during the preparation of the cash flow statements. In response, OSC will formalize, document and follow the procedures used to prepare the cash flow statements.

Contact: Sandra Royce, CPA, Director of Financial Reporting and Analysis, OSC, 207-626-8451

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

AND

DEPARTMENT OF HEALTH AND HUMAN SERVICES

ML-19-0203-01

Title: Policies and procedures utilized by the Department need improvement

Prior Year Findings: None

FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11
None	None	None	None	None	None	None	None

State Department: Health and Human Services (DHHS)
Administrative and Financial Services (DAFS)
State Bureau: Office for Family Independence, a Unit of DHHS
Health and Human Services Service Center, a Unit of DAFS
Office of the State Controller, a Unit of DAFS

Type of Finding: Management letter

Questioned Costs: None

Criteria: 2 CFR 200.410

Condition: Payments made for costs determined to be unallowable by either the Federal awarding agency, cognizant agency for indirect costs, or pass-through entity, either as direct or indirect costs, must be refunded (including interest) to the Federal government in accordance with instructions from the Federal agency that determined the costs as unallowable unless Federal statute or regulation directs otherwise.

Overpayments made by the State for Office for Family Independence (OFI) client services are recorded as accounts receivable in the State financial statements. These receivables date back to 1983. The amount owed to the Federal awarding agency as a result of these overpayments is $32 million as of June 30, 2019. The Department recorded only $5.6 million of the total $32 million owed, as estimated to be recoverable and therefore due back to the Federal awarding agency.

Management estimates $26 million to be uncollectible from beneficiaries for identified improper payments. This $26 million was properly recorded and disclosed as an allowance for uncollectible accounts within the Federal Fund, and the related $26 million expense associated with the allowance was recorded in the Federal Fund. The expense should have been recorded in the General Fund since Federal funds cannot be used to pay for unallowable costs such as improper payments made by the State.

Context:

- The amount owed to the Federal awarding agency was recorded at $5.6 million and should have been recorded at $32 million.
- The $26 million management estimate of the allowance for uncollectible accounts was recorded in the Federal Fund and should have been recorded in the General Fund.

Cause: Policies and procedures utilized by the Departments do not provide guidance to appropriately account for identified overpayments (improper payments) made to OFI clients.

Effect:

- Liabilities in the Federal Fund are understated.
- Liabilities in the General Fund are understated.
- Expenditures in the General Fund are understated.

Recommendation: We recommend that the Office of the State Controller work in conjunction with the Departments to properly record amounts owed to the Federal awarding agency for identified improper payments. Furthermore, we recommend that the amount deemed uncollectible from clients be recorded in the General Fund and that Federal dollars are not utilized for these identified improper payments.

Management's Response: Management disagrees with this finding. The receivable balance in question primarily originates from two Federal programs; Temporary Assistance for Needy Families (TANF) and the Supplemental Nutrition Assistance Program (SNAP).

The U.S. Department of Health and Human Services' Office of Family Assistance provides guidance on the recovery of overpayments for the TANF program. Program Instruction TANF-ACF-PI-2006-03 (Collecting and Repaying Overpayments Made to Families under the Aid to Families with Dependent Children (AFDC) Program and the Temporary Assistance for Needy Families (TANF) Program) makes it clear that as of October 1, 1996 the collection of overpayments should be utilized for program purposes. It is implicit in these same instructions that no liability is created for the State for uncollected funds. It is for these reasons that recording a general fund liability for TANF overpayments would be erroneous.

The recovery of overpayments for SNAP households is covered by 7 CFR 273.18 (a)(2). This CFR specifies that claims against households, the action required to be established for the overpayment of benefits, is specifically identified as a Federal debt. This proclamation would preclude the State from recording this as a general fund liability.

Contact: Sandra Royce, CPA, Director of Financial Reporting and Analysis, OSC, 207-626-8451

Auditor's Concluding Remarks: The finding is a result of the *recording* of overpayments, not the *recovery* of overpayments.

We agree that the U.S. Department of Health and Human Services' Office of Family Assistance provides guidance on the *recovery* of overpayments for the TANF program. The referred to TANF-ACF-PI-2006-03 states that its purpose is "to update policy with regard to treatment of overpayment recoveries received by the state…" and as such, only provides guidance on policies related to the treatment of overpayments *recovered* and does not state that "no liability is created for the State for uncollected funds."

TANF-ACF-PI-2006-03 guidance on the treatment of overpayment *recoveries* for payments originating before October 1, 1996 and for overpayments originating after that date states, "For recoveries of former AFDC program overpayments made before October 1, 1996, states are required to repay the Federal government the Federal share of these recoveries using the Federal Medicaid Assistance Percentage (FMAP) rate in effect for the state during fiscal year 1996." A portion of the $32 million overpayments balance identified above originated before October 1, 1996. This guidance implies that overpayments are owed back to the Federal government and are not forgiven debts. TANF-ACF-PI-2006-03 also outlines that States are not required to "repay" the Federal government for recoveries related to overpayments occurring on or after October 1, 1996 and instead may retain and use these recoveries for TANF program costs during the grant year in which they are recovered, or later. By doing so, this effectively reduces the Federal revenue drawn from the current year grant award and indirectly "pays back" amounts owed.

The SNAP CFR cited by the Department (7 CFR 273.18(a)(2)) states that the overpayment is a Federal debt, which we agree; it is a debt that is owed to the Federal government. However, this does not mean that a Federal Fund liability should be established only for the amount that is deemed to be collectible for financial reporting purposes.

Unless other guidance or correspondence is provided by the Federal cognizant agency that relieves the State of its obligation to repay the unallowed cost, a liability to the Federal government should be established for the full amount of the identified overpayment.

The finding remains as stated.

DEPARTMENT OF PUBLIC SAFETY

ML-19-0903-02 CONFIDENTIAL

Title: The Department of ________ has ________ that ________ over the ________ is adequate (The content of this finding has been redacted. This appears as blank underlining.)

Prior Year Findings:

FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11
Redacted	*	*	None	None	None	None	None

**The system was not audited in this fiscal year.*

State Department: Public Safety
State Bureau: ________

Type of Finding: Management letter

Questioned Costs: None

Criteria: ________; ________; ________; and ________

Condition: The Department has ________ and ________ that ________ provided by ________ over the ________ are ________ and that ________ is ________, ________, ________, and ________.

Context: The Department has a ________ with a ________ to ________. During fiscal year 2019, the State ________ and ________. Therefore, it is important that related ________ on ________ measure the degree to which the State and their ________.

Cause: The ________ between the Department and ________ does not require ________ and ________ for the ________.

Effect:

- ________
- ________
- ________
- ________

Recommendation: We recommend that the Department ________ to the ________. We further recommend that the Department ________ that the ________ provide the Department with ________ and ________ of ________. This will provide assurance to the State regarding whether ________ over ________ are adequate.

Management's Response: The Department agrees with this finding. During 2018 a new ________ for the ________ was ________. It was at the completion of that process that a ________ was ________ by the Board. Current ________ include the ________ in the ________. Results of the ________ shall be ________ to the Board.

A new ________ was ________ with the following key dates; ________. ________. ________. ________ was ________ for oversight of the ________ as approved by the Board.

________ has been ________ which is under ________; "________."

A current ________ has been made with ________ to ________.

Contact: ________

DEPARTMENT OF TRANSPORTATION

ML-19-0320-01

Title: Land improvements are not depreciated in accordance with State accounting policies

Prior Year Findings: None

FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11
None	None	None	None	None	None	None	None

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

Type of Finding: Management letter

Questioned Costs: None

Criteria: State Administrative and Accounting Manual (SAAM) Section 30.20.70.c.

Condition: Land improvements of $242,065 were incorrectly recorded as building improvements.

Context: Parking lot improvements were made at 66 Industrial Drive in Augusta.

Cause: The Department has not provided employees adequate training related to valuing, capitalizing and depreciating fixed assets.

Effect: Land improvements, which have a fifteen-year depreciable life, are being depreciated over forty years. As a result, depreciation expense is understated by approximately $10,000 per year.

Recommendation: We recommend that the Department provide periodic training on the applicable section of the SAAM and correct the accounting record noted above.

Management's Response: The Department agrees with this finding. We will remove paving from the building fixed asset category, create a new fixed asset with the correct useful life and fixed asset type, and correct the recorded amount of depreciation. The misunderstanding regarding paving has been clarified, staff have been trained on the State Administrative and Accounting Manual, and annual training and review of the manual will continue.

Contact: Danielle Brooks, Fleet Manager, Maintenance and Operations, DOT, 207-624-8215

ML-19-0320-04

Title: Internal control over year-end closing procedures needs improvement

Prior Year Findings: None

FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11
None	None	None	None	None	None	None	None

State Department: Transportation
State Bureau: Finance and Administration

Type of Finding: Management letter

Questioned Costs: None

Criteria: Governmental Accounting Standards Board (GASB) Codification 1400.103; State Administrative and Accounting Manual Section 30

Condition: Capital assets include land and land improvements, buildings, vehicles, machinery and equipment, and infrastructure that have useful lives that extend beyond a single reporting period. During our testing of capital assets, we noted that the Department of Transportation (DOT) does not have year-end procedures in place to ensure that vehicle-related spending is properly recorded in the State's financial statements.

DOT Fleet Services accumulates costs to repair vehicles in a Work in Progress asset account. At the beginning of each month, the prior month's costs are reclassified to either Repairs and Maintenance Expense, Parts Inventory, or Fixed Assets. At year end, a balance remains in the Work in Progress account. This year-end balance, which is comprised mostly of repair and maintenance expenses, is incorrectly reported as a capital asset.

Context: Work in progress totaling $1.7 million was classified as a capital asset as of June 30, 2019. In the following month, $1.6 million of the $1.7 million was reversed and charged to operating expenses. The Parts Inventory increased by $120,013.

Cause: Current policies do not require a year-end journal entry to remove repairs and maintenance expenses from capital assets for financial statement purposes.

Effect: As of June 30, 2019, capital assets (work in progress) is overstated by $1.7 million, expenses are understated by $1.6 million, and the inventory valuation is understated by $120,013.

Recommendation: We recommend that DOT Fleet Services adopt year-end procedures to ensure work in progress is adjusted to the appropriate account for financial reporting purposes.

Management's Response: The Department agrees with this finding. DOT Fleet Services will provide the amounts to be adjusted for expenses, capital assets and inventory to the Office of the State Controller Financial Reporting Division as part of the year-end GAAP closing package. The Financial Reporting Division will use this information to make the necessary financial statement adjustments.

Contact: Danielle Brooks, Fleet Manager, Maintenance and Operations, DOT, 207-624-8215

ML-19-0900-03 CONFIDENTIAL

Title: ________ over ________ related to the Department's ________ needs improvement (The content of this finding has been redacted. This appears as blank underlining.)

Prior Year Findings:

FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11
Redacted	Redacted	None	None	None	None	None	*

**The system was not audited in this fiscal year.*

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

Type of Finding: Management letter

Questioned Costs: None

Criteria: ________; ________; ________

Condition: The Department's ________ to prevent or limit ________ to the ________ need improvement. In fiscal year 2019 ________ and ________. ________, ________, and ________ should be ________ to ________ and ________ and ________ and ________. It is not possible to ________ when ________.

Context: ________ is the ________ used by ________ to ________. The system processed ________ totaling ________ in fiscal year 2019. This includes ________ in ________.

Cause:
- ________
- ________

Effect: Inadequate ________ increase the ________ of both ________ and ________. Users with ________ to the ________ may ________. ________.

Recommendation: We recommend that the Department ________ that require ________ to ________ for ________ and ________ in an ongoing manner.

Management's Response: The Department agrees that as of 6/30/19 the ________ were ________ the ________. ________ were ________ mid-July 2019 which no longer ________**.**

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

DEPARTMENT OF DEFENSE, VETERANS AND EMERGENCY MANAGEMENT

AND

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

ML-19-0600-01

Title: Internal control over the capitalization of fixed assets needs improvement

Prior Year Findings:

FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11
None	ML 17-0600-01	None	None	None	None	None	None

State Department: Defense, Veterans and Emergency Management (DVEM)
Administrative and Financial Services (DAFS)
State Bureau: Military, a Unit of DVEM
Office of the State Controller (OSC), a Unit of DAFS

Type of Finding: Management letter

Questioned Costs: None

Criteria: State Administrative and Accounting Manual Section 30.20.20

Condition: In 2019, the Department of Defense, Veterans and Emergency Management (DVEM) incorrectly reported to the Office of the State Controller (OSC) that a parcel of land purchased in fiscal year 2017 was not recorded in the State accounting system as a fixed asset. OSC's procedures did not detect that this fixed asset had already been recorded in the State accounting system. This entry resulted in double-counting the fixed asset.

Context: The parcel of land is valued at $1.1 million.

Cause:
- Human error
- Inadequate verification procedures
- Lack of oversight

Effect: Until OSC corrected the double-counting based on information received from the auditor, the fixed asset balance was overstated by $1.1 million.

Recommendation: We recommend that DVEM strengthen procedures to ensure accurate fixed asset information is reflected in the State accounting system and communicated to OSC. We also recommend that the OSC strengthen procedures to ensure that fixed asset balances are properly recorded for financial statement purposes.

Management's Response:
Department of Defense, Veterans and Emergency Management's Response:
The Department of Defense, Veterans and Emergency Management (DVEM) agrees with the finding. While OSC was performing financial reporting procedures for the fiscal year 2019 CAFR, the recordation of this asset was brought into question. There was a misunderstanding between

DVEM and OSC regarding this inquiry that resulted in OSC being informed that no asset shell had been created even though DVEM had manually created one in November 2017. To help prevent this type of issue from recurring, DVEM Accounting and Purchasing personnel have been provided with feedback to address the human error aspect of this finding. Additionally, DVEM will be strengthening procedures to ensure data integrity for the Fixed Asset Certification submitted to OSC. The strengthened procedures will include semi-annual reviews of the fixed asset information.

Contact: Frances LaPointe, Business Manager II, DVEM, 207-430-5696

Office of the State Controller's Response:
OSC works diligently to ensure that the State's fixed asset balances are properly reported on the State's financial statements, however, an efficient and cost-effective system of internal controls may not always detect non-material human errors. OSC has compensating controls, including analytic reviews, in place to ensure that the State's financial statements are free from material misstatements.

Contact: Sandra Royce, CPA, Director of Financial Reporting and Analysis, OSC, 207-626-8451