DIRIGO
MAINE

STATE OF MAINE

MANAGEMENT LETTER

to the Single Audit Report and
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2020

Office of the State Auditor
Matthew Dunlap
State Auditor

State of Maine
Management Letter to the Single Audit Report and the Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2020

Table of Contents

Page

**This finding has been redacted consistent with Government Auditing Standards, also known as the Yellow Book (Chapter 6, Standards for Financial Audits, Reporting Confidential or Sensitive Information, Requirements: Reporting Confidential or Sensitive Information, paragraphs 6.63 through 6.65)*

STATE OF MAINE
OFFICE OF THE STATE AUDITOR
66 STATE HOUSE STATION
AUGUSTA, ME 04333-0066

TEL: (207) 624-6250

Matthew Dunlap
State Auditor

B. Melissa Perkins, CPA
Deputy State Auditor

LETTER OF TRANSMITTAL

Honorable Troy D. Jackson
President of the Senate

Honorable Ryan M. Fecteau
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, 2020. 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 February 3, 2021 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,

Matthew Dunlap
State Auditor

May 6, 2021

STATE OF MAINE
OFFICE OF THE STATE AUDITOR
66 STATE HOUSE STATION
AUGUSTA, ME 04333-0066

TEL: (207) 624-6250

Matthew Dunlap
State Auditor

B. Melissa Perkins, CPA
Deputy State Auditor

MANAGEMENT LETTER TO THE SINGLE AUDIT REPORT

Honorable Members of the Legislative Council for the 130th Legislature

Honorable Janet T. Mills
Governor of the State of Maine

In planning and performing our audit of compliance for the State of Maine's Single Audit for the year ended June 30, 2020, on which we have issued our report dated March 31, 2021, we considered the State of Maine's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Maine's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance and therefore, deficiencies may exist that have not 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. The following pages contain our comments and suggestions that were not identified as findings in the following reports included in Maine's fiscal year 2020 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

Four of the seventeen 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 Federal awarding agencies, 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.

Matthew Dunlap
State Auditor

March 31, 2021

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

ML-20-0905-04

Pursuant to paragraph 6.63 of the U.S. Government Accountability Office's Government Auditing Standards (also known as the Yellow Book), we omitted details from this finding as they are confidential under the provisions of 5 MRSA 244-C(3). Though the content of this finding has been redacted, which appears as blank underlining, we provided the Department(s) with detailed information regarding the specific condition we identified, as well as the related criteria, context, causes, effects, and our specific recommendations for improvement.

Title: ________

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

Type of Finding: Management letter

Criteria: National Institute of Standards and Technology (NIST) Special Publication ________

Condition: ________

Context: ________

Cause: _______

Effect: ________

Recommendation: ________

Management's Response: ________

Contact: Nathan Willigar, Chief Information Security Officer, OIT, 207-458-1320

ML-20-1201-02

Title: Internal control over period of performance needs improvement

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

Type of Finding: Management letter

Criteria: 2 CFR 200.303; 2 CFR 200.309; 34 CFR 76.707(b)

The Department must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the Department is managing the award in compliance with Federal statutes, regulations, and the terms and conditions of the award.

The period of performance is the timeframe in which the State may incur new obligations to carry out the work authorized under the Federal award. Only costs that are obligated during the period of performance may be charged to the Federal award. 34 CFR 76.707(b) specifies that personnel services, such as payroll costs, are obligated when the services are performed.

Condition: Special Education grants have a period of performance beginning July 1 and extending a duration of 27 months.

The Office of the State Auditor reviewed 38 expenditures reimbursed under the Federal fiscal year (FFY) 2017 grant with a period of performance that ended in fiscal year 2020. One journal entry for $912,790 included approximately $55,000 of payroll costs incurred after the period of performance. A second journal entry for $368,000 included approximately $48,000 of payroll costs incurred after the period of performance. Other payroll expenses that were incurred in fiscal year 2020 should have been selected for these entries. Although a secondary review of the entries was performed by a supervisor, the supervisor did not obtain adequate supporting documentation which may have identified the incorrect payroll period costs included.

Context: The Special Education program was awarded approximately $56 million under the FFY 2017 grant.

Cause:

- Lack of adequate procedures to ensure that entries are accompanied by appropriate supporting documentation prior to approval and processing
- Lack of supervisory oversight

Effect: Inadequate support of grant expenditures may result in questioned costs.

Recommendation: We recommend that the Department implement procedures to ensure that adequate supporting documentation is required prior to approval and processing of entries.

Management's Response: The Department agrees with this finding. The General Government Service Center (GGSC) will update its process documentation to include using dates of service in its queries to ensure allowability of costs for grants during the close out period.

Contact: Laurie Andre, Deputy Director – Accounting, GGSC, DAFS, 207-592-0725

DEPARTMENT OF HEALTH AND HUMAN SERVICES

ML-20-1106-11

Title: Internal control over refunding overpayments needs improvement

State Department: Health and Human Services
State Bureau: Office of MaineCare Services

Type of Finding: Management letter

Criteria: 2 CFR 200.303; 42 CFR 433.300 through 433.320

The Department must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the Department is managing the award in compliance with Federal statutes, regulations, and the terms and conditions of the award.

The State Medicaid Agency has one year from the date of discovery of an overpayment to a provider to recover or seek to recover the overpayment before the Federal share must be refunded to the Centers for Medicare and Medicaid Services.

Condition: The Office of MaineCare Services (OMS) did not have procedures in place to ensure that identified overpayments were accurately recorded and transmitted to the Department of Health and Human Services' Service Center for refunding to the Federal government. The recording and transmitting of overpayments to the Service Center was performed by one staff member. A documented secondary review of the information did not occur.

Context: The Federal share of overpayments identified by OMS due to be refunded in fiscal year 2020 was approximately $1.1 million.

Cause: Lack of supervisory oversight

Effect: The Federal share of overpayments may not be refunded to the Federal government in the required timeframe or at all.

Recommendation: In the spring of 2020, the Department implemented procedures to ensure that overpayments identified by OMS are reviewed for accuracy and completeness prior to transmission to the Service Center. These procedures also ensure that all overpayments are transmitted to the Service Center for refunding of the Federal share. We recommend that the Department monitor the newly-implemented procedures to ensure that they are efficient and effective, and document any modifications made.

Management's Response: The Department agrees with this finding. The Office of MaineCare Services, Third Party Liability Unit (TPL) will continue to implement and monitor the Corrective Action Plan that was initiated in March of 2020. Going forward, duties and responsibilities will continue to be split among three employees to ensure accuracy and more oversight of the overpayment refund process.

Contact: Michelle Probert, Director, Office of MaineCare Services, DHHS, 207-287-2093

ML-20-1110-01

Title: Internal control over the calculation and reporting of adoption savings, along with the related maintenance-of-effort requirements, needs improvement

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

Type of Finding: Management letter

Criteria: 2 CFR 200.303; 42 USC 673(a)(8)(B) and (D)

The Department must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the Department is managing the award in compliance with Federal statutes, regulations, and the terms and conditions of the award.

The Department must file an annual report containing accurate information on any savings (referred to as "adoption savings") resulting from the application of differing program eligibility rules to all applicable children for a fiscal year.

As part of the Adoption Assistance program's maintenance-of-effort (MOE) requirements, the Department must use adoption savings to supplement and not supplant any Federal or non-Federal funds used to provide any service under Title IV-B or IV-E.

Condition: The Department incorrectly calculated and reported the average monthly number of children as 605 families instead of 613 families on Part 4, *Annual Adoption Savings Calculation and Accounting Report*, of the Federal fiscal year 2019 *CB-496* report. This resulted in an understatement of $5,164 in adoption savings reported to the Federal government.

In addition, the Department does not have a review and approval process in place to ensure that MOE requirements are met.

Context:

- The Department reported $3,948,110 in adoption savings on the Federal fiscal year 2019 *CB-496* report. The correct amount should have been $3,953,274.
- The Department established an $11.8 million baseline of expenditures that they maintain for MOE purposes. For Federal fiscal year 2019, the Department met the MOE requirement by spending at least $15.7 million on allowable expenditures.

Cause:

- Lack of adequate review procedures
- Lack of supervisory oversight

Effect:

- The Department is required to meet specific MOE requirements that relate to adoption savings. An inaccurate adoption savings calculation could result in the Department not meeting these Federal requirements.

- Inaccurate information reported to the Federal government may be used for programmatic, policy or statistical purposes.
- Potential noncompliance with Federal regulations

Recommendation: We recommend that the Department strengthen review procedures to ensure that information reported on the *CB-496* report is accurate and complete prior to submission to the Federal government. We further recommend that the Department formalize a documented review and monitoring process to ensure that the Adoption Assistance program is in compliance with MOE requirements.

Management's Response: The Department agrees with this finding and will implement an SOP by June 30, 2021, that will encompass completion and review of CB-496, Part 4, Annual Adoption Savings Calculation and Accounting Report, as well as monitoring of MOE to ensure requirements are met.

Contact: Christa Elwell, Business Services Manager, OCFS, DHHS, 207-462-4340

ML-20-1111-01

Title: Internal control over Income Eligibility and Verification System reports needs improvement

State Department: Health and Human Services
State Bureau: Office for Family Independence

Type of Finding: Management letter

Criteria: 2 CFR 200.303; 45 CFR 205.55

The Department must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the Department is managing the award in compliance with Federal statutes, regulations, and the terms and conditions of the award.

The Department is required to coordinate data exchanges with other systems, adhere to standardized formats and procedures in exchanging information with other programs and agencies, and request and use income and expense information when determining eligibility.

Condition: The Income Eligibility and Verification System (IEVS) is an exchange of information with State and Federal agencies to verify clients' income and expense information needed to determine eligibility for Federal financial assistance. Discrepancies were noted on the following IEVS reports:

<u>Weekly</u>
- Prisoner Verification Details Report
- Client Deceased Report
- Bendex Income Discrepancy Report

<u>Monthly</u>
- Discrepancy in Unemployment Insurance Benefits Report
- Buy-In Discrepancy Report

<u>Quarterly</u>
- Quarterly Earnings Discrepancy Report

Four weekly IEVS reports were not generated during fiscal year 2020. Discrepancies on these four missing IEVS reports were captured on the following week's IEVS reports.

Context: A total of 184 IEVS reports are required to be generated annually.

Cause: Lack of adequate procedures to ensure IEVS reports are appropriately generated and archived for future reference

Effect: IEVS information may not be updated timely in the Automated Client Eligibility System, which could potentially result in incorrect eligibility determinations.

Recommendation: We recommend that the Department implement procedures to ensure all IEVS reports are generated and archived in a timely manner.

Management's Response: The Department agrees with this finding. Four weekly IEVS reports (2 Prisoner Verify and 2 Death Data) were not generated consecutively; however, the data associated with these reports was captured on the next IEVS weekly reports. Corrective action was implemented in April 2020 to address this finding. As an additional measure, OFI will conduct reviews of existing Standard Operating Procedures and existing protocols and modify them, if necessary, to highlight missing reports in the future.

Contact: Anthony Pelotte, Director, Office for Family Independence, DHHS, 207-624-4104

ML-20-1111-06

Title: Internal control over subrecipient awards needs improvement

State Department: Health and Human Services
State Bureau: Division of Contract Management

Type of Finding: Management letter

Criteria: 2 CFR 200.303; 2 CFR 200.332

The Department must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the Department is managing the award in compliance with Federal statutes, regulations, and the terms and conditions of the award.

Awards to subrecipients must include Federal award information which includes the subrecipient's unique entity identifier. In addition, awards should be updated with Uniform Guidance references in effect since December 26, 2014.

Condition: Of the ten Temporary Assistance for Needy Families (TANF) subrecipient awards tested, one subrecipient award, entered into prior to fiscal year 2020:

- did not include the subrecipient's unique entity identifier, the Data Universal Numbering System (DUNS) number; and
- incorrectly identified Federal Circular A-133 as the Federal guidance requirement, rather than the Uniform Guidance.

The Office of the State Auditor (OSA) selected one subrecipient which was deemed significant by OSA and selected a non-statistical random sample for all other subrecipients.

Context: During fiscal year 2020, the Department provided $27.3 million to subrecipients from TANF grant funds of $59.8 million.

Cause: Lack of supervisory oversight

Effect: Outdated references included in subrecipient awards increase the possibility that subrecipients will apply the wrong Federal guidance to the grant award.

Recommendation: During fiscal year 2019, the Department implemented procedures to ensure that new subrecipient awards are complete, accurate and in accordance with Federal regulations. We recommend that the Department monitor procedures to ensure that all subrecipient awards are complete, accurate and in accordance with Federal regulations.

Management's Response: The Department agrees with this finding. During fiscal year 2020, the Department updated the contract templates to include DUNS numbers and proper references to the Uniform Guidance.

Contact: Jim Lopatosky, Director, Division of Contract Management, DHHS, 207-287-5075

ML-20-1113-05

Title: Internal control over suspension and debarment procedures needs improvement

State Department: Health and Human Services
State Bureau: Division of Contract Management

Type of Finding: Management letter

Criteria: 2 CFR 200.303

The Department must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the Department is managing the award in compliance with Federal statutes, regulations, and the terms and conditions of the award.

Condition: The State must verify that entities are not suspended or debarred before entering into a contract.

Department policies require that suspension and debarment compliance for each local agency is reviewed, verified and documented on the System for Award Management (SAM) website prior to entering into a contract. The Department was not able to provide documentation of this procedure for two of the eight local agencies that administer the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

The contracts with the eight WIC local agencies included Rider D, part 4 suspension and debarment language, in which an authorized individual at the local agency certified that all persons associated with the contract are not suspended or debarred by any Federal agency.

Context: During fiscal year 2020, the Department provided $4.4 million to the eight local agencies that administer the WIC program.

Cause: Lack of supervisory oversight

Effect: The State could enter into a covered transaction with a suspended or debarred party which could result in potential Federal disallowances.

Recommendation: We recommend that the Department implement oversight procedures to ensure that suspension and debarment verification procedures are performed and properly documented and retained.

Management's Response: The Department disagrees with this finding. The Department does have a system in place to ensure compliance with 2 CFR 200.303 and has fulfilled its obligation to have controls in place. The suspension and debarment verification process is a secondary process to provide additional assurance of compliance.

Contact: Jim Lopatosky, Director, Division of Contract Management, DHHS, 207-287-5075

Auditor's Concluding Remarks continued on next page.

Auditor's Concluding Remarks: The Office of the State Auditor acknowledges that the Department has procedures in place to ensure inclusion of required suspension and debarment language in subrecipient contracts. However, as outlined in the Condition, the Department is not adhering to its established policy which requires review and documentation of the suspension and debarment status for each local agency on the SAM website prior to entering into a contract. This secondary control provides assurance over compliance with suspension and debarment requirements.

The finding remains as stated.

DEPARTMENT OF LABOR

ML-20-0900-13

Pursuant to paragraph 6.63 of the U.S. Government Accountability Office's Government Auditing Standards (also known as the Yellow Book), we omitted details from this finding as they are confidential under the provisions of 5 MRSA 244-C(3). Though the content of this finding has been redacted, which appears as blank underlining, we provided the Department(s) with detailed information regarding the specific condition we identified, as well as the related criteria, context, causes, effects, and our specific recommendations for improvement.

Title: ________

State Department: Labor
State Bureau: Rehabilitation Services

Type of Finding: Management letter

Criteria: 2 CFR 200.303; National Institute of Standards and Technology (NIST) Special Publication ________; State of Maine _________

Condition: ________

Context: ________

Cause: ________

Effect: ________

Recommendation: ________

Management's Response: ________

Contact: Christine Robinson, BRS Director of Quality Assurance, DOL, 207-623-7942

DEPARTMENT OF TRANSPORTATION

ML-20-1402-02

Title: Internal control over agency Schedule of Expenditures of Federal Awards submissions needs improvement

State Department: Transportation
State Bureau: Finance and Administration

Type of Finding: Management letter

Criteria: 2 CFR 200.303; 2 CFR 200.510(b); Schedule of Expenditures of Federal Awards (SEFA) reporting guidance issued by the Office of the State Controller (OSC)

The Department must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the Department is managing the award in compliance with Federal statutes, regulations, and the terms and conditions of the award.

The State must prepare a SEFA for the period covered by the State's financial statements which must include the total Federal awards expended. At a minimum, the SEFA must provide total Federal awards expended for each individual Federal program and the Catalog of Federal Domestic Assistance (CFDA) number. In addition, to maximize the transparency and accountability of COVID-19 related award expenditures, OSC provided instructions that required Departments to separately identify COVID-19 expenditures on the SEFA.

Condition: The Department is responsible for communicating Federal award expenditures to OSC for inclusion on the annual SEFA. The SEFA is included in the annual submission to the Federal Audit Clearinghouse. The Department did not separately identify $4.5 million in COVID-19 expenditures for the Formula Grants for Rural Areas program for SEFA reporting.

Context: In fiscal year 2020, the Formula Grants for Rural Areas program expended approximately $11.7 million.

Cause:
- Lack of adequate procedures to ensure COVID-19 expenditures are separately identified
- Lack of supervisory oversight

Effect: Incorrect information reported on the SEFA may be used for programmatic, policy, or statistical purposes.

Recommendation: We recommend that the Department develop procedures to ensure that COVID-19 expenditures are accurately reported on the SEFA prior to submitting to OSC. We further recommend that management review and monitor the procedures after implementation.

Management's Response: The Department agrees with this finding. We will develop procedures to ensure that COVID-19 expenditures are accurately reported on the SEFA prior to submitting to OSC, and that management will review and monitor the procedures after implementation.

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

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

Matthew Dunlap
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 130th 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, 2020, on which we have issued our report dated December 11, 2020, 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 eight 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.

Matthew Dunlap
State Auditor

December 11, 2020

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

ML-20-0110-01

Title: Internal control over the processing of transfers needs improvement

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

Type of Finding: Management letter

Criteria: Public Law 2019, Chapter 617 authorized the State Controller to transfer $500 thousand no later than April 1, 2020, from the General Fund to the Other Special Revenue Fund.

Public Law 2019, Chapter 343 authorized the State Controller to transfer approximately $5.5 million by August 1, 2019, from the Other Special Revenue Fund to the General Fund.

Public Law 2017, Chapter 284 authorized the State Controller to transfer $500 thousand on or before July 31, 2019, from the General Fund undedicated revenue to the Agriculture Promotion Fund within the Other Special Revenue Fund.

Condition:

- The transfer that should have occurred by April 1, 2020 occurred on July 16, 2020.
- The transfer that should have occurred by August 1, 2019 occurred on August 7, 2019.
- The transfer that should have occurred on or by July 31, 2019 occurred on August 15, 2019.

Context: $762 million was transferred between the Governmental, Enterprise, and Internal Service funds during fiscal year 2020. This includes $73 million that was transferred out of the Special Revenue Fund.

Cause:

- Lack of controls to ensure timely transfer of funds
- Lack of supervisory oversight

Effect: Potential insufficient cash flow to meet operational needs

Recommendation: We recommend that the Office of the State Controller implement procedures to ensure all transfers are made in accordance with Public Law.

Management's Response: The Department agrees with this finding. The Office of the State Controller will improve procedures to ensure that Legislatively mandated transfers are completed within the timeframe prescribed in the Public Law.

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

ML-20-0116-01

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

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

Type of Finding: Management letter

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

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.

Condition: The State of Maine CAFR presents the number of budgeted full time equivalent (FTE) employees rather than the actual number of FTE employees by year, and by policy area for 2011 through 2020.

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

Cause: The Office of the State Controller indicated that disclosure of the budgeted number rather than the actual number of State government FTE employees is sufficient.

Effect: Schedule 14 does not report actual FTE employees which could be misleading.

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. The Office of the State Controller (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 Government Finance Officers Association (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.

The finding remains as stated.

ML-20-0320-01

Title: Accounting procedures over capital building leases need improvement

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

Type of Finding: Management letter

Criteria: Governmental Accounting Standards Board (GASB) Codification L.20.111

The Codification requires that a lessee record a capital lease as an asset and an obligation at an amount equal to the present value of the future minimum lease payments at the beginning of the lease term or the fair value of the asset at lease inception, whichever is less.

Condition: Lease accounting procedures used by the General Government Service Center (GGSC) require building leases to be valued at the lesser of the discounted net present value of the future minimum lease payments at the beginning of the lease term or the fair market value of the lease asset. The GGSC establishes the fair market value of the leased building by using the town or city's property valuation plus the value of subsequent building permits, or by using an assessment provided by the landlord. There are no control procedures among the GGSC's procedures to determine whether the amount resulting from this calculation represents the fair value of the property at lease inception.

Context: The State manages capital leases totaling $48 million in assets, net of accumulated depreciation, and $53 million in lease liabilities.

Cause: The State does not have procedures in place to ensure the proper valuation of leased space when the local municipality's valuation may not be reflective of fair value.

Effect: Capital assets and lease obligations may not be correctly valued. As a result, assets and liabilities, and lease amortization and depreciation expense may be understated or overstated in the State's financial statements.

Recommendation: We recommend that the Department revise lease accounting procedures to include an option for proactively obtaining an independent private sector appraisal to support the valuation of major leased property at lease inception when the municipality's valuation does not appear reasonable or when it does not appear to be adequately substantiated.

Management's Response: The Department disagrees with this finding. Management is entrusted to estimate the fair value of leased assets as of the lease inception date. To fulfil this responsibility, GGSC utilizes tax assessments as a basis for the fair value estimation. While the GGSC is not limited solely to the use of property tax assessments, as this finding's condition and recommendation might imply, this method of estimating fair value has proven to be objective, well documented, 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 is often an objective, reliable and cost-effective method. However, in some cases, the tax assessment is not an indicator of fair market value. As an example, the Department used the tax assessment to value the lease asset and liability for a newly-constructed building placed into service in March 2019. The tax assessment was $11.9 million. A 2019 market evaluation prepared by a real estate firm assessed the building at $23.1 million. Implementing policies which require a market appraisal when there is indication that the tax assessment may not be a reliable representation of fair market value will ensure that the Department is valuing leased property in accordance with GASB pronouncements.

The finding remains as stated.

ML-20-0320-02

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

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

Type of Finding: Management letter

Criteria: State Administrative and Accounting Manual (SAAM), Section 30

The SAAM requires constructed assets to be capitalized when a project is substantially complete, accepted, and placed into service.

Condition: During our testing of capital assets, we noted construction in progress accounts for the 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 $7.9 million for the SRN represents completed projects that have not been appropriately 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. As a result, the Department is not able to determine which costs should be capitalized.

Effect: Construction in progress is improperly classified and accumulated depreciation and depreciation expense are understated in the State's financial statements.

Recommendation: We recommend that the Department:
- implement procedures to ensure construction in progress is tracked by project, and that projects are reclassified to capital assets when placed into service.
- review the construction in progress account for the SRN and capitalize the costs into the appropriate asset classification, recognizing accumulated depreciation based on the placed-in-service date.

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-20-0320-03

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

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

Type of Finding: Management letter

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

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.

Condition: Year-end procedures are not in place to ensure that costs to repair the State's fleet of heavy-duty trucks and construction equipment at the Department of Transportation (DOT) Fleet Services are properly recorded in the State's financial statements.

DOT Fleet Services accumulates costs incurred for equipment repairs 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 fiscal 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 in the State's financial statements.

Context: Work in progress totaling $2.0 million was classified as a capital asset as of June 30, 2020. In the following month, $1.7 million was reversed and charged to operating expenses and $325 thousand was charged to parts inventory.

Cause: Lack of policies and procedures surrounding year-end financial reporting

Effect: As of June 30, 2020, capital assets (work in progress) is overstated by $2.0 million, expenses are understated by $1.7 million, and the inventory valuation is understated by $325 thousand.

Recommendation: We recommend that OSC develop a year-end procedure to adjust repairs and maintenance expenses and parts inventory out of capital assets for financial reporting purposes.

Management's Response: The Department agrees with this finding. The Office of the State Controller (OSC) will ensure that the year-end work in process information and proposed inventory adjustments are submitted by DOT as part of their year-end GAAP closing package. The Financial Reporting Division of the OSC will make financial statement adjustments to reflect the appropriate year end balances.

Contact: Stacey Thomas, Financial Management Coordinator, OSC, 207-626-8431

ML-20-0900-06

Pursuant to paragraph 6.63 of the U.S. Government Accountability Office's Government Auditing Standards (also known as the Yellow Book), we omitted details from this finding as they are confidential under the provisions of 5 MRSA 244-C(3). Though the content of this finding has been redacted, which appears as blank underlining, we provided the Department(s) with detailed information regarding the specific condition we identified, as well as the related criteria, context, causes, effects, and our specific recommendations for improvement.

Title: ________

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

Type of Finding: Management letter

Criteria: National Institute of Standards and Technology (NIST) Special Publication ________; State ________

Condition: ________

Context: ________

Cause: ________

Effect: ________

Recommendation: ________

Management's Response: ________

Contact: Charles Rote, Senior Manager, IT Security Governance, OIT, 207-441-7631

DEPARTMENT OF ENVIRONMENTAL PROTECTION

ML-20-0600-01

Title: Internal control over fixed assets records needs improvement

State Department: Environmental Protection
State Bureau: Resource Administration

Type of Finding: Management letter

Criteria: State Administrative and Accounting Manual (SAAM), Section 30.40

Departments must maintain a fixed asset ledger that provides information for each fixed asset that meets the State's capitalization threshold. New fixed assets should be added to the ledger, and dispositions should be removed from the ledger in a timely manner.

Condition: Proper procedures are not in place to ensure that fixed asset records are accurate and complete in the State accounting system. While the Department conducted a physical inventory of fixed assets in fiscal year 2020, the inventory records have not been updated to reflect additions and dispositions dating back to 1971. Of the 680 fixed assets listed in the State accounting system for the Department:

- 153 assets were disposed;
- 104 assets were outdated Office of Information Technology assets no longer in use; and
- 78 assets could not be identified by the Department.

Context: According to the State accounting system, capitalized equipment for the Department totaled $8 million for fiscal year 2020.

Cause:

- Staff turnover
- Competing priorities
- Lack of adequate documentation
- Lack of training

Effect:

- Asset balances and accumulated depreciation recorded in the State's financial statements may be overstated or understated.
- Assets may have been expensed rather than capitalized.

Recommendation: We recommend that the Department work with the Office of the State Controller to update the Department's fixed asset records in the State accounting system.

Management's Response: The Department agrees with this finding. During the last year, significant resources have been devoted to the review of "legacy" fixed asset records to identify any erroneous or outdated information. Currently, the Department is working with the Natural Resources Service Center to update the records in the State accounting system to address the necessary changes that were identified during this review.

Contact: Sherrie Kelley, Director, Division of Resource Management, DEP, 207-287-4852

DEPARTMENT OF PUBLIC SAFETY

ML-20-0903-07

Pursuant to paragraph 6.63 of the U.S. Government Accountability Office's Government Auditing Standards (also known as the Yellow Book), we omitted details from this finding as they are confidential under the provisions of 5 MRSA 244-C(3). Though the content of this finding has been redacted, which appears as blank underlining, we provided the Department(s) with detailed information regarding the specific condition we identified, as well as the related criteria, context, causes, effects, and our specific recommendations for improvement.

Title: ________

State Department: Public Safety
State Bureau: Gambling Control Unit

Type of Finding: Management letter

Criteria: National Institute of Standards and Technology (NIST) Special Publication ________; State of Maine ________

Condition: ________

Context: ________

Cause: ________

Effect: ________

Recommendation: ________

Management's Response: ________

Contact: Milton Champion, Executive Director, Gambling Control Unit, DPS, 207-626-3900