STATE OF MAINE

MANAGEMENT LETTER

to the Single Audit Report and Comprehensive Annual Financial Report Fiscal Year Ending June 30, 2018

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 June 3, 2019.
www.maine.gov/audit/osa-reports/2018MgmtLetterSARandCAFR.pdf

State of Maine
Management Letter to the Single Audit Report and the Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2018

Table of Contents

Page

Continued on the back of this page .....

[1] The Management Letter to the Single Audit Report is transmitted on May 23, 2019, to those charged with governance and to management, related to the Single Audit Report dated March 29, 2019.

....Continued from previous page

**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, 2018. 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 4, 2019 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 A. Buckley

Pola A. Buckley, CPA, CISA
State Auditor

May 23, 2019

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, 2018, 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 2018 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

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 A. Buckley

Pola A. Buckley, CPA, CISA
State Auditor

March 29, 2019

DEPARTMENT OF HEALTH AND HUMAN SERVICES

ML-18-1101-01

Title: The subrecipient desk review checklist needs to be updated

Prior Year Findings: None

FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10

State Department: Health and Human Services
State Bureau: Division of Audit

Type of Finding: Management letter

Questioned Costs: None

Criteria: 2 CFR 200.331(f)

Condition: The desk review checklist used by the Division of Audit to ensure subrecipients expending over $750,000 in Federal awards are in compliance with Federal requirements needs to be updated. The checklist references outdated Office of Management and Budget (OMB) Circular A-133. The checklist should reference the Uniform Guidance that is effective for all awards made after December 26, 2014.

Context: During fiscal year 2018, the Department awarded $48 million to subrecipients from Crime Victim Assistance, TANF, HIV Care Formula Grant, Social Services Block Grant and the Special Supplemental Nutrition Program for Women, Infants, and Children grant funds.

Cause: Lack of staff resources

Effect:

- Potential noncompliance with requirements for pass-through entities
- OMB Circular A-133 references included in the subrecipient desk review checklist increases the risk that Single Audits may not be in compliance with current requirements.

Recommendation: We recommend that the Department revise the desk review checklist to ensure that subrecipient audits are in compliance with the Uniform Guidance.

Management's Response: The Department agrees with the finding. The Department will have its desk review checklist updated by May 31, 2019.

Contact: Tony Madden, Deputy Director, Division of Audit, DHHS, 207-287-2834

ML-18-1154-09

Title: Internal control over Subgrant Award Reports needs improvement

Prior Year Findings: None

FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10

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

Type of Finding: Management letter

Questioned Costs: None

Criteria: 28 CFR 94.105

Condition: The Subgrant Award Report (SAR) must be submitted by OCFS on behalf of all subgrantees that will receive Victims of Crime Act (VOCA) funding. The SAR is used to collect basic information about the subgrantees and the program activities that will be funded by VOCA. SAR data must be digitally uploaded to the Office for Victims of Crime (OVC) Performance Measurement Tool (PMT) system and certified by State administrative personnel within ninety days of the beginning of a subrecipient contract. The PMT system is a Federal information system.

Of the five SAR reports ramdomly selected for testing, three were not certified by the Department within ninety days of the beginning of the respective contract. The reports were certified between eighteen and twenty-three days late.

The Office of the State Auditor selected a non-statistical random sample.

Context: Twenty-one SAR reports were due in fiscal year 2018.

Cause:

- Human error
- Lack of staff resources

Effect: Potential noncompliance with grantee performance measure reporting responsibilities

Recommendation: We recommend that the Department implement additional procedures to ensure the SARs are certified within the time period required by the OVC.

Management's Response: The Department agrees with this finding. The Department will update the VOCA Snapshot and our procedure manual to include the requirement. Additionally, agreements beginning 10/1/19 will include updated language.

Contact: Heather Tyler, Acting Associate Director, OCFS, 207-624-7919

DEPARTMENT OF TRANSPORTATION

ML-18-1406-02

Title: Procedures to ensure grant-specific notifications are included in solicitations for bid need improvement

Prior Year Findings: None

FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10

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

Type of Finding: Management letter

Questioned Costs: None

Criteria: Cooperative Agreement for the Maine Regional Railways Project, Attachment 6

Condition: In accordance with the Cooperative Agreement between the Federal Railway Administration and DOT, the Department is required to include specific notifications and assurances in accordance with the provisions of Title VI of the Civil Rights Act of 1964. One of these notifications is a requirement to notify bidders that Disadvantaged Business Enterprises will be afforded full and fair opportunity to submit bids and will not be discriminated against on the grounds of race, color, or national origin in consideration for an award.

Of the nine contracts tested, five bid solicitations for project materials procured through the Department of Administrative and Financial Services (DAFS), Division of Procurement Services did not include the required language.

The Office of the State Auditor selected a non-statistical random sample.

Context: Of the $9.2 million awarded to vendors in fiscal year 2018, bid solicitations for project materials totaled $3.1 million.

Cause: Lack of oversight by program personnel

Effect:
- Noncompliance with terms of the Cooperative Agreement for the Maine Regional Railways Project
- Increased potential that Disadvantaged Business Enterprises may not submit project bids if the required language is not included in the solicitation

Recommendation: We recommend that the Department implement procedures to ensure that all notifications required by the grant agreement are included in communications to the Division of Procurement Services for inclusion in bid packages.

Management's Response: The Department agrees with this finding. The Department will add this notification to the other standard provisions in the boilerplate for bid solicitations for materials using Federal Railroad Administration funds as opposed to incorporating it by reference.

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

OFFICE OF THE STATE TREASURER

ML-18-1005-01

Title: Monitoring of Federal cash balances and drawdown methods needs improvement

Prior Year Findings:

FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10
ML 17-1005-01	ML 16-1005-01 ML 16-1005-02						

State Department: Office of the State Treasurer (OST)
State Bureau: None

Type of Finding: Management letter

Questioned Costs: None

Criteria: State Administrative & Accounting Manual (SAAM) 50.40.40 effective through June 22, 2018

Condition: The OST is responsible for monitoring agency compliance with the drawdown techniques defined in the Treasury-State Agreement (TSA). This can be achieved through monthly review of program cash balances, quarterly sampling of programs designated as major by the Code of Federal Regulations, periodic sampling of non-major programs, and direct and frequent communications with agency staff.

During fiscal year 2018, the OST did not perform monthly monitoring of Federal cash balances or quarterly sampling of major programs, nor did they perform periodic sampling of programs designated as non-major by the Code of Federal Regulations.

Context: During fiscal year 2018, there were thirteen major programs covered by the TSA and approximately 280 programs designated as non-major. In addition, approximately $2.7 billion in Federal cash was drawn by State agencies administering major programs.

Cause: OST staff turnover resulted in a lapse in the monitoring of Federal cash balances and sampling of programs.

Effect: Agency compliance with the TSA is not being enhanced by a control at the statewide level.

Recommendation: We recommend that the Department implement centralized monitoring to complement control activities and monitoring that is performed by the agencies drawing Federal funds.

Management's Response: The Office of the State Treasurer agrees that during the State fiscal year ended June 30, 2018, the Office did not perform monthly monitoring of Federal cash balances or quarterly sampling of major programs or periodic sampling of non-major programs. The Office has been working to transition the responsibility for monitoring compliance with the Treasury State Agreement (TSA) to the participating agencies. The State Administrative and Accounting Manual (SAAM) was updated June 2018 to reflect that change. It is anticipated that the majority of participating agencies will utilize their Department of Administrative and Financial Services (DAFS) Service Center partners to ensure compliance with the TSA. These service centers handle the majority of the financial transactions for the State and have hierarchal structures that are staffed by experts in governmental accounting. These organizations are charged with carrying out the accounting functions of their customer agencies including cash management as a part of their daily routine. The Department of Transportation will be equally well served by their Bureau of Finance and Administration. The Office will continue to perform an annual review of the exception logs kept by agencies in addition to the responsibilities in section 50.40.40 of the SAAM.

Contact: Laura Hudson, Director, Internal Operations, 207-624-7460

Auditor's Concluding Remarks: We emphasize our recommendation that OST develop a centralized risk-based monitoring system to complement control activities and monitoring performed at the agency level.

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, 2018, on which we have issued our report dated December 6, 2018, 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.

Four of the twelve findings 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

December 6, 2018

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

ML-18-0104-01

Title: Procedures over financial reporting need to be strengthened

Prior Year Findings:

FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10
			2014-001				

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

Type of Finding: Management letter

Questioned Costs: None

Criteria: GAAFR, Part 5, Section A, Chapter 42; GASB Concept Statement No. 1, Paragraph 64

Condition: The State of Maine's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018 prepared by the OSC included the following misstatements and errors:

- revenues and expenditures in the Other Special Revenue Fund were each overstated by $11.3 million
- $4.7 million in receivables and $1.4 million in payables were inappropriately recorded in the General Fund instead of the Federal Fund; this resulted in the expenditures in the General Fund to be understated by $3.3 million and revenues and expenditures in the Federal Fund to be overstated by $3.3 million
- $4.4 million for the allowance for uncollectible accounts and $4,000 in payables were switched in error on the financial statements
- various note disclosures contained incorrect amounts
- one note disclosure inadvertently contained information from the prior year's note
- outstanding bonds totaling $565 million related to a component unit's debt were not disclosed in one of three related tables presented in a note disclosure

Except for the second bullet above, the OSC subsequently adjusted these amounts and note disclosures in the CAFR.

Context: The CAFR provides financial and other information about State government to the general public, investors and other interested groups. It provides valuable insight into how State government officials manage public funds. The CAFR also provides information used by credit rating services to assess the State's fiscal integrity. This assessment results in the assignment of a credit rating to State of Maine government bonds, which affects the interest rate the State of Maine must pay to borrow money.

Cause:

- Inadequate procedures over financial reporting to provide reasonable assurance that closing entries and note disclosures are complete and accurate

- An accelerated deadline reduced the time available to prepare and adequately review closing entries and note disclosures thoroughly

Effect: The financial statements and related notes could contain significant errors and omissions.

Recommendation: We recommend that the OSC strengthen internal control procedures to ensure that significant errors and omissions in the financial statements and related notes are prevented, or detected and corrected, prior to issuance of final financial statements.

Management's Response: Management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles. Our internal control system is designed to ensure that any potential material misstatement will be prevented, or detected and corrected on a timely basis, before issuing the CAFR.

In relation to the identified misstatements or errors:

- revenues and expenditures in the Other Special Revenue Fund were each overstated by $11.3 million –
    - The full amount of the prior year adjustment should have been reflected in the entry, but only a portion of it was adjusted. Correction was reflected in the published CAFR.
- $4.7 million in receivables and $1.4 million in payables were inappropriately recorded in the General Fund instead of the Federal Fund; this resulted in the expenditures in the General Fund to be understated by $3.3 million and revenues and expenditures in the Federal Fund to be overstated by $3.3 million.
    - As in prior years, the entry was recorded in the GF as it was considered immaterial. We intend to reflect the break out between funds going forward.
- $4.4 million for the allowance for uncollectible accounts and $4,000 in payables were switched in error on the financial statements.
    - The adjustment was prepared correctly but the account numbers were inadvertently switched when entered into CaseWare. Correction was reflected in the published CAFR.
- various note disclosures contained incorrect amounts.
    - There were some instances, which were not material, where information had to be updated. Correction was reflected in the published CAFR.
- one note disclosure inadvertently contained information from the prior year's note.
    - When updating the note, a paragraph that related to the prior year was not deleted. Correction was reflected in the published CAFR.
- outstanding bonds totaling $565 million related to a component unit's debt were not disclosed in one of three related tables presented in a note disclosure.
    - In one table on Component Unit Bonds Outstanding, MHHEFA debt was excluded in error. The debt was reported in two other places within the notes. Correction was reflected in the published CAFR.

We do acknowledge that some errors existed in the draft CAFR submitted to the auditor; however, none of those errors were material to the financial statements. The CAFR was prepared in accordance with generally accepted accounting principles. Except for the second bullet above, corrections to amounts and note disclosures were reflected in the published CAFR.

OSC implemented a new software package to prepare the CAFR in fiscal year 2017. The fiscal year 2018 CAFR was the first time we performed a "roll-forward" in this new software. Additionally, we accelerated our internal deadline for publishing the CAFR this year. As with all new software and processes, there is a learning curve. We have identified some gaps in the software and our related review processes that will be remediated. Our goal is to prepare a CAFR that requires no proposed adjustment by Audit. Fortunately, the above proposed entries were not material to the overall financial statements.

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

Auditor's Concluding Remarks: In the complete financial statements, notes and other documentation provided by the OSC to the Office of the State Auditor, significant misstatements and errors were discovered as a result of audit procedures. More importantly, several of the misstatements and errors, subsequently corrected by the OSC, were material to the financial statements as a whole. The identified misstatements and errors should have been caught through the OSC's final review process to ensure that the complete package, deemed to be the final CAFR prepared by the OSC, was provided for audit. The finding remains as stated.

ML-18-0116-01

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: None

FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10

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

Type of Finding: Management letter

Questioned Costs: None

Criteria: GASB 44, paragraph 36

Condition: According to the Governmental Accounting Standards Board (GASB), the purpose of the statistical schedule titled *Schedule of State Government Full Time Equivalent Employees by Policy Area* (Schedule 14) on page 244 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 2018.

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 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: GASB 44, paragraph 36 states, in part, that, "Governments should present the number of persons they employ by function, program, or identifiable activity. . .". Additionally, the Statement indicates that the objective is "to provide contextual information about a government's operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition." Furthermore, the sample illustration depicts full-time equivalent employees, which is not necessarily "the number of employees they employ."

Because the exact number of persons employed by the State fluctuates throughout the year, largely due to Maine's seasonal employment and typical turnover, OSC has reported budgeted employees since 2006. The number of budgeted employees provides the maximum hiring level and corresponding approved salary budget, both measures that help the reader understand and assess the economic impact of Maine's employee base. Our review has determined that the budget to actual employee count varies by approximately 500 or less employees.

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 have also received the GFOA "Certificate of Achievement for Excellence in Financial Reporting".

Given these factors and considering 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 levels" (the budget), it does not contribute to the reader's assessment of actual economic conditions, nor does it present the "number of persons employed". In response to fluctuation in Maine's employment levels throughout the year, the OSC could consider:

- Use of a consistent annual measurement date; or
- An average of the four quarter-ending amounts; or
- Actual FTE's for the fiscal year

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 finding remains as stated.

ML-18-0301-01

Title: Procedures to record In-State Distiller transactions in the State's accounting system need improvement

Prior Year Findings: None

FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10

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

Type of Finding: Management letter

Questioned Costs: None

Criteria: 5 MRSA 1547; State Administrative and Accounting Manual 90.10.20 and 90.10.40

Condition: Transactions related to In-State Distillers within the Alcoholic Beverages Fund totaling $2.3 million were incorrectly recorded in the State's accounting system for fiscal years 2015 through 2018.

Context: The State of Maine's Alcoholic Beverages Fund received $189 million in fiscal year 2018. This is accounted for in the Non-Major Enterprise Funds portion of the State's financial statements. The revenue is derived from Agency Liquor Store and In-State Distiller product sales. The portion attributable to Agency Liquor Stores was $188.1 million. The remainder of $0.9 million was attributable to In-State Distillers.

Cause:
- Lack of understanding of the process
- Lack of resources and competing priorities
- Lack of oversight

Effect: Accounts payable for the Alcoholic Beverages Fund is overstated by $2.3 million in the State's financial statements as of June 30, 2018. The change in net position is understated by $863 thousand for fiscal year 2018 and beginning net position is understated by approximately $1.5 million.

Recommendation: We recommend that the Department develop procedures for recording In-State Distiller transactions in the State's accounting system, and increase supervisory oversight of GGSC personnel.

Management's Response: The Department agrees with this finding. The Department has recorded the journal entry to correct the transactions in the State accounting system for fiscal years 2015 through 2018 related to In-State Distillers within the Alcoholic Beverage Fund.

On-going procedures have been modified to support accurate reporting of the In-State Distillers transactions.

Contact: Nancy V. Bodine, Deputy Director, GGSC, 207-624-7406

ML-18-0900-01 CONFIDENTIAL

Title: ________ does not ________ plan in place (The content of this finding has been redacted. This appears as blank underlining.)

Prior Year Findings:

FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10
ML 17-0915-02	ML 16-0915-01						

State Department: Administrative and Financial Services
State Bureau: Maine Revenue Services (MRS)

Type of Finding: Management letter

Questioned Costs: None

Criteria: ________

Condition: MRS does not have a ________ related to Maine's ________. The purpose of a ________. MRS is in the process of developing a ________. This is a confidential finding containing sensitive information. The complete finding has been formally communicated to appropriate personnel.

Context: ________.

Cause: Lack of resources

Effect: In the event of a ________.

Recommendation: We recommend that MRS continue to develop and then implement a ________.

Management's Response: The Department agrees with the finding. The development and implementation of ________, is a priority. MRS will continue to work closely with ________ to develop and establish a ________. The anticipated corrective action completion date is December 31, 2019.

Contact: Vicki Roy, Deputy Executive Director, MRS, 207-624-9853

ML-18-0900-05

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

Prior Year Findings:

FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10
ML 17-0907-01	ML 16-0901-01	ML 15-0903-01					

State Department: Administrative and Financial Services
State Bureau: Alcoholic Beverages and Lottery Operations (BABLO)

Type of Finding: Management letter

Questioned Costs: None

Criteria: State of Maine Remote Hosting Policy, Section 4

IT Audit Guide: Federal Information System Controls Audit Manual BP-1 through BP-4 and AS-5.3

Condition: The description and testing of internal controls related to the Lottery system Business Continuity Disaster Recovery (BCDR) plan were not included in an independent auditor's report. BABLO anticipates that the fiscal year 2019 report will include this information.

Context: The automated Maine State Lottery (MSL) lottery (complete gaming services, products and instant ticket printing) and transaction recording system was used by BABLO to collect approximately $294 million in Enterprise Fund revenue in fiscal year 2018.

Cause: The Lottery system contractor was not required to include coverage of BCDR controls in an annual Service Organization Control (SOC) report as part of their service level agreement (SLA) with BABLO. The type of SOC report that would provide this assurance is a SOC 2 (type 2) report with a focus on the Trust Services Principle of Availability.

Effect: Since there was no SOC 2 (type 2) audit, potentially inadequate system and data availability related controls were not identified. This could possibly result in extended system and application downtime and/or loss of confidential information. Extended downtime results in lost revenue to the State of Maine's General Fund.

Recommendation: We recommend that the Department add language to the SLA with the Lottery system contractor to require independent audit assurance and testing, such as a SOC 2 (type 2) report, covering the current BCDR plan and procedures being used.

Management's Response: The lottery agrees that an independent audit has not been completed but feels compelled to note that a comprehensive Business Continuity Plan (BCP) is in place that allows the lottery to continue operations under the most severe disaster scenarios. The lottery system currently operates using four systems (1 primary and 3 backup systems, all capable of taking over as primary) at two separate data centers that are physically separated by 1200 miles. These data centers are fully staffed 24/7 and are capable of running as stand-alone sites if a disaster were to occur. The BCP is reviewed and tested periodically by staff to ensure the plan remains current.

In addition to the existing control procedures described above, the lottery will amend its current contract with its service provider and incur the additional expense associated to have a SOC2 Type-2 audit that includes an audit of the BCP in accordance with the State Auditor's recommendation.

Contact: Michael Boardman, Deputy Director, BABLO, 207-287-4614

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

AND

DEPARTMENT OF LABOR

ML-18-0308-01

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

Prior Year Findings:

FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10
ML 17-0308-01	ML 16-0308-01	ML 15-0308-01	ML 14-0308-01	ML 13-0308-01	ML 12-0308-01		

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

Type of Finding: Management letter

Questioned Costs: None

Criteria: State Administrative and Accounting Manual 80.30.05

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

Context: Percentages used to calculate the allowance for uncollectible accounts are not consistent with actual collection experience.

Uncollectible account balances are the result of overpayments made to unemployed workers and are due back to the State of Maine. DAFS/DOL considers overpayments delinquent for more than one year to be uncollectible. However, audit procedures performed by the Office of the State Auditor reveal that collection rates for overpayments delinquent for more than one year are higher than collection rates for overpayments delinquent for less than one year.

BUC was able to provide the total accounts receivable balance as of June 30, 2018. However, BUC's new ReEmployME information system could not provide an aging report of these receivables. BUC made a reasonable estimate of the age of these receivables. The estimated age of the receivables was used to calculate the allowance for uncollectible accounts based on the unsupported percentages and assumptions previously discussed.

Cause:

- Appropriate quantitative analysis has not yet been developed to arrive at valuation assumptions

- The ReEmployME information system could not provide an aged accounts receivable report “as of” a specific past “point-in-time” (past measurement date). The reports can only be produced in real time.

Effect: Accounts receivable net of the allowance for uncollectible accounts, may be misstated in the State’s financial statements. In addition, the separately disclosed amount for the Allowance for Uncollectibles in Note 6 of the financial statements may also be misstated.

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

We also recommend that DOL implement procedures to ensure that reports are captured for required reporting dates.

Management’s Response: The Department disagrees with this finding. The Office of the State Controller (OSC) is responsible for determining the estimates included in the financial statements. The accounting estimates are based on subjective, as well as, objective factors; therefore, professional judgement is required to estimate an amount for uncollectible receivables using an aging methodology, which is considered a common and acceptable method within the industry. Management's opinion is that this method is not overly sensitive to variations, is consistent with historical patterns and is not overly subjective or susceptible to bias. Applying this methodology, the OSC and the Department of Labor (DOL) accumulate relevant, sufficient and reliable data on which to base the estimate. Additionally, we believe that the estimate is presented in conformity with applicable accounting principles and that disclosure is adequate. In 2016, with information provided by the DOL, the OSC performed a five-year trend analysis of historical collections. The OSC compared the percentages and the assumptions used in the past and updated the reserve percentages accordingly. The OSC will continue to use the rolling year trend analysis with the actual collection data, as provided by the DOL, to update the reserve percentage. DOL has implemented a new system. Given the new tools that will be available OSC will review the reserve process to ensure the allowance continues to be valued properly.

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

Auditor’s Concluding Remarks: Quantitative support was not made available to auditors in order to substantiate the valuation assumptions used to calculate the allowance for uncollectible accounts, or to support the conclusion that the collectability of Employment Security Trust Fund receivables are not overly sensitive to variations. In addition, estimates generated using this methodology were not consistent with historical patterns. We continue to recommend that the OSC, working together with the BUC, refine its valuation method for financial statement purposes. The finding remains as stated.

ML-18-0308-02

Title: Reconciliation procedures for the Unemployment Trust Fund need improvement

Prior Year Findings: None

FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10

State Department: Administrative and Financial Services (DAFS)
Labor
State Bureau: Security and Employment Service Center
Unemployment Compensation (BUC)

Type of Finding: Management letter

Questioned Costs: None

Criteria: State Administrative and Accounting Manual Section 85

Condition: The same reconciling item in the amount of $8,866.44 identified with the code 9905JLA0181, has appeared as a reconciling item at least as far back as June 30, 2013.

Context: The State's Unemployment Trust Fund is held by the United States Treasury. This fund amounted to $446 million as of June 30, 2018.

Cause: Competing priorities

Effect: If reconciling items are not promptly researched and corrected, information about their likely cause could become difficult to trace.

Recommendation: We recommend that the Security and Employment Service Center investigate and clear reconciling item 9905JLA0181. Future reconciling items should be cleared promptly.

Management's Response: The Department agrees with the finding, however, the reconciling item listed is not material. The reconciling item has been investigated and cleared which is reflected on the December 2018 reconciliation.

Contact: Marilyn Leimbach, Acting Director, SESC, 207-623-6701

Auditor's Concluding Remarks: The accounting adjustment for $8,866.44 relating to the actual cash balance should have been made when discovered over five years ago. The finding remains as stated.

DEPARTMENT OF INLAND FISHERIES AND WILDLIFE

ML-18-0203-02

Title: Improper transactions were not reported to the State Auditor

Prior Year Findings: None

FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10

State Department: Inland Fisheries and Wildlife (IFW)
State Bureau: Licensing and Registration

Type of Finding: Management letter

Questioned Costs: None

Criteria: 5 MRSA 244-A

Condition: The Department did not notify the Office of the State Auditor of a series of improper transactions as required by 5 MRSA 244-A.

Context: The Department did not report improper transactions to the Office of the State Auditor. However, the Department did report these transactions to the Office of the Attorney General.

Cause: The Department was not aware of the statutory requirement.

Effect: Noncompliance with State law

Recommendation: We recommend that the Department implement controls to ensure that all future improper or illegal transactions identified are immediately reported to the Office of the State Auditor.

Management's Response: The Department agrees with this finding. As the finding states, this issue was reported to the Office of the Attorney General, however, the Department was unaware of the additional requirement to report to the Office of the State Auditor. The Department's Policy Manual will be updated to include the requirement to report improper transaction to the Office of the State Auditor.

Contact: Bill Swan, Director of Licensing, IFW, 207-287-5225

DEPARTMENT OF PUBLIC SAFETY

ML-18-0203-01 CONFIDENTIAL

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

Prior Year Findings: None

FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10

State Department: Public Safety
State Bureau: ________

Type of Finding: Management letter

Questioned Costs: None

Criteria: ________

Condition: There is ________ that information system related ________ over the ________ of ________ provided by the Vendor (service provider) are adequate to ensure that information is accurate, complete, available, and secure.

Context: ________ with a Vendor to ________. The State received ________ in revenue from ________ in fiscal year 2018 alone. Therefore, it is important that related reports on ________ provided by the Vendor.

Cause: The contract between the Department and the Vendor does not ________.

Effect: Potential ________

Recommendation: We recommend that the Department ________. We further recommend that the ________. This will provide ________ to the State regarding whether ________.

Management's Response: The Department agrees that it should ________. While ________ can take many forms, the ________. The current ________. Going forward, the Department intends to ________.

Contact: ________

Auditor's Concluding Remarks: ________ must be included in the ________ to ensure that the ________. The ________. ________ states that ________, but is not limited to, ________. This ________. This means that ________. The Department of ________. ________ procedures used by ________. Also, the State's ________. So that the ________.

The finding remains as stated.

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

AND

DEPARTMENT OF TRANSPORTATION

ML-18-0900-02 CONFIDENTIAL

Title: The Department does ________ (The content of this finding has been redacted. This appears as blank underlining.)

Prior Year Findings:

FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10
ML 17-0907-01	ML 16-0907-02						

State Department: Transportation (DOT)
Administrative and Financial Services
State Bureau: Finance and Administration
____

Type of Finding: Management letter

Questioned Costs: None

Criteria: ________

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

Context: The financial accounting system used by DOT ________.

Cause: Lack of resources

Effect: Without the authoritative guidance of a well documented ________.

Recommendation: We recommend that the Department ________. Additionally, we recommend that ________.

Management's Response: The Department agrees with this finding. The Department has recently engaged with the ________ staff at ________ to re-establish a plan with deliverables but currently does not have a timeline to execute the plan due to ________.

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

DEPARTMENT OF TRANSPORTATION

ML-18-0900-03 CONFIDENTIAL

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

Prior Year Findings:

FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10
ML 17-0907-02	ML 16-0907-03						

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

Type of Finding: Management letter

Questioned Costs: None

Criteria: ________

Condition: The objective of a ________. This is a confidential finding containing sensitive information. The complete finding has been formally communicated to appropriate personnel.

Context: The financial accounting system used by DOT ________.

Cause: Lack of resources

Effect: The lack of a ________ increases the risk that ________ will not be ________ and that ________.

Recommendation: We recommend that the Department ________. Additionally, we recommend that DOT ________.

Management's Response: The Department agrees with this finding. The Department has recently engaged with the ________. As part of that process we will be conducting a ________.

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

ML-18-0900-08 CONFIDENTIAL

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

Prior Year Findings:

FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10
ML 17-0907-03							

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

Type of Finding: Management letter

Questioned Costs: None

Criteria: ________

Condition: The Department's ________. This is a confidential finding containing sensitive information. The complete finding has been formally communicated to appropriate personnel.

Context: The financial accounting system used by DOT ________.

Cause:
- Competing priorities
- Lack of resources

Effect: Inadequate ________ increase the risk of ________.

Recommendation: We recommend that the Department ________.

Management's Response: The Department agrees with this finding. The Statewide ________ will require the program administrators to ________. This project currently has an estimated completion date of 6/30/19.

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