STATE OF MAINE

MANAGEMENT LETTER

to the Single Audit Report and Annual Comprehensive Financial Report Fiscal Year Ending June 30, 2021

Office of the State Auditor
Jacob B. Norton, CIA
State Auditor

State of Maine
Management Letter to the Single Audit Report and the Annual Comprehensive Financial Report
Fiscal Year Ending June 30, 2021

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**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)*

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LETTER OF TRANSMITTAL

Honorable Members of the Legislative Council for the 130th Legislature

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, 2021. 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 Annual Comprehensive Financial Report (ACFR) audit; and management letter comments newly issued in relation to the Single Audit. Management letter comments related to the ACFR audit were separately issued on January 31, 2022, 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,

Jacob B. Norton, CIA
State Auditor

May 10, 2022

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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, 2021, on which we have issued our report dated March 31, 2022, 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 2021 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

One of the thirteen management letter comments is redacted because it relates 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.

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.

Jacob B. Norton, CIA
State Auditor

May 10, 2022

DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT

ML-21-1690-01

Title: Internal control over CRF subrecipient risk evaluation procedures needs improvement

State Department: Economic and Community Development
State Bureau: Office of Business Development

Type of Finding: Management letter

Criteria: 2 CFR 200.303; 2 CFR 200.332

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

The Department is required to evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring procedures described in 2 CFR 200.332.

Condition: The Department's Office of Business Development (OBD) passed through Coronavirus Relief Funds (CRF) to seven Economic Development Agencies (EDAs) to support Maine businesses through the State's Economic Recovery Grant Program.

OBD recognized that there was a high inherent risk related to the newly established Economic Recovery Grant Program administered with CRF. In response, OBD applied subrecipient monitoring to all EDAs in line with expected procedures for high-risk subrecipients. This included providing Federal award information in grant award agreements, effectively communicating program guidelines, establishing reporting requirements, providing technical assistance, and frequent communication with the subrecipients to discuss program performance.

Evidence was provided that adequate subrecipient monitoring procedures were performed; however, OBD did not document each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining appropriate subrecipient monitoring procedures.

Context: OBD provided $234.1 million to CRF subrecipients during fiscal year 2021.

Cause: OBD does not have policies and procedures in place to ensure that risk evaluations are completed and documented for subrecipients established under new Federal programs such as the Coronavirus Relief Fund.

Effect:

- Without a documented process, subrecipient risk evaluation procedures may not be consistently followed and documentation may not be adequately maintained.
- Subrecipients that are deemed higher risk may not be monitored on a more frequent basis. Conversely, subrecipients that are deemed lower risk may not be monitored on a less

frequent basis, which would free resources and time to dedicate towards other higher risk subrecipients.

Recommendation: We recommend that OBD implement and document policies and procedures over subrecipient risk assessments. This policy should require evaluation of each subrecipient's risk of noncompliance specifically for the purposes of determining the appropriate subrecipient monitoring to be performed.

Management's Response: The Department agrees with this finding. The programs utilizing CRF funds failed to document each subrecipient's risk of noncompliance with Federal Statutes, regulations, and the terms and conditions of the subaward for purposes of determining appropriate subrecipient monitoring procedures. The Department now requires signed subrecipient risk assessment agreements and will be engaging the services of Eide Bailey for future subrecipient monitoring to comply with this requirement.

Contact: Denise Garland, Deputy Commissioner, DECD, 207-624-7496

ML-21-1695-03

Title: Internal control over subrecipient monitoring for the ERA program needs improvement

State Department: Economic and Community Development
State Bureau: Commissioner's Office

Type of Finding: Management letter

Criteria: 2 CFR 200.303; 2 CFR 200.332

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

The Department must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes any additional requirements that the Department imposes on the subrecipient in order for the Department to meet its own responsibilities. If any of the requirements change, the Department must reflect the changes in a subsequent subaward modification.

When a subrecipient's Federal award expenditures during the fiscal year are expected to equal or exceeded $750,000, the Department must verify the subrecipient is audited for the purpose of issuing a management decision for audit findings pertaining to the Federal award passed through to the subrecipient.

Condition: The Department passed through Emergency Rental Assistance (ERA) program funds to one subrecipient responsible for administering the program.

The Department entered into a Memorandum of Understanding (MOU) to communicate the terms of the agreement with the subrecipient. The MOU:

- states that a Federal Award Identification Number (FAIN) does not exist for the ERA program. Subsequent to the MOU effective date, a FAIN number for the program was published. The Department did not provide this to the subrecipient.
- indicates that the Department will fulfill Federal reporting requirements. The responsibility to report to the U.S. Treasury portal was assumed by the subrecipient.
- does not include payment terms. Including payment terms in an MOU is a matter of best practice, not a required element of a subaward.

Furthermore, the Department does not have written policies and procedures to verify the subrecipient is audited in accordance with 2 CFR Part 200, Subpart F.

Context: The Department advanced this subrecipient $66.7 million to administer the ERA program in fiscal year 2021.

Cause:
- The ERA program was a new Federal program in fiscal year 2021, and compliance requirements have evolved since its inception.
- Competing priorities due to the COVID-19 pandemic response
- Lack of adequate policies and procedures

Effect:
- Incomplete or superseded information in subrecipient agreements increases the potential for subrecipient noncompliance.
- Potential for inaccurate reporting by the subrecipient on behalf of the State who is the prime recipient of the Federal funds
- Lack of written policies and procedures could result in noncompliance over subrecipient monitoring.

Recommendation: We recommend that:
- the Department revise the subrecipient MOU to include Federal award information;
- the prime recipient seek clarification on subrecipient reporting within the Treasurer's portal; and
- the Department develop policies and procedures over the receipt and review of subrecipient audits.

Management's Response: The Department agrees with this finding. Due to the evolving requirements for the Emergency Rental Assistance program the MOU did not include Federal award information or reflect the subrecipient's responsibility to report to the U.S. Treasury portal. The Department will modify the existing MOU with the subrecipient to include Federal award information and will reflect the subrecipients responsibility to report to the U.S. Treasury portal. Additionally, the amended MOU will reflect the verification that the subrecipient is audited in accordance with 2 CFR Part 200, Subpart F.

Contact: Denise Garland, Deputy Commissioner, DECD, 207-624-7496

DEPARTMENT OF EDUCATION

ML-21-1208-02

Title: Internal control over subrecipient monitoring procedures for the Title I, Part A program needs improvement

State Department: Education
State Bureau: Learning Systems

Type of Finding: Management letter

Criteria: 2 CFR 200.303; 2 CFR 200.332; Maine Department of Education Reimbursement Compliance Review Policies

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

The Department is required to evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring procedures described in 2 CFR 200.332.

The State's Title I Grants to Local Education Agencies (Title I, Part A) policy requires all subrecipients to submit documentation to support the first Federal grant reimbursement request made in a school year. Additional filing requirements are as follows: low risk subrecipients must submit accounting support for one random and one required grant reimbursement request; moderate risk subrecipients must submit accounting support for three to four grant reimbursement requests; and high risk subrecipients must submit accounting support for every grant reimbursement request.

Condition: Department personnel are responsible for ensuring that the required documentation to support each invoice submission, based on the subrecipient's pre-award risk rating, is received. The Office of the State Auditor reviewed invoice submissions for 27 subrecipients. The Department could not provide documentation to support that adequate documentation was received for nine subrecipients.

Context: The Department provided $48 million of Title I, Part A funds to subrecipients in fiscal year 2021.

Cause:

- Lack of effective policies and procedures
- Lack of supervisory oversight

Effect: Subrecipient grant reimbursement requests may not be reviewed in accordance with Department policy. These policies were established to ensure grant funds are used for authorized purposes, comply with the terms and conditions of the subaward, and achieve performance goals.

Recommendation: We recommend that the Department review available automated controls within the Grant Management System for effectiveness, or develop manual policies and procedures and training to ensure that personnel responsible for invoice approval are requesting and retaining the appropriate supporting documentation for grant reimbursement requests.

Management's Response: The Department agrees with this finding. The ESEA team is reviewing and updating the necessary verification steps within the invoicing procedures manual to ensure that the required documentation to support each invoice submission, based on the subrecipient's pre-award risk rating, are met. This will include training on Pre-Award Risk Rating procedures for any new ESEA Federal Programs invoice processors. Lastly, we will be working with our grant management software developers to create a clear risk rating indicator on each Title I invoice submitted for review and approval.

Contact: Cheryl Lang, ESEA Federal Programs Director, DOE, 207-441-8059

ML-21-1208-03

Title: Internal control over new charter school allocations for the Title I, Part A program needs improvement

State Department: Education
State Bureau: Learning Systems

Type of Finding: Management letter

Criteria: 2 CFR 200.303; Elementary and Secondary Education Act (ESEA) Section 4306; 20-A MRSA Chapter 112

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

To ensure that each charter school receives the applicable hold-harmless protection under ESEA, the Department must generate a hold-harmless base for a newly opened or significantly expanded charter school that reflects the new or significantly expanded enrollment of the charter school.

In accordance with 20-A MRSA Chapter 112, charter schools may be established as public schools to provide alternative learning opportunities for Maine school children. No more than 10 charter schools may operate at any time.

Condition: The Department is responsible for allocating Title I, Part A funds to new charter schools in an equitable manner that ensures the school's funding does not fall below a hold-harmless base. A new charter school's initial calculation of Title I, Part A funding was based on an estimate of eligible children from the charter school's original application. The Department did not revise the charter school's hold-harmless base and resulting allocation to account for actual enrollment during the school year.

Context: There was only one charter school that opened during fiscal year 2021 and it was the last charter school with authority to open in accordance with 20-A MRSA Chapter 112. $12,803 was allocated to the charter school for the 2020/2021 school year.

Cause:
- Lack of policies and procedures
- Lack of supervisory oversight

Effect: New charter schools may not receive the funding needed to ensure at-risk student populations are adequately served. Although this new charter school was the last authorized charter school, there is a possibility that a charter school could close or the Legislature could authorize additional charter schools for which this provision would apply.

Recommendation: We recommend that the Department implement policies and procedures that require review and adjustment of initial funding calculations for new charter schools using actual enrollment during the school year.

Management's Response: The Department agrees with this finding. The ESEA team is revising the policies and procedures for reviewing data and adjusting final funding calculations for the Title I funding stream. Within this updated Title I Allocation Procedures document, we will add a section on how to update enrollment information for new charter schools. We will also ensure the funding does not fall below their hold-harmless base. This finding was the result of turnover in management and the need for Department employees to work remotely due to the COVID-19 pandemic.

Contact: Cheryl Lang, ESEA Federal Programs Director, DOE, 207-441-8059

ML-21-1208-04

Title: Internal control over State Per Pupil Expenditure data reporting needs improvement

State Department: Education
State Bureau: Learning Systems

Type of Finding: Management letter

Criteria: 2 CFR 200.303; 34 CFR 200.35

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

The Department must prepare an annual State report card that includes current expenditures per pupil from Federal, State, and local funds, for the preceding fiscal year, for each Local Education Agency (LEA) in the State, and for each school served by each LEA.

Condition: The Department is required to submit its average State Per Pupil Expenditure (SPPE) data to the National Center for Education Statistics. The Department compiles this information and prepares the data to be reported on the National Public Education Finance Survey (NPEFS).

The Office of the State Auditor selected a random sample of report line items on the NPEFS and found that the Department reported outdated figures for retirement expenses. The report was prepared and submitted without a comprehensive secondary review.

Context: In fiscal year 2021, the Department reported net current expenditures of $2,604,453,643 which calculated to $16,027 per pupil. Actual net current expenditures were $2,608,012,741 and $16,049 per pupil.

Cause: Lack of adequate review procedures

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

Recommendation: We recommend that the Department implement procedures to ensure that the data for the NPEFS submission is thoroughly reviewed for completeness and accuracy prior to report submission.

Management's Response: The Department agrees with this finding. While much of the NPEFS annual report calculations are performed via the Department's financial data collection system, the data to populate three entries must be obtained from other data sources and manually entered into the report. The error cited in the management letter is the result of this manual process. The Department will implement procedures to utilize the analysis tools within the NPEFS system to compare prior year entries to new year entries when completing the report. Additionally, the procedures will include a report review process by the preparer and approver.

Contact: Nicole Denis, Finance Director, DOE, 207-530-2161

ML-21-1235-04

Title: Internal control over subrecipient risk evaluation procedures for the ESSER program needs improvement

State Department: Education
State Bureau: Office of Federal Emergency Relief Programs

Type of Finding: Management letter

Criteria: 2 CFR 200.303; 2 CFR 200.332

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

The Department is required to evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring procedures described in 2 CFR 200.332.

Condition: The Department utilizes a risk assessment tool for the purpose of assessing a subrecipient's risk of noncompliance for the Education Stabilization Fund's Elementary and Secondary School Emergency Relief (ESSER) sub-program. The tool's resulting risk assessment rating should be utilized to establish appropriate monitoring procedures over subrecipients.

Evidence was provided that adequate subrecipient monitoring procedures were performed; however, there was no documented direct correlation between the risk designation assigned to the subrecipients and the level of monitoring conducted by the Department.

Context: The Department provided $17.1 million in ESSER Federal grant funds to 125 subrecipients in fiscal year 2021.

Cause:

- Lack of policies and procedures
- Lack of supervisory review over the subrecipient risk assessment process

Effect: High risk subrecipients might not receive the appropriate level of monitoring to ensure grant funds were used for authorized purposes, complied with the terms and conditions of the subaward, and achieved performance goals.

Recommendation: We recommend that the Department implement procedures to ensure subrecipients receive the appropriate amount of monitoring based on the risk designation assigned.

Management's Response: The Department agrees with this finding. The Office of Federal Emergency Relief Programs will develop and implement procedures to ensure subrecipients receive the appropriate amount of monitoring based on the risk designation assigned.

Contact: Shelly Chasse-Johndro, Director of OFERP, DOE, 207-458-3180

ML-21-1235-05

Title: Internal control over reporting for the GEER and ESSER programs needs improvement

State Department: Education
State Bureau: Commissioner's Office

Type of Finding: Management letter

Criteria: 2 CFR 200.303; Coronavirus Aid, Relief, and Economic Security (CARES) Act

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

In accordance with the CARES Act, direct recipients of the Governor's Emergency Education Relief (GEER) and Elementary and Secondary School Emergency Relief (ESSER) funds are required to submit an Annual Report of program expenditures to the Education Stabilization Fund (ESF) Transparency Portal.

Condition: The Department filed the appropriate GEER and ESSER Annual Reports of program expenditures; however, the reports were not reviewed prior to submission to the ESF Transparency Portal.

Context: During fiscal year 2021, $4.8 million of GEER and $1.4 million of ESSER expenditures from fiscal year 2020 were reported to the Federal awarding agency.

Cause: Lack of policies and procedures

Effect: Without a review process, inaccurate or incomplete information could be reported to the Federal government. This information may be used for programmatic, policy, or statistical purposes.

Recommendation: We recommend that the Department implement policies and procedures to ensure that a supervisory review process is completed for the GEER and ESSER Annual Reports prior to submission to the Federal awarding agency.

Management's Response: The Department agrees with this finding. The Office of Federal Emergency Relief Programs will develop and implement policies and procedures to ensure that a thorough review is completed for all annual reports prior to submission to the Federal awarding agency.

Contact: Shelly Chasse-Johndro, Director of OFERP, DOE, 207-458-3180

DEPARTMENT OF HEALTH AND HUMAN SERVICES

ML-21-1113-01

Title: Internal control over suspension and debarment for the WIC program needs improvement

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

Type of Finding: Management letter

Criteria: 2 CFR 200.303; Division of Contract Management Policy

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

Department policy requires annual verification, review and documentation of suspension and debarment compliance obtained from the System for Award Management (SAM) website. This document is required to be retained for each local agency that administers the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

Condition: The Department was not able to provide documentation indicating that review and verification procedures were completed for one of the eight agencies that administer the WIC program.

Context: The Department provided $5 million to the eight local agencies that administer the WIC program during fiscal year 2021.

Cause: Lack of supervisory oversight

Effect: Department procedures designed to provide an additional level of control over suspension and debarment were not followed. Entering into a covered transaction with a suspended or debarred party could result in Federal disallowances.

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

Management's Response: The Department disagrees with this finding. The Uniform Guidance part 200.214 identifies that non-Federal entities are subject to the non-procurement debarment and suspension regulations in 2 CFR part 180. 2 CFR part 180 requires that "when you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by: (a) Checking SAM Exclusions; or (b) Collecting a certification from that person; or (c) Adding a clause or condition to the covered transaction with that person."

The Department meets this requirement as part of the contracting process by collecting certifications from the Community Agencies stating that they are not suspended or debarred. Therefore, we are in compliance with the Federal requirements for Suspension and debarment.

The intent of the Department's policy to utilize the System for Award Management Exclusions (SAM) is to be an optional and additional assurance to the required collection of certifications that the next lower tier persons are not suspended or debarred. The SAM is utilized as time and resources permit and is not intended to replace the certifications.

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

Auditor's Concluding Remarks: The Office of the State Auditor acknowledges the Department's compliance with Federal regulations for suspension and debarment. The Department did not follow established policies and procedures which are intended to provide an additional level of control over suspension and debarment. This matter is a management letter comment. It is not reported as a material weakness or significant deficiency in internal control and is not being reported to Federal oversight. Management letter comments are intended to provide agencies with information on matters for improvement and offer an opportunity for enhancements in areas where best practices may not be in place.

The finding remains as stated.

ML-21-1156-01

Title: Internal control over suspension and debarment for the ELC program needs improvement

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

Type of Finding: Management letter

Criteria: 2 CFR 200.303; Division of Contract Management Policy

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

Department policy requires annual verification, review and documentation of suspension and debarment compliance obtained from the System for Award Management (SAM) website. This document is required to be retained for each subrecipient that administers the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) grant.

Condition: The Department was not able to provide documentation indicating that review and verification procedures were completed for two of the ten subrecipients sampled that administer the ELC program.

Context: The Department provided $8 million to the 46 subrecipients that administer the ELC program during fiscal year 2021.

Cause: Lack of supervisory oversight

Effect: Department procedures designed to provide an additional level of control over suspension and debarment were not followed. Entering into a covered transaction with a suspended or debarred party could result in Federal disallowances.

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

Management's Response: The Department disagrees with this finding. The Uniform Guidance part 200.214 identifies that non-Federal entities are subject to the non-procurement debarment and suspension regulations in 2 CFR part 180. 2 CFR part 180 requires that "when you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by: (a) Checking SAM Exclusions; or (b) Collecting a certification from that person; or (c) Adding a clause or condition to the covered transaction with that person."

The Department meets this requirement as part of the contracting process by collecting certifications from the Community Agencies stating that they are not suspended or debarred. Therefore, we are in compliance with the Federal requirements for Suspension and debarment.

The intent of the Department's policy to utilize the System for Award Management Exclusions (SAM) is to be an optional and additional assurance to the required collection of certifications that the next lower tier persons are not suspended or debarred. The SAM is utilized as time and resources permit and is not intended to replace the certifications.

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

Auditor's Concluding Remarks: The Office of the State Auditor acknowledges the Department's compliance with Federal regulations for suspension and debarment. The Department did not follow established policies and procedures which are intended to provide an additional level of control over suspension and debarment. This matter is a management letter comment. It is not reported as a material weakness or significant deficiency in internal control and is not being reported to Federal oversight. Management letter comments are intended to provide agencies with information on matters for improvement and offer an opportunity for enhancements in areas where best practices may not be in place.

The finding remains as stated.

ML-21-1156-04

Title: Internal control over subrecipient risk evaluation procedures for the ELC program needs improvement

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

Type of Finding: Management letter

Criteria: 2 CFR 200.303; 2 CFR 200.332

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

The Department is required to evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring procedures described in 2 CFR 200.332.

Condition: The Department's Maine Center for Disease Control & Prevention (MeCDC) passed through Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) grant funds to 46 subrecipients during fiscal year 2021.

MeCDC recognized that there was a high inherent risk related to the newly established subrecipient awards administered through the ELC program. In response, MeCDC applied monitoring to all subrecipients in line with expected procedures for high-risk subrecipients. This included providing Federal award information in grant award agreements, effectively communicating program guidelines, establishing reporting requirements, providing technical assistance, and frequent communication with the subrecipients to discuss program performance.

Evidence was provided that adequate subrecipient monitoring procedures were performed; however, MeCDC did not document each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining appropriate subrecipient monitoring procedures.

Context: MeCDC provided $8 million to ELC subrecipients during fiscal year 2021.

Cause: MeCDC does not have procedures in place to ensure that risk evaluations are completed and documented for subrecipients established under the ELC program.

Effect:

- Without a documented process, subrecipient risk evaluation procedures may not be consistently followed and documentation may not be adequately maintained.
- Subrecipients that are deemed higher risk may not be monitored on a more frequent basis. Conversely, subrecipients that are deemed lower risk may not be monitored on a less

frequent basis, which would free resources and time to dedicate towards other higher risk subrecipients.

Recommendation: We recommend that MeCDC implement and document procedures over subrecipient risk assessments. These procedures should require evaluation and documentation of each subrecipient's risk of noncompliance specifically for the purposes of determining the appropriate subrecipient monitoring to be performed.

Management's Response: The Department agrees with this finding. Although there are several layers of risk evaluation built into the subrecipient monitoring process, the Department agrees that there should be a policy regarding the evaluation of risk to determine the appropriate subrecipient monitoring.

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

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B. Melissa Perkins, CPA
Acting State Auditor

MANAGEMENT LETTER TO THE ANNUAL COMPREHENSIVE 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, 2021, on which we have issued our report dated December 10, 2021, 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 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.

One of the three management letter comments is redacted because it relates 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.

B.M. Perkins

B. Melissa Perkins, CPA
Acting State Auditor

December 10, 2021

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

ML-21-0104-01

Title: Financial reporting procedures need improvement

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

Type of Finding: Management letter

Criteria: Governmental Accounting, Auditing, and Financial Reporting (GAAFR), Part 5, Section A, Chapter 42; Governmental Accounting Standards Board (GASB) Concept Statement 1, paragraph 64

The GAAFR states that a comprehensive framework of internal control is required to obtain reasonable assurance over financial reporting.

GASB Concept Statement 1 states that financial reporting should be reliable.

Condition: The State of Maine's Annual Comprehensive Financial Report (ACFR) for the fiscal year ending June 30, 2021 prepared by the Office of State Controller (OSC) included the following misstatements and errors identified by the Office of the State Auditor (OSA):

- Revenues and expenses in the Internal Service Funds were overstated by $97.4 million.
- Note disclosures and Management's Discussion and Analysis (MD&A) contained incorrect amounts and excluded required information.

OSC subsequently adjusted these amounts and disclosures in the ACFR.

Context: The ACFR 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 ACFR 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 must pay to borrow money.

Cause: Lack of financial reporting procedures to ensure closing entries and disclosures are complete and accurate

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

Recommendation: We recommend that OSC implement financial reporting procedures to ensure that significant errors and omissions in the ACFR are prevented, or detected and corrected, prior to release for audit by OSA.

Management's Response: The OSC acknowledges that an undetected human error resulted in an incorrect adjustment being made to the ACFR. This resulted in revenue and expenses being overstated with no impact on net position. OSC will continue to work diligently and evaluate our analytical review procedures to ensure that similar issues are prevented in the future.

Contact: April Newman, Financial Management Coordinator, OSC, 207-626-8436

ML-21-0320-02

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's or city's tax assessment 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 Department manages capital leases totaling $43 million in assets, net of accumulated depreciation, and $48 million in lease liabilities.

Cause: The Department 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 does not agree with the recommendation to obtain independent private sector appraisals. Management is required to estimate the fair value of the leased asset at the lease inception date. It is our practice to utilize tax assessments as a basis for estimates. We have found that this basis for estimating fair value is objective, well documented, reliable, and cost effective.

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

Auditors's Concluding Remarks continued on next page.

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, the tax assessment is not the same as fair value and may differ significantly. 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-21-0903-02, Confidential, see below for more information

Title: ________ over ________ and ________ of ________ for the ________, ________ and ________ systems needs improvement

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.

State Department: Administrative and Financial Services
State Bureau: Human Resources

Type of Finding: Management letter

Criteria: ________

Condition: ________

Context: ________

Cause: ________

Effect: ________

Recommendation: ________

Management's Response: ________

Contact: Shonna Poulin-Gutierrez, Executive Director, Employee Health & Wellness, DAFS, 207-624-7367