

STATE OF MAINE



MANAGEMENT LETTER

to the Annual Comprehensive Financial Report

Fiscal Year Ending June 30, 2022

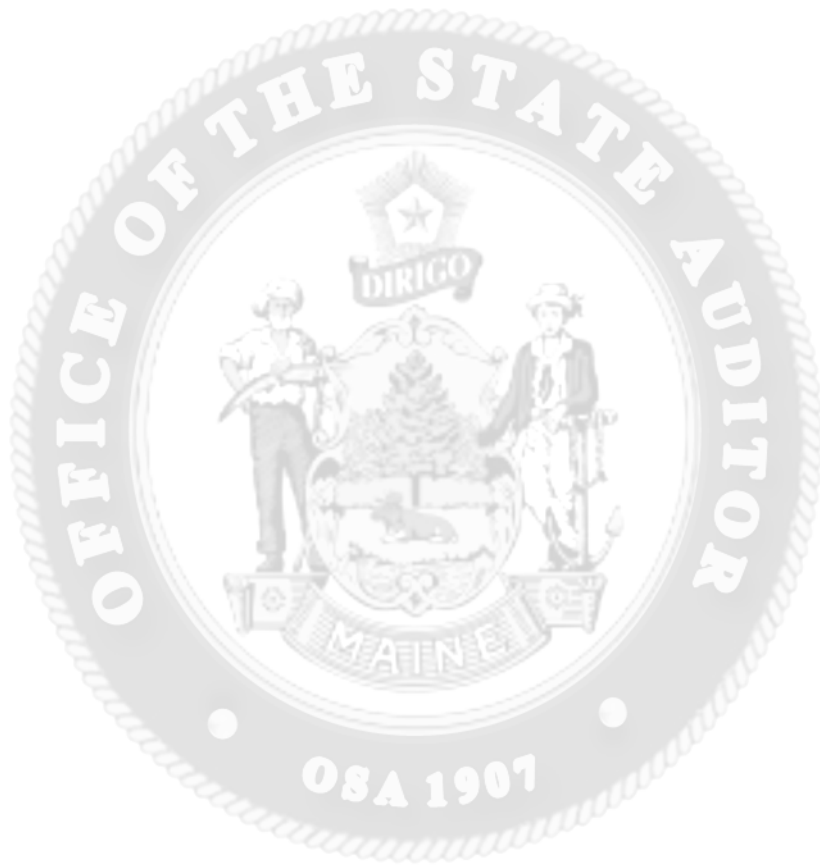
Office of the State Auditor
Matthew Dunlap, CIA
State Auditor

State of Maine
Management Letter to the Annual Comprehensive Financial Report
Fiscal Year Ending June 30, 2022

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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, 131st Maine Legislature;

Honorable Janet T. Mills
Governor of the State of Maine

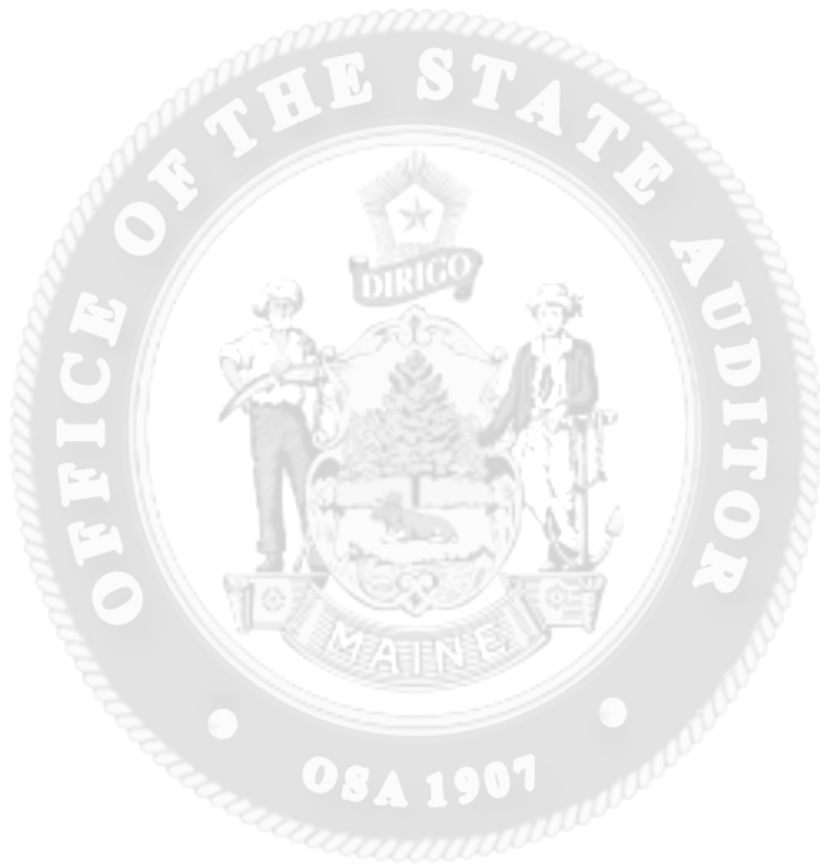
I am pleased to submit the State of Maine Management Letter related to our audit of the State's Annual Comprehensive Financial Report for the year ended June 30, 2022. In the course of conducting this audit, we became aware of matters that offer opportunities for our government to improve its operations. Recommendations regarding these matters accompany this Management Letter as "management letter comments." A separate Management Letter will be issued this spring following the conclusion of the Single Audit for the year ended June 30, 2022.

I welcome your thoughts and inquiries about these matters.

Respectfully submitted,

Matthew Dunlap, CIA
State Auditor

January 17, 2023





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MANAGEMENT LETTER TO THE ANNUAL COMPREHENSIVE FINANCIAL REPORT

Honorable Members of the Legislative Council, 131st Maine Legislature;

Honorable Janet T. Mills
Governor of the State of Maine

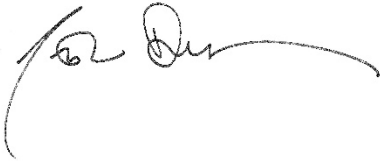
In planning and performing our audit of the financial statements of the State of Maine as of and for the year ended June 30, 2022, on which we have issued our report dated December 14, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the State 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.

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

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

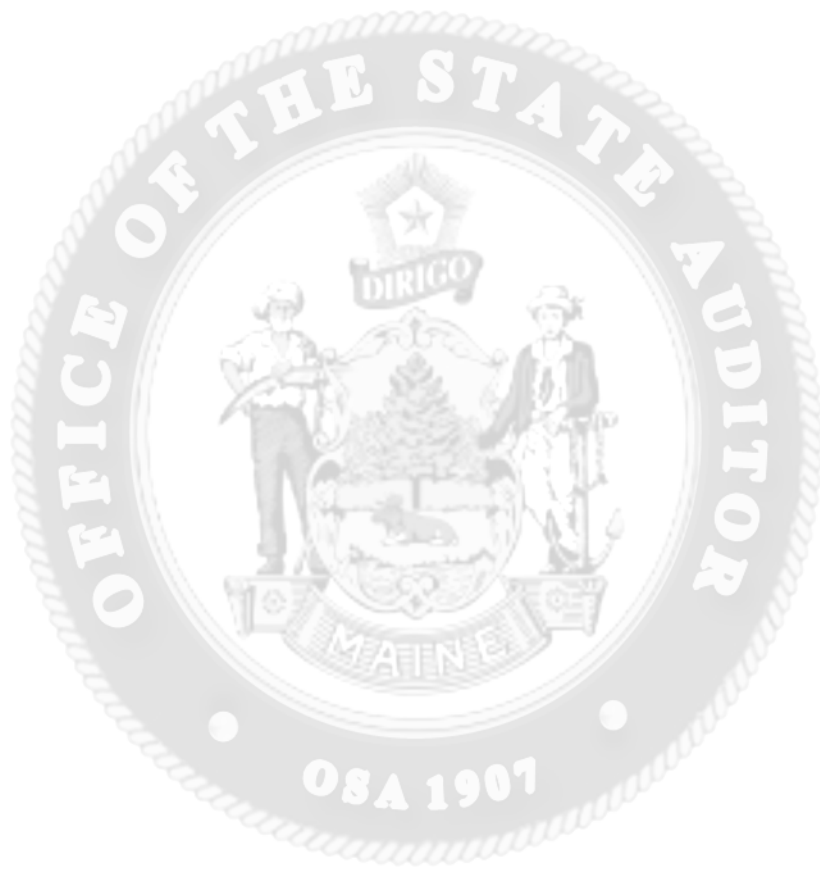
We would be pleased to discuss these management letter comments in further detail at your convenience.

A handwritten signature in black ink, appearing to read "M. Dunlap", with a long horizontal flourish extending to the right.

Matthew Dunlap, CIA
State Auditor

January 17, 2023

DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES



ML-22-0104-01

Title: Procedures over financial reporting need improvement

State Department: Administrative and Financial Services

State Bureau: Office of the State Controller

Observation: The State of Maine's Annual Comprehensive Financial Report (ACFR) is prepared by the Office of State Controller (OSC). The Office of the State Auditor (OSA) identified the following misstatements and errors in the fiscal year ending June 30, 2022, draft ACFR provided to audit:

- The Combining Statement of Fiduciary Net Position did not properly roll up to the Statement of Fiduciary Net Position.
- General Fund expenditures were overstated by \$12 million, revenue was overstated by \$7 million, and assets were understated by \$5 million.
- Other Special Revenue Fund expenditures were understated by \$12 million and liabilities were understated by \$12 million.
- One note disclosure reflected dollar amounts in thousands instead of millions.
- One note disclosure reflected dollar amounts in millions instead of thousands.
- Multiple note disclosures contained incorrect amounts, excluded required information, or had not been updated.

OSC subsequently adjusted the Statement of Fiduciary Net Position and amounts and disclosures in the ACFR.

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

ML-22-0120-01

Title: Lease capitalization policy and threshold

State Department: Administrative and Financial Services

State Bureau: Office of the State Controller

Observation: The objective of Governmental Accounting Standards Board (GASB) Statement 87 *Leases* is to better meet the needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements among governments; and enhancing the relevance, reliability, and consistency of information about the leasing activities of governments. GASB 87 does not set a materiality threshold for capitalizing lease assets. As the determination of materiality is relative to the size of the entity, this is left to the discretion of management. GASB suggests that a policy similar to those that establish capitalization thresholds could be used for leases but also notes that the significance of liabilities is independent of capitalization policies.

A review of lease capitalization thresholds established by other states indicates that states of similar size to Maine have set thresholds ranging from \$5,000 to \$100,000, while larger states have set thresholds ranging from all leases to \$500,000. The State Administrative and Accounting Manual (SAAM) sets a capitalization threshold of \$100,000 for buildings reported in the Proprietary Funds. Though the majority of the State's leases are buildings, the Office of the State Controller (OSC) has set the State's lease capitalization threshold at \$500,000.

OSC has determined that the \$500,000 threshold captures over 90 percent of all capital leases, and that this policy materially meets the requirements of GASB 87. While this policy does capture over 90 percent of capital leases, it leaves approximately \$17.6 million in capital lease assets and liabilities undisclosed.

Recommendation: We recommend that OSC lower the lease capitalization threshold to \$100,000 to report additional capital lease assets and related liabilities in the State's financial statements and to be in line with states of similar size. We further recommend that OSC update the SAAM to address the lease capitalization policy and threshold.

ML-22-0320-02

Title: Procedures for identifying Internal Service Fund expenses related to external customers need improvement

State Department: Administrative and Financial Services

State Bureau: Office of the State Controller

Observation: Internal Service Funds are presumed to operate on a breakeven basis; thus, any internally generated profit or loss needs to be eliminated in the process of preparing the State's government-wide financial statements. To calculate the internally generated profit or loss, the Office of the State Controller (OSC) must remove the revenues and expenses related to external customers. OSC was unable to provide documentation in support of external expense calculations for 6 of the 15 Internal Service Funds.

Recommendation: We recommend that OSC implement procedures to ensure that Internal Service Fund expenses related to external customers are calculated and reported accurately with proper supporting documentation.

ML-22-0903-01 Confidential finding, see below for more information

Title: _____ and _____ of _____ for the _____ 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, we provided the Department(s) with detailed information regarding the specific observation we noted, as well as our specific recommendations for improvement.

ML-22-0208-05

Title: Oversight of vendor Master Agreement purchasing activity needs improvement

State Department: Administrative and Financial Services

State Bureau: Corrections Service Center

Observation: State of Maine Procurement for Commodities Policies and Procedures provides guidance for processing payments to vendors under established Master Agreements. The Office of the State Auditor tested a sample of expenditure transactions and found that a payment was made to a vendor who has a Master Agreement with the Division of Purchases; however, the Master Agreement was not referenced for this payment.

Recommendation: We recommend that supervisory oversight be increased to ensure that payments to vendors with an underlying Master Agreement with the State are processed in accordance with Procurement for Commodities Policies and Procedures.

ML-22-0900-03 Confidential finding, see below for more information

Title: _____ need 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, we provided the Department(s) with detailed information regarding the specific observation we noted, as well as our specific recommendations for improvement.

ML-22-0900-04 Confidential finding, see below for more information

Title: _____ of _____ and _____ 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, we provided the Department(s) with detailed information regarding the specific observation we noted, as well as our specific recommendations for improvement.

ML-22-0208-03

Title: Expenditure processing oversight needs improvement

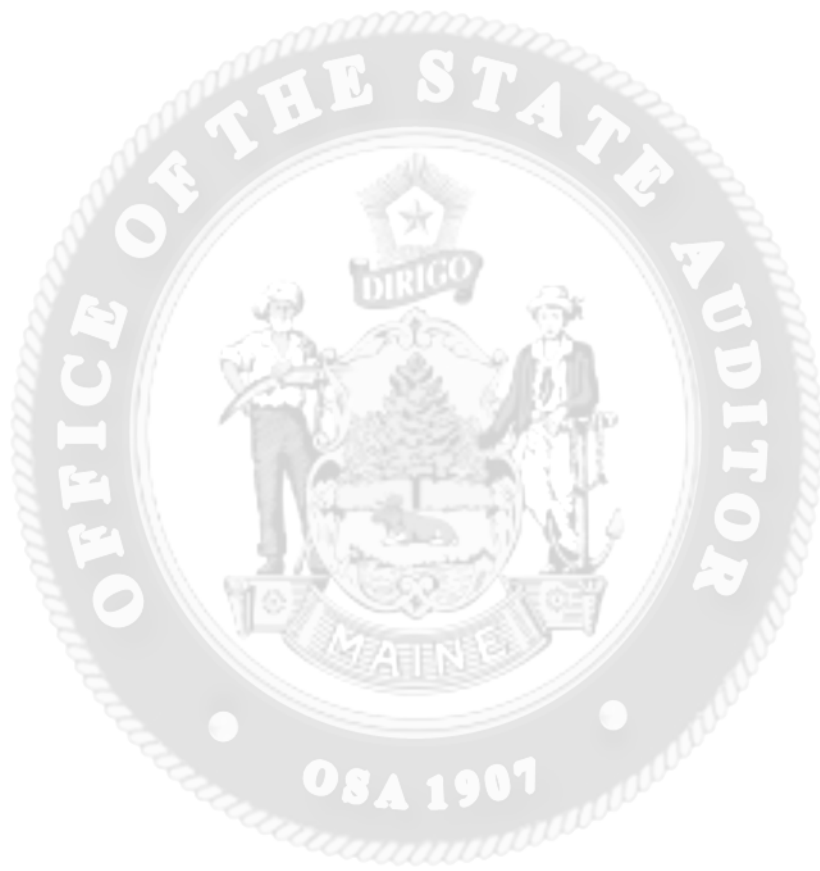
State Department: Administrative and Financial Services

State Bureau: Security and Employment Service Center

Observation: Governmental Accounting, Auditing, and Financial Reporting guidance states that a comprehensive framework of internal control is required to obtain reasonable assurance over financial reporting. The Office of the State Auditor tested a sample of Federal expenditure transactions and found that a quarterly lease payment totaling \$59,759 was processed using coding that did not match the invoice. The invoice showed that the payment should have been allocated between the General Fund and Federal Fund, and that the Federal share should have been paid with Emergency Management Performance Grant funds instead of Homeland Security Grant Program funds.

Recommendation: We recommend that the Department improve expenditure processing oversight to ensure payments are coded to the correct funds, including proper utilization of grant funds.

DEPARTMENT OF PUBLIC SAFETY



ML-22-0208-04

Title: Oversight of procurement card activity and approvals needs improvement

State Department: Public Safety
Administrative and Financial Services

State Bureau: Maine State Police
Security and Employment Service Center

Observation: State of Maine Procurement Policies and Procedures prohibit Maine merchants from charging sales tax. The Office of the State Auditor tested a sample of expenditure transactions and found that sales tax was charged, and subsequently approved on procurement card purchases. The charges were not recovered at any point throughout the approval process.

Recommendation: We recommend that procurement cardholders and approvers review State of Maine Procurement Policies and Procedures. In addition, supervisory oversight should be increased to ensure that only authorized purchases are approved, and when procurement policies are violated, warnings are issued and training is offered in accordance with such policies.