

# STATE OF MAINE



## MANAGEMENT LETTER

to the Annual Comprehensive Financial Report

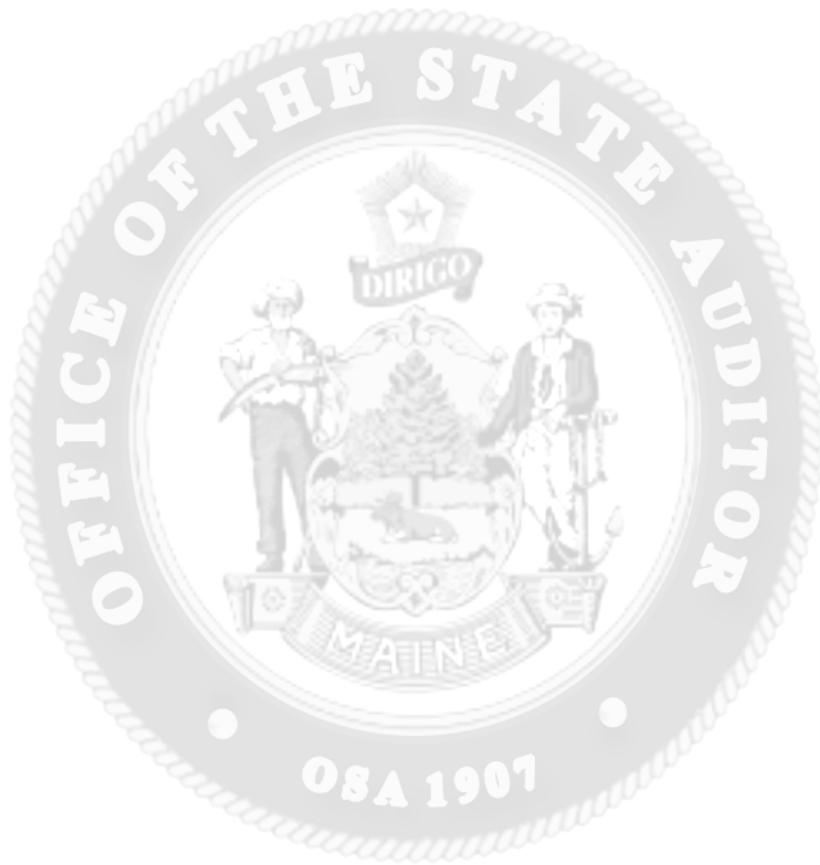
Fiscal Year Ending June 30, 2023

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, 2023**

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**STATE OF MAINE  
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**Matthew Dunlap, CIA  
State Auditor**

**B. Melissa Perkins, CPA  
Deputy State Auditor**

**LETTER OF TRANSMITTAL**

Honorable Members of the Legislative Council, 131<sup>st</sup> Maine Legislature;

Honorable Janet T. Mills  
Governor of the State of Maine

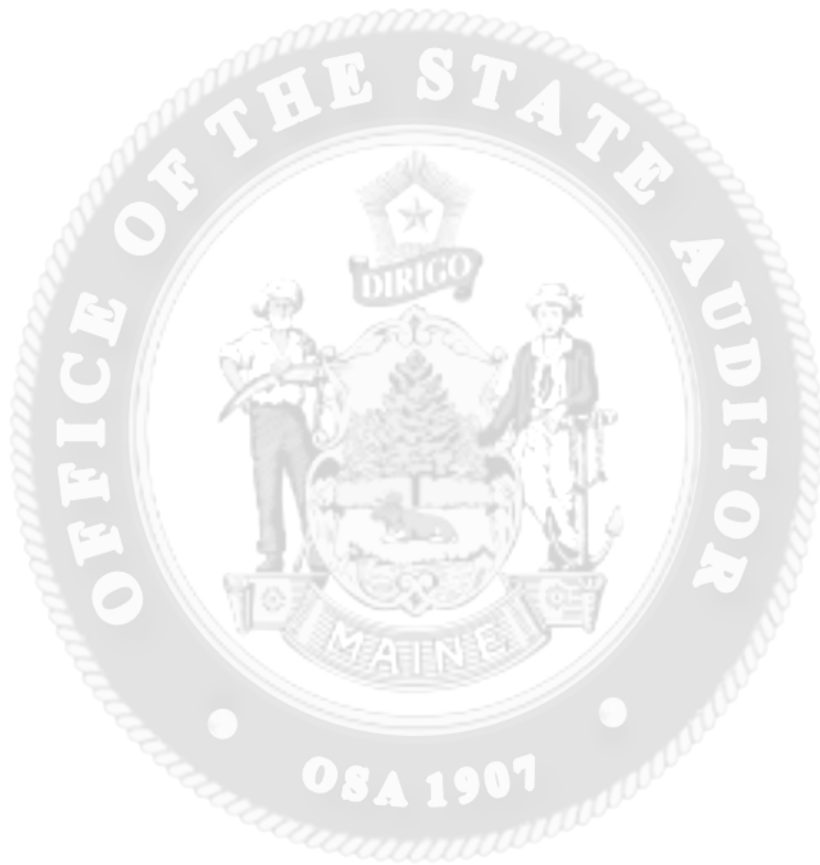
I am pleased to submit the State of Maine Management Letter related to our audit of the State's Annual Comprehensive Financial Report for the year ended June 30, 2023. In the course of conducting this audit, we became aware of opportunities for our government to improve its operations. These matters, known as "management letter comments," accompany this letter, and do not rise to the level of audit findings, but rather serve as recommendations to enhance internal controls already in place. A separate Management Letter related to the Single Audit for the year ended June 30, 2023, will be issued this spring.

I welcome your thoughts and inquiries about these matters.

Respectfully submitted,

**Matthew Dunlap, CIA  
State Auditor**

January 18, 2024





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**MANAGEMENT LETTER TO THE ANNUAL COMPREHENSIVE FINANCIAL REPORT**

Honorable Members of the Legislative Council, 131<sup>st</sup> Maine Legislature;

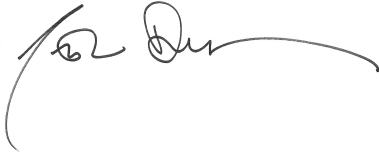
Honorable Janet T. Mills  
Governor of the State of Maine

In planning and performing our audit of the financial statements of the State of Maine as of and for the year ended June 30, 2023, on which we have issued our report dated December 13, 2023, 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.

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, sweeping horizontal stroke extending to the right.

Matthew Dunlap, CIA  
State Auditor

January 18, 2024

**Department of Administrative and Financial Services**

**ML-23-0115-01**

**Title:** Procedures over related party disclosures

**State Department:** Administrative and Financial Services

**State Bureau:** Office of the State Controller

**Observation:** The Office of the State Controller (OSC) is responsible for disclosing related party transactions in the notes to the State's financial statements. OSC identifies related party relationships and transactions and determines which related party transactions require disclosure.

The Office of the State Auditor (OSA) reviewed related party transactions disclosed in Note 16 of the financial statements and identified additional potential related party transactions that appeared to be omitted according to OSC's documented policies and procedures. After further discussion with OSC, OSA agreed with OSC's interpretation of the applicable accounting standards and determined that OSC's documented policies and procedures need to be updated to focus on related party transactions outside the ordinary course of operations. OSC revisited the disclosure and appropriately updated Note 16 in the financial statements.

**Recommendation:** We recommend that OSC revise policies and procedures to ensure that related party relationships and transactions are appropriately disclosed in the State's financial statements.

**ML-23-0600-02**

**Title:** Procedures over capital asset salvage values

**State Department:** Administrative and Financial Services

**State Bureau:** Office of the State Controller

**Observation:** The Office of the State Controller (OSC) is responsible for the compilation and reporting of capital assets in the State's financial statements. To calculate depreciation expense, the net cost of the asset (historical cost less estimated salvage value) is allocated over its estimated useful life.

Since capital assets are required to be disposed of through the Surplus Property Division and residual value returned to the originating department is limited, OSC does not utilize salvage values when calculating depreciation expense. When the Office of the State Auditor requested documentation of these policies and procedures, OSC was unable to provide documented policies and procedures.

**Recommendation:** We recommend that OSC document and maintain policies and procedures regarding salvage values on capital assets.



**Department of Public Safety**

**ML-23-0208-09**

**Title:** Oversight of procurement card activity and approvals

**State Department:** Public Safety  
Administrative and Financial Services

**State Bureau:** Maine State Police  
Security and Employment Service Center

**Observation:** State 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 totaling \$5.09 was charged on two purchases, and subsequently approved on procurement card purchases. The charges were not recovered at any point throughout the approval process.

This issue was also identified during the prior audit and was communicated to the Department of Public Safety and Department of Administrative and Financial Services in the Management Letter to the Single Audit Report and Annual Comprehensive Financial Report for Fiscal Year Ending June 30, 2022.

**Recommendation:** We continue to recommend that procurement cardholders and approvers review State Procurement Policies and Procedures. In addition, supervisory oversight should be enhanced to ensure that only authorized purchases are approved. If circumstances arise where adherence to procurement policies is waived, that approval should be documented and retained.

## **Department of Transportation**

**ML-23-0301-02**

**Title:** Capital assets policies and procedures

**State Department:** Transportation

**State Bureau:** Finance and Administration  
Maine State Ferry Service

**Observation:** The Maine Department of Transportation (MDOT) Ferry Service maintains capital assets records outlining buildings, structures, equipment, and land used in operations. This includes recording repairs and maintenance costs as betterments when work performed extends useful lives of existing assets. MDOT uses the State Administrative and Accounting Manual (SAAM) for policies surrounding capital assets; however, due to the unique nature of Ferry Service operations, SAAM policies do not provide adequate guidance for MDOT to account for capital assets accurately and consistently.

During fiscal year 2023, MDOT established additional agency-level capital assets procedures in response to a prior year finding. The Office of the State Auditor (OSA) requested documentation of these policies and procedures; however, MDOT could not provide this documentation. OSA was able to verify through audit testing that the newly implemented procedures were in place during the fiscal year.

**Recommendation:** We recommend that MDOT document all agency-level policies and procedures for capital assets to ensure that application of such policies is accurate and consistent.

## **Judicial Branch**

**ML-23-0208-07**

**Title:** Judicial Branch contract oversight

**State Department:** Judicial Branch

**State Bureau:** Administrative Office of the Courts

**Observation:** The Judicial Branch relied on the Department of Administrative and Financial Services' Division of Procurement Services' (DPS) contract template and expertise to develop the scope of work for a service contract. DPS included performance measures in the contract which require the Judicial Branch to perform monthly service tours with the vendor to document performance. The Judicial Branch reviewed and approved the contract with the performance stipulations added by DPS.

In the Office of the State Auditor's review of the aforementioned contract, the Judicial Branch could not provide documentation of monthly service tours or evaluation of performance stipulations as required by the contract.

The Judicial Branch asserts that performance is continuously evaluated and the Building Manager addresses any performance issues immediately.

**Recommendation:** We recommend that the Judicial Branch increase oversight to ensure adherence to the terms and conditions outlined in the contract, or amend the contract and adjust performance stipulations as necessary.