STATE OF MAINE

MANAGEMENT LETTER

to the Annual Comprehensive Financial Report

Fiscal Year Ended June 30, 2025

Office of the State Auditor
Matthew Dunlap, CIA
State Auditor

State of Maine
Management Letter to the Annual Comprehensive Financial Report
Fiscal Year Ended June 30, 2025

Table of Contents

†This management letter comment 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 6.64 through 6.66)

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

Matthew Dunlap, CIA
State Auditor

B. Melissa Perkins, CPA
Deputy State Auditor

LETTER OF TRANSMITTAL

Honorable Members of the Legislative Council, 132nd 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, 2025. 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, 2025, will be issued this spring.

I welcome your thoughts and inquiries about these matters.

Respectfully submitted,

Matthew Dunlap, CIA
State Auditor

January 16, 2026

STATE OF MAINE
OFFICE OF THE STATE AUDITOR

66 STATE HOUSE STATION
AUGUSTA, ME 04333-0066

TEL: (207) 624-6250

Matthew Dunlap, CIA
State Auditor

B. Melissa Perkins, CPA
Deputy State Auditor

MANAGEMENT LETTER TO THE ANNUAL COMPREHENSIVE FINANCIAL REPORT

Honorable Members of the Legislative Council, 132nd 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, 2025, on which we have issued our report dated December 12, 2025, 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 five management letter comments is redacted because it relates to confidential and sensitive information. Redacting this information is consistent with the *Government Auditing Standards* promulgated by the U.S. Government Accountability Office.

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

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

Matthew Dunlap, CIA
State Auditor

January 16, 2026

<u>Department of Administrative and Financial Services</u>

ML-25-0104-01

Title: Procedures over financial reporting

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 the State Controller (OSC). The Office of the State Auditor (OSA) identified the following misstatements and errors in the fiscal year ending June 30, 2025, draft ACFR provided to audit:

- Note 3 presents the total impact of a new accounting pronouncement to beginning fund balance for Governmental Activities. The original disclosure prepared by OSC erroneously stated the impact as $978 million, rather than $978,000.
- Note 8 presents Net Subscription Assets and the resulting total Net Governmental Activities Capital, Right to Use and Subscription Assets. The original disclosure prepared by OSC erroneously stated total Net Subscription Assets as a positive $965,000, increasing total Net Governmental Activities Capital, Right to Use and Subscription Assets, rather than a negative $965,000, decreasing the total.
- Note 10 presents information on Group Life Insurance. The original disclosure prepared by OSC erroneously included several components that had not been updated from the prior year.
- Note 19 presents the State's share of outstanding municipal construction commitments. The original disclosure prepared by OSC erroneously stated the total as $1,137.4 billion, rather than $1.137 billion.

OSC subsequently corrected the amounts and disclosures in the ACFR once notified by OSA.

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

ML-25-0111-01 CONFIDENTIAL

Title: ________

Pursuant to paragraph 6.64 of the U.S. Government Accountability Office's Government Auditing Standards (also known as the Yellow Book), we omitted details from this comment as they are confidential under the provisions of 5 MRSA 244-C (3). Though the content of this comment 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-25-0204-02

Title: UT revenue transfers

State Department: Administrative and Financial Services
State Bureau: Maine Revenue Services

Observation: Maine Revenue Services (MRS) processes reimbursements from the General Fund to the State of Maine's Unorganized Territory (UT) for the Business Equipment Tax Exemption (BETE) and Homestead Exemption programs and is responsible for recording these transactions in the State's accounting system. The Office of the State Auditor identified that reimbursements to the UT totaling $378,993 were processed but not properly recorded by MRS in fiscal year 2025 due to a change in process resulting from transitioning to a new MRS information system.

Recommendation: We recommend that MRS implement procedures to ensure all transactions related to the UT are properly recorded in the State's accounting system.

ML-25-0204-03

Title: Corporate tax refunds payable

State Department: Administrative and Financial Services
State Bureau: Maine Revenue Services

Observation: Maine Revenue Services (MRS) calculates an estimate for corporate tax refunds payable to be recorded by the Office of the State Controller in the State's financial statements. Through inquiry, the Office of the State Auditor identified that the methodology used to calculate corporate tax refunds payable had not been evaluated by MRS in many years. Though MRS could explain the rationale for the methodology utilized, they could not provide documentation to support the validity of the methodology.

Recommendation: We recommend that MRS perform an analysis of the methodology used to calculate corporate tax refunds payable, and maintain that documentation, to support the amount recorded in the State's financial statements.

ML-25-0320-02

Title: Oversight of procurement card interagency billing procedures

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

Observation: The Office of State Procurement Services (OSPS) is responsible for oversight of the State Procurement Card (P-Card) program. On a biweekly basis, OSPS receives a statement from the vendor, which includes all State P-Card expenditures for the period. OSPS pays the full amount due. The General Government Service Center (GGSC) is responsible for billing agencies for expenditures incurred by the agency. Agencies are responsible for submitting all documentation to support the validity of the expense to GGSC along with payment.

GGSC reviews a weekly report of receivables, which is generated from the State's accounting system, and provides this report to OSPS on a monthly basis. GGSC follows up with agencies only when a receivable is more than 61 days past due; however, the State only has 60 days to dispute the expenditure with the vendor. As a result, the State loses the right to dispute transactions that may be incorrect or unsupported.

Of the $1.9 million in P-Card internal receivables recorded as of June 30, 2025, the Office of the State Auditor identified $540,852 outstanding between 61 to 258 days.

Recommendation: We recommend that GGSC and OSPS:

- implement policies that require agencies to settle internal receivables prior to 60 days past the vendor statement date to ensure P-Card interagency billings are paid timely, within the 60-day period to dispute the charge.
- enhance oversight procedures to require agencies to pay the $540,852 in P-Card internal receivables outstanding between 61 to 258 days immediately.