

STATE OF MAINE



MANAGEMENT LETTER
to the Single Audit Report and
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 Single Audit Report and
the Annual Comprehensive Financial Report
Fiscal Year Ended June 30, 2025**

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**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)*



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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 for the fiscal year ended June 30, 2025. 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 16, 2026, and are included in this report to provide the reader with a comprehensive set of our observations.

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. 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,

Matthew Dunlap, CIA
State Auditor

May 13, 2026





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MANAGEMENT LETTER TO THE SINGLE AUDIT REPORT

Honorable Members of the Legislative Council for the 132nd 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 fiscal year ended June 30, 2025, on which we have issued our report dated March 26, 2026, 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.

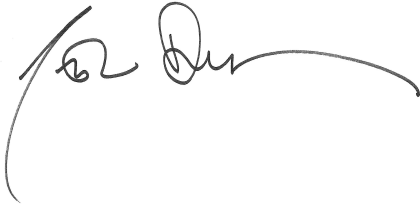
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance and therefore, deficiencies may exist that have not been identified. However, during our audit, 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 2025 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 6 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.

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

Matthew Dunlap, CIA
State Auditor

May 13, 2026

Department of Administrative and Financial Services

ML-25-1103-01

Title: DHHS Cost Allocation Plan accounts

State Department: Administrative and Financial Services

State Bureau: Health and Human Services Service Center

Observation: A Cost Allocation Plan (CAP) is used when a cost cannot be identified to a particular cost objective (directly expensed). The Department of Health and Human Services' (DHHS) CAP is a written summary that documents how DHHS allocates cost pool accounts across multiple programs, including allocation methods by cost pool account, and is approved by the Federal government.

Of the 118 cost pool accounts tested to ensure allocations were in accordance with the Federally-approved DHHS CAP submitted to the Federal government:

- 4 cost pool accounts did not have a defined allocation method; and
- 3 cost pool accounts listed incorrect allocation methods.

Associated costs for these accounts were appropriately allocated to the pertinent Federal programs.

Recommendation: We recommend that the Department enhance procedures and increase oversight to ensure all cost pool accounts are included in the DHHS CAP submitted to the Federal government for approval.

ML-25-1011-01

Title: Documentation of special merit increases and compensation

State Department: Administrative and Financial Services

State Bureau: Human Resources

Observation: The Bureau of Human Resources (BHR) has oversight responsibility for compliance with 5 MRSA 7065 Compensation Plan and administration of special merit increases and compensation. The policies and procedures related to 5 MRSA 7065 are outlined in Civil Service and Personnel Bulletins.

Civil Service Bulletin 5.15A for Special Merit Increases indicates authority to approve special merit increases rests with the Director of BHR, currently titled State Human Resources (HR) Officer. The Office of the State Auditor (OSA) tested special merit increases to ensure they were approved by the State HR Officer. Of the 3 special merit increases tested, 1 was approved by a Senior HR Compliance Analyst, not the State HR Officer. BHR indicated that authority to approve special merit increases had been designated to the Senior HR Compliance Analyst; however, OSA was not provided written documentation of the designation.

Personnel Bulletin 5.1A and Civil Service Bulletin 5.14 for Compensation Above the Minimum Step requires the State HR Officer, or his designee, to approve all new hires above the minimum step. This approval should be obtained prior to the employment offer. Of the 8 new hires tested, all included the appropriate approval; however, 1 new hire was approved for a step above the minimum after the hire date.

Recommendation: We recommend that BHR document designations of the State HR Officer's authority. In addition, we recommend that BHR enhance oversight procedures to ensure approvals for new hires above the minimum step are obtained prior to, or as a condition of, the employment offer.

ML-25-1011-02

Title: Oversight of employee classifications

State Department: Administrative and Financial Services

State Bureau: Human Resources

Observation: 5 MRSA 7061 states that the Bureau of Human Resources (BHR) Officer shall record the duties and responsibilities of all positions in State service and establish classes for these positions. These procedures include periodic updating of job descriptions and the compensation plan under section 7065 at least every 5 years to accurately reflect current duties and responsibilities of each job classification.

BHR maintains the job classification specifications and related compensation plan of State employees. A specific salary specification and grade is assigned based on the duties and responsibilities referenced in the job classification specification; this represents reasonable compensation for the services rendered for all positions that inhabit a given job classification specification. The assigned salary grade provides a basis for the allowability of compensation costs charged to Federal awards by documenting the reasonableness of compensation for services rendered by State employees, and that the position appointments under the job classification specification were made and maintained in accordance with State statute.

While BHR relies on data collected from State agencies to implement procedures regarding the classification plan, BHR retains ultimate oversight responsibility. BHR is the only agency with the authority to modify the classification plan.

The current procedure for updating job classifications relies on employees or State agencies to identify job classifications that require updating, and does not ensure all job classification specifications will be evaluated every 5 years. BHR does not have a mechanism in place to monitor that all agencies have reviewed their positions for potential job classification updates.

Recommendation: We recommend that the Department implement a documented monitoring plan to ensure State agencies are evaluating all job classification specifications and the compensation plan at least every 5 years for potential updates.

ML-25-0900-05 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.

Department of Health and Human Services

ML-25-1106-02

Title: ICF/IID audit procedures

State Department: Health and Human Services

State Bureau: Division of Audit

Observation: The Department must perform periodic audits of financial and statistical records for Intermediate Care Facilities for Individuals with Intellectual Disabilities (ICF/IIDs) in accordance with 42 CFR 447.253(g). The timeframe required to complete the audit must be established by the State plan, as neither Federal requirements nor the MaineCare Benefits Manual specify a specific timeframe. The Department has not established a timeframe.

The Department's Division of Audit has audit responsibilities for 16 ICF/IIDs. These audits verify compliance with regulations, identify underpayments/overpayments or fraudulent activities, and ensure that only allowable costs are paid to providers.

The Office of the State Auditor reviewed all 14 ICF/IID audits completed by the Division in fiscal year 2025, and found that audits of cost reports received in:

- November 2022 were completed 20 months after the date of receipt.
- November 2023 were completed between 9 to 18 months after the date of receipt.
- May 2024 were completed between 11 to 12 months after the date of receipt.
- November 2024 were completed 7 months after the date of receipt.

As of June 30, 2025, the Department had 4 ICF/IID audits outstanding related to cost reports received in November 2023.

Recommendation: We recommend that the Department implement policies and procedures related to the timeframe required for the completion of ICF/IID audits.

ML-25-1111-05

Title: TANF earmarking documentation

State Department: Health and Human Services

State Bureau: Office for Family Independence

Observation: The Temporary Assistance for Needy Families (TANF) program limits the amount of Federal funding that can be used to subsidize clients with more than 60 countable months of TANF assistance. The Department utilizes a dashboard to analyze this Federal subsidy limit. Although the Department was in compliance with the limit throughout fiscal year 2025, documented evidence that the dashboard was monitored and reviewed could not be provided.

Recommendation: We recommend that the Department establish procedures to ensure that the review of the Federal subsidy limit is documented and retained.



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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

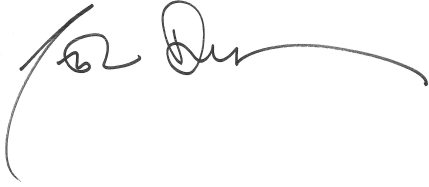
In planning and performing our audit of the financial statements of the State of Maine as of and for the year ended June 30, 2025, on which we have issued our report dated December 12, 2025, in accordance with auditing standards generally accepted in the United States of America, we considered the State 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.

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 16, 2026

Department of Administrative and Financial Services

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.

