

9-30-2009

State of Maine Management Letter For the Year Ended June 30, 2008

Maine State Auditor's Office

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**STATE OF MAINE
MANAGEMENT LETTER**

**For the Year Ended
June 30, 2008**



**State of Maine Department of Audit
Neria R. Douglass, JD, CIA
State Auditor**

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LETTER OF TRANSMITTAL

Honorable John Elias Baldacci
Governor of the State of Maine

Honorable Elizabeth H. Mitchell
President of the Senate

Honorable Hannah M. Pingree
Speaker of the House

We are pleased to submit the State of Maine Management Letter for the Year Ended June 30, 2008. In the course of our audit of the basic financial statements of the State of Maine, and our consideration of internal control, we became aware of matters that offer opportunities for our government to improve its operations. Comments on these matters accompany the Management Letter as findings and recommendations.

Please feel free to contact me with any questions that you may have. Like you, we are committed to improving our State government for the benefit of our citizens. Healthy discussion of problems found, and solutions considered, is part of a dialogue that aims at improvement. I welcome your thoughts and inquiries on these matters.

Respectfully submitted,



Neria R. Douglass, JD, CIA
State Auditor
State of Maine
September 30, 2009

**State of Maine
Management Letter for the Year Ended
June 30, 2008**

Table of Contents

| | <u>Page</u> |
|--|-------------|
| Management Letter | i |
| Findings and Recommendations | |
| Department of Administrative and Financial Services | 1 |
| Department of Defense, Veterans and Emergency Management | 12 |
| Department of Economic and Community Development..... | 14 |
| Department of Education | 15 |
| Department of Environmental Protection | 19 |
| Department of Health and Human Services..... | 20 |

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MANAGEMENT LETTER

In planning and performing our audit of the basic financial statements of the State of Maine for the year ended June 30, 2008, we considered the State of Maine's internal control. We did so to determine our auditing procedures for the purpose of expressing an opinion on the financial statements, but not to provide assurance on internal control.

During our audit we became aware of several matters that offer opportunities for strengthening internal control and efficiency of operations. The following pages summarize our comments and suggestions on those matters. We have also issued two reports, dated February 19, 2009 and July 15, 2009, which address significant deficiencies and material weaknesses in internal control. These can be found in the Single Audit Report for fiscal year 2008 and are titled:

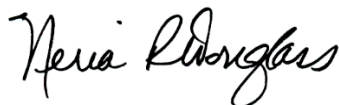
Report on Internal Control over Financial Reporting and on Compliance and other matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (page C-3); and

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in accordance with OMB Circular A-133 (page C-5).

The matters summarized in the following pages are in addition to the issues addressed in the reports noted above and do not affect the Independent Auditor's Report on the basic financial statements, which is dated February 19, 2009.

This report is intended solely for the information and use of the Governor, management, others within the entity, the Legislature, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We have included responses to our findings by the audited agencies. We would be pleased to discuss these findings in further detail at your convenience.



Neria R. Douglass, JD, CIA
State Auditor
September 30, 2009

2008 Management Letter Comments

Department of Administrative and Financial Services

(1) Cash management procedures need to be improved

State Bureau: Health and Human Services Service Center

Prior Year Finding: 07-33

Condition: Cash on hand for the Immunization Program during one month of the fiscal year exceeded immediate cash needs.

Context: A year-end adjustment reducing program expenditures was not included in the drawdown calculation for the first month of the fiscal year resulting in more federal cash being drawn than was necessary.

Cause: Human error

Effect: The possibility of the federal government imposing more stringent cash management requirements on the program.

Recommendation: We recommend that the Department be mindful of year-end adjustments affecting cash when calculating the amount of federal funds to draw.

Management's Response: *The Department of Health and Human Services and its Service Center agrees with the finding.*

Beginning in June, 2009, a process was implemented whereby DHHS Service Center personnel will make all necessary adjustments prior to drawing down funds. This process will eliminate the possibility of excess cash being drawn down due to adjustments.

Contact: Daniel Peavey, Managing Staff Accountant, 287-5498

(2) Program funds expended beyond period of availability

State Bureau: Health and Human Services Service Center

Prior Year Finding: 07-35

Condition: Funds were expended outside the period of availability for the Immunization Program. Payment processing was initiated prior to the liquidation period deadline; however payment was not made until after this period had expired.

Context: One invoice totaling \$2,067 was paid beyond the period of availability.

Cause: Extended accounts payable processing within the State's accounting system

Effect: Possible disallowance

Recommendation: We recommend that the Department ensure that all obligations are liquidated within the allowable time frame to ensure compliance with federal regulations.

Management's Response: *The Department of Health and Human Services and its Service Center agrees with the finding.*

Prior to the end of the grant period, an encumbrance query is generated. From the encumbrance query, it will be determined if all obligations will be liquidated within the ninety day period. If it is determined that all obligations will not be liquidated with the required time frame, a no-cost extension request will be submitted in writing to the Federal grant manager. This process has been ongoing.

Contact: Daniel Peavey, Managing Staff Accountant, 287-5498

(3) Payroll charges not included in cost allocation plan

State Bureau: Health and Human Services Service Center

Prior Year Finding: No

Condition: The Aspire Program payroll charges were inadvertently left out of the State's new cost allocation plan; this plan is the basis for allocating these payroll costs. Because of this omission the costs were initially charged only to the Temporary Aid for Needy Families program. Subsequently, the federal cognizant agency instructed the Department how to charge these costs for fiscal year 2008.

Context: A significant portion of the fiscal year 2008 payroll charges was not properly supported. However, the Department worked with the federal cognizant agency to develop an agreed upon amount.

Cause: Human error

Effect: Questioned costs could result if charges are not allocated to programs in relation to the benefit provided.

Recommendation: The Department has included these costs in the updated version of the cost allocation plan effective July 1, 2008.

Management's Response: *The Department of Health and Human Services and its Service Center agrees with the finding.*

As of July 1, 2008, the ASPIRE payroll charges were included in the State cost allocation plan. The ASPIRE payroll charges are supported in the State fiscal year 2009 cost allocation plan.

Contact: Mark Fisher, Manager Staff Accountant, 287-3160

(4) Cash management procedures need to be improved

State Bureau: Health and Human Services Service Center

Prior Year Finding: 07-59

Condition: The Department did not drawdown federal funds in a timely manner for the Social Services Block Grant. The cash balances for this program were mostly negative throughout the fiscal year.

Context: We noted that nine of 12 months had negative cash balances ranging from three to 21 days.

Cause: Staff turnover

Effect: Negative cash balances may result in money being “temporarily loaned” to the federal program thereby resulting in unnecessary interest cost to the State.

Recommendation: We recommend that the Department establish procedures to ensure that federal cash is being drawn down to more closely match the need created by program expenditures.

Management’s Response: *The Department of Health and Human Services and its Service Center agrees with the finding.*

Under the regulations for Temporary Assistance for Needy Families (TANF), a percentage of the State’s TANF grant is transferred into the Social Services Block Grant (SSBG). Negative cash flows resulted from expenditures being made prior to the transfer of TANF funds into the SSBG program. Beginning July 1, 2009, SSBG accounting staff are working with TANF accounting personnel to ensure that TANF transfers are made when expenditures are paid from TANF transfer funds.

Contact: *Diane Williamson, Managing Staff Accountant, 287-6390*

(5) Interfund loans incorrectly reported as transfers

Prior Year Finding: No

State Bureau: Office of the State Controller

Condition: On June 30, 2008 a total of \$16 million in loans were made to the General Fund by the Special Revenue Fund. The funds were accounted for as a transfer rather than as a loan.

Context: According to State law \$16 million was to be advanced to the General Fund from the Special Revenue Fund on June 30, 2008, and repaid to the Special Revenue Fund on July 1, 2008.

Cause: Human error

Effect: The State's draft financial statements were significantly misstated prior to this adjustment.

Recommendation: We recommend that the Office of the State Controller strengthen controls to ensure proper accounting for interfund loans on the State's financial statements.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding. Two transactions were incorrectly classified as transfers in the State's draft financial statements. The error occurred when these two transactions were analyzed to determine the proper classification. The statutes authorizing these transactions refer to them as "transfers" which resulted in the classification error in the financial statements.*

Contact: Heidi McDonald, Principal Financial Management Coordinator, 624-8437

(6) Security vulnerabilities remain uncorrected

State Bureau: Office of the State Controller (OSC);
Office of Information Technology (OIT)

Prior Year Finding: No

Condition: AdvantageME was implemented without first correcting four of 14 security vulnerabilities that had been detected in an external security review. Two of the vulnerabilities detected were categorized as extreme, one high, and the last as normal. Remediation plans were not completed within 60 days after AdvantageME implementation.

Context: AdvantageME production environment

Cause:

- Insufficient and undocumented policies and procedures
- Lack of ongoing communication between Office of the State Controller and the OIT Core Technology Services support group

Effect:

- Non-compliance with the State IT security policy
- Unauthorized changes may be made to systems, programs, and data
- Systems functionality may be compromised

Recommendation: We recommend that the Office of the State Controller ensure that security vulnerabilities are addressed, particularly those assessed as extreme or high risk.

Management's Response: *We agree that certain security vulnerabilities were identified during the deployment certification process were not corrected before the application went live.*

Management accepted the risks associated with those vulnerabilities at that time and has addressed those issues. We will monitor administrative user ID's embedded in the application on an ongoing basis as part of our access and security review processes. Additionally, Core

Technology Services has an operating system patch maintenance plan that will be in place by Oct 2009 with patches being updated on all servers by June 2010.

Contact: Douglas Cotnoir, Director Statewide ERP Operations, 626-8428
Cathy Harrison, IT Manager – OIT DAFS, 624-9588

(7) Deficiencies in State accounting system project management

State Bureau: Office of the State Controller
Office of Information Technology

Prior Year Finding: No

Condition: DAFS has not yet transferred support and maintenance responsibilities for the AdvantageME system from CGI/State of Maine implementation team to the State OIT AdvantageME application maintenance team. As a result, documented operational procedures are limited. The State maintenance team does not have sufficient access to technical documentation of system changes and code contained within the SharePoint (CGI Share) and other documentation. Project documentation maintained or organized by State personnel within DAFS does not satisfy typical standards, policies and procedures. Deficiencies include the following:

- Application deployment certification signed by the Chief Information Officer is incomplete.
- No certification exists for some external interface systems
- Existing supporting documentation did not identify or contain the following:
 - Sufficiently detailed or technical information pertaining to the project
 - State personnel with knowledge regarding the subject matter
 - Who was responsible for preparation and authorization of the documentation
 - Date or timeframe of documentation

Context:

- AdvantageME Project Approval and Application Deployment Certification documentation which identified the testing that took place in advance of system implementation (signed by the State of Maine Sponsor, Chief Information Officer and State Controller)
- State accounting system (AdvantageME) records are the basis of information presented in the State of Maine financial statements. Transactions should be complete, unduplicated, authorized and subject to controls adequate to prevent unauthorized alteration or system override

Cause:

- Insufficient and undocumented policies and procedures
- Lack of ongoing communication and appropriate role assignment from the Office of the State Controller to the Office of Information Technology Core Technology Services support group.

Effect:

- Non-compliance with Department policies and applicable standards.
- Contractual agreements may be made with third parties in a manner that make State resources vulnerable to outside entities
- Incomplete documentation of project status and incomplete assignment of responsibilities weaken accountability

Recommendation: We recommend that the Department provide adequate technical information and training to the OIT AdvantageME application support group. We also recommend that this group be provided with access to the most current technical documentation of system changes and code on an ongoing basis. In addition, we recommend that the Department maintain documentation to provide evidence that State Policies are being complied with on an ongoing basis.

Management's Response: *We agree that the organization of the documentation could be improved and we will work toward that goal.*

The Office of the State Controller tested, reconciled and approved all external interfaces before go-live. Likewise, the application did not go live until fully tested and approved by the Steering Committee, which included the Chief Information Officer and the State Controller.

The OIT AdvantageME application support group has complete access to the most current documentation of system changes and application code. This group is responsible for maintaining the repository for custom code changes and physically performs Production code migrations. Additionally, the State continues to maintain a contract with CGI to provide application support services and knowledge transfer to the OIT AdvantageME application support group.

Contact: *Douglas Cotnoir, Director Statewide ERP Operations, 626-8428
Cathy Harrison, IT Manager – OIT DAFS, 624-9588*

(8) Access to AdvantageME accounting system not adequately controlled

State Bureau: Office of the State Controller

Prior Year Finding: No

Condition: Some AdvantageME accounting system user accounts had inappropriately elevated privileges.

- Certain system owners, application designers and contractors with specialized privileges had unmonitored authority to override transactions in the system. The system does not require these users to document the reasons for overriding system protocol.
- Contractors retained administrative privileges allowing access to the system longer than required. One contractor's access was re-established by OIT Help Desk without the knowledge of system owners.
- Generic or shared user ID's are used in both the application and operating system. One contractor used a generic user ID to reestablish his own access to AdvantageME.

Furthermore, any individual could increase their own user rights or roles using one specific generic user ID.

- Owners and developers have direct access to the operating system level of application and database servers without being subject to an adequate review process.
- We found two instances out of 35 in which the employee's system access privileges exceeded that appropriate for their current position.

Context: We reviewed AdvantageME application, database, and server level user accounts.

Cause: A policy for reviewing and monitoring user accounts with elevated privileges exists, but was not implemented. Reports available to agency's security coordinators do not provide all access rights and privileges assigned to individuals within their agency. These reports list only access rights and privileges associated with their agency and do not include those that remain open from other agencies.

Effect:

- Non-compliance with State IT security policy
- Users with inappropriate privileges may obtain access to privileged or confidential information or make unauthorized changes to programs and data.
- Individuals could increase their rights or role using generic user IDs.

Recommendation: We recommend that the Office of the State Controller implement a policy to periodically review user privileges and monitor user activity, especially for those user accounts with elevated privileges, on all systems involved in the AdvantageME production environment.

Management's Response: *The Office of the State Controller has examined the specific access of each of the questioned users to ensure they have appropriate access for the job functions they perform. Most roles are restricted to view rights only; others are granted OIT user rights. We don't believe that those with special privileges have unmonitored or improper authority to override any transaction in the system. All overrides are subject to workflow rules which significantly mitigate this risk. Likewise, overriding certain errors is necessary for managing the system.*

We have implemented a policy for reviewing user accounts with elevated privileges. We believe current security reports are adequate and effective in monitoring accounts.

Management believes that current access policies and procedures are adequate to protect the system from a security breach; however, we will make a point to document regular security reviews on an ongoing basis. These reviews will include inactive user accounts and activities of users with combined override and approval authorities.

Contact: Douglas Cotnoir, Director Statewide ERP Operations, 626-8428

(9) Momentum FTP servers not properly configured

State Bureau: Office of Information Technology

Prior Year Finding: N/A

Condition:

- Secure Socket Layer was turned off for several months on MOMENTUM FTP servers beginning in February 2008. Therefore data transferred was unencrypted.
- MOMENTUM FTP servers used generic (shared) user accounts. In addition approximately 1/3 of user accounts were granted elevated privileges.

Context: MOMENTUM FTP servers which are part of the AdvantageME system architecture.

Cause:

- Insufficient and undocumented policies and procedures
- Lack of ongoing communication between Office of the State Controller and the Office of Information Technology Core Technology Services support group

Effect: Inappropriate access to systems, programs, and data

Recommendation: We recommend that the Core Technology Services support group ensure the FTP servers are properly configured and periodically review user account privileges.

Management's Response: *We agree with the finding that SSL was turned off for several months. This was done intentionally with the approval of management to allow specific migration of data to occur.*

We agree with the finding that Momentum FTP servers used generic and shared user accounts. These accounts have been disabled.

Contact: *Cathy Harrison, IT Manager – OIT DAFS, 624-9588*

(10) Reconciliation not performed for Medicaid interim payments receivables

State Bureau: Health and Human Services Service Center

Prior Year Finding: No

Condition: As of June 30, 2008, the balance of interim payments accounts receivable per the State's accounting records was approximately \$52.5 million. The subsidiary records maintained by the Office of MaineCare Services were approximately \$49 million. No reconciliation was performed.

Context: The interim payments receivable resulted from problems associated with the implementation of a new Medicaid Management Information System.

Cause: Unknown

Effect: Lack of assurance that the receivables balance recorded on the State accounting records is accurate.

Recommendation: We recommend that a reconciliation be performed between State accounting records and the MaineCare finance records and adjustments be recorded as appropriate.

Management's Response: *The Department of Health and Human Services and its Service Center agrees with the finding.*

The accounts receivable group within the DHHS Service Center and DHHS MaineCare Finance will establish a process to reconcile the balance of the interim payments accounts receivable per the State's accounting records to the subsidiary records. Once established, the reconciliation will be performed on a monthly basis. This reconciliation is expected to be completed in the fourth quarter of calendar year 2009.

Contact: Richard Violette, Management Analyst, DHHS MaineCare Finance, 287-4033

(11) Bank account reconciliations not performed timely

State Bureau: Security and Employment Service Center

Prior Year Finding: No

Condition: Monthly bank reconciliations were not performed during the fiscal year.

Context: Reconciling items of approximately \$1.7 million were identified when the account was reconciled.

Cause: Lack of staff and oversight

Effect: The Unemployment Trust Fund was not monitored on a regular basis. Any errors would not be detected or corrected timely.

Recommendation: We recommend that bank reconciliations are performed on a regular basis.

Management's Response: *The Security & Employment Service Center agrees with this finding.*

When Advantage ME was implemented on July 1, 2007, there was some confusion on how to run effective queries from the accounting system. SESC had to re-write queries, transferring the information from MFASIS to Advantage ME; once these were implemented the monthly reconciliation for the Trust Fund was behind. Additional resources were given to the Trust Fund to catch up the reconciliations in arrears. During this time staff was trained on proper Trust Fund reconciliation. A checklist developed so the Trust Fund supervisor and/or the Service Center Director can review at anytime; shifting resources if reconciliation is not being completed timely. The reconciliations have been done timely for the past year.

Contact: Robert J. Schenberger Jr., Financial Analyst 623-6723

(12) Changes to batch interface program not tested before implementation

State Bureau: Maine Revenue Services

Prior Year Finding: No

Condition: A batch interface program that imported data from the internet tax filing application (I-File) contained a coding error which caused Service Provider Tax deposits to be improperly recorded as Sales and Use Tax revenue.

Context: A Controller's adjustment decreasing Sales and Use Tax Revenue and Other Liabilities by \$11 million in the State's financial statements was necessary to correct the error.

Cause: Change control procedures were not followed.

Effect: The State's draft financial statements were significantly misstated prior to this adjustment.

Recommendation: We recommend that the Department follow appropriate procedures to ensure that all program changes are properly tested prior to implementation. Both programming and accounting personnel should be involved to ensure that the system operates as intended.

Management's Response: *The Department of Administrative and Financial Services agrees with the finding.*

Early in 2008, MRS initiated the enhancement of IT change management procedures to be consistent with change management and testing practices followed during the MERITS project. A change management tracking tool, Test Track, was purchased by Maine Revenue Services (MRS) for the MERITS project and has been implemented for all MRS on-going system development and change requests. Requirements and test scripts are documented in Test Track change requests. Test scripts are updated with testing results.

MRS and the Office of Information Technology (OIT) are in the process of formalizing change management policy and procedural documents for MRS system changes that establish standards that equal to exceed those already established by OIT. MRS's change management policy and procedural documents will be formally adopted by MRS's and OIT's senior management teams and communicated to all OIT staff assigned to MRS and to all MRS staff involved in the systems change management process.

MRS testing procedures have been enhanced to include end-to-end and regression testing, including the verification of reports used for revenue accounting, to ensure that programming changes do not adversely impact these reports. These testing activities are documented on Test Track, MRS's change management tracking tool.

Going forward an MRS staff accountant has been assigned the responsibility for reviewing all change requests that impact reports used for revenue accounting and for reviewing the testing approach and testing results. He will also participate in testing activities to ensure that the impact to accounting procedures is considered and adequately tested.

Contact: Chris Batson, Chief Accountant, 624-9607

(13) Federal funds not expended within period of availability

State Bureau: Division of Financial and Personnel Services

Prior Year Finding: No

Condition: The Department did not always comply with period of availability requirements for the Special Education Cluster and the Improving Teacher Quality programs. The Department expended funds that were not obligated within the allowable timeframe. In addition, the Department expended properly obligated funds outside the liquidation period.

Context: During our audit test, we reviewed 263 transactions to determine whether payments were obligated and liquidated during the period of availability. In one case payment was made for services rendered that had not been obligated by the obligation deadline. In two cases, grant award funds were expended after the required liquidation period.

Cause:

- The Department was scheduled to disburse payments to two local educational agencies (LEAs) but payments were withheld because the LEAs had excess cash on hand. The excess cash on hand resulted in payments being made beyond the period of availability.
- Misinterpretation of obligation requirements.
- Staff turnover.

Effect: Potential questioned costs

Recommendation: We recommend that the Department follow established procedures to ensure compliance with period of availability of federal funds requirements.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding. Corrective action will be completed as of July 1, 2009.*

1. *All DAFS finance staff working with federal grants will be given documentation on instructions for period of availability of grant funds.*
2. *All federal payments made against contracts must have dates of service on invoice. All manifest payments that are held for cash management issues by the Account Manager must be processed before the period of availability of the grant. Manifest payments that are held past the period of availability of the grant for cash management issues will be sent back to the Education Program Manager. The Program Manager must contact the Federal Grant Award Officer for an extension to the lapsed grant or carryover for the current grant.*
3. *All federal grant accounting and manual payments will be monitored on a monthly basis by management staff to ensure that period of availability is being adhered to.*

Contact: Loretta Baker, Managing Staff Accountant, 624-6867

Department of Defense, Veterans and Emergency Management

(14) Cash management requirements not followed

State Bureau: Maine Emergency Management Agency

Prior Year Finding: ML-01

Condition: The Department did not draw federal funds for the Homeland Security program on a timely basis.

Context: Disbursement dates were from five to 48 business days prior to the dates of the federal draws. Federal regulations allow funds to be drawn in advance of the disbursement.

Cause: Because the Maine Emergency Management Agency had estimated revenue associated with this account, program personnel did not draw funds on a timely basis.

Effect: Possible decrease in interest income to the State

Recommendation: We recommend that MEMA draw federal funds as soon as possible in relation to the disbursement. However, federal cash management requirements should also be considered when making the draw.

Management's Response: *The DVEM agrees with the finding.*

We believe that this is not an ongoing issue as MEMA is no longer on estimated revenue.

Contact: *Ginnie Ricker, Deputy Director, 624-4471*

(15) Expenditure transactions not recorded by grant category on the State's accounting system

State Bureau: Maine Emergency Management Agency

Prior Year Finding: No

Condition: Maine Emergency Management Agency (MEMA) did not account for all Homeland Security program expenditures by grant category. As a result, program personnel were required to utilize a spreadsheet so that expenditure data could be sorted and categorized according to grant category.

Context: In fiscal year 2008, MEMA expended \$36.9 million in federal expenditures from five different federal grants.

Cause: Inadequate account coding

Effect: Inefficient process with higher risk of error

Recommendation: During fiscal year 2008, program personnel started recording expenditures by grant category. We recommend that MEMA continue to implement this process to record all expenditure transactions in sufficient detail to ensure compliance with earmarking, period of availability and reporting requirements.

Management's Response: *The DVEM agrees with this finding.*

During fiscal year 2008, MEMA started recording grant expenditures by program code and program period categories in the accounting system, which allows for a more transparent and simpler method of tracking and reporting of grant expenditures to ensure compliance with earmarking, period of availability and reporting requirements.

Contact: *Ginnie Ricker, Deputy Director, 624-4471*

Department of Economic and Community Development

(16) Subrecipient Single Audit Report submitted late

State Bureau: Office of Community Development

Prior Year Finding: No

Condition: One subrecipient did not obtain a Single Audit, or an extension of the deadline, within nine months of their fiscal year end.

Context: One of the 40 subrecipients tested did not have a Single Audit within the required timeframe.

Cause: Human error

Effect: Lack of assurance that subrecipient spent grant funds in accordance with State and federal regulations.

Recommendation: We recommend that the Department ensure that all subrecipients expending \$500,000 or more in federal funds obtain a Single Audit within nine months of their fiscal year end, or ensure that an extension is requested prior to the deadline.

Management's Response: *The Department of Economic and Community Development agrees with the finding.*

In this instance the subrecipient changed their fiscal year end and should have obtained an extension for the filing deadline. However, due to staff shortages and increased workload within the OCD, staff inadvertently had not requested the subrecipient to obtain approval for an extension of the filing deadline.

Going forward the OCD will take measures to ensure reports and extensions are received promptly.

Contact: *Michael D. Baran, Director, Office of Community Development, 624-9816*

Department of Education

(17) Incorrect allocation of funds to Local Educational Agencies

State Bureau: Division of Special Services

Prior Year Finding: ML-11

Condition: Allocation of funds to local educational agencies (LEAs) was inaccurate because of undetected errors in the data used to determine amounts to be distributed to the local school districts.

Context: Of the 60 allocations reviewed, we found the following:

- Census count was inaccurate causing one LEA to receive \$21,504 more than it was entitled.
- One LEA was given another LEA's allocation, resulting in the LEA receiving \$4,505 more than it was entitled.
- One LEA was not given a password that was necessary to apply for funds.
- Poverty count was not taken into consideration for seven LEAs.

Cause: The spreadsheet utilized for calculating allocations amounts was not reviewed for accuracy.

Effect: Since the errors were not identified by the Maine Department of Education, some LEAs received more than they were entitled and other LEAs received less than they were entitled.

Recommendation: We recommend that the Department review the LEA allocation spreadsheet to ensure the accuracy of the allocations prior to finalization.

Management's Response: *The Department of Education agrees with the audit finding.*

Special Services established the Resource Coordination and Management Team (RCMT) to ensure coordination of roles and responsibilities to include assignment of personnel to assist with quality assurance. Procedures include review of allocation amounts to LEAs, verification of compliance with requirements for distribution, adjustments to incorrect individual LEA electronic applications, reconfiguration of electronic application to enhance capacity for verification of accuracy, and coordination with the Management Information System Team (MIS). Adjustments to incorrect LEA allocations will be reviewed, and procedures to ensure LEAs have been provided with passwords will be monitored.

In response to the procedural needs of the Special Services, the Resource Coordination and Management Team was established in February, 2008. The strategies of the corrective actions have been implemented and an evaluation of their effectiveness will be completed no later than September 1, 2009.

Contact: David Stockford, Director, 624-6650

(18) Discretionary contract procedures not followed

State Bureau: Division of Special Services

Prior Year Finding: ML-12

Condition: Vendors that enter into Discretionary contracts are required to provide the Department with progress reports to ensure that the grant funds are being used for allowable activities and to account for the progress of the contract. Four out of fourteen progress reports were not submitted.

Context: Out of the ten contracts tested fourteen progress reports were required. Four out of fourteen progress reports were missing.

Cause: Responsibilities are not clearly delineated for receiving and reviewing progress reports.

Effect: Contract provisions were not enforced.

Recommendation: We recommend that the Department assign responsibilities regarding the receipt and review of progress reports required by discretionary contracts.

Management's Response: *The Department of Education agrees with the audit finding.*

Special Services established the Resource Coordination and Management Team (RCMT) to ensure coordination of roles and responsibilities to include assignment of personnel to assist with quality assurance. An electronic invoice procedure was established to include responsibilities for review and approval of progress reports and agreement deliverables in contracts. Responsibilities for receipt and review of progress reports and agreement deliverables require program managers' approval before payment of invoices. Continued development of an electronic application is coordinated with the Department of Administrative and Financial Services to ensure multiple levels of quality assurance.

In response to the procedural needs of the Special Services, the Resource Coordination and Management Team was established in February, 2008. The strategies of the corrective actions have been implemented and an evaluation of their effectiveness will be completed no later than September 1, 2009. Full implementation of the electronic application process will begin on January 1, 2010.

Contact: David Stockford, Director, 624-6650

(19) Missing child count certifications

State Bureau: Division of Special Services

Prior Year Finding: No

Condition: Federal regulations require that states obtain a certification from all local educational agencies (LEAs) that an unduplicated and accurate child count has been made. These certifications were not always obtained.

Context: We tested a sample of 60 Local Educational Agencies; certifications were not found for three LEAs.

Cause: The Department did not ensure certifications were received because of a lack of follow up procedures when certifications were missing.

Effect: Since all certifications were not obtained, the accuracy of the child count cannot be assured.

Recommendation: We recommend that the Department follow up on missing certifications to ensure that the accuracy of child count information.

Management's Response: *The Department of Education agrees with the audit finding.*

Special Services established the Resource Coordination and Management Team (RCMT) to ensure coordination of roles and responsibilities to include assignment of personnel to assist with quality assurance. Personnel managing data, including Child Count, will be added to the RCMT. Special Services data management personnel serve on the Department Data Management Team and coordinate with Management Information Systems Team (MIS) personnel in all levels of the Child Count procedure and student enrollment verification. The department is conducting an analysis of combining the December 1 IDEA Child Count with the October 1 and April 1 student enrollment procedure.

In response to the procedural needs of the Special Services, the Resource Coordination and Management Team was established in February, 2008 and personnel managing data will be added to the RCMT no later September 1, 2009. The Department Data Management Team and the Management Information Systems Team analysis of combining the child count and student enrollment procedures will be completed and evaluated no later than January 1, 2010 and again, no later than June 1, 2010, after the April 1 enrollment.

Contact: David Stockford, Director, 624-6650

(20) Incorrect allocations to Local Educational Agencies

State Bureau: Standards, Assessment and Regional Services Team

Prior Year Finding: No

Federal Agency: U.S. Department of Education

Condition: Allocations awarded to Local Educational Agencies (LEAs) were incorrect.

Context: Out of the 40 LEAs tested, four LEAs received an average of \$890 in excess allocations and one LEA received \$254 less.

Cause: The spreadsheet used to calculate allocations was reviewed for accuracy by only one individual, minimizing optimum reliability and identification of errors.

Effect: Errors were not identified by the Department, resulting in some LEAs being overpaid and other LEAs being underpaid.

Recommendation: We recommend that the Department review the LEA allocation spreadsheet to ensure the accuracy of the allocations prior to finalization.

Management's Response: *The Department of Education agrees with the finding.*

The Title IIA Coordinator is in the process of training her Administrative Assistant to complete allocations in a parallel process in which the Coordinator and the Assistant complete each step of the allocations side by side and can compare figures frequently to insure accuracy.

Contact: *Wanda Monthey, Team Leader, Curriculum, Instruction and Assessment, 624-6831*

Department of Environmental Protection

(21) Lack of independent verification of self-reported revenue

State Bureau: Office of the Commissioner

Prior Year Finding: No

Condition: Oil companies self report the number of gallons of fuel transported on which the oil transfer fee assessment is based. No independent verification is performed.

Context: Oil transfer fees of approximately \$20 million were reported in fiscal year 2008.

Cause: Independent verification of number of gallons of fuel transported by oil companies was discontinued in 1999.

Effect: There is an opportunity for oil companies to understate the amount of fuel transfers reported which would result in a lesser amount of transfer fees collected.

Recommendation: We recommend that some form of independent verification be reinstated.

Management's Response: *The Department of Environmental Protection (DEP) agrees with the finding.*

DEP maintained a longstanding practice of annually performing these audits that ended in 1999 when the DEP staff who performed the audit were either laid-off or moved into the Agriculture, Conservation, and Environment (ACE) service center. After that consolidation, the Department of Administrative Services (DAFS) no longer provided the support needed for the audit and DEP no longer had staff qualified to perform the task. After this finding was issued, DEP requested that DAFS provide a qualified individual to perform the audits in order to allow the State to avoid the costs of hiring a contractor. However, DAFS does not have sufficient resources available to provide this assistance. As a result, DEP will be pursuing an R.F.P. to solicit bids from an outside contractor for this service. As soon as the State's contracting procedures allow it, we expect to have the independent verification process performed.

Contact: *Jim Dusch, Director of Policy Development and Implementation, 287-8662*

Department of Health and Human Services

(22) Automated process to determine eligibility for Office of Child and Family Services related cases needs improvement

State Bureau: Office of Child and Family Services
Office of Integrated Access and Support
Office of MaineCare Services

Prior Year Finding: 07-76

Condition: The current process used by the Department to automatically assign recipient aid category (RAC) coding for Medicaid clients in the WELFRE system for active Office of Child and Family Services (OCFS) cases provides a weakness in controls over the client eligibility determination and identification process. The method by itself does not adequately ensure that individuals will be eligible for Medicaid program participation and also conflicts with federal regulations for the program that require an annual re-determination of Medicaid eligibility.

Eight of the twelve OCFS cases over age 21 were not Title IV-E eligible as identified by their assigned recipient aid category classification. All were adults (age 22 to 55), rather than OCFS cases established for a child (age 21 or less). Six of the eight were parents or guardians of children, rather than a child for whom the case had been established. The remaining two cases had not been eligible OCFS cases for years. Although none of the eight had applied for Medicaid, \$15,375 in claims were paid with State and federal funds based on incorrect RAC classifications.

Context: Medicaid payments associated with MACWIS generated eligibility totaled approximately \$25 million in the fiscal year. We tested 100% of this population.

Cause: These cases were improperly identified as Medicaid eligible children because the current OCFS process of requiring families to attest that a child is still in the family unit can not be relied upon to detect or correct for two types of errors in assigning eligibility for Medicaid participation:

- When ineligible adults have been improperly determined eligible
- When former clients remain eligible.

Effect: Claims are paid on behalf of ineligible individuals.

Recommendation: We recommend that the Department implement additional procedures to ensure the accuracy of RAC coding classifications in WELFRE to provide assurance that claims will be paid only for individuals determined eligible for Medicaid program participation.

Management's Response: *The Department of Health and Human Services agrees with the finding.*

As of November 2008, a correction by Office of Child and Family Services personnel to the Maine Automated Child Welfare Information System (MACWIS) was implemented to eliminate

Adult Adoption Assistance parents or Permanency Guardians from improperly receiving recipient aid category (RAC) codes intended of children.

As of June 30, 2009, all clients identified in the MECAPS who did not appear in the MACWIS were reviewed and eligibility was ended if warranted.

In addition, the medical eligibility information for MACWIS generated RAC codes will be copied into MACWIS during the Quick Release (July-August, 2009). This will allow for development of ad hoc queries to find RAC code errors. The Rolls Release (August-September, 2009) will involve replicating the WELFRE Medical Eligibility Interface Process within the MACWIS which will allow for the development of better controls on the eligibility processing.

As of July 2009, the Office of Integrated Access and Support will establish an age alert in the ACES. This will identify for eligibility workers children eligible under the Title IV-E group when they age out of the group. In addition, an age edit will be added to ACES to prevent individuals too old for Title IV-E to be granted eligibility.

Contact: *Robert Blanchard, Social Service Manager, OCFS, 624-7955
Beth Hamm, MaineCare Program Manager, 287-5093*

(23) Program integrity case files do not include information regarding actions taken

State Bureau: Office of MaineCare Services

Prior Year Finding: No

Condition: An examination of ten complaints/referrals received by the Program Integrity Division revealed that in three instances no explanation was indicated in their computerized tracking records as to why the cases were opened and/or closed.

Context: Not documenting the basis for opening or closing cases on behalf of complaints/referrals does not permit a third party to readily determine whether case actions taken were appropriate and conducted in accordance with procedures. In three instances where explanations were lacking relative to case actions taken and conclusions reached, we obtained information from State agency personnel to indicate that the appropriate action was taken.

Cause: Unknown

Effect: Inability to readily determine if complaints/referrals were valid and whether or not appropriate action was taken.

Recommendation: We recommend that all complaints/referrals recorded in the Division of Program Integrity's complaint software include information as to what case actions were conducted as well as the reasons as to why a case was opened or closed.

Management's Response: *The Department of Health and Human Services agrees with the finding.*

As of the first quarter of State fiscal year 2010, the Program Integrity staff has been instructed on proper recording in the provider tracking system to include clear and concise information on the reason for opening a case and the subsequent actions.

Contact: Marc Fecteau, Assistant Director, Program Integrity, 287-9280

(24) Rebate checks not deposited timely

State Bureau: Center for Disease Control and Prevention

Prior Year Finding: No

Condition: Rebate checks received by the WIC program are being held at the office instead of being deposited immediately.

Context: We reviewed all 14 rebate checks deposited during fiscal year 2008 along with the supporting documentation. Five rebate checks were held between six and 35 days prior to deposit. These checks were not deposited within a reasonable time period and ranged in amounts from \$786 to \$406,734.

Cause: Lack of knowledge of State regulation

Effect: The possibility that the check could be lost or stolen

Recommendation: We recommend that checks be deposited the day of receipt. We also recommend that an additional person be assigned to deposit checks in case the employee who is responsible for deposit is absent.

Management's Response: *The Department of Health and Human Services agrees with the finding.*

As of July 1, 2009, rebate checks received by the Special Supplemental Nutrition Program for Women, Infants, and Children are being deposited electronically. Therefore, the deposits are being made in accordance with State regulations.

Contact: Dena Darveau, Financial Manager, 287-1469

(25) Payments made on behalf of ineligible clients

State Bureau: Office of Child and Family Services

Prior Year Finding: 07-52

Condition: Foster care payments were made on behalf of clients who became ineligible based on attained age and education status.

Context: From a population of fifty clients aged eighteen and older, ten were tested, and seven of the ten were ineligible. Subsequent corrections were made for six of the seven ineligible clients.

Cause:

- Established procedures not followed
- Electronic case files not updated with eligibility data

Effect: Current and future questioned costs

Recommendation: Based on the prior year finding addressing this issue, we noted that corrective action has been initiated. We recommend that the Department continue to review all cases and update any missing information.

Management's Response: *The Department of Health and Human Services agrees with the finding.*

The Maine Automated Child Welfare Information System has been adjusted to correctly handle cases as the clients reach the age of 18 or as the status changes. The corrections were completed as of January 1, 2009. The staff continues to review cases and audit findings to better understand the changes that may be necessary to enhance the system.

Contact: Robert Blanchard, Information Services Manager, 624-7955

(26) Reporting deadline not met

State Bureau: Center for Disease Control and Prevention

Prior Year Finding: 07-34

Condition: The annual performance report for the Immunization Program was submitted past the deadline of 90 days after the close of the grant year.

Context: The annual performance report was submitted three days after the due date.

Cause:

- Inadequate controls
- Lack of oversight

Effect: The potential for sanctions for late reporting

Recommendation: We recommend that the Department implement internal controls to ensure the timely submission of performance reports.

Management's Response: *The Department of Health and Human Services agrees with the finding.*

Beginning in January, 2008, the Program Manager – Finance/Ops is responsible for the preparation and submission of all reports. The U.S. Center for Disease Control provides a schedule of all reports due and due dates. The Manager has implemented a calendar and tickler-file system to ensure timely filing of all required reports.

Contact: *Karen Damren, Maine CDC, Program Manager – Finance/Ops, 287-3746*