6-8-2011

State of Maine Management Letter For the Year Ended June 30, 2010

Maine State Auditor's Office

STATE OF MAINE
MANAGEMENT LETTER

For the Year Ended
June 30, 2010

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

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LETTER OF TRANSMITTAL

Honorable Kevin L. Raye
President of the Senate

Honorable Robert W. Nutting
Speaker of the House of Representatives

Honorable Paul R. LePage
Governor of Maine

I am pleased to submit the State of Maine Management Letter for the year ended June 30, 2010. In the course of conducting the Single Audit of the State of Maine we became aware of matters that offer opportunities for our government to improve its operations. Audit findings and recommendations on these matters accompany the Management Letter as Management Letter Comments.

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

June 8, 2011

State of Maine
Management Letter for the Year Ended
June 30, 2010

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MANAGEMENT LETTER

In planning and performing the Single Audit of the State of Maine for the year ended June 30, 2010, 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 and federal program compliance, but not for expressing our opinion on the effectiveness of the State of Maine's internal control over financial reporting or compliance.

During our audit we became aware of several matters referred to as "management letter comments" that offer opportunities for strengthening internal control and improving operating procedures of the State. The following pages summarize our comments and suggestions on those matters and are in addition to the more significant issues addressed in the following reports included in Maine's 2010 Single Audit Report.

- 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*

- Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in accordance with OMB Circular A-133

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.

Included with the management letter comments are the audited agencies' responses. We would be pleased to discuss these management letter comments in further detail at your convenience.

Neria R. Douglass

Neria R. Douglass, JD, CIA
State Auditor

June 8, 2011

2010 Management Letter Comments

Department of Administrative and Financial Services

(ML10-0204-01)

Controls over the proper valuation of the allowance for uncollectible taxes receivables needs improvement

State Bureau: Maine Revenue Services

Condition: The procedure used to calculate the Allowance for Uncollectible Taxes Receivable is not sufficient to ensure the proper valuation of Taxes Receivable.

Context: Maine Revenue Services collects over $3 billion per year in tax revenue. Fiscal year-end taxes receivable has averaged $578 million in the last two fiscal years. The Allowance for Uncollectible Taxes Receivable for the major tax types is valued based on a percentage of receivables.

Cause: The percentages used to value the allowance account for each of the major tax types is based on judgment rather than quantitative/analytical methods. The current process used does not explicitly consider the age of the receivables.

Effect: Taxes Receivable could be misstated on the Balance Sheet.

Recommendation: We recommend that the Department develop a methodology for establishing the allowance account for taxes receivable that is based on quantitative and analytical procedures that considers past, current, and predicted future trends as well as the age of receivables.

Management's Response/Corrective Action Plan: *Maine Revenue Services' accounting staff will develop a query to identify actual collections of receivables based on a look back history for receivables 10 years old, 5 years old and 3 years old. The program results will be used to develop and establish an allowance for doubtful accounts. We believe that actual historical collections will be the best prediction of future receivable collections. As a result of Amnesty and Receivable Reductions periodically enacted, the accuracy of this approach may be somewhat adversely impacted; however it is still the best approach available.*

Contact: *Christopher Batson, Public Service Manager I, 624-9607*

(ML10-0204-02)

An estimated liability for corporate income tax refunds payable has not been established

State Bureau: Office of the State Controller, Maine Revenue Services

Condition: The State did not record an estimated liability for corporate income tax refunds as of June 30, 2010.

Context: Maine Revenue Services collects approximately $300 million per year in corporate income tax revenue.

Cause: Current year-end accounting procedures do not include recording an estimated liability for corporate income tax refunds payable.

Effect: Tax refunds payable presented on the Balance Sheet and Statement of Net Assets was understated.

Recommendation: We recommend that the Department include an estimate of corporate income tax refunds payable on the Balance Sheet and Statement of Net Assets.

Management's Response/Corrective Action Plan:

Maine Revenue Services - *The bureau will calculate corporate income tax refunds payable for year-end financial statement purposes by analyzing budget estimates and actual refunds paid during the months of October through January. This four month period represents the time frame where a refund requested on a return filed prior to the close of the fiscal year would be paid. Budget estimates are provided by the bureau's Econometric Research Division which revises estimates twice annually with the Revenue Forecast Committee.*

Contact: *Christopher Batson, Public Service Manager I, 624-9607*

Office of the State Controller - *Title 5 MRSA §1547, subsection 4 requires agencies to provide financial information to the Office of the State Controller (OSC) by September 1, following the close of the fiscal year. A detailed closing package is provided to agencies identifying the information that must be submitted to the OSC in order to prepare financial statements that are in accordance with GAAP. Information on tax accruals is included in this request. Going forward the OSC will coordinate with Maine Revenue Services to ensure that all significant tax accruals are provided to the OSC.*

Contact: *Heidi McDonald, Principal Financial Management Coordinator, 626-8437*

(ML10-0305-01)

Internal controls over accounts receivable need improvement

State Bureau: Division of Financial and Personnel Services (DFPS)

Condition: DFPS did not adequately reconcile the State's accounts receivable related to lottery agents

Context: An accounts receivable variance of $945 thousand exists between the State and the on-line and instant lottery games service provider at year end.

Cause: The State's service provider cannot produce the necessary detail to enable DFPS to prepare this reconciliation.

Effect:

- The State's financial statements may be misstated.
- The State may not have an accurate accounting of the actual receivable from the lottery agents.

Recommendation: We recommend that the Department work with the service provider to ensure that future reports utilized for financial reporting by the State are complete and accurate.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services, Division of Financial and Personnel Service (DFPS) agrees with this finding.*

DFPS currently reconciles financial statements on a monthly basis and balance sheets on a quarterly basis. The State's service provider cannot provide the necessary reports in order for DFPS to reconcile accounts receivable. In the last few years DFPS has met with the Office of the State Controller and the service provider to try and resolve this issue. No resolution occurred as the service provider cannot produce the needed reports. The contract with the current service provider ends on June 30, 2011. The RFP, and subsequent agreement, will require that an accounts receivable report be issued by the provider so that this issue will be addressed.

Contact: *Denise Garland, GG/NR Service Center Director, 624-7397*

(ML10-1100-01)

Federal cash management procedures need improvement

State Bureau: Health and Human Services Service Center

Condition: The Department did not have procedures to ensure compliance with the terms of the Treasury-State Agreement (TSA).

Context: Federal cash was not consistently drawn down in accordance with the methods prescribed by the TSA. Lack of proper draw down procedures resulted in both excess and negative cash balances during the year. Of ten draws tested, three were received one day earlier than permitted and four draws were received from one to three days later than allowed.

Cause: Inadequate consideration of established clearance patterns

Effect:
- Potential interest liability to the Federal government
- Loss of interest earnings when funds are drawn later than allowed

Recommendation: We recommend that procedures be implemented to ensure Federal funds are drawn in compliance with the established clearance patterns.

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

Procedures to ensure compliance with the terms of the Treasury-State Agreement were in place. Beginning in State Fiscal Year 2010, a more efficient and operationally rational Treasury-State Agreement was implemented. As a result, cash was consistently drawn down on pre-assigned dates based on the Treasury-State Agreement. Unfortunately, State shutdown days were calculated into the draw down dates when they should not have been. This resulted in a miscalculation of the monthly median date. Staff reviewed the cash draw dates with Treasury after the completion of State Fiscal Year 2010 (almost a year ago) and found that of the 12 monthly cash draws, three were one to two days early, one was three days early, and two were a day late. The total State interest liability for the $74,114,533.20 dollars of draws equaled $190.27. Since wire transactions are received the day after requested, clearance patterns were not relevant.

Procedures already in place were previously updated and the cash draw dates were carefully reviewed for State Fiscal Year 2011 in July of 2010.

Contact: *Mark Fisher, Managing Staff Accountant, 287-3160*

(ML10-1103-02)

Costs not allocated in accordance with cost allocation plans

State Bureau: Health and Human Services Service Center

Condition: The Department did not allocate all costs in accordance with the Department of Health and Human Services' (DHHS) and Office of Child and Family Services' (OCFS) revised Cost Allocation Plans. We noted that some costs were incorrectly allocated, calculated, and or reported. We also noted that some Departmental personnel are not working together to improve the accuracy and timing of final receiver reports.

Context: We tested the costs allocated for one quarter of the fiscal year and noted the following:

- Allocation statistics for Staff Education and Training Units and Walk-in Count for Interview Rooms were based on flawed data.
- One out of 40 non-payroll transactions from the DHHS' Cost Allocation Plan was not approved by an authorized official.
- One out of 40 non-payroll transactions from the DHHS' Cost Allocation Plan was coded incorrectly and thus allocated incorrectly.
- Three out of 60 non-payroll transactions from the OCFS' Cost Allocation Plan were not approved by an authorized official.
- Four programs were not utilizing their respective final receiver reports.

Cause:

- Human error
- Lack of communication and training
- Insufficient data for cost allocation
- Failure to reconcile final receiver report expenditures to the State's accounting records

Effect: Not properly allocating costs could result in the following issues with Federal assistance programs:

- Inaccurate financial reports
- Cash shortages or overages
- Potential unallowable costs claimed
- Possible match deficiencies
- Programs may not be charged their fair share of allocated costs

Recommendation: We recommend that the Department continue in its efforts to revise its cost allocation plan so that it more accurately reflects current operations. We further recommend that a review is completed of allocated cost accounts and allocation statistics data to ensure proper and reasonable allocation methods are assigned and final receiver reports and cost allocation journals are processed accurately and timely.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agrees with the Management Letter.*

An updated workbook has been sent to the Staff Education and Training Unit for use with the correct cells in alignment. The issue of the miss alignment was discussed with SETU to show them the error in an effort to not have this error in the future. Moreover, all Cost Allocation data that is received through Excel worksheets will be reviewed for formula integrity.

Efforts continue with regards to ensuring that invoices are coded correctly on an ongoing basis and that includes proper approval and signature authority.

Many of the grants with-in the Department have non-standard begin and end dates such as April 10. As a result the Senior Staff Accountants do not use the Final Receiver Reports but use actual cost allocation journals that have been finalized during the grant period for reporting purposes.

Medicaid and CHIP grants are cash basis reporting and as such report journals that are final during the reporting period.

Contact: *John D. Mower, Deputy Director, DHHS Service Center, 287-1869*

(ML10-1103-03)

Federal reimbursement not requested for allocated costs of approximately $775,000

State Bureau: Health and Human Services Service Center

Condition: The Department did not request reimbursement of $775,000 for the Federal share of certain allocated costs.

Context: The Department of Health and Human Services shares costs with the Federal government under an approved cost allocation plan. Of the $7.2 million in Division of Licensing and Regulation Services expenditures, $475,000 should have been reimbursed with Federal funds. In addition, payroll costs of approximately $300,000 related to 54 positions should have been reimbursed by the Federal government.

Cause:

- Accounts were not set up to record Federal reimbursements
- Positions were coded incorrectly

Effect:

- Period of Availability requirements may precluded the State from recouping allocated costs
- Loss of cash pool interest

Recommendation: We recommend that the Department continue its efforts to establish accounts to record the Federal reimbursements and to move positions into accounts that accurately allocate costs. We further recommend that the Department request Federal reimbursement when the appropriate accounts have been established and the positions are allocated correctly.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agrees with the Management Letter.*

Approval to cost allocate the Division of Licensing and Regulation Services was done by the Legislature and became effective July 1, 2010. Allocation of this Division was approved at the Federal level effective January 1, 2009. The Department and its Service Center will review all grants that have been allocated costs to see if any funds are available to draw down from these allocated expenditures to reimburse the General Fund.

Initiatives have been submitted for the Biennium budget to move the noted positions to correct appropriations for cost allocation.

Contact: *John D. Mower, Deputy Director, DHHS Service Center, 287-1869*

(ML10-1109-01)

Cash drawdown procedures need improvement

State Bureau: Health and Human Services Service Center

Condition: The Department did not draw Federal funds to reimburse the State for expenditures made on behalf of the Federal Foster Care program on a timely basis.

Context: The Department had $4.9 million of fiscal year 2010 Foster Care earned revenue transactions that are being drawn down on an as needed basis rather than of when earned.

Cause: The Department did not implement procedures to make draws on a timely basis.

Effect: Lost interest earnings

Recommendation: We recommend that the Department implement procedures to ensure that earned revenue reimbursements are processed on a timely basis.

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

Effective January 1, 2011, earned revenue is drawn monthly based on an estimate of what was earned that month. Also, once the Federal government closes out each quarter of the grant, the trued up portion of earned revenue will be drawn.

Contact: *Sarah Gove, Managing Staff Accountant, 287-6390*

(ML10-1110-01)

Cash drawdown procedures need improvement

State Bureau: Health and Human Services Service Center

Condition: The Department did not draw Federal funds to reimburse the State for expenditures made on behalf of the Federal Adoption Assistance program on a timely basis.

Context: The Department had $1.0 million of fiscal year 2010 Adoption Assistance earned revenue transactions that are being drawn down on an as needed basis rather than when earned.

Cause: The Department did not implement procedures to make draws on a timely basis.

Effect: Lost interest earnings

Recommendation: We recommend that the Department implement procedures to ensure that earned revenue reimbursements are processed at the earliest permissible date.

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

Effective January 1, 2011, earned revenue is drawn monthly based on an estimate of what was earned that month. Also, once the Federal government closes out each quarter of the grant, the trued up portion of earned revenue will be drawn.

Contact: *Sarah Gove, Managing Staff Accountant, 287-6390*

(ML10-1128-01)

Payroll certification not obtained

State Bureau: Health and Human Services Service Center

Condition: An employee who worked exclusively on the Child Support Enforcement program did not support his/her wages with a periodic certification through the State's payroll system (MS TAMS).

Context: One of the 40 employees reviewed did not certify that they worked exclusively on the Child Support Enforcement program during fiscal year 2010.

Cause: The employee was not assigned a "Task" or "Project" code from August through December of 2009.

Effect: Noncompliance with allowable costs requirements

Recommendation: We recommend that the Department implement procedures to ensure periodic certification requirements are met.

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

The new employee who is responsible for establishing MS-TAMS task codes will receive training on preparing various queries and reports to reconcile and verify the task codes for groups of employees to detect missing, incorrect task codes, or if a task code has been turned off. This task was not communicated to the new employee when there was a change in personnel. This training was completed February 4, 2011.

Contact: *John D. Mower, Deputy Director, DHHS Service Center, 287-1869*

(ML10-1130-03)

Federal cash management procedures need improvement

State Bureau: Health and Human Services Service Center

Condition: The Department did not minimize the time between receipt and disbursement of Federal funds for programs not subject to the Treasury-State Agreement.

Context: In two of twelve months reviewed there were excess cash balances for the Social Services Block Grant program.

Cause:

- Beginning cash balances were not considered
- Delays in processing payments due to backlog.

Effect: The possibility that the Federal government could impose more stringent cash management requirements on the program

Recommendation: We recommend that the Department establish procedures to monitor receipts and disbursements to ensure that grant funds are drawn down on a timely basis and spent within the allowable time frames.

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

The two months with excessive cash balances were July and October. In the first instance, beginning cash balances were excluded from the analysis due to the inability to determine the actual cash balance throughout the fiscal year close process. Professional judgment was used to make this determination. Subsequent to this audit, we have reviewed cash balances for July 2010, and the cash balance was not in excess, thus it is determined that not looking at the State fiscal year's beginning cash was a onetime mistake.

In the second instance, the excessive cash in October resulted from a draw in anticipation of a payment that did not occur immediately due to a backlog in processing documents. There has not been a backlog in processing since this time.

Contact: *Sarah Gove, Managing Staff Accountant, 287-6390*

(ML10-1302-01)

Indirect cost rate agreement not approved by the Federal cognizant agency

State Bureau: Security and Employment Service Center

Condition: The Security and Employment Service Center (SESC) did not have controls in place to ensure that an approved Indirect Cost Rate Agreement (ICRA) for the 2010 fiscal year was obtained from the cognizant Federal agency.

Context: For fiscal year 2010, SESC reported that approximately $1 million of indirect costs had been allocated to various Unemployment Compensation programs using this method.

Cause: SESC reported that they had verbal approval from the Federal cognizant agency to use this allocation methodology.

Effect: Potential disallowed costs

Recommendation: We recommend that SESC submit their ICRA to the Federal cognizant agency for approval and use this method for allocating indirect costs.

Management's Response/Corrective Action Plan: *We agree with the finding.*

We are working with Federal agency currently to provide the required documentation and expect all required documentation to have been submitted by March 31, 2011.

Contact: *Dennis Corliss, Director, Security and Employment Service Center, 623-6701*

(ML10-1315-04)

Procedures to ensure the accuracy of the Schedule of Expenditures of Federal Awards (SEFA) should be improved

State Bureau: Division of Financial and Personnel Services

Condition: The SEFA incorrectly included the expenditure of $708,735 for the WIA Dislocated Workers program (CFDA #17.260). The SEFA should have shown this expenditure for the Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation program (CFDA #12.607).

Context: OMB Circular A-133 requires the State to report expenditures of Federal awards according to the number and title listed in the Catalog of Federal Domestic Assistance.

Cause: Human error

Effect: Overstatement of expenditures for the WIA Dislocated Workers program (17.260) and understatement of expenditures for the Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation program (12.607).

Recommendation: We recommend that grant documents be examined more closely to ensure the accuracy of the SEFA.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services agrees with this finding.*

Staff turnover and limited available resources have resulted in existing staff assuming additional unfamiliar duties. By utilizing prior year reports as a basis for this submission, we inadvertently continued to report an error that existed previously. The Service Center will seek assistance in the form of training from the Controller's Office in the future, should unfamiliar staff be in a position of completing the SEFA in the future.

Contact: *Denise Garland, GG/NR Service Center Director, 624-7397*

Department of Education

(ML10-1201-02)

Process to approve budget revisions needs improvement

State Bureau: Special Education

Condition: Thirteen subrecipients' consolidated applications were open for budget revisions. As of fiscal year end, these budget revisions had not been approved.

Context: Performance reports, which are based on a comparison of budget to actual expenditures, were prepared despite the lack of approval of the final budget.

Cause: Personnel turnover

Effect: Grant funds could be spent on unallowable activities or in a manner different from the approved budget.

Recommendation: We recommend that the Department implement additional procedures to ensure the approval of consolidated application budget revisions in a timely manner.

Management's Response/Corrective Action Plan:

MANAGEMENT RESPONSE - *Special Services experienced staffing challenges when two senior managers and key Admin support staff retired in 2009-2010 school year. (Ed. Spec III personnel with over combined 50 years of responsibility for Federal Grants Administration and support position with 32 years experience retired in 2009-2010.)*

Recruitment was done for all three positions, but only one position was filled. That position Recruitment was successful with only one position, and that new staff member assumed responsibility for multiple federal programs as well developing General Supervision System to coordinate program- and fiscal-compliance monitoring. Unfortunately that individual remained for less than six months. Further recruitment was successful; however not within the fiscal year in question.

The reorganization of school administrative units mandated by the Legislature contributed substantially to challenges for school administrative units which were then, new grantees. These school administrative units experienced legal and management changes. This compounded the difficulties in filing electronic applications. In fact, frequently enough, old personnel opened and submitted the application material and were then replaced by new personnel, unfamiliar with the process, being responsible for completing the application process.

CORRECTIVE ACTIONS - *The Department implemented statewide alignment of program and fiscal management for all school administrative units affected by the reorganization of many school administrative units.*

Special Services implemented the General Supervision Systems Team (GSST), in accordance with the Office of Special Education Programs, U. S. Department of Education guidance. Internal controls were established with tasks assigned to multiple parties. Personnel development activities were initiated within Special Services to cross-train and reduce dependence on any individual staff member. The electronic application was revised to be more user friendly, to enhance ease of use as well as reducing human error and to ensure final approval was granted only when all procedures were in compliance. Professional development was also provided to school administrative units through webinars, "Lunch and Learns", and on-site visits.

Contact: *David Noble Stockford, Policy Director and Team Leader, Special Services, 624-6650*

(ML10-1201-04)

Inadequate subrecipient award identification

State Bureau: Special Education

Condition: The Department did not provide the required award information to Child Development Services (CDS) for the Special Education Cluster.

Context: CDS, a component unit of the State of Maine, is organized as an Intermediate Education Unit.

Cause: Different treatment of CDS due to the nature of the relationship to the State of Maine and the Department.

Effect: Potential noncompliance

Recommendation: We recommend that the Department provide award information to all subrecipients, including component units.

Management's Response/Corrective Action Plan:

MANAGEMENT RESPONSE - *The Department and school administrative units experienced many challenges with the implementation of new federal funding, including variances in approval standards and reporting requirements. The Department aligned the requirements with an electronic application and management process as school administrative units have had success with electronic applications across multiple federal programs. Department capacity was also a challenge.*

The reorganization of school administrative units mandated by the Legislature contributed substantially to challenges for school administrative units which were then, new grantees. These school administrative units experienced legal and management changes. This compounded the difficulties in filing electronic applications. In fact, frequently enough, old personnel opened and submitted the application material and were then replaced by new personnel, unfamiliar with the process, being responsible for completing the application process.

With regard to the finding, Department personnel worked closely with the Department of Audit to demonstrate that the corrective actions had been taken with the subrecipients where the finding identified no record of an award notification. Documentation of the notifications were demonstrated with the electronic application. Records indicate that hard copy documentation was also provided.

***CORRECTIVE ACTIONS** - The Department implemented corrective actions with the subrecipients. The Department reviewed the notification process and communicated with school administrative units. The Department reviewed internal controls were reviewed.*

***Contact:** David Noble Stockford, Policy Director and Team Leader, Special Services, 624-6650*

(ML10-1221-01)

Procedures are not adequate to ensure the accuracy of subrecipient grant allocations

State Bureau: Learning Systems Team – Title II-A, Teacher Quality

Condition: Amounts allocated to Local Education Agencies (LEAs) were incorrect. The Department's allocation schedule incorrectly included two LEAs twice. The errors were identified before any duplicate payments were made to the two LEAS, although the allocation schedule was not revised to correct for the errors.

Context: Funds were allocated to approximately 190 LEAs. The duplicate allocations totaled approximately $120,000.

Cause: The spreadsheet used to calculate allocation amounts was not reviewed for accuracy.

Effect: LEAs were allocated less than originally intended.

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

Management's Response/Corrective Action Plan: *This is to clarify that these errors were on internal documents only and districts were not notified that they were being allocated more than they received. Although the duplicate lines were present on the spreadsheet sent to the webmaster, he inserted the appropriate allocations into the on-line application.*
In the spring of 09, the Title II Coordinator instituted a new practice of calculating allocations in tandem with her administrative assistant in order to increase quality control measures. Although the spreadsheet was reviewed for accuracy many times, these duplications were not discovered.
This same process of tandem calculations took place in the spring of 2010 and will continue. The Title II Coordinator will do a specific targeted check for duplications along with her administrative assistant from this date forward.

***Contact:** Barbara Moody, Title II Coordinator, 624-6830*

Department of Health and Human Services

(ML10-1101-01)

Audit cost settlement collection process is not adequate

State Bureau: Health and Human Services Service Center/ Division of Audit

Context:
- Two of the ten cost settlement audit closeout reports tested were not forwarded to the Health and Human Services Service Center for billing and collection of amounts due.
- One of ten cost settlement audit closeout reports tested included receivables that were not recorded.

Cause:
- Proper procedures were not in place to ensure completed cost settlement closeout reports were forwarded to the Health and Human Services Service Center when payment became due.
- Proper procedures were not in place to ensure collection efforts were made for all cost settlement closeout reports with amounts due.

Effect: The Department may not collect all amounts due from providers.

Recommendation: We recommend that the Department continue to develop and implement audit cost settlement procedures to ensure the collection of amounts due.

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

Effective March 2011, DHHS Service Center will receive cost settlement closeout reports with a monthly summary from DHHS Division of Audit after the appeals period and after final revisions. A two week billing process will follow the receipt of this reporting package. After each monthly billing process, DHHS Service Center will provide DHHS Division of Audit a summary of what has been billed for record comparison.

Contact: *Sarah Gove, Managing Staff Accountant, 287-6390*

(ML10-1109-05)

Controls over State and Federal procurement requirements not followed

State Bureau: Child and Family Services

Condition: The Department did not follow State procurement procedures as required by Federal regulations. The Department did not update one of their nineteen contracts for Foster Care services.

Context: The Department procured $5.3 million in residential services from nineteen different providers

Cause: One outdated contract was missed during the Department's update.

Effect: Possible outdated contract specifications

Recommendation: We recommend that the Department continue its efforts to update outdated contracts using State procurement policies.

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

In the first quarter of State Fiscal Year 2012, all treatment foster care contracts will be in compliance with State procurement policies.

Contact: *Christa Elwell, Director, Public Service Management, 624-7921*

(ML10-1111-03)

Unallowable transitional transportation benefits paid

State Bureau: Office of Integrated Access and Support

Condition: When Temporary Assistance for Needy Families (TANF) clients become employed and no longer qualify for TANF basic assistance, they may be eligible for Transitional Transportation (TT) benefits. Clients often become re-eligible for TANF benefits after receiving TT benefits, at which time the client is not longer eligible for TT. The Department paid some clients both basic assistance and TT benefits for the same time period.

Context: The Department paid TT benefits as well as TANF basic assistance for the month in which the client became re-eligible for TANF.

Cause: Automated Client Eligibility System (ACES) limitations

Effect: Potential questioned costs

Recommendation: We recommend that the Department provide additional training to staff to ensure that requests for TT and TANF are reviewed on a case-by-case basis. We further recommend that the Department implement controls in ACES to ensure that TT and TANF payments are not made for the same time period.

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

Transitional Transportation (TT) benefits are issued quarterly to the eligible client. There is a deadline around the 20th of each month when payments are selected for the following month. Should a Transitional Transportation recipient reapply for TANF after this deadline the TT is ended but it is too late to prevent the payment from being issued. The TT is ended in the system but a payment already "in the queue" cannot be affected.

Procedure to address this issue is a review of all TANF and TT overlap on a monthly basis. An analysis is done and if the individual received TT in error an overpayment is entered into the system. This procedure was initiated after the 2009 audit finding. This procedure has worked as intended.

Corrective Action – Staff will be reminded of the process. The quality review established as a result of the 2009 TT finding will continue as it has been successful.

Contact: *Dawn Mulcahey, TANF Program Manager, 287-6426*

(ML10-1111-04)

Ineffective internal controls over eligibility requirements

State Bureau: Office of Integrated Access and Support

Condition: The Department did not consistently document that all clients are eligible to receive Temporary Assistance to Needy Families (TANF) benefits, nor did they update the Automated Client Eligibility System (ACES) for changes in clients' status affecting eligibility.

Context:

- One of 60 case files reviewed did not have the required signed annual review in their paper case file.
- One of the 60 clients reviewed reported changes in income exceeding program limits. The eligibility specialist failed to update ACES with this information, resulting in ineligible payments.

Cause:

- Misplaced client paper files
- Failure to update ACES with clients' changes affecting eligibility

Effect: Potential questioned costs resulting from ineligible clients

Recommendation: We recommend that the Department:

- Implement procedures to ensure changes affecting eligibility status are updated in ACES
- Maintain proper documentation in the case files to support eligibility determinations

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

There are currently internal controls over eligibility requirements in ACES. ACES is the official record. When a review is received the date is logged into the system. The review is processed in the system and a letter sent to the client upon completion. The next review date is automatically set. The paper review should be placed in the paper file. In the case listed above the paper review was misplaced. However, through internal controls the Department was able to show the review was, in fact, received and processed.

The second case is a result of staff not acting timely on a change reducing client benefits. The error was recognized and an overpayment immediately processed.

Corrective Action- Supervisors will be reminded at a state-wide supervisor's meeting on March 9 to remind staff to be careful to file paper documents in the correct files and to initiate changes in benefits in a timely manner.

Contact: *Dawn Mulcahey, TANF Program Manager, 287-6426*

Department of Labor

(ML10-1302-03)

Disaster Recovery and Business Continuity Plan needed

State Bureau: Unemployment Compensation

Condition: Plans to ensure the continued operation of Unemployment Insurance claims system in the event of a disaster or system interruption need improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising the Department's data and information technology resources. However, we have notified appropriate Department management of the specific issues.

Cause: Lack of resources

Effect: In the event of a system failure the Department may not be able to provide timely unemployment compensation payments to individuals who are unemployed.

Recommendation: We recommend that the Department improve their disaster recovery and business continuity plan consistent with State and Federal requirements.

Management's Response/Corrective Action Plan: *The Bureau agrees with the finding, and has already begun the process of developing a Business Continuity and Disaster Recovery plan.*

Contact: *Kimberly Smith, Deputy Director, Bureau of Unemployment Compensation, 621-5161*

(ML10-1302-04)

System access controls need improvement

State Bureau: Unemployment Compensation

Condition: Access to the Unemployment Compensation system was available to individuals not requiring access. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising the Department's data and Information Technology (IT) resources. However we have notified appropriate Department management of the specific issues.

Cause: Lack of procedures

Effect: Inappropriate access to information and risk of inappropriate activity

Recommendation: We recommend that the Department and the Office of Information Technology comply with State security policies, procedures and guidelines related to IT system access.

Management's Response/Corrective Action Plan: *The Bureau agrees with the finding and will work with the Office of Information Technology to improve system access protocols.*

Contact: *Kimberly Smith, Deputy Director, Bureau of Unemployment Compensation, 621-5161*

(ML10-1308-04)

Procedures not adequate to ensure accurate billing of program income

State Bureau: Rehabilitation Services

Condition: Amounts billed to and paid by the Social Security Administration (SSA) for reimbursement were not fully supported by expenditures recorded in the State's accounting system.

Context: Of the six reimbursement requests reviewed, one included unsupported expenditures of $5,583.

Causes: Lack of reconciliation between Office of Rehabilitation Services Information System (ORSIS) and the State's accounting system

Effect: Potential disallowed costs

Recommendation: We recommend that the Department continue to implement procedures that will improve the claims process to the SSA.

Management's Response/Corrective Action Plan: *The Department of Labor agrees with this finding.*

We have examined the three expenditures in the single reimbursement claim and could not locate supporting documentation as evidence that the expenditures occurred in the case record or in MFASIS, the State's financial accounting system used at that time. The SSA claim for these costs were made based upon an ORSIS generated report of client case expenditures. In the review, it was noted that the expenditures in question had authorization dates of 5/26/98 and payment dates of 2/251999 on an R-20 that was authorized and paid on the same date of 5/26/98.

There is limited information available about the interface between ORSIS and MFASIS during the years in question, so root cause of this finding was unable to be determined. Upgrades in 2002 and 2008 currently prevent this type of discrepancy. Specifically, ORSIS does not allow two different payment dates on line items in a single R-20, and a standard reconciliation function between ORSIS and AdvantageME, the State's current financial accounting system, flags any inconsistencies between the two, so that they can be resolved before payments are issued.

BRS has notified the Social Security Administration of this finding and is awaiting direction as to the requirement and procedures of returning funds. Additionally, since it is unclear whether or not this occurrence was just a fluke, extra steps will be taken in processing SSA claims for the *remaining State Fiscal Year to verify any expenditure dated prior to 2002 in the State's financial accounting system. Based upon those results, further action will be taken as warranted.*

Contact: *John McMahon, DBVI Director, 623-7949*
Karen Fraser, BRS Q.A. Director, 623-7961

Department of Transportation

(ML10-1401-01)

Davis-Bacon Act requirements not followed

State Bureau: Project Development

Condition: Testing of compliance with Davis-Bacon Act provisions noted the following:

- In three out of 40 cases reviewed, resident project managers did not always approve the certified payrolls submitted by each contractor on the Elation system.
- In four out of the 40 files reviewed, resident project managers did not conduct all of the required payroll interviews.

Context: The Department has made substantial improvements towards complying with the Davis-Bacon Act provisions. During fiscal year 2010, the Department implemented a new web-based software program (Elation) in order to electronically obtain, review, and approve wage and benefit data received from contractors.

Cause: Competing priorities of field personnel

Effect: Possible Federal sanctions for noncompliance with the Davis-Bacon Act

Recommendation: We recommend that resident project managers continue to improve procedures related to the review and approval of all certified payrolls. We further recommend that they perform the required 90-day on-site interviews.

Management's Response/Corrective Action Plan: *The Department agrees with the finding.*

To address the specific conditions and recommendation, the Department will do the following:

The Contracts Section and Construction Support Staff that do in field reviews will have an item added to their checklist of review items that asks if all the resubmitted payrolls have been approved. We will inquire of Elation as to whether a tickler email alert can go to the Resident Engineer if a time period of a few weeks goes by without the resubmitted payroll receiving approval or rejection.

It is our understanding that payroll interviews were conducted in the 40 files but not according to Maine DOT policy which requires interviews within a 90 day period. Documentation training for all field staff starts on March 11 of this year. We will add this item to the training session and remind Resident Engineers of the 90 day policy. We will also adjust the field review checklist to include checking the 90 day requirement for payroll interviews.

We believe these changes to training and procedures will allow continued improvements in compliance with the Davis-Bacon Act.

Contact: *Joyce Noel Taylor, Director, Project Development, DOT, 624-3400*

Workers' Compensation Board

(ML10-0203-01)

Accounts receivable process needs improvement

Condition: The Worker's Compensation Board (WCB) did not have an adequate process in place for identifying and collecting accounts receivable.

Context: As of June 30, 2010, the WCB accounts receivable balance was approximately $1.4 million. The balance is comprised primarily of penalties assessed against employers for noncompliance with Workers Compensation insurance requirements.

Cause: The WCB was unaware that detailed accounts receivable information was available via the State's accounting system.

Effect: The WCB could not initiate collection activities for all amounts due.

Recommendation: We recommend that the Board utilize the Advantage Receivable Report AR03D to manage the collection of its accounts receivable.

Management's Response/Corrective Action Plan: *Penalty collections have been outpaced by program growth and limited resources. The volume of cases handled by Workers' Compensation Board (WCB), Abuse Investigation Unit (AIU) has increased due to expansion of enforcement efforts (to meet our statutory obligations) and increases in automation that identify potential penalty violations.*

The WCB has not had software capable of handling receivables in an integrated manner—producing invoices, tracking assessments, aging, etc. AIU was left to issue bills, track and age outstanding penalties essentially by hand; i.e., using paper invoices and multiple spreadsheets. In 2008 the Board began a comprehensive update for the Progress database for AIU. AIU staff began working with the Deputy Director and the programmers from the Office of Information Technology (OIT) to analyze business needs and changes necessary. Work to expand capabilities to address invoicing and receivables issues began in late 2010.

The following steps are being taken to manage the Unit's penalty assessment collections efforts:

1. *Complete Progress database update: providing AIU with an integrated source for managing receivables is necessary to achieve proper and timely handling of penalty bills, particularly when the various functions and processes involved are being handled by a single staff member.*
2. *Increase referrals for collection. Referrals to the AG's office should be maximized with reference to their capacity, and the Board should utilize the statutory authority to retain private collection counsel as warranted*
3. *SOP's for Receivables: the existing basic SOP's will be expanded to set clear timeframes and deadlines, and to rapidly progress unpaid receivables into collection, and, if needed, write-off. AIU has undertaken a comprehensive review of current receivables and, at the*

time of this writing, we have requested DAFS write-off approximately $435,000 as uncollectible debt because the businesses are no longer in operation or have gone into bankruptcy.

Additionally, the Bureau will review the feasibility of using Advantage to manage the accounts receivable functions.

Contact: *Terrie Mclaughlin, Deputy Director of Business Services, 287-7084*

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