5-7-2015

State of Maine Management Letter For the Year Ended June 30, 2014

Maine Office of the State Auditor

STATE OF MAINE

MANAGEMENT LETTER

Fiscal Year Ending June 30, 2014

Office of the State Auditor
Pola A. Buckley, CPA, CISA
State Auditor

State of Maine
Management Letter for the Year Ended
June 30, 2014

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MARY GINGROW-SHAW, CPA
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LETTER OF TRANSMITTAL

Honorable Michael D. Thibodeau
President of the Senate

Honorable Mark W. Eves
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, 2014. 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, are part of a dialogue that aims at improvement. I welcome your thoughts and inquiries on these matters.

Respectfully submitted,

Pola Buckley

Pola A. Buckley, CPA, CISA
State Auditor

May 7, 2015


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MANAGEMENT LETTER

In planning and performing the Single Audit of the State of Maine for the year ended June 30, 2014, 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 2014 Single Audit Report.

- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

- Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by 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.

Pola Buckley

Pola A. Buckley, CPA, CISA
State Auditor

May 7, 2015


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(ML-14-0110-01)

Title: Controls over the proper posting of year-end transfers needs improvement

Prior Year Findings: None

FY13	FY12	FY11	FY10	FY09

State Department: Administrative and Financial Services

State Bureau: Office of the State Controller (OSC)

Condition: Controls were not adequate to ensure that a year-end transfer was posted in accordance with the Public Law.

Context: Public Law 2013, Chapter 368 Sec KKK-1, authorized the State Controller to transfer $98.5 million on June 30, 2014, from the Other Special Revenue Fund to the General Fund Unappropriated Surplus. The Office of the State Controller originally posted the entry on June 6, 2014. OSC subsequently reversed the entry and then recorded it on a timely basis consistent with Public Law.

Cause: The State Controller's approval for the entry to the general ledger was July 11, 2014. The individual posting the journal did not realize that the journal was postdated and thus recorded the entry incorrectly.

Effect:
- The possibility of insufficient cash in the Other Special Revenue Fund.
- Without sufficient cash, payments from the fund cannot be processed.

Recommendation: We recommend that the OSC strengthen procedures over proper posting of year-end transfers.

Management's Response/Corrective Action Plan: *Our system is designed to include both preventive and detective controls. This transaction was data entered on Friday, June 6, 2014 because the approved, post-dated journal was included in a batch of transactions to be posted on that date. Our year end processing, cash-monitoring and reconciliation processes detected the transaction on Monday, June 9, 2014 and it was immediately reversed on that date. Additional compensating controls are also in place that would have detected the error had these processes not identified it as soon as one business day. At no point was there any risk that insufficient cash was available that would prevent payments from being processed in the Other Special Revenue Fund.*

Contact: *Sandra Royce, Director of Financial Reporting and Analysis, OSC, 626-8451*

Auditors Concluding Remarks: Controls should have been in place to *prevent* the $98.5 million entry from being posted nearly one month prior to the date authorized by the Legislature. Preventative controls are essential to a sound internal control system. Detective controls only identified the untimely transaction because the cash balance in the fund went negative as a direct result of this transaction. Furthermore, the practice of post-dating journals should be avoided.

The finding remains as stated.

(ML 14-0204-01)

Title: Controls over the proper valuation of the allowance for uncollectible taxes receivable need improvement

Prior Year Findings:

FY13	FY12	FY11	FY10	FY09
13-0204-01	12-0204-01	11-0204-01	10-0204-01	

State Department: Administrative and Financial Services

State Bureau: Maine Revenue Services (MRS)

Condition: The procedure used to calculate the Allowance for Uncollectible Taxes Receivable is not sufficient to ensure the proper valuation of Taxes Receivable. The current method of estimating the Allowance for Uncollectible Taxes Receivable utilizes standard percentages based on the age of the receivable rather than actual collection experience.

Context: Maine Revenue Services collects over $3 billion per year in tax revenue. Fiscal year-end taxes receivable has averaged $595 million in the last two fiscal years. Currently, MRS is in the process of accumulating historical information to be used as a basis for estimating the Allowance for Uncollectible Taxes Receivable in the future.

Cause: The percentages used to value the allowance account for each of the major tax types is based on judgment rather than an acceptable quantitative/analytical method.

Effect: The valuation of Taxes Receivable could be inaccurate as presented in the Balance Sheet and Statement of Net Assets.

Recommendation: We recommend that Maine Revenue Services continue to accumulate data in order to estimate the allowance for taxes receivable based on historical information.

Management's Response/Corrective Action Plan: *Maine Revenue Services (MRS) agrees with the Office of the State Auditor's finding.*

As was discussed with the audit team, MRS continues its trending average application of historical percentages to adjust and align the allowance for doubtful accounts. The basis is accounts receivable aging using a model that should provide sufficient information to establish the trend data. A review of the methodology by the audit team recognized sound application of principles in the calculation of the allowance. Both MRS and the audit team concurred on the validity of this new approach to estimating accurate allowances by major tax type and provides for trailing adjustments to historic changes in the collectability of receivable balances.

Contact: *Christopher P. Batson, Chief Accountant, MRS, 624-9607*

Auditor's Concluding Remarks/Clarification: As the State's independent auditor, we are not a component of the State's internal control system and, therefore, we cannot conclude definitively, in advance of the implementation of an accounting procedure, that the resulting valuation of the Allowance for Uncollectible Accounts will satisfy generally accepted accounting principles.

(ML-14-0211-02)

Title: Cost settlement receivables were double counted in the State's financial statements

Prior Year Findings: None

FY13	FY12	FY11	FY10	FY09

State Department: Administrative and Financial Services

State Bureau: Office of the State Controller (OSC)

Condition: The Department of Administrative and Financial Services did not have controls in place to ensure audit cost settlement receivables were recorded accurately in the State's financial statements. Both the Department of Health and Human Services (DHHS) Division of Audit and the DHHS Service Center MaineCare Receivables unit provide some of the same cost settlement receivables information to the Office of the State Controller for accrual.

Context: Of the $40.6 million in cost settlement receivables recorded at fiscal year end, $2.6 million was at risk of being double counted.

Cause: The Office of the State Controller was not aware of the duplicate reporting of this information.

Effect: Some receivables are double counted.

Recommendation: We recommend that the Department implement procedures to ensure cost settlement receivables are recorded accurately in the State's financial statements.

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

OSC met with DHHS to discuss the process on March 11, 2015. Annually, OSC receives four cost settlement reports from the DHHS Division of Audit. Each report includes "audited", "settled" and "estimated" cost settlements. OSC's historical process has been to record a receivable and/or payable based on these reports. During the 2014 audit, it was discovered that the "audited" cost settlements (and some of the "settled" data) may have already been forwarded to the DHHS Service Center MaineCare Receivables unit, resulting in the possible overstatement of these receivables.

Going forward, OSC will record the receivables for the "estimated" settlements (which are not sent to the DHHS Service Center MaineCare Receivables unit). The DHHS Division of Audit and the DHHS Service Center MaineCare Receivables unit will work together to determine if the "audited" and "settled" amounts have already been recorded. Additionally, the DHHS Service Center MaineCare Receivables unit is in the process of implementing a new control sheet which will provide a list of receivables processed; greatly reducing the possibility of duplicating receivables.

Contact: *Sandra Royce, Director of Financial Reporting and Analysis, OSC, 626-8451*

(ML-14-0211-03)

Title: Reconciliations between the State accounting system and the accounts receivable subsidiary ledger need improvement

Prior Year Findings: None

FY13	FY12	FY11	FY10	FY09

State Department: Administrative and Financial Services

State Bureau: Health and Human Services Service Center

Condition: The Department did not properly reconcile receivable balances between the State's accounting system and the subsidiary ledger (Flexi). The Department's reported balance on the reconciliation for the subsidiary ledger was understated by $19.2 million. This was the result of the Department incorrectly excluding "old" receivable balances from the reconciliation.

Context: We reviewed the reconciliations for four types of MaineCare receivables. The Department prepared an adequate reconciliation for one of the receivable types with a subsidiary balance of $30 million. However, the Department did not prepare accurate and complete reconciliations for three receivable types with subsidiary balances totaling $35 million.

Cause: The DHHS Service Center omitted older receivables that need further research.

Effect: Financial records are less reliable when accurate and complete reconciliations are not performed on a regular and ongoing basis

Recommendation: We recommend that the Department ensure reconciliations between the State accounting system and the accounts receivable subsidiary ledger are accurate and complete.

Management's Response/Corrective Action Plan: *The Department agrees with this management letter comment.*

The Department agrees that the Flexi subsidiary ledger needs to be better supported by empirical evidence/data. To better support the Flexi subsidiary ledger, the Department began a comprehensive review of all provider balances in December of 2014. The end goal of this review is to generate provider statements, supported by empirical evidence, for every provider that has an outstanding balance with the State. This back-up will be used in support of a fully reconciled flexi subsidiary ledger. The anticipated completion date of this project is June of 2015.

The reconciliation work that has been undertaken to this point leads the Department to believe the Flexi subsidiary ledger is not understated.

Contact: *Jason Grundy, Director MaineCare Accounting, DHHS Service Center, 603-380-5786*

Auditors Concluding Remarks: We agree with the Department that a comprehensive review of all provider balances reported in the Flexi subsidiary ledger is advantageous and further agree that subsidiary records should be properly supported. However, this finding pertains to the Department's reconciliation between the Flexi subsidiary ledger and the State's general ledger. A *proper* reconciliation compares the complete data that exists in two systems, analyzes the differences and facilitates corrections so that the information is accurate, complete and consistent in *both* systems. The reconciliations noted in this finding, rather than the ledgers themselves, did not include transcription of complete and accurate data from either the subsidiary records and/or the general ledger. Consequently, these reconciliations did not serve their purpose of facilitating and supporting the accuracy of the related receivable balances.

(ML-14-0211-04)

Title: Controls over the proper valuation of the allowance for uncollectible accounts need improvement

Prior Year Findings: None

FY13	FY12	FY11	FY10	FY09

State Department: Administrative and Financial Services

State Bureau: Office of the State Controller (OSC)

Condition: The procedure used to calculate the Allowance for Uncollectible Accounts is not sufficient to ensure the proper valuation of accounts receivable.

Context: For fiscal year 2014, MaineCare's Allowance for Uncollectible Accounts of $46.6 million was calculated for receivables totaling $87.5 million.

Cause: The assumption used to value the allowance account is based on judgment rather than an acceptable quantitative/analytical method.

Effect: The valuation of Accounts Receivable could be inaccurate as presented in the Balance Sheet and Statement of Net Assets.

Recommendation: We recommend that the Department refine its methodology for estimating the allowance for uncollectible accounts.

Management's Response/Corrective Action Plan: *OSC is responsible for making the accounting estimates included in the financial statements. Estimates are based on subjective as well as objective factors and, as a result, judgment is required to estimate an amount at the date of the financial statements. OSC has a process for estimating the amount to be reserved for uncollectible receivables using an aging method, which is a common, acceptable method within the industry. We believe that this method is not overly sensitive to variations, is consistent with historical patterns and is not overly subjective or susceptible to bias. Using this method, OSC and related agencies accumulate relevant, sufficient, and reliable data on which to base the estimate. Additionally, we believe that the estimate is presented in conformity with applicable accounting principles and that disclosure is adequate.*

Contact: *Sandra Royce, Director of Financial Reporting and Analysis, OSC, 626-8451*

Auditor's Concluding Remarks:
Quantitative support is not available to substantiate the valuation method used for the Allowance for Uncollectible Accounts or to support the conclusion that the collectability of MaineCare receivables is not overly sensitive to variations. We continue to recommend that OSC refine its valuation method for financial statement purposes.

The finding remains as stated.

(ML-14-0305-01)

Title: Controls over accounts receivable need improvement

Prior Year Findings:

FY13	FY12	FY11	FY10	FY09
ML-13-0305-01	ML-12-0305-01	ML-11-0305-01	ML-10-0305-01	ML-09-0305-01

State Department: Administrative and Financial Services

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

Condition: The Lottery Fund accounts receivable balance reported on the State's financial statements was not supported by detail records. No subsidiary ledger of accounts receivable was maintained. DFPS did not perform alternative procedures to corroborate the balance.

Context: At fiscal year end, the accounts receivable balance was reported as $26.2 million.

Cause: The State's online and instant lottery games service provider cannot produce a report providing the accounts receivable balances by lottery agent to DFPS.

Effect:
- A possibility that the State's financial statements are misstated.
- A possibility that the State does not have an accurate account of the actual amount 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 Division of Financial and Personnel Services agrees with the finding, and is working with the Bureau of Alcoholic Beverages and Lottery Operations and the contractor that administers the lottery accounts receivable system. A new system is in place, but we still do not have a report that includes all accounts receivable records.*

***Contact:** Deanna Lefebre, GG Service Center Managing Staff Accountant, 624-7384*

(ML-14-0320-01)

Title: Record keeping and asset transfer procedures for Internal Service Fund capital assets need improvement

Prior Year Findings:

FY13	FY12	FY11	FY10	FY09
	12-0320-01			

State Department: Administrative and Financial Services

State Bureau: Office of Information Services (OIT)

Condition: Capital assets within the Internal Service Funds are not correctly reported. We noted the following:

- Existing radio network buildings and equipment with an estimated value of $2.5 million and the related accumulated depreciation of $2.3 million were not reported by OIT in their capital asset records. In prior years these assets were transferred to OIT from various agencies.
- The OIT reported the MERITS software system as an asset in their construction-in-progress account. MERITS is a $16.9 million capitalized software asset that was completed in 2013, and as such, should be reported as a depreciable capital asset in the software account.

The Office of the State Controller adjusted the State's financial statements to record the $16.9 million MERITS software system.

Context: OIT reported $44.9 million in fixed assets and $24.5 million in accumulated depreciation.

Cause: OIT capital asset records are not being properly maintained.

Effect: Internal Service Fund depreciable capital assets were not accurately reported by OIT. Therefore depreciation expense was understated.

Recommendation: We recommend that the Department follow procedures outlined in the fixed assets section of the State Administrative and Accounting Manual to ensure accurate financial reporting of capital assets.

Management's Response/Corrective Action Plan: *The Office of Information Technology agrees with the finding.*

The consolidation posed a considerable challenge in the transferring/combining of OIT fixed assets statewide. In an ongoing effort to improve fixed asset data as part of the process to remove depreciated assets, OIT continues to review each record, identify asset disposition as appropriate, correct records as needed, and maintain proper supporting documentation. OIT recently completed a physical inventory against the current listing of fixed asset system assets. As a result, the Service Center has made a number or entries to the State's Fixed Asset system based on OIT's recommendation from its review.

Because of the OIT consolidation, certain Radio assets needed to be transferred from several agencies to OIT in the State's subsidiary fixed asset system. At the time of the transfer, OIT was not able to verify all the assets because of the lack of detail. Also, many of the assets that needed to be transferred were fully depreciated and/or did not meet the State's capitalization threshold. For those assets OIT was able to verify, they were successfully transferred to OIT's records. For the remainder, OIT decided to wait until the ongoing Radio project was complete.

The first phase of the Radio communication network project is now complete (second phase is Department of Transportation). Once accounts are officially reconciled for the first phase, totals will be transferred from Work in Process and the assets will be recorded (by site/location) on OIT's financial statements. This recording will include all asset components connected to the *first phase. This reconciliation will be incredibly complex due to the number of locations and the number or components. It is estimated this reconciliation will be complete by June 30, 2016 at which time depreciation expense will be adjusted as necessary.*

MERITS, a major IT capital initiative, was funded and tracked through OIT Fund 038 because the funding mechanism was through OIT. The project is now complete and, once accounts are officially reconciled (expected to be completed by June 30, 2015); the asset will be transferred from Fund 038. This will reduce OIT's Assets/Retained Earnings.

Contact: *Kirsten Figueroa, Director of Finance, OIT, 624-9510*

(ML-14-0911-01)

Title: Confidential finding, confidential distribution

Prior Year Findings: None

FY13	FY12	FY11	FY10	FY09

State Department: Administrative and Financial Services

State Bureau: Office of the State Controller

(ML-14-0911-02)

Title: Confidential finding, confidential distribution

Prior Year Findings: None

FY13	FY12	FY11	FY10	FY09

State Department: Administrative and Financial Services

State Bureau: Office of the State Controller

(ML-14-0911-03)

Title: Confidential finding, confidential distribution

Prior Year Findings: None

FY13	FY12	FY11	FY10	FY09

State Department: Administrative and Financial Services

State Bureau: Office of the State Controller

(ML-14-0911-04)

Title: Vendor's disaster recovery plan not examined by an independent auditor

Prior Year Findings: None

FY13	FY12	FY11	FY10	FY09

State Department: Administrative and Financial Services

State Bureau: Office of the State Controller

Condition: The description and testing of internal controls related to the AdvantageME disaster recovery plan were not included in the independent auditor's report.

Context: AdvantageME is the State accounting system. The State contracts with a vendor to host and manage the system, including all aspects of disaster recovery.

Cause: The Department has never required the AdvantageME vendor to include coverage of business continuity disaster recovery (BCDR) controls in an annual Service Organization Control (SOC) report.

Effect: Not including an examination of the disaster recovery plan by an independent auditor could result in the breach of sensitive information, corrupted or lost information, down time, and extended shutdowns.

Recommendation: We recommend that the Department require the AdvantageME vendor to include adequate and appropriate coverage of the disaster recovery plan in an annual SOC report. To accomplish this, we also recommend the State add language to the SLA (service level agreement) with the AdvantageME vendor to require an independent audit and testing (SOC 2, type II) of the BCDR plan.

Management's Response/Corrective Action Plan:

The FISCAM criteria referenced above define control activities and techniques for maintaining an effective (application) contingency planning program, which should be incorporated into related plans, such as the Disaster Recovery, Business Continuity, and Business Resumption Plans. The contingency plan should be tested periodically, including:

- *System recovery on an alternate platform from backup media*
- *Coordination among recovery teams*
- *Internal and external connectivity*
- *System performance using alternate equipment*
- *Restoration of normal operations*
- *Notification procedures.*

The NIST contingency planning guide states that test results and lessons learned should be documented and reviewed. The guide further states that, to be effective, the plan should be maintained in a ready state that accurately reflects the system, requirements, procedures, organizational structure, and policies and, therefore, the plan should be reviewed and updated regularly, at least annually or whenever significant changes occur.

The State of Maine Information System Security Policy (for remote hosted applications) requires a full disaster recovery exercise within one year of project go-live, repeated annually thereafter, and signed off by the Agency. This includes complete backup-restore tests from the appropriate medium once per annum.

OSC and CGI, the remote hosting vendor, maintain a comprehensive business continuity and disaster recovery plan (BCDR) that is tested annually. The vendor establishes a BCDR environment following a mock "declaration of disaster" and OSC tests the functionality and adequacy of the environment "build" in accordance with the managed services contract. Test results are documented and a report, such as a lessons-learned report, is developed and provided to senior management. Additionally, test results are measured and reported against SLA metrics in the contract, including recovery time objective (RTO) and recovery point objective (RPO). This testing guards against breach of sensitive information, corrupted or lost information, down time, and extended shutdowns. Additionally, the vendor must submit to an annual audit of Service Organization Control (SOC) 1 in accordance with Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization (SSAE 16 SOC 1 Type 2) under the terms of the managed services contract.

The most recent Remote Hosting Policy issued by the Office of Information Technology (OIT), revised October 7, 2014 requires that the data center must be certified to SSAE 16 SOC 2 Type 2. OSC will work with OIT and the vendor to include this requirement, or suitable equivalent, in any future contract renewal, if applicable.

***Contact:** Phillip Platt, ERP Business Systems Manager, OSC, 626-8426*

Auditor's Concluding Remarks: We agree. The vendor did appear to have internally designed and tested a business continuity and disaster recovery plan (BCDR) during fiscal year 2014. However, compensating controls referred to in the Management response cannot replace the organizational independence provided by a Service Organization Control (SOC) report.

This is the reason that the premise for this finding is that the Department should require the vendor to have this testing performed annually by an independent auditor and to issue the results in the form of a Service Organization Control (SOC2, type II) report.

The finding remains as stated.

(ML-14-1000-01)

Title: Certain Postal, Printing and Supply payroll costs are not supported in accordance with Federal cost principles

Prior Year Findings: None

FY13	FY12	FY11	FY10	FY09

State Department: Administrative and Financial Services

State Bureau: General Services

Condition: Federal regulations require that actual costs associated with central service activities are for allowable costs and activities. Some Division of Purchases' salaries are allocated to the Postal, Printing, and Supply internal service fund based on *budgeted* amounts. The Federal government requires the use of *actual* time records or the application of an approved cost allocation plan.

Context: The Division of Purchases has nine positions funded by an internal service fund and another seven positions funded by the General Fund in an effort to allocate costs equitably between the Federal government and the State of Maine.

Cause: A Federally approved method to allocate costs has not been implemented by the Division.

Effect: Potential disallowance of expenditures by the Federal government.

Recommendation: We recommend that the Division of Purchases follow the Federal cost principles established in 2 CFR 225.

Management's Response/Corrective Action Plan: *The Department agrees that the allocation is based on budgeted amounts. This will be reviewed and adjusted as appropriate.*

Contact: *Kevin Scheirer, Operations Director, 624-7349*

(ML-14-0910-02)

Title: Unauthorized use of U.S. Social Security Administration Data

Prior Year Findings: None

FY13	FY12	FY11	FY10	FY09

State Department: Administrative and Financial Services (DAFS)
Health and Human Services (DHHS)

State Bureau: Office of Information Technology (OIT)
Office for Family Independence (OFI)

Condition: Maine DHHS is serving as a data hub and providing SSA information to the Maine State Housing Authority (MSHA) without permission during our audit period.

Context: SSA sends data to OIT; OIT splits the data and sends information with permission to both SSA and DHHS; and DHHS was providing SSA data to MSHA without permission during our audit period. This data assists the MSHA in administering a certain program under Title XVI of the Social Security Act.

Cause:

- Insufficient communication between DHHS and OIT to ensure compliance with State and Federal requirements.
- DHHS and OIT do not have a clear understanding of the data flow from SSA.
- The current DAFS-OIT-DHHS technology servicing structure does not hold any person or group accountable for these processes.
- An insufficient number of OIT personnel assigned to this effort.
- Data exchanges are not tested periodically to ensure continued compliance with Federal regulations.
- System batch jobs relevant to SVES were designed more than twenty years ago and are not being reviewed to ensure ongoing reliability and compliance.
- Institutional knowledge at OIT has been lost due to the retirement of one technical person two years ago. There has not been adequate training of replacement personnel.

Effect:

- Potential sanctions from the Federal oversight entity.
- Suspension of SSA provided information and or termination of the IEA.
- Potential disallowed Federal expenditures resulting from ineligible clients.
- Exchanges may be performed ineffectively or in an insecure manner.
- No method is in place to identify deliverables that would ensure DHHS business needs are being met.

- Potential overspending in the General Fund associated with the State share of payments for ineligible clients.

Recommendation: None. Permission that allows DHHS to provide SSA information to the MSHA was granted in December 2014. Therefore, no further action is required.

Management's Response/Corrective Action Plan: *The Office for Family Independence agrees with this finding.*

On December 30, 2014, Maine received the countersigned State Transfer/Transmission Component (STC) Agreement between the Maine Department of Health and Human Services (DHHS) and the Social Security Administration, which authorizes DHHS to receive this data.

Contact: *Anthony Pelotte, Division Director, Business Technology, DHHS-OFI, 624-4104*

Management's Response/Corrective Action Plan: *The Office of Information Technology agrees with the finding.*

The SSA documentation flow from SSA through OIT, to DOL & DHHS, and from DHHS to Maine State Housing has been updated.

Contact: *Victor Chakravarty, Enterprise Architect, OIT, 624-9840*

(ML-14-0308-01)

Title: Procedures to value the Allowance for Uncollectible Accounts need improvement

Prior Year Findings:

FY13	FY12	FY11	FY10	FY09
13-0308-01	12-0308-01			

State Department: Administrative and Financial Services
Labor
State Bureau: Office of the State Controller (OSC)
Bureau of Unemployment Compensation (BUC)

Condition: The Department of Administrative and Financial Services and the Department of Labor did not have proper procedures in place to value the Allowance for Uncollectible Accounts. Personnel did not take into account relevant collection experience and general economic conditions. The same percentages and assumptions have been used for many years to estimate the Allowance for Uncollectible Accounts within the Employment Security Enterprise Fund.

Context: For fiscal year 2014, the Employment Security Enterprise Fund's Allowance for Uncollectible Accounts of $24.6 million was calculated for receivables totaling $58.9 million.

Cause: Inadequate quantitative analysis to support valuation assumptions.

Effect: Net receivables may be inaccurate in the State's financial statements.

Recommendation: We recommend that the Departments perform additional analysis to ensure the Allowance for Uncollectible Accounts is properly valued.

Management's Response/Corrective Action Plan: *OSC is responsible for making the accounting estimates included in the financial statements. Estimates are based on subjective as well as objective factors and, as a result, judgment is required to estimate an amount at the date of the financial statements. OSC has a process for estimating the amount to be reserved for uncollectible receivables using an aging method, which is a common, acceptable method within the industry. We believe that this method is not overly sensitive to variations, is consistent with historical patterns and is not overly subjective or susceptible to bias. Using this method, OSC and Labor accumulate relevant, sufficient, and reliable data on which to base the estimate. Additionally, we believe that the estimate is presented in conformity with applicable accounting principles and that disclosure is adequate.*

Contact: *Sandra Royce, Director of Financial Reporting and Analysis, OSC, 626-8451*

Auditor's Concluding Remarks: Quantitative support is not available to substantiate the valuation method used for the Allowance for Uncollectible Accounts or to support the conclusion that the collectability of Employment Security Trust Fund receivables are not overly sensitive to variations. We continue to recommend that OSC, working in tandem with the BUC, refine its valuation method for financial statement purposes.

The finding remains as stated.

(ML-14-1505-02)

Title: Performance and Evaluation Report (PER) reporting errors

Prior Year Findings: None

FY13	FY12	FY11	FY10	FY09

State Department: Economic and Community Development (DECD)

State Bureau: Office of Community Development

Condition: The PER reported obligations in the sub-categories for the Calendar Year 2013 "Amount used to:" did not accurately match the supporting schedules. One hundred thousand dollars was mis-categorized.

Context: The total amount Obligated to Recipients for Calendar Year 2013 was $4,050,312.

Cause: Clerical error

Effect: Incorrect information may adversely affect decisions made by the users of the report.

Recommendation: We recommend that the Department ensure that reports are accurate when submitted.

Management's Response/Corrective Action Plan: *Management agrees with the finding. DECD will continue to take measures to ensure that reports are accurate when submitted.*

Contact: *Deborah Johnson, Director, Office of Community Development, 624-9817*

(ML-14-1103-02)

Title: Incorrect coding of Random Moment Time Studies

Prior Year Findings:

FY13	FY12	FY11	FY10	FY09
13-1103-02				

State Department: Health and Human Services

State Bureau: Office of Child and Family Services (OCFS)

Condition: The Department conducts random moment time studies in order to allocate certain costs to programs administered by the Office of Child and Family Services. Twelve random moments were tested which included a total of ninety-nine participants. In two of the ninety-nine participants tested, the incorrect code was used to allocate an individual's time to the appropriate program.

Context: The Cost Allocation Plan allocated $66 million to various Office of Child and Family Services' programs using approximately twenty-seven different indirect allocation methods.

Cause: Human error

Effects:
- Programs may not be charged their fair share of allocated costs
- Potential unallowable costs claimed

Recommendation: We recommend that the Department continue to implement additional controls to ensure that random moment time studies accurately reflect an employee's actual time spent on a particular activity.

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

During calendar year 2015, OCFS will provide a mandatory training and hold quarterly calls for all observers. These calls will reinforce the training and answer questions as needed to increase statewide consistency. OCFS will also provide additional training to observers to increase their knowledge and understanding of the process. OCFS will also receive outside consultation on the current Random Moment Time Study process, and improve the system to increase its efficiency and accuracy.

Contact: *Robert Blanchard, Associate Director, OCFS, 624-7955*

(ML-14-1113-01)

Title: Internal controls over transfer of funds to fiscal agent need improvement

Prior Year Findings: None

FY13	FY12	FY11	FY10	FY09

State Department: Health and Human Services

State Bureau: Maine Center for Disease Control and Prevention

Condition: Internal control over funds transfer need improvement. Procedures do not include segregation of duties for large transfers of funds to the fiscal agent for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). The WIC Finance Manager both initiates and approves WIC funds transfer requests.

Context: Prior to late January 2014, WIC funds transfer requests were initiated and forwarded to the Health and Human Services Service Center for processing by the WIC Finance Manager without the review and approval of the WIC Director. In FY14 there were twenty-one such requests, and fifteen did not have the WIC Director's written approval. Effective internal control requires the segregation of key job duties such as the initiation of a payment request and the authorization of such request.

Cause: Inadequately designed internal control procedures.

Effect: Potential errors or misuse of WIC funds caused by lack of effective segregation of duties.

Recommendation: We recommend that the WIC Director review and approve all WIC funds transfer requests prior to processing. A discussion with the WIC Finance Manager indicates that this policy had been instituted as of late January 2014.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this management letter comment.*

For the short period of time prior to January 2014, fund transfers did not include dual signatures. In January 2014, the practice of dual signatures was resumed.

Contact: *Lisa Hodgkins, MeCDC, WIC Program Director, 287-5342*

(ML-14-1113-03)

Title: Internal controls over subrecipient cash management need improvement

Prior Year Findings:

FY13	FY12	FY11	FY10	FY09
13-1113-03				

State Department: Health and Human Services

State Bureau: Division of Contract Management

Condition: The Department made contract payments to one of eight WIC subgrantees without regard to the subgrantee's cash on hand. Even when the subgrantee submitted four quarterly reports showing excessive cash on hand, the Department did not adjust payments as required by their new procedures.

Context: The Department suspended contract payments to the subgrantee after the first quarterly report indicated excessive cash on hand. However, the Department resumed regular payments for the second quarter and continued through the remainder of the contract period despite the subgrantee reporting excess cash. The agreement closeout report indicated an overpayment to the subgrantee in the amount of $10,704.

Cause:
- Lack of communication between the Department and subgrantees
- Inadequate implementation of new internal control procedures

Effect: Potential Federal interest liability

Recommendation: We recommend that the Department ensure that all contract administrators receive additional training and fully utilize the new process for tracking contract payments to providers.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this management letter comment.*

In the past eighteen months, the Department has twice reviewed and adjusted its process for reviewing Quarterly Financial Reports and adjusting subsequent provider payments. The Department also implemented tools to track progress of Quarterly Report processing. By July 1, 2015, The Department will:
- *Incorporate training on this process in its Agreement Administrator training curriculum.*
- *Revisit how managers ensure quarterly report processing is occurring.*

***Contact:** Jim Lopatosky, Deputy Director, Division of Contract Management, 287-5075*

(ML-14-1128-01)

Title: Internal controls over payment processing in DSER regional offices need improvement

Prior Year Findings: None

FY13	FY12	FY11	FY10	FY09

State Department: Health and Human Services

State Bureau: Support Enforcement and Recovery (DSER)

Condition: DSER's Rockland Regional Office is not following established protocol for processing child support payments made in person by noncustodial parents. The front desk receptionist accepted child support payments when procedures require that a DSER employee handle the transaction.

Context: DSER has established a payment processing protocol for child support payments dropped off in person at regional or district offices. This protocol ensures accountability for child support collections and mitigates the risk of misappropriation.

Cause: Change in regional office management

Effect: Possible misappropriation of child support collections.

Recommendation: We recommend that supervisory staff review the current payment processing protocol with DHHS office management and reception staff, and more closely monitor collection activities to ensure compliance with protocol.

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

The Division of Support Enforcement & Recovery (DSER) is tasked with collecting child support from parents who are ordered to pay support for their children. In the course of this effort, obligors appear in person at DSER regional locations for the purpose of making support payments so DSER issued a payment processing protocol to reduce the risk that such payments could be either lost or misappropriated. This protocol states that only DSER staff will accept, log, secure and forward support payments to the Department of Financial and Administrative Services (DAFS) for processing. In the Rockland regional office, someone other than a DSER staff person accepted a child support payment directly before turning it over to DSER staff.

DSER management has reissued the payment policy to all staff and DSER District Supervisors have contacted their counterparts in the Division of Regional Office, Management and Budget Operations (DROMBO) to share and explain the policy for accepting child support payments.

Contact: *Jerry Joy, Director, Division of Support Enforcement & Recovery, 624-6985*

(ML-14-1106-07)

Title: Procedures to ensure the State Plan is consistent with Federal regulations need improvement

Prior Year Findings: None

FY13	FY12	FY11	FY10	FY09

State Department: Health and Human Services

State Bureau: Office of MaineCare Services

Condition: The CHIP State Plan is inconsistent with Federal regulations. Medicaid Expansion, a program within CHIP, covers uninsured children with household income up to 150% of the Federal poverty level (FPL) threshold prior to January 1, 2014 (after January 1, 2014, household income was increased to 157% of the FPL threshold). If a child has other health insurance coverage and household income within the applicable 150/157% FPL threshold, the child is instead eligible for Medicaid; this is not specified in the CHIP State Plan.

Context: Expenditures related to insured children who have household income within the applicable 150/157% FPL threshold totaled $1.1 million in fiscal year 2014.

Cause: The CHIP State Plan does not specify that children who have household income within the applicable 150/157% FPL threshold but also have other health insurance coverage are eligible for Medicaid at the base Federal Medical Assistance Percentage (FMAP) rate instead of CHIP at the enhanced FMAP rate.

Effect: The CHIP State Plan is inconsistent with Federal regulations.

Recommendation: We recommend that the Department update and clarify the CHIP State Plan to be consistent with Federal regulations.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with this management letter comment.*

The CHIP State Plan needs to be updated and clarified to be brought into compliance with Federal regulations. The State Plan Amendment for this change will be submitted by June 30, 2015.

Contact: *Beth Ketch, Director of Customer Service, OMS, 287-4078*

(ML-14-1106-12)

Title: Eligibility type of Medicare Buy-In program is inconsistent between systems

Prior Year Findings:

FY13	FY12	FY11	FY10	FY09
ML 13-1106-18				

State Department: Health and Human Services

State Bureau: Office for Family Independence

Condition: The State's Automated Client Eligibility System (ACES) and the U.S. DHHS Centers for Medicare and Medicaid Services (CMS) report inconsistent data related to the sub-category of Medicare Buy-In for which an individual qualifies in Medicaid. While the data between the two systems is inconsistent, the Medicaid/Medicare recipients are still eligible.

Context: Maine DHHS paid $109 million to CMS for Medicare Part B premiums in fiscal year 2014.

Cause: Lack of procedures to ensure that the type of Medicare Buy-In eligibility is consistent between ACES and CMS.

Effect: Inaccurate classification of the type of Medicare Buy-In program by either the Department or CMS

Recommendation: We recommend that the Department ensure the type of Medicare Buy-In eligibility is consistent between ACES and CMS.

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

OFI will ensure a task for the development of a monthly reconciliation report that will list any mismatches between the ACES buy-in codes and CMS buy-in codes is appropriately resourced by the ACES application team for report implementation no later than June 30, 2015.

Contact: *Anthony Pelotte, Division Director Business Technology, OFI, 624-4104*

(ML 14-1005-01)

Title: Controls over monitoring of the Treasury State Agreement (TSA) need improvement

Prior Year Findings: None

FY13	FY12	FY11	FY10	FY09

State Department: Office of the State Treasurer

State Bureau: N/A

Condition: Internal control procedures were not adequate to ensure that compliance with TSA requirements was being monitored on an ongoing basis and that changes to programs that affect the TSA have been properly communicated to the State Treasurer's Office. The Assistant Director of Internal Operations has been designated as the authorized State official for all matters concerning the TSA; therefore, the State Treasurer's Office is responsible for informing the U.S. Department of Treasury of any program changes that affect the funding techniques in the current agreement.

Context:
- There are eleven major programs covered under the TSA for FY14, which are administered by five different Departments within the State. These programs are required to be monitored on an ongoing basis for compliance with the TSA.
- The Treasurer's Office is responsible for creating the TSA and communicating all necessary changes to the U.S. Department of Treasury when they occur.
- A Treasurer's Office staff member is the Authorized Official of the State of Maine in all matters concerning the TSA and is responsible for communicating any changes.

Cause:
- Lack of ongoing communication between Treasurer's Office and Service Center or program personnel regarding changes that affect the TSA.
- The discontinuation of State Treasury procedures.

Effect: Program changes that affected the current agreement for a covered DHHS program were not brought to the attention of State Treasurer's Office resulting in non-compliance with Federal cash management requirements. Current procedures could result in additional noncompliance with Federal cash management requirements.

Recommendation: We recommend that the Treasurer's Office reinstate the practice of requiring a CMIA certification from program administrators each year. Additionally, we recommend that Treasury enhance the certification to include a reference to 31 CFR 205 and more clearly describe the agency responsibilities. Lastly, we encourage Treasury to implement procedures to ensure that the self-reporting required by certification is being adhered to by State agencies.

Management's Response/Corrective Action Plan: *This office disagrees with the Auditor's premise that the Office of the State Treasurer (OST) is responsible for ensuring statewide compliance with the TSA. That responsibility rests solely and individually with the agencies that are party to the TSA and subject to the rules and regulations outlined for the drawdown and expenditure of Federal funds. OST serves as the liaison between the Financial Management Service (FMS) and State agencies that are receiving Federal dollars. OST's role is to help State agencies navigate the terms of the TSA, submit the annual report, and calculate and remit interest liabilities.*

To more clearly delineate that role, OST will reinstate the practice of requesting program managers involved in the Treasury-State Agreement (TSA) to sign the TSA certification. The certification will include an overview of the responsibilities that the TSA outlines as well as a reference to 31 CFR 205, as recommended. The certification will request sign-off by the program manager and commissioner (or designee). OST will include language that suggests agencies implement procedures to ensure that the self-reporting is adhered to, per request of the Office of the State Auditor.
Contact: *Tim Rodriguez, Director of Internal Operations, 624-7460*

Auditors Concluding Remarks: The Office of the State Auditor found that the State of Maine did not fully comply with the terms of the TSA. The OST is the official designee for the State and therefore in a unique position to coordinate, along with the responsible agencies, procedures that will help ensure that the State of Maine is in full compliance with the TSA. It is anticipated that the additional procedures identified in the OST's response will achieve those objectives.

The finding remains as stated.

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