

STATE OF MAINE



MANAGEMENT LETTER

to the Annual Comprehensive Financial Report

Fiscal Year Ended June 30, 2024

Office of the State Auditor
Matthew Dunlap, CIA
State Auditor

State of Maine
Management Letter to the Annual Comprehensive Financial Report
Fiscal Year Ended June 30, 2024

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*This management letter comment is also addressed to the Department of Agriculture, Conservation and Forestry.

**This management letter comment is also addressed to the Department of Administrative and Financial Services.

†This management letter comment has been redacted consistent with Government Auditing Standards, also known as the Yellow Book (Chapter 6, Standards for Financial Audits, Reporting Confidential or Sensitive Information, Requirements: Reporting Confidential or Sensitive Information, paragraphs 6.63 through 6.65)



**STATE OF MAINE
OFFICE OF THE STATE AUDITOR**

66 STATE HOUSE STATION
AUGUSTA, ME 04333-0066
TEL: (207) 624-6250

**Matthew Dunlap, CIA
State Auditor**

**B. Melissa Perkins, CPA
Deputy State Auditor**

LETTER OF TRANSMITTAL

Honorable Members of the Legislative Council, 132nd Maine Legislature;

Honorable Janet T. Mills
Governor of the State of Maine

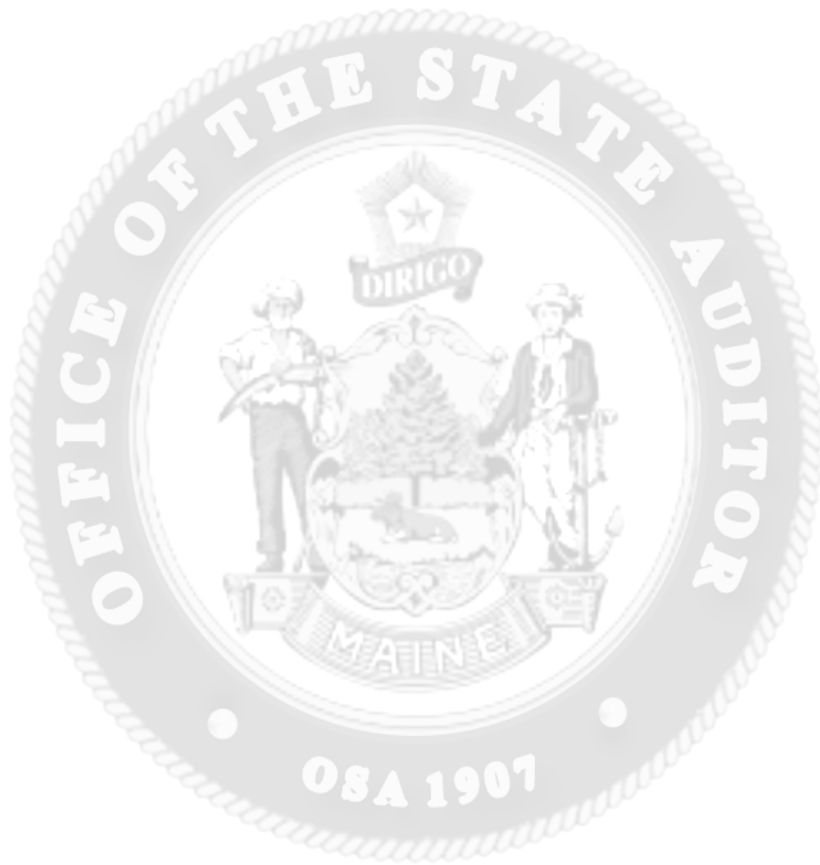
I am pleased to submit the State of Maine Management Letter related to our audit of the State's Annual Comprehensive Financial Report for the year ended June 30, 2024. In the course of conducting this audit, we became aware of opportunities for our government to improve its operations. These matters, known as "management letter comments," accompany this letter, and do not rise to the level of audit findings, but rather serve as recommendations to enhance internal controls already in place. A separate Management Letter related to the Single Audit for the year ended June 30, 2024, will be issued this spring.

I welcome your thoughts and inquiries about these matters.

Respectfully submitted,

Matthew Dunlap,
CIA State Auditor

January 28, 2025





STATE OF MAINE
OFFICE OF THE STATE AUDITOR

66 STATE HOUSE STATION
AUGUSTA, ME 04333-0066

TEL: (207) 624-6250

Matthew Dunlap, CIA
State Auditor

B. Melissa Perkins, CPA
Deputy State Auditor

MANAGEMENT LETTER TO THE ANNUAL COMPREHENSIVE FINANCIAL REPORT

Honorable Members of the Legislative Council, 132nd Maine Legislature;

Honorable Janet T. Mills
Governor of the State of Maine

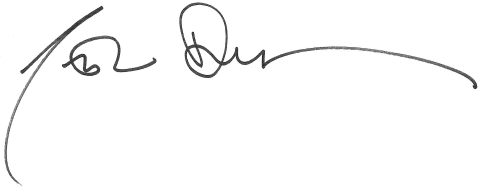
In planning and performing our audit of the financial statements of the State of Maine as of and for the year ended June 30, 2024, on which we have issued our report dated December 17, 2024, in accordance with auditing standards generally accepted in the United States of America, we considered the State of Maine's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Maine's internal control. This report is based on our knowledge as of the date of our report on the financial statements, obtained in performing our audit thereof, and should be read with that understanding.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all weaknesses or deficiencies in internal control. Given these limitations, not all weaknesses or deficiencies in controls may have been identified. However, during our audit we became aware of certain matters that resulted in "management letter comments," which are presented for your consideration and offer opportunities for strengthening internal control and improving operating procedures of the State of Maine. These matters were not identified as material weaknesses or significant deficiencies in a separate report titled Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. The following pages contain our comments and suggestions regarding those matters.

One of the sixteen management letter comments is redacted because it relates to confidential and sensitive information. Redacting this information is consistent with the *Government Auditing Standards* promulgated by the U.S. Government Accountability Office.

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

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

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

Matthew Dunlap, CIA
State Auditor

January 28, 2025

Department of Administrative and Financial Services

ML-24-0121-02

Title: Procedures over identification and review of potential public-private partnerships, public-public partnerships, and availability payment arrangements

State Department: Administrative and Financial Services
Agriculture, Conservation and Forestry

State Bureau: Office of the State Controller
Natural Resources Service Center
Parks and Lands

Observation: The Office of the State Controller (OSC) is responsible for reporting Governmental Accounting Standards Board (GASB) Statement 94 arrangements, which include public-private partnerships, public-public partnerships, and availability payment arrangements (PPPs and APAs), on the State's financial statements. Departments should capitalize GASB Statement 94 assets that meet the minimum dollar threshold of \$1 million. To identify potential PPPs and APAs, OSC's procedures include performing expenditure queries of the State's accounting records and requesting agencies and service centers to complete and submit a GASB Statement 94 Survey. OSC reviewed survey responses to determine if any arrangements should be recorded and disclosed in the financial statements. No PPPs or APAs were recorded or disclosed for fiscal year 2024.

The Office of the State Auditor (OSA) reviewed OSC's procedures and found:

- OSC did not perform revenue queries of the State's accounting records. Potential PPPs and APAs would more likely be identified by reviewing revenue activity.
- completed GASB Statement 94 surveys from all pertinent agencies were not collected and considered before concluding no PPPs or APAs were required to be recorded and disclosed.

In addition, the Natural Resources Service Center (NRSC) processes accounting transactions for various State agencies including the Bureau of Parks and Lands (BPL). Though NRSC's survey response reflected they had not identified any PPPs or APAs, OSA's audit procedures identified that BPL may have potential PPPs or APAs that meet the capitalization threshold. Neither NRSC or BPL could provide documentation to support that they had considered any of the potential GASB 94 arrangements identified by OSA.

Recommendation: We recommend that OSC collaborate with NRSC, BPL, and other State agencies as deemed necessary to expand procedures to obtain adequate detail for determination of the existence and value of potential PPPs and APAs.

ML-24-0900-05 CONFIDENTIAL

Title: _____

Pursuant to paragraph 6.63 of the U.S. Government Accountability Office's Government Auditing Standards (also known as the Yellow Book), we omitted details from this comment as they are confidential under the provisions of 5 MRSA 244-C (3). Though the content of this comment has been redacted, we provided the Department(s) with detailed information regarding the specific observation we noted, as well as our specific recommendations for improvement.

Department of Defense, Veterans and Emergency Management

ML-24-0208-19

Title: Department of Defense, Veterans and Emergency Management oversight of payment processing

State Department: Defense, Veterans and Emergency Management

State Bureau: Military

Observation: The Department of Defense, Veterans and Emergency Management (DVEM) utilizes the State Administrative and Accounting Manual to process payments using proper account coding as specified in a contract.

The Office of the State Auditor analyzed DVEM expenditures and found that \$1.7 million was paid to a vendor using account coding that was not in accordance with the contract requirements.

Recommendation: We recommend that DVEM increase oversight to ensure proper account coding is utilized when processing payments.

Department of Economic and Community Development

ML-24-0208-15

Title: Department of Economic and Community Development oversight of procurement-related expenditures

State Department: Economic and Community Development

State Bureau: Commissioner's Office

Observation: Departments are required to adhere to the terms, conditions, and requirements set forth in the contracts they execute. This obligation ensures compliance with legal and regulatory standards, promotes accountability, and safeguards the effective use of public funds. Failure to follow contract provisions may result in financial, operational, or reputational risks for the department and the State.

In the Office of the State Auditor's (OSA) review of one procurement-related payment disbursed by the Department of Economic and Community Development (DECD), documentation could not be provided to support that DECD verified that the subrecipient receiving Federal funds obtained a Single Audit as required. OSA verified that the subrecipient did receive a Single Audit; however, the subrecipient received qualified opinions for the same Federal program for years ended December 31, 2023, and 2022.

Recommendation: We recommend that DECD enhance oversight to ensure that subrecipients adhere to contract terms, conditions, and requirements.

Department of Health and Human Services

ML-24-0208-05

Title: MeCDC oversight of procurement-related expenditures

State Department: Health and Human Services

State Bureau: Maine Center for Disease Control & Prevention

Observation: State policy requires departments utilizing statewide master agreements to verify that prices charged conform to the discounted prices/rates outlined within those agreements before payment is made. The Maine Center for Disease Control & Prevention (MeCDC) utilized available statewide master agreements to make purchases of commodities during fiscal year 2024.

In the Office of the State Auditor's review of two procurement-related payments disbursed by MeCDC, documentation could not be provided to support that the Department compared prices charged to approved discounted prices/rates within statewide master agreements prior to payment.

Recommendation: We recommend that MeCDC enhance oversight to ensure that pricing standards are properly verified and conform to the terms established in applicable statewide master agreements prior to payment.

ML-24-0208-06

Title: Commissioner's Office oversight of procurement-related expenditures

State Department: Health and Human Services

State Bureau: Commissioner's Office

Observation: Departments are required to adhere to the terms, conditions, and requirements set forth in the contracts they execute. This obligation ensures compliance with legal and regulatory standards, promotes accountability, and safeguards the effective use of public funds. Failure to follow contract provisions may result in financial, operational, or reputational risks for the department and the State. Additionally, departments utilizing statewide master agreements must verify that prices charged conform to the discounted prices/rates outlined in those agreements before payment is made.

In the Office of the State Auditor's (OSA) review of five procurement-related payments disbursed by the Commissioner's Office, OSA identified:

- one disbursement that was made for an invoice contrary to approved contract payment standards. The contract stipulated that invoices must be submitted within 45 days following the end of the service month; however, the reviewed invoice was submitted 214 days after the services were performed which significantly exceeded the allowable timeframe.

- one payment that disclosed a violation of contract Rider B, which stipulated work could not begin until the agreement was fully executed and approved by the State Controller and the State Purchases Review Committee. The contract was fully executed on September 5, 2023, after the specified contract start date of January 1, 2023; however, eight invoices were paid in December 2023 for services rendered between January 1, 2023, and August 31, 2023, prior to the contract's execution date.
- three payments that were made utilizing statewide master agreements. In all three instances, documentation could not be provided to demonstrate that a comparison between the rates invoiced and the discounted prices/rates available using the statewide master agreements was performed prior to payment.

Recommendation: We recommend that the Commissioner's Office enhance oversight to ensure:

- contract terms, conditions, and requirements are reviewed prior to procurement-related payments.
- pricing standards are properly verified and conform to the terms established in statewide master agreements when utilized prior to payment.

ML-24-0208-07

Title: Office of Aging and Disability Services oversight of procurement-related expenditures

State Department: Health and Human Services

State Bureau: Office of Aging and Disability Services

Observation: Departments are required to adhere to the terms, conditions, and requirements set forth in the contracts they execute. This obligation ensures compliance with legal and regulatory standards, promotes accountability, and safeguards the effective use of public funds. Failure to follow contract provisions may result in financial, operational, or reputational risks for the department and the State.

In the Office of the State Auditor's (OSA) review of one procurement-related payment disbursed by the Office of Aging and Disability Services (OADS), documentation could not be provided to support that contract terms and conditions, including required contractual deliverables, were considered prior to payment. While OADS was able to provide a copy of a Bi-Annual Narrative and a quarterly Performance Measures Report received before payment processing, the required quarterly Deliverables Workbook provided to OSA contained an attestation by the vendor that was dated subsequent to disbursement. The attestation date was November 19, 2024, after both the payment processing date of April 24, 2024, and the date OSA requested support (November 18, 2024).

Recommendation: We recommend that OADS enhance oversight to ensure vendors adhere to contract terms, conditions, and requirements.

ML-24-0208-08

Title: Office of Child and Family Services oversight of procurement-related expenditures

State Department: Health and Human Services

State Bureau: Office of Child and Family Services

Observation: Departments are required to adhere to the terms, conditions, and requirements set forth in the contracts they execute. This obligation ensures compliance with legal and regulatory standards, promotes accountability, and safeguards the effective use of public funds. Failure to follow contract provisions may result in financial, operational, or reputational risks for the department and the State. Additionally, departments utilizing statewide master agreements must verify that prices charged conform to the discounted prices/rates outlined in those agreements before payment is made.

In the Office of the State Auditor’s (OSA) review of two procurement-related payments disbursed by the Office of Child and Family Services (OCFS), OSA identified:

- one disbursement that was made for an invoice contrary to the monitoring requirements of the approved blanket contract. The blanket contract stipulated that monitoring must be performed through the monthly comparison of Enterprise Information System data to information provided by the Department of Administrative and Financial Services; however, documentation could not be provided to demonstrate that monitoring had occurred and was considered regarding the disbursed payment.
- one payment was made utilizing a statewide master agreement where documentation could not be provided to support that a comparison between the rates invoiced and the discounted prices/rates available using the statewide master agreements was performed prior to disbursement.

Recommendation: We recommend that OCFS enhance oversight to ensure that:

- monitoring requirements of blanket contracts are reviewed prior to making related disbursements.
- pricing standards are properly verified and conform to the terms established in statewide master agreements when utilized prior to payment.

ML-24-0208-09

Title: Office for Family Independence oversight of procurement-related expenditures

State Department: Health and Human Services

State Bureau: Office for Family Independence

Observation: Departments are required to adhere to the terms, conditions, and requirements set forth in the contracts they execute. This obligation ensures compliance with legal and regulatory standards, promotes accountability, and safeguards the effective use of public funds. Failure to follow contract provisions may result in financial, operational, or reputational risks for the department and the State.

In the Office of the State Auditor's (OSA) review of one procurement-related payment disbursed by the Office for Family Independence (OFI), documentation could not be provided to support that a required on-site review for fiscal year 2024 was performed. The last on-site review was conducted on May 19, 2023. Upon OSA's inquiry, OFI stated that the next on-site review is scheduled for December 7, 2024. In the interim, OFI has established monthly check-in meetings with the provider to verify the work detailed in the provider-submitted quarterly reports.

Recommendation: We recommend that OFI enhance oversight to ensure that providers adhere to contract terms, conditions, and requirements.

ML-24-0208-10

Title: Office of MaineCare Services oversight of procurement-related expenditures

State Department: Health and Human Services

State Bureau: Office of MaineCare Services

Observation: Departments are required to adhere to the terms, conditions, and requirements set forth in the contracts they execute. This obligation ensures compliance with legal and regulatory standards, promotes accountability, and safeguards the effective use of public funds. Failure to follow contract provisions may result in financial, operational, or reputational risks for the department and the State.

In the Office of the State Auditor's review of one procurement-related payment disbursed by the Office of MaineCare Services (OMS), payment was made for an invoice received on May 13, 2024, for services performed on August 31, 2023. OMS could not provide documentation that the invoice was reviewed to confirm compliance with the grant in accordance with monitoring requirements in the approved contract. Additionally, the invoice for grant-related activities was paid after the grant liquidation period had closed. While the Department changed the funding source from 100 percent Federal Fund to 50 percent General Fund and 50 percent Federal Fund, no documentation was provided to support the appropriateness of changing the source of funding and the payment of a late invoice received for a closed grant.

Recommendation: We recommend that OMS review procedures for the payment of invoices received with large disparities between service dates and date of receipt. Additionally, we recommend that procedures related to the payment of invoices for closed contract periods and expired grant periods be reviewed and strengthened.

ML-24-0208-11

Title: Office of Behavioral Health oversight of procurement-related expenditures

State Department: Health and Human Services

State Bureau: Office of Behavioral Health

Observation: Departments are required to adhere to the terms, conditions, and requirements set forth in the contracts they execute. This obligation ensures compliance with legal and regulatory standards, promotes accountability, and safeguards the effective use of public funds. Failure to follow contract provisions may result in financial, operational, or reputational risks for the department and the State.

In the Office of the State Auditor’s review of two procurement-related payments disbursed by the Office of Behavioral Health (OBH), documentation could not be provided to support that required reports were received and considered prior to payment. The related contracts required deliverables such as annual on-site reviews and quarterly performance, financial, and narrative reports. One of the contracts also required critical incident reports on a per incident basis, monthly client outcome measure reports, and a monthly waitlist report.

Recommendation: We recommend that OBH enhance oversight to ensure that providers adhere to contract terms, conditions, and requirements.

Department of Marine Resources

ML-24-0208-14

Title: Department of Marine Resources oversight of procurement-related expenditures

State Department: Marine Resources

State Bureau: Marine Science

Observation: Departments are required to adhere to the terms, conditions, and requirements set forth in the contracts they execute. This obligation ensures compliance with legal and regulatory standards, promotes accountability, and safeguards the effective use of public funds. Failure to follow contract provisions may result in financial, operational, or reputational risks for the department and the State.

In the Office of the State Auditor’s review of one procurement-related payment disbursed by the Department of Marine Resources (DMR), documentation could not be provided to support conformance with contractual requirements. The governing contract requires that construction costs are paid only upon verified completion and in accordance with an approved schedule of values. Documentation could not be provided to demonstrate that the invoice conformed to the approved schedule of values. Additionally, documentation for a processed change order did not include a required breakdown of costs consistent with the approved schedule of values.

Recommendation: We recommend that DMR enhance oversight to ensure that vendors adhere to contract terms, conditions, and requirements.

Department of Public Safety

ML-24-0208-12

Title: Gambling Control Unit oversight of procurement-related expenditures

State Department: Public Safety

State Bureau: Gambling Control Unit

Observation: Departments are required to adhere to the terms, conditions, and requirements set forth in the contracts they execute. This obligation ensures compliance with legal and regulatory standards, promotes accountability, and safeguards the effective use of public funds. Failure to follow contract provisions may result in financial, operational, or reputational risks for the department and the State.

In the Office of the State Auditor's (OSA) review of one procurement-related payment disbursed by the Department of Public Safety (DPS) Gambling Control Unit, documentation could not be provided to support that the contract regarding IT system compliance was adequately monitored. One specific condition of contract approval was that the contract language be amended to include that an annual System and Organization Controls (SOC) 2 type 2 report be delivered no later than 60 days after completion at the vendor's expense. The Department did not inquire about the required annual SOC 2 type 2 report until OSA requested a copy on November 11, 2024. The vendor stated that a SOC audit was not performed and could not be performed as the system assets were destroyed and the associated personnel were terminated.

Recommendation: While OSA understands that the specific contractual relationship has concluded and there are no plans to engage another vendor for the same IT services due to a recent change in State statute, we recommend that DPS enhance oversight to ensure that vendors adhere to contract terms, conditions, and requirements. This will ensure that similar issues are addressed proactively for future contracts.

Department of the Secretary of State

ML-24-0208-16

Title: Procedures over expenditures processed by the Secretary of State and the Office of the State Controller

State Department: Secretary of State
Administrative and Financial Services

State Bureau: Finance and Administration
Office of the State Controller

Observation: The Office of the State Controller (OSC) is responsible for recording an annual accrual of expenditures in the State's financial statements at fiscal year end. As required by OSC's financial reporting policies, the Department of the Secretary of State (SOS) must enter service date information in the State's accounting system for expenditures. OSC relies on this information to determine the correct amount of the accrual, as the service date field represents the date that the services were rendered or goods were received and the related liability was incurred. Costs that were incurred in fiscal year 2024 should be included in the State's financial statement balances for expenditures and accrued liabilities at year end.

SOS is responsible for entering accurate service dates for each expenditure processed. OSC's General Accounting Division is responsible for ensuring accurate service dates during final review and approval of expenditures over \$5,000.

The Office of the State Auditor identified two expenditures processed during the first period of fiscal year 2025 totaling \$763,000 that were processed by SOS using incorrect service dates. These two expenditures were incurred in fiscal year 2025, but due to incorrect service dates, \$693,000 of the total was recorded as an accrued liability in the State's fiscal year 2024 financial statements. Both expenditures were over \$5,000 and approved by OSC's General Accounting Division.

Recommendation: We recommend that SOS increase oversight to ensure expenditures are processed using accurate service dates. We recommend that OSC's General Accounting Division increase training for approving payments over \$5,000 to ensure accurate service dates are entered in the State's accounting system.

Department of Transportation

ML-24-0208-18

Title: Procedures over MDOT financial processing

State Department: Transportation

State Bureau: Finance and Administration

Observation: The Maine Department of Transportation (MDOT) has defined policies and procedures for financial processing. Invoices and account coding should be consistent across all systems utilized by the Department for financial processing. The Department is responsible for ensuring discrepancies are reviewed and corrected prior to payment.

The Office of the State Auditor tested 49 expenditure transactions and found that six payments were processed with inconsistent vendor fields. MDOT incorrectly used the contract-related vendor fields on the invoice instead of payment-related vendor fields in the State's accounting systems.

Recommendation: We recommend that MDOT review and revise procedures to ensure vendor information on the invoice and within the State's accounting systems is consistent and accurate prior to approving payments.

Judicial Branch

ML-24-0208-13

Title: Judicial Branch oversight of procurement-related expenditures

State Department: Judicial Branch

State Bureau: Administrative Office of the Courts

Observation: Departments are required to adhere to the terms, conditions, and requirements set forth in the contracts they execute. This obligation ensures compliance with legal and regulatory standards, promotes accountability, and safeguards the effective use of public funds. Failure to follow contract provisions may result in financial, operational, or reputational risks for the department and the State.

In the Office of the State Auditor's review of one procurement-related payment disbursed by the Judicial Branch, documentation could not be provided to verify that monitoring was conducted in accordance with the approved contract. The governing contract stipulates monthly service tours and evaluations of performance. The Judicial Branch has previously asserted that performance is continuously evaluated and that building managers address any performance issues immediately; however, the contract explicitly requires monitoring activities including monthly service tours and formal evaluations using designated checklists and forms. The results of the evaluations are used in the determination of monetary penalties for any identified deficiencies and in the consideration of contract renewals.

Recommendation: We recommend that the Judicial Branch enhance oversight to ensure adherence to the terms and conditions outlined in contracts before disbursement of related payments. Additionally, we recommend that the Judicial Branch amend the contract and adjust performance stipulations as deemed necessary.