

DAFS Response to 2024 Single Audit, April 2025

The purpose of this audit is an independent review of the state's compliance with federal program requirements. This report, which is sent to our federal counterparts, is the first step in the formal findings reporting process. The Audit findings are not finalized until the federal government has done its evaluation. That being said, below are some top-level takeaways:

- The Audit did **not** indicate any evidence of wrongdoing, fraud, waste or abuse
- The Auditor did **not** refer anything to OAG or OSC for follow-up as defined in Title 5 §200-C and §1541 (e.g., fraud, waste, abuse)
- This audit has not revealed anything that would be of surprise in an organization this large and complex. It has identified areas for improvement and areas where we should prioritize some focus. All of which appear to be manageable within our existing audit review, follow-up and remediation processes.
- Specific to the procurement review, while there were internal control weaknesses noted (though we disagreed in whole or in part with most of these), the next step in the process is compliance testing...and in that, there were no findings and no questioned costs.

The Administration believes that the State is best served by an independent assessment of our internal controls, financial reporting and compliance over federal programs. We welcome the auditor's findings and recommendations as it helps us to better administer the programs we are responsible for. An important part of the process is ensuring the identified conditions are understood and properly characterized such that agencies can implement meaningful corrective action. The audit process is integral to assessing risk, while ensuring accountability and transparency.

Having said that, understanding the importance of an audit as a valuable tool does not mean that Management always agrees with an auditor's findings. Sometimes, those disagreements involve differences in professional judgment or interpretations of laws, rules, regulations or accounting standards. There is a process in which the agency and OSC document our reasoning for the disagreement, which is communicated to the auditor, and sometimes iterative changes are made to resolve those disagreements, while other times there is no clear resolution. When we aren't in agreement, it is difficult to determine meaningful corrective action. An important part of the process is ensuring the identified conditions are understood and properly characterized such that agencies can implement meaningful corrective action.

The audit finding process is continuous and evolving and identifies areas for improvement, not necessarily noncompliance. The Administration works diligently to minimize such occurrences and address those items that are found. And that has occurred. Both count and severity of findings have declined from the last report. The overall count of findings, 76 in the recent report, decreased by 22 percent from last year's review, with 88 percent being classified as less than material, and those being classified as material dropping in count from 29 last year to 9 this year.

Pages E-49 – E-53 of the Single Audit Report address the findings specific to the Office of Procurement Services. Of the eight issues identified in the Condition section of the Procurement Services finding, OPS **disagreed, in whole or part**, with seven of the eight findings.

In one section, related to cost analysis, it's suggested that there was zero compliance. This is not accurate and we strongly disagree with this representation. Management's Response on page E-51 outlines instances where the auditor overlooked established processes that provide additional documentation including cost analysis, and did not recognize other controls that are in place as part of the overall procurement process.

The control system that governs the more than \$2.1 billion in state procurement efforts – which by the way is not an annual number and should not be compared to our annual budget – has extensive supervisory oversight to ensure accountability and transparency. The Auditor is reporting that OPS has delegated its procurement oversight responsibility. OPS disagrees with this characterization as it has not and will not delegate its role and responsibility. What they are delegating are specific subordinate functions, not the oversight function.

Additional Summary Points:

- The Auditor determined that the State's financial statements present fairly, **in all material respects**, the financial position of the State of Maine, in accordance with accounting principles generally accepted in the United States of America.
- The Government Finance Officers Association of the United States and Canada (GFOA) has awarded the *Certificate of Achievement of Excellence in Financial Reporting* to the State of Maine for seventeen years. The Certificate of Achievement is the highest recognition a government may receive for excellence in financial reporting.
- In FY24, there were 76 findings and related corrective action plans. Most of these findings can be categorized as offering improvements to process, reporting,

monitoring responsibilities, and eligibility determination. Management did not agree with all findings, including some related to Procurement.

- Included as a part of this audit are audit findings that are used to identify internal control systems that need improvement. Control deficiencies do not automatically result in noncompliance; rather, they indicate that there may be risk that noncompliance can occur.
- From 2023 to 2024, count and severity of audit findings have declined:
 - 97 findings in FY 23 to 76 in FY 24, representing a 22 percent reduction in the number of findings from the prior year;
 - The number of findings classified as a Material Weakness decreased from 17 in FY23 to 3 in FY24, representing an 82 percent reduction;
 - The number of findings classified as Material Weakness/Material Noncompliance decreased from 12 in FY23 to 6 in FY24, representing a 50 percent reduction.
- Audit review periods are in the past. An issue noted for FY24 is not identified until late-FY25, which means it will likely show up as an issue again in FY25.
 - Of the seventy-six findings issued in FY 24, fifty-one were repeated from previous years and twenty-five were new
 - Some findings are repeated because of systems issues, staff turnover, the corrective action plan is taking longer than expected, or the agency does not agree that corrective action is necessary or cost beneficial. The complexity of the findings, e.g., those involving computer system changes, can also have a significant impact on the timing of corrective action.
- The annual audit process is complex, comprehensive, and detailed work. The Office of the State Controller coordinates the Administration's audit response process. The Administration takes each audit finding seriously and has systems in place to ensure that findings are properly addressed and corrected.
 - The Administration responds to each finding, in agreement or disagreement, with pertinent information to support the administration's position.
 - The OSC performs comprehensive reviews to ensure that responses to findings are accurate, fairly stated, and well-reasoned.

- In addition to providing responses to audit findings, agencies must also submit corrective action plans, which are reviewed by OSC to ensure they will address the relevant audit findings.

The Single Audit is a comprehensive review of the State's financial statements and its administration of federal funds. The State of Maine is subject to a federally mandated Single Audit every year. The audit may identify areas that need improvement and result in audit findings.

One element of the Single Audit is the Independent Auditor's Report on the State's financial statements. The State Auditor issued an unmodified opinion on the State's financial statements for the fiscal year ended June 30, 2024 (the most recent audit period). Said another way, the auditor determined that the financial statements present fairly, in all material respects, the financial position of the State of Maine, in accordance with accounting principles generally accepted in the United States of America.

Likewise, The Government Finance Officers Association of the United States and Canada (GFOA) awarded the *Certificate of Achievement of Excellence in Financial Reporting* to the State of Maine for its ACFR for the fiscal year ended June 30, 2023, marking the seventeenth consecutive year that Maine has achieved this prestigious award. The Certificate of Achievement is the highest recognition a government may receive for excellence in financial reporting. To receive this award, a government must publish an easily readable and efficiently organized ACFR that must satisfy both generally accepted accounting principles and applicable legal requirements. We feel strongly that our current ACFR continues to meet the Certificate of Achievement Program's requirements, and we have submitted it to the GFOA to determine its eligibility for another certificate.

An equally important component of the Single Audit is the testing of internal controls, as well as the testing of compliance requirements within federal programs administered by the State of Maine. Included as a part of this audit are audit findings that are used to identify internal control systems that need improvement and instances of noncompliance that have been detected. It is important to note that control deficiencies do not automatically result in noncompliance; rather, they indicate that there may be risk that noncompliance can occur. It should also be noted that federal regulations require that Single Audit effort is rotated to different programs based on certain risk factors. Because of this, it is expected that new findings will be detected each year as a matter of audit design.

As detailed by the State Auditor in the most recent audit (FY 24), there were 76 findings and related corrective action plans. Most of these findings can be categorized as offering improvements to process, reporting, monitoring responsibilities, and eligibility

determination. The number, nature and types of audit findings are affected by many factors, including:

- The auditor has chosen to communicate different components of the original findings in separate findings (e.g., information systems concerns being broken out individually, like password security, disaster recovery planning and user access).
- Additional programs are reviewed that were previously not in scope (e.g., new Cares Act Programs, new American Rescue Plan Programs, cyclical coverage of smaller programs).
- Programs have grown in cost and complexity.
- New information technology systems are implemented and the auditor has expanded the scope of their review to include those systems. As systems become more complex and agencies become more reliant on those systems, the security and vulnerability of those systems becomes a higher priority.
- New federal regulations and compliance requirements are implemented. The federal government updates the “Compliance Supplement,” which defines what audit tests and procedures the auditor should apply during the Single Audit.
- New accounting and auditing standards are implemented.

The above list, though not all-inclusive, reveals this is complex, comprehensive, detailed work.

The Administration takes each audit finding seriously and has systems in place to ensure that findings are properly addressed and corrected. The Office of the State Controller (OSC) is responsible for:

- Prescribing statewide policies and procedures to ensure that agencies meet the requirements of the Single Audit Act and Uniform Guidance for federal programs; and,
- Establishing and maintaining an audit tracking system to provide information on the resolution of all findings contained in audits of state agencies and institutions.

Each finding receives a carefully considered response that provides the Administration’s agreement or disagreement with the findings, along with pertinent information to support the administration’s position. The OSC performs comprehensive reviews to ensure that responses to findings are accurate, fairly stated, and well-reasoned. In addition to providing responses to audit findings, agencies must also submit corrective action plans, which are reviewed by OSC to ensure they will address the relevant audit findings.

To develop and implement appropriate corrective action plans, it is imperative that audit findings be meaningful and actionable. The OSC works closely with agency management and the auditors to ensure a complete understanding of the issues raised and the appropriate corrective action to remediate those issues. One of our goals is to ensure that there is agency agreement with the conditions identified and the recommendations provided by the auditor. There are times, however, where the auditor and the auditee disagree. Sometimes, those disagreements involve differences in professional judgment or interpretations of laws, rules, regulations or accounting standards. There is a process in which the agency and OSC document our reasoning for the disagreement, which is communicated to the auditor, and sometimes iterative changes are made to resolve those disagreements, while other times there is no clear resolution. When we aren't in agreement, it is difficult to determine meaningful corrective action.

The OSC is also required to present a *Summary Schedule of Prior Audit Findings*. The OSC reviews the progress of corrective actions on findings that have been issued to the State and reports the status of those corrective actions. The timing of findings directly affects the timing of corrective action. Typically, audit findings are not issued until nine months after the closure of the original audit period (i.e., nine months into the subsequent audit period). Unless the findings are remediated during the original audit period, corrective action won't begin until late in the subsequent audit period. Consequently, it is likely that many findings will be repeated in the next audit. Additionally, some findings are repeated because of systems issues, staff turnover, the corrective action plan is taking longer than expected, or the agency does not agree that corrective action is necessary or cost beneficial. The complexity of the findings, e.g., those involving computer system changes, can also have a significant impact on the timing of corrective action.

The audit finding process is continuous and evolving and identifies areas for improvement. The Administration works diligently to minimize such occurrences and address those items that are found. This assertion is supported by the reduction in audit findings from ninety-seven in FY 23 to seventy-six in FY 24, representing a 22 percent reduction in the number of findings from the prior year. Additionally, the number of findings classified as a Material Weakness decreased by 82 percent, from seventeen in FY 23 to three in FY 24, and the number of findings classified as Material Weakness/Material Noncompliance decreased by 50 percent, from twelve in FY 23 to six in FY 24. Of the seventy-six findings issued in FY 24, fifty-one were repeated from previous years and twenty-five were new findings.

Reviewing and responding to the Auditor's findings, developing appropriate corrective actions, and collaborating to gain consensus on appropriate internal controls are part of the ongoing process to ensure compliance, transparency, accountability and efficiency in

State government. It is also important that the identified conditions are understood and properly characterized such that agencies can implement meaningful corrective action.