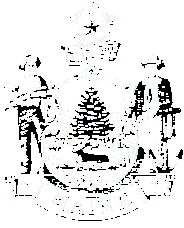


**2009 OMB ARRA
Pilot Project Communication on
Internal Control over Compliance
December 31, 2009**



NERIA R. DOUGLASS, JD, CIA
STATE AUDITOR

**STATE OF MAINE
DEPARTMENT OF AUDIT**

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December 31, 2009

RE: 2009 OMB ARRA Pilot Project Communication on Internal Control over Compliance

The Honorable John Elias Baldacci
Governor of the State of Maine

The Honorable Elizabeth H. Mitchell
President of the Maine Senate

The Honorable Hannah M. Pingree
Speaker of the Maine House of Representatives

We are pleased to submit our Interim Report on Internal Control Over Compliance for the 2009 Office of Management and Budget (OMB) Pilot Project on Federal Programs with Expenditures of the American Recovery and Reinvestment Act of 2009 (ARRA Pilot Project). The Maine Department of Audit and the State of Maine chose to participate in the Pilot Project to help assess certain areas specified by the OMB in two federal programs receiving ARRA funds. As part of this pilot project, we are required to issue, in writing, an early communication of weakness in certain internal controls over compliance, identified as of November 30, 2009, for the following programs:

- 1) Title I, Part A Cluster
- 2) State Fiscal Stabilization Fund Cluster

Comments on these matters accompany our report in the Schedule of Findings.

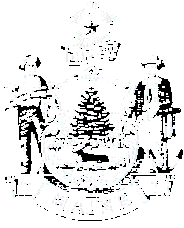
We are committed to working to enhance transparency and internal controls over ARRA funding. On behalf of the Maine Department of Audit, I thank employees of Maine government who have assisted us during the 2009 Pilot Project. Please feel free to contact me with any questions you may have.

Very truly yours,

A handwritten signature in black ink that reads "Neria R. Douglass". The signature is written in a cursive, flowing style.

Neria R. Douglass, JD, CIA
State Auditor

cc: David Lemoine, Treasurer, State of Maine
Ryan Low, Commissioner, Administrative and Financial Services
David Boulter, Executive Director, Legislative Council
Jaci Holmes, Federal State Legislative Liason, Education
Susan Gendron, Commissioner, Education
Terry Brann, State Controller
Ruth Quirion, Director, Financial Reporting and Internal Audit
Lance Boucher, Director of Recovery Initiatives, Governor's Office



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**INTERIM REPORT ON INTERNAL OVER COMPLIANCE
PURSUANT TO THE 2009 OFFICE OF MANAGEMENT AND BUDGET PILOT
PROJECT RELATED TO FEDERAL PROGRAMS WITH EXPENDITURES OF
AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009**

This communication is provided pursuant to the parameters of the 2009 Office of Management and Budget (OMB) pilot project. Such project requires auditors of entities that volunteer for the project to issue, in writing, an early communication of significant deficiencies and material weaknesses in internal control over compliance for certain federal programs having expenditures of American Recovery and Reinvestment Act of 2009 (ARRA) funding at an interim date, prior to the completion of the compliance audit. Accordingly, this communication is based on our audit procedures performed through November 30, 2009, an interim period. Because we have not completed our compliance audit, additional significant deficiencies and material weaknesses may be identified and communicated in our final report on compliance and internal control over compliance issued to meet the reporting requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

In planning and performing our audit through November 30, 2009 of the Title I, Part A Cluster and the State Fiscal Stabilization Fund Cluster we are considering the State of Maine's compliance with activities allowed or unallowed, allowable costs, cash management, eligibility, reporting, and special tests and provisions as described in *OMB Circular A-133 Compliance Supplement* for the year ended June 30, 2009. We are also considering the State of Maine's internal control over compliance with the requirements previously described that could have a direct and material effect on the Title I, Part A Cluster and the State Fiscal Stabilization Fund Cluster in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Maine's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material

weaknesses as defined in the following paragraph. However, as discussed subsequently, based on the audit procedures performed through November 30, 2009, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

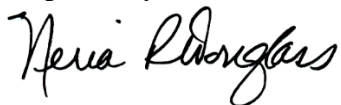
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule as items 09-IR-01 and 09-IR-02 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule we considered items 09-IR-01 and 09-IR-02 to be material weaknesses.

The State of Maine's response to our findings are described in the accompanying schedule. We did not audit the State of Maine's response and, accordingly, we express no opinion on it.

This interim communication is intended solely for the information and use of management, the Governor, the Legislative Council, others within the entity, the State 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.

Respectfully submitted,

A handwritten signature in cursive script that reads "Neria R. Douglass".

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

**STATE OF MAINE
SCHEDULE OF FINDINGS
FOR THE INTERIM PERIOD ENDING
NOVEMBER 30, 2009**

December 31, 2009

(09-IR-01)

Title: Cash management requirements not followed

Prior Year Finding: No

State Department: Administrative and Financial Services

State Bureau: Division of Financial and Personnel Services

Federal Agency: U.S. Department of Education

CFDA Title: State Fiscal Stabilization Fund Cluster

CFDA #: 84.394; 84.397

Federal Award #: S394A090020; S397A090020A

Compliance Area: Cash management

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement (31 CFR §205 Subpart B)

Condition: No procedures were in place to minimize the time between receipt and disbursement of federal funds for the State Fiscal Stabilization Fund Cluster.

Context: Of the \$64.6 million federal draw recorded in State fiscal year 2009, \$33.4 million was spent eight to 14 business days after the drawdown. The remaining \$31.2 million was returned to the federal government 19 business days after the drawdown as it was not required to meet immediate cash needs.

Cause: Lack of proper procedures; uncertainty as to the applicability of federal cash management requirements for ARRA programs.

Effect: The federal government may impose more stringent cash management requirements on the program.

Recommendation: We recommend that the Department implement procedures to ensure compliance with federal cash management requirements.

Management's Response: *We agree with the finding and recommendation.*

As is mentioned, there were several issues that contributed to the finding. It was unclear until June whether the program would be required to follow cash management requirements. In addition, a significant amount of the funds ultimately returned to the U.S. Department of Education were designated for transfer to the State Medicaid program to fund a shortfall. These

funds ultimately were not needed by the program when the State qualified for a higher match rate due to reaching a higher state unemployment rate. Unfortunately, due to the timing of year end activities the return of funds was delayed an additional week.

To ensure compliance with cash management requirements going forward, the Department has implemented the following corrective action procedures:

- 1. Funds will be drawn on a request basis from the Maine Department of Education, from which monthly disbursements are made following cash management rules.*
- 2. Agencies requesting funds must submit a written request to the DAFS/General Government Service Center.*
- 3. A Managing Staff Accountant will initiate a request for funds from the USDOE G5 System.*
- 4. After the funds are drawn, a cash receipt will be processed but not submitted. Cash Receipts will have backup to show date of request, amount of payment, and invoice submitted. Cash Receipts will be entered on the State Fiscal Stabilization Fund (SFSF) tracking sheet.*
- 5. The next business day, Treasury will send an e-mail that the funds have been received. Upon receipt of this notification the cash receipt will be validated, submitted by initiator, and reviewed and approved by a Service Center Manager.*
- 6. Once the deposit of funds posts to the segregated State Fiscal Stabilization – Governor’s account 020 07A 0165 10, a journal will be processed to transfer funds to the requesting Agency. The journal information will be entered on the State Fiscal Stabilization Fund (SFSF) tracking sheet.*
- 7. The Managing Staff Accountant will send an email notification to the Bureau of the Budget and the Office of the State Controller with each draw request to include details on the draw and transfer information.*
- 8. Journals will be placed in a designated area to be approved by the Office of the State Controller’s Accounting Manager. The Agency request for funds will be available once the journal is final.*
- 9. State Fiscal Stabilization account balances will be reconciled monthly using Advantage GQL Warehouse queries. The State Fiscal Stabilization spreadsheet will be sent to the Bureau of the Budget and the Office of the State Controller upon request.*

(09-IR-02)

Title: Cash management procedures need to be improved.

Prior Year Finding: No

State Department: Administrative and Financial Services

State Bureau: Division of Financial and Personnel Services

Federal Agency: U.S. Department of Education

CFDA Title: Title I, Part A Cluster

CFDA #: 84.010; 84.389

Federal Award #: S010A080019A

Compliance Area: Cash management

Type of Finding: Internal control and compliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform administrative requirements for grants and cooperative agreements to state and local governments (34 CFR Subtitle A §80.37 & §80.20)

Condition: The Department does not have adequately designed procedures in place to monitor cash balances of subrecipients receiving funds prior to disbursement to ensure that they minimize the time between receipt and disbursement of funds.

Context: Of the 40 subrecipients selected, 27 subrecipients reported cash balances in excess of amounts considered reasonable for immediate cash needs.

Cause: Ineffective design of procedures to support proper compliance with cash management requirements.

Effect: Noncompliance with federal cash management requirements may result in federal sanctions.

Recommendation: We recommend that the Department modify current procedures to ensure compliance with federal cash management requirements.

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

The current process provides for a monthly disbursement of funds as directed by the Department of Education Program Managers. Program Managers for the Title I program will be providing focused technical assistance to the SAU staff on how to address cash management on the SAU level in 2010, including the process of amending the monthly allocations.

The Department of Education is requesting that the Maine Department of Audit consider sending letters to the auditors of the SAUs to articulate the necessity of completing a review of the federal cash management as part of the circular A-133 audits. This will reinforce the focused technical assistance that the Title I staff will be undertaking.

Contact: Jaci Holmes; Federal State Legislative Liaison; 624-6669