

**TESTIMONY OF
MATTHEW DUNLAP, STATE AUDITOR
OFFICE OF THE STATE AUDITOR**

March 2, 2021

Before the Joint Standing Committee on Appropriations and Financial Affairs and the Joint
Standing Committee on State and Local Government

L.D. 221, An Act Making Unified Appropriations and Allocations for the Expenditures of State Government, General Fund and Other Funds, and Changing Certain Provisions of the Law necessary to the Proper Operations of State Government for the Fiscal Years Ending June 30, 2022 and June 30, 2023.

Senator Breen, Representative Pierce, Senator Baldacci, Representative Matlack and distinguished members of the Joint Standing Committees on Appropriations and Financial Affairs and State and Local Government, my name is Matthew Dunlap and I serve as the State Auditor. I am here to present testimony in support of those items presented in Biennial Budget for the Office of the State Auditor (OSA).

Office information begins on page **A-83** of the **Budget Document**.

Audit Bureau 0067

The Departmental Bureau conducts financial and compliance audits including the State's Single Audit subject to the Single Audit Act Amendments of 1996, 31 United States Code, Sections 7501-7507 (1998). The audit is conducted in accordance with auditing standards generally accepted in the United States. In addition, the department is authorized to conduct audits of all accounts and financial records of any organization, institution or other entity receiving or requesting an appropriation or grant from State Government and to issue reports on such audits as such times as the Legislature of the State Auditor may require.

The office conducts the financial audit and Federal compliance audit of the state's operations that are funded by approximately \$8 billion annually in revenues and expenditures. The work is conducted in accordance with professional auditing standards to form a basis for the Office of the State Auditor's opinion regarding whether the financial statements are prepared in accordance with generally accepted accounting principles and with Federal program compliance requirements. With a FTE staff headcount of just 37 positions, against the backdrop of the scope of work performed, it may be observed that the Office of the State Auditor punches way above its weight.

The Auditor's opinion on the financial statements is an integral part of the Maine's Comprehensive Annual Financial Report (CAFR). The timeliness of our audit work and resulting audit opinion all the State Controller to submit Maine's CAFR to the Government Finance Officers Association for consideration for the Certificate of Achievement for Excellence in

Financial Reporting. Bond rating agencies consider this certificate to be a positive reflection on the accuracy of a state's financial statements.

The Single Audit includes program-specific compliance audits of Federal programs administered by the State of Maine. Currently, OSA is auditing XX Federal programs as of and for the twelve month period ending June 30, 2020. The Federal programs currently being audited include ____ and ____, ____, ____, _____, _____, and _____ other programs. These programs are audited in accordance with both State and Federal laws and regulations. This audit report is due annually on March 31st.

Special Projects can be assigned at the discretion of the State Auditor that examine certain activities of government that are not covered as part of the Single Audit.

The office operates an online Fraud Hotline. While the bulk of the complaints historically have been referred to Health and Human Services and Maine Revenue Services, this past year has seen an uptick in complaints regarding employment law and unemployment insurance.

The office is authorized to conduct audits of all accounts and financial records of any organization, institution, or other entity receiving or requesting an appropriation or grant from the state and to issue reports on such audits at such time the Legislature or the State Auditor may require.

The Audit Bureau serves as a staff agency to the Legislature, or any of its committees, or to the Governor, by making investigations of any phase of the state's finances (5 MRSA § 243.6).

The **Audit Bureau's baseline budget** for the fiscal years 2021-2023 biennium (page A-83) provides funding from the General Fund of **\$1,659,965** for fiscal year 2021-2022 and **\$1,695,845** for fiscal year 2022-2023 in support of 13 authorized positions. It also includes funding from the Other Special Revenue Funds of **\$2,911,121** for fiscal year 2021-2022 and **\$2,992,838** for fiscal year 2022-2023 in support of 24 authorized positions. In the case of the Audit Bureau in the Office of the State Auditor, funding by the Other Special Revenue Funds indicates that the Federal government pays the cost.

For the Audit Bureau, we are submitting three modifications to the baseline budget in the form of program initiatives as follows; Page A-84 to A-85

The first initiative is C-A-5: \$3,000 in FY 2022-23 in General Fund revenues and \$7,000 in Other Special Revenue Funds in the All Other line to provide one-time funding for a Peer Review of the system of quality control that is required under Generally Accepted Auditing Practices to be conducted every three years. The next Peer Review will be conducted in the fall of 2022. The National State Auditors Association conducts the review under a contract of approximately \$10,000 (actual cost may increase). The cost of the Peer Review is split between the General Fund account (30%) and the Special Revenue Fund account (70%). This initiative is consistent with Maine Revised Statutes Title 5, § 242, and is in line with prior year requests.

The second initiative is C-A-8: a cost-neutral adjustment to allocations for professional services to more accurately reflect spending. This initiative reallocates \$9,149 in FY 2022 and FY 2023 from Other Special Revenue Funds to correct the balance and adjust the allocation going forward. *(I'm not sure I'm wording this correctly)*

The third initiative is C-A-9: Providing funding to support higher payments to the Passamaquoddy Tribe as a result of a property revaluation. The Maine Revised Statutes, Title 36 § 1602, paragraph 2-B requires an annual payment to the Passamaquoddy Tribe for the municipal services they provide to non-tribal members who own property in Indian Township. Without this increase, those non-tribal members would not receive vital municipal services such as snowplowing or ambulance service from the Passamaquoddy Tribe. *(Does this belong here or with the UT piece below?)*

Unorganized Territory 0075

Unorganized Territory (UT), Fiscal Administration for the UT beginning on Page A-85: The second function administered by the Office of the State Auditor concerns the fiscal administration of the Unorganized Territory. This program is accounted for in a Special Revenue Fund, and its expenditures are supported entirely by the local property tax payments of the property owners of the unorganized territory. There are two subunits in this fund:

- The Fiscal Administrator—Maine Revised Statutes, Title 5, § 246
- The Passamaquoddy Tribe—Maine Revised Statutes, Title 36, § 1602

The primary responsibilities are the review, analysis, and investigation of the budgets and expenditures of all county and state agencies requesting funds from the Unorganized Territory Education and Services Fund.

The Fiscal Administration for the Unorganized Territories is a two person operation headed by the Fiscal Administrator, whose responsibilities include the review, analysis and investigation of the budgets and expenditures of all counties and state agencies requesting funds from the Unorganized Territory Education and Services Fund. In addition, the Fiscal Administrator drafts and submits the Annual Municipal Cost Components legislation in order for taxes to be levied (this legislation is now in draft form), attends and participates in public hearings and publishes and distributes the annual financial report of the Unorganized Territory to interested taxpayers, legislators and County Commissioners. The Administrator also serves as the Chair of the State Commission on Municipal Deorganization.

The **Unorganized Territory's baseline budget** for the fiscal years 2021-2023 biennium (see page A-85) provides funding from the Other Special Revenues Fund of \$263,965 for FY 2021-2022 and \$265,457 in FY 2022-2023 in support of two authorized positions.

The budget amount for the first initiative is \$5,000 for FY 2021-2022 and \$7,000 for FY 2022-23 for funding payments to the Passamaquoddy Tribe for municipal services resulting from an increase in assessed valuation (Page A-85).

(Should we say something about the continuing funding for sundry positions or is that implied in the baseline request?)

Thank you for the opportunity to address you today; and I am happy to answer questions of the committees at the pleasure of the presiding chair.