

# **SINGLE AUDIT REPORT**

**For the Fiscal Year Ended June 30, 2006**



**Commonwealth of Pennsylvania**  
**Edward G. Rendell, Governor**

**Prepared By:**

**Office of the Budget**  
*Michael J. Masch, Secretary*

**Comptroller Operations**  
*Harvey C. Eckert, Commonwealth Comptroller*

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**Commonwealth of Pennsylvania  
Single Audit Report  
For the Fiscal Year Ended June 30, 2006**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>INTRODUCTORY SECTION</b>	
Title Page .....	1
Table of Contents .....	3
Letter of Transmittal .....	4
<b>INDEPENDENT AUDITORS' REPORTS</b>	
Independent Auditor's Report on the Basic Financial Statements and Supplementary Schedule of Expenditures of Federal Awards .....	8
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.....	12
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	15
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	
Schedule of Expenditures of Federal Awards.....	22
Notes to the Schedule of Expenditures of Federal Awards.....	30
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	
Summary of Auditors' Results .....	34
Index to Basic Financial Statement Findings.....	37
Basic Financial Statement Findings.....	39
Index to Federal Award Findings and Questioned Costs .....	72
Federal Award Findings and Questioned Costs .....	79
<b>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</b>	
June 30, 2001 Single Audit .....	264
June 30, 2002 Single Audit .....	265
June 30, 2003 Single Audit .....	266
June 30, 2004 Single Audit .....	269
June 30, 2005 Single Audit .....	273
<b>CORRECTIVE ACTION PLANS</b>	
Corrective Action Plans – Basic Financial Statement Findings.....	280
Corrective Action Plans – Federal Award Findings and Questioned Costs.....	283
<b>APPENDIX</b>	
Legend of Abbreviations .....	298



COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG

MICHAEL J. MASCH  
SECRETARY  
OFFICE OF THE BUDGET

June 29, 2007

To the United States Department of Health and Human Services:

We are pleased to submit the Commonwealth of Pennsylvania's Single Audit Report for the fiscal year ended June 30, 2006. This audit has been performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and satisfies the requirements of the Single Audit Amendments of 1996 and the provisions of U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The Commonwealth's Comprehensive Annual Financial Report for the year ended June 30, 2006 has been issued under separate cover. The auditor's report on the supplementary schedule of expenditures of federal awards, and the reports on compliance and internal control over financial reporting and compliance with requirements related to federal programs are contained in this document.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The accompanying Schedule of Expenditures of Federal Awards reflects \$19.1 billion of federal expenditures by the Commonwealth during the fiscal year ended June 30, 2006. Most of the \$19.1 billion in federal expenditures occurred in nine state agencies, as follows:

<u>AGENCY NAME</u>	<u>FEDERAL EXPENDITURES (in thousands)</u>
Public Welfare	\$11,647,332
Labor & Industry	2,844,262
Education	1,754,451
Transportation	1,397,225
Health	342,149
Community & Economic Development	162,695
Insurance	149,052
Pennsylvania Emergency Management Agency	114,597
Aging	110,485
Subtotal	<u>\$18,522,248</u>
Other Agencies (18)	<u>535,450</u>
Grand Total	<u><u>\$19,057,698</u></u>

For purposes of the Commonwealth's single audit, a Type A federal program is any program with federal expenditures of at least \$30 million. Of the \$19.1 billion expended, 93.1 percent, or \$17.7 billion, represents expenditures under federal programs audited as major programs. The Summary of Auditors' Results lists the Commonwealth's 38 major federal programs for the fiscal year ended June 30, 2006.

## **FINDINGS AND RECOMMENDATIONS - CURRENT YEAR**

The accompanying report for the fiscal year ended June 30, 2006 contains various findings, as disclosed in the Schedule of Findings and Questioned Costs. Findings pertaining to the audit of the Commonwealth's basic financial statements are detailed in the Basic Financial Statement Findings. Findings pertaining to the audit of the Commonwealth's federal programs are detailed in the Federal Award Findings and Questioned Costs. The findings contain detailed explanations of the compliance issues, questioned costs, the auditors' recommendations, and the agency responses. This report also includes the Commonwealth's corrective action plan for each finding.

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

The Summary Schedule of Prior Audit Findings reflects the current status of prior, unresolved findings and recommendations. A total of 63 findings remain unresolved from single audits for the years ended June 30, 2001 through June 30, 2005.

## **INDEPENDENT AUDIT**

The Commonwealth's June 30, 2006 single audit and basic financial statement audit were performed jointly by the Department of the Auditor General and the independent public accounting firm of Ernst & Young LLP. The audits were performed pursuant to the authority vested in the Auditor General and the Governor under Section 402 of the Fiscal Code of 1929, and in the Governor under Section 701 of the Administrative Code of 1929.

## **REPORTS OF OTHER INDEPENDENT AUDITORS**

Other auditors performed the single audits of the Pennsylvania Higher Education Assistance Agency, the Pennsylvania Housing Finance Agency, the State System of Higher Education and the Philadelphia Shipyard Development Corporation (component units of the Commonwealth). Federal programs administered by these agencies are not included in the Commonwealth's Schedule of Expenditures of Federal Awards. These agencies have sent their single audit reports directly to the Federal Audit Clearinghouse for distribution to the appropriate federal agencies.

## **ACKNOWLEDGMENTS**

We wish to express our appreciation to the staff of the various Commonwealth agencies whose time and dedicated effort made this audit possible and, at the same time, to affirm our commitment to maintaining the highest standards of accountability in the Commonwealth's management of federal awards.

Sincerely,



Michael J. Masch  
Secretary  
Office of the Budget

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# Independent Auditors' Reports



Commonwealth of Pennsylvania



**Department of the Auditor General  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120-0018**

**ERNST & YOUNG LLP**

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## **Independent Auditors' Report on the Basic Financial Statements and Supplementary Schedule of Expenditures of Federal Awards**

The Honorable Edward G. Rendell, Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania

We have jointly audited the financial statements, issued under separate cover, of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2006, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents of the Comprehensive Annual Financial Report. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not jointly audit the financial statements of the Tuition Payment Fund, a major Enterprise Fund, and of certain component units which represent 99 percent of total assets, 99 percent of total net assets, and 99 percent of total revenues of the aggregate discretely presented component units, and certain agencies which represent 1 percent of expenditures of the General Fund and 1 percent of expenses of Governmental Activities. We did not jointly audit 100 percent of the total assets, 100 percent of total net assets, and 100 percent of the total revenues of the Pension (and Other Employee Benefit) Trust Funds. This comprises 91 percent of total assets, 96 percent of total net assets and 85 percent of total revenues of the aggregate remaining fund information. The financial statements of the Tuition Payment Fund and these component units, agencies, and Pension (and Other Employee Benefit) Trust Funds were audited by other auditors, including Ernst & Young LLP acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Tuition Payment Fund and those component units, agencies, and the Pension (and Other Employee Benefit) Trust Funds, are based solely on the reports of the other auditors. Ernst & Young LLP has audited, separately, 100 percent of the Tuition Payment Fund, and 17 percent of total assets, 28 percent of total net assets, and 17 percent of total operating revenues of the discretely presented component units, as well as 1 percent of expenditures of the General Fund and 1 percent of expenses of Governmental Activities.

The transactions of the Department of the Auditor General are included in the basic financial statements and are immaterial to the overall presentation of the basic financial statements. The expenses of the Department of the Auditor General equal less than 1 percent of the expenses reported for Governmental

Activities on the Statement of Activities and less than 1 percent of the expenditures reported for the General Fund on the Statement of Revenues, Expenditures and Changes in Fund Balance. Agency Fund assets and liabilities of the Department of the Auditor General equal less than 1 percent and less than 2 percent, respectively, of the total assets and liabilities reported for the aggregate remaining fund information. The Auditor General is the Commonwealth's independently-elected auditing officer. Article VIII, § 7, of the Pennsylvania Constitution mandates the Auditor General to act jointly with the Governor and State Treasurer to vote on the incurrence of debt. Title 72 of the Pennsylvania Statutes, § 1102, mandates the Department of the Auditor General to approve the disposition of petitions for corporation tax resettlements filed with the Pennsylvania Department of Revenue's Board of Appeals, which may be appealed to the Board of Finance and Revenue. Title 71 of the Pennsylvania Statutes, § 115, mandates the Auditor General to be one of the six members of the Board of Finance and Revenue, which is an independent board whose decisions may be appealed to Commonwealth Court. The above-mandated responsibilities are performed by personnel separate from those involved in the performance of the audit of the Commonwealth's basic financial statements, and are being disclosed as required by and in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Commonwealth's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion. The financial statements of the State Employees Retirement System, the Public School Employees Retirement System, the Deferred Compensation Fund, the PA Life and Health Insurance Guaranty Association, the PA Property and Casualty Insurance Guaranty Association, the Tuition Account Investment Program, the PA Industrial Development Authority, the PA Turnpike Commission, the State Public School Building Authority, the PA Higher Educational Facilities Authority, the Insurance Fraud Prevention Authority, the Port of Pittsburgh Commission, the Ben Franklin Technology Development Fund, and the Patient Safety Trust Authority were not audited in accordance with *Government Auditing Standards*.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report as of and for the year ended June 30, 2006, dated December 22, 2006 on our consideration of the Commonwealth of Pennsylvania's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

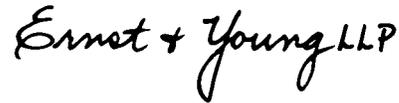
As described in Note A to the financial statements included in the Comprehensive Annual Financial Report, issued under separate cover, the Commonwealth has implemented Governmental Accounting Standards Board (GASB) Statements No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, No. 44, *Economic Condition Reporting: The Statistical Section*, No. 46, *Net Assets Restricted by Enabling Legislation*, and No. 47, *Accounting for Termination Benefits*, and the immediately-effective provisions of GASB Technical Bulletin No. 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*.

Management's discussion and analysis and budgetary comparison information included in the Comprehensive Annual Financial Report are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Pennsylvania's basic financial statements. The introductory section, combining non-major fund and component unit financial statements, budgetary comparison schedules for budgeted non-major funds, and statistical section included in the Comprehensive Annual Financial Report are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements and budgetary comparison schedules for budgeted non-major funds have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards excludes the expenditures associated with federal award programs for the State System of Higher Education, the Pennsylvania Higher Education Assistance

Agency, the Philadelphia Shipyard Development Corporation, and the Pennsylvania Housing Finance Agency, component units that were audited in separate OMB Circular A-133 reports required to be submitted to the Federal Audit Clearinghouse. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jack Wagner". The signature is fluid and cursive, with a long horizontal stroke extending to the right.The logo for Ernst & Young LLP, written in a cursive, handwritten style in black ink.

December 22, 2006



**Department of the Auditor General  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120-0018**

**ERNST & YOUNG LLP**

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**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 Honorable Edward G. Rendell, Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania

We have jointly audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2006, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated December 22, 2006.

We did not jointly audit the financial statements of the Tuition Payment Fund, a major Enterprise Fund, and of certain component units which represent 99 percent of total assets, 99 percent of total net assets, and 99 percent of total revenues of the aggregate discretely presented component units, and certain agencies which represent 1 percent of expenditures of the General Fund and 1 percent of expenses of Governmental Activities. We did not jointly audit 100 percent of the total assets, 100 percent of total net assets, and 100 percent of the total revenues of the Pension (and Other Employee Benefit) Trust Funds. This comprises 91 percent of total assets, 96 percent of total net assets and 85 percent of total revenues of the aggregate remaining fund information. The financial statements of the Tuition Payment Fund and these component units, agencies, and Pension (and Other Employee Benefit) Trust Funds were audited by other auditors, including Ernst & Young LLP acting separately, whose reports thereon have been furnished to us, and our opinions on the basic financial statements, insofar as they relate to the amounts included for the Tuition Payment Fund and those component units, agencies, and the Pension (and Other Employee Benefit) Trust Funds, are based solely on the reports of the other auditors. Ernst & Young LLP has audited, separately, 100 percent of the Tuition Payment Fund, and 17 percent of total assets, 28 percent of total net assets, and 17 percent of total operating revenues of the discretely presented component units, as well as 1 percent of expenditures of the General Fund and 1 percent of expenses of Governmental Activities.

The transactions of the Department of the Auditor General are included in the basic financial statements and are immaterial to the overall presentation of the basic financial statements. The expenses of the Department of the Auditor General equal less than 1 percent of the expenses reported for Governmental Activities on the Statement of Activities and less than 1 percent of the expenditures reported for the General Fund on the Statement of Revenues, Expenditures and Changes in Fund Balance. Agency Fund assets and liabilities of the Department of the Auditor General equal less than 1 percent and less than 2 percent, respectively, of the total assets and liabilities reported for the aggregate remaining fund

information. The Auditor General is the Commonwealth's independently-elected auditing officer. Article VIII, § 7, of the Pennsylvania Constitution mandates the Auditor General to act jointly with the Governor and State Treasurer to vote on the incurrence of debt. Title 72 of the Pennsylvania Statutes, § 1102, mandates the Department of the Auditor General to approve the disposition of petitions for corporation tax resettlements filed with the Pennsylvania Department of Revenue's Board of Appeals, which may be appealed to the Board of Finance and Revenue. Title 71 of the Pennsylvania Statutes, § 115, mandates the Auditor General to be one of the six members of the Board of Finance and Revenue, which is an independent board whose decisions may be appealed to Commonwealth Court. The above-mandated responsibilities are performed by personnel separate from those involved in the performance of the audit of the Commonwealth's basic financial statements, and are being disclosed as required by and in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the State Employees Retirement System, the Public School Employees Retirement System, the Deferred Compensation Fund, the PA Life and Health Insurance Guaranty Association, the PA Property and Casualty Insurance Guaranty Association, the Tuition Account Investment Program, the PA Industrial Development Authority, the PA Turnpike Commission, the State Public School Building Authority, the PA Higher Educational Facilities Authority, the Insurance Fraud Prevention Authority, the Port of Pittsburgh Commission, the Ben Franklin Technology Development Fund, and the Patient Safety Trust Authority were not audited in accordance with *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commonwealth of Pennsylvania's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commonwealth of Pennsylvania's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 06-1 through 06-16.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and,

accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Findings 06-1 through 06-3, 06-7, 06-8, 06-10 through 06-12, and 06-15 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commonwealth of Pennsylvania's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the Commonwealth of Pennsylvania in a separate letter dated December 22, 2006.

This report is intended solely for the information and use of management, the Office of Inspector General - U.S. Department of Health and Human Services, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



December 22, 2006



**Department of the Auditor General  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120-0018**



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**Report on Compliance With Requirements Applicable to Each Major Program and  
on Internal Control Over Compliance in Accordance With OMB Circular A-133**

The Honorable Edward G. Rendell, Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania

Compliance

We have jointly audited the compliance of the Commonwealth of Pennsylvania with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Commonwealth's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on the Commonwealth's compliance based on our audit.

The Commonwealth's basic financial statements included the operations of the State System of Higher Education, the Pennsylvania Higher Education Assistance Agency, the Philadelphia Shipyard Development Corporation, and the Pennsylvania Housing Finance Agency, component units which received federal awards, and which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2006. Our audit, described below, did not include the operations of these four component units because the Commonwealth engaged other auditors to perform an audit in accordance with OMB Circular A-133.

The transactions of the Department of the Auditor General are included in the basic financial statements and are immaterial to the overall presentation of the basic financial statements. The expenses of the Department of the Auditor General equal less than 1 percent of the expenses reported for Governmental Activities on the Statement of Activities and less than 1 percent of the expenditures reported for the General Fund on the Statement of Revenues, Expenditures and Changes in Fund Balance. Agency Fund assets and liabilities of the Department of the Auditor General equal less than 1 percent and less than 2 percent, respectively, of the total assets and liabilities reported for the aggregate remaining fund information. The Auditor General is the Commonwealth's independently-elected auditing officer. Article VIII, § 7, of the Pennsylvania Constitution mandates the Auditor General to act jointly with the Governor and State Treasurer to vote on the incurrence of debt. Title 72 of the Pennsylvania Statutes, § 1102, mandates the Department of the Auditor General to approve the disposition of petitions for corporation tax resettlements filed with the Pennsylvania Department of Revenue's Board of Appeals, which may be appealed to the Board of Finance and Revenue. Title 71 of the Pennsylvania Statutes, § 115, mandates the Auditor General to be one of the six members of the Board of Finance and Revenue, which is an independent board whose decisions may be appealed to Commonwealth Court. The above-mandated responsibilities are performed by personnel separate from those involved in the performance of

the audit of the Commonwealth's basic financial statements, and are being disclosed as required by and in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commonwealth's compliance with those requirements.

As explained in Basic Financial Statements Finding 06-5 in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient audit evidence supporting compliance of the Commonwealth with requirements governing the procurement of goods and services for competitively-bid Commonwealth contracts. This is as a result of the Commonwealth's overall policy to not release certain procurement documentation that management considers to be proprietary and confidential, and which management will not allow us to review as part of our audit. As explained in Finding 06-5, we do not agree with the Commonwealth's policy in this regard. As a result of this overall Commonwealth policy, we are prevented from reviewing documentation that would enable us to determine whether procurements in certain major federal award programs were made in compliance with the Commonwealth's requirements governing the procurement of goods and services, nor were we able to satisfy ourselves as to the Commonwealth's compliance with those requirements by other auditing procedures. The major federal award programs and clusters affected include CFDA #10.551 and #10.561, CFDA #10.557, CFDA #12.401, CFDA #15.252, CFDA #84.287, CFDA #90.401, CFDA #93.558, CFDA #93.563, CFDA #93.575 and #93.596, CFDA #93.659, CFDA #93.667, CFDA #93.767, and CFDA #93.775, #93.777, and #93.778.

As described in the accompanying schedule of findings and questioned costs, the Commonwealth did not comply with requirements as noted below that are applicable to its major programs as follows:

- The Food Donation Program (CFDA #10.550) did not comply with allowable costs requirements, federal reporting requirements, and special tests and provisions related to processor recordkeeping and on-site monitoring of in-state processors as reported in Finding 06-17 and did not comply with subrecipient monitoring requirements as reported in Finding 06-73.
- The Food Stamp Cluster (CFDA #10.551 and #10.561) did not comply with eligibility and allowable costs requirements as reported in Finding 06-18 and did not comply with CMIA-90 cash management regulations as reported in Finding 06-74.
- The Child Nutrition Cluster (CFDA #10.553, #10.555, #10.556, and #10.559) did not comply with subrecipient monitoring requirements as reported in Finding 06-73 and did not comply with CMIA-90 cash management requirements as reported in Finding 06-74.
- The Special Supplemental Nutrition Program for WIC (CFDA #10.557) did not comply with subrecipient monitoring requirements as reported in Finding 06-19 and Finding 06-73.

- The Child and Adult Care Food Program (CFDA #10.558) did not comply with subrecipient monitoring requirements as reported in Finding 06-73.
- The National Guard Military Operations and Maintenance Projects Program (CFDA #12.401) did not comply with allowable costs/cost principles requirements as reported in Finding 06-20.
- The Community Development Block Grants/State's Program (CFDA #14.228) did not comply with subrecipient monitoring requirements as reported in Finding 06-21 and Finding 06-73.
- The HOME Investment Partnerships Program (CFDA #14.239) did not comply with subrecipient monitoring requirements as reported in Finding 06-21 and Finding 06-73.
- The Abandoned Mine Land Reclamation Program (CFDA #15.252) did not comply with subrecipient monitoring requirements as reported in Finding 06-73.
- The Homeland Security Cluster (CFDA #16.007, #97.004, and #97.067) did not comply with equipment management requirements and subrecipient monitoring requirements as reported in Finding 06-22 and Finding 06-73.
- The Trade Adjustment Assistance Program (CFDA #17.245) did not comply with federal reporting requirements as reported in Finding 06-24.
- The WIA Cluster (CFDA #17.258, #17.259, and #17.260) did not comply with subrecipient monitoring requirements as reported in Finding 06-73 and did not comply with CMIA-90 cash management regulations as reported in Finding 06-74.
- The Highway Planning and Construction Cluster (CFDA #20.205 and #23.003) did not comply with subrecipient monitoring requirements as reported in Finding 06-73 and did not comply with CMIA-90 cash management regulations as reported in Finding 06-74.
- The Capitalization Grants for Clean Water State Revolving Funds Program (CFDA #66.458) did not comply with subrecipient monitoring requirements as reported in Finding 06-73 and did not comply with CMIA-90 cash management regulations as reported in Finding 06-74.
- The Capitalization Grants for Drinking Water State Revolving Funds Program (CFDA #66.468) did not comply with subrecipient monitoring requirements as reported in Finding 06-73.
- The Title I Grants to Local Educational Agencies Program (CFDA #84.010) did not comply with federal reporting requirements as reported in Finding 06-30, did not comply with subrecipient monitoring requirements as reported in Finding 06-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 06-74.
- The Vocational Education – Basic Grants to States Program (CFDA #84.048) did not comply with subrecipient eligibility requirements as reported in Finding 06-32, did not comply with federal reporting requirements as reported in Finding 06-33, and did not comply with subrecipient monitoring requirements as reported in Finding 06-73.
- The Rehabilitation Services – Vocational Rehabilitation Grants to States Program (CFDA #84.126) did not comply with allowable costs/cost principles requirements as reported in Finding 06-35 and did not comply with CMIA-90 cash management regulations as reported in Finding 06-74.
- The Twenty-First Century Community Learning Centers Program (CFDA #84.287) did not comply with subrecipient monitoring requirements as reported in Finding 06-73.

- The Reading First State Grants Program (CFDA #84.357) did not comply with subrecipient eligibility requirements as reported in Finding 06-39, did not comply with cash management and subrecipient monitoring requirements as reported in Finding 06-40 and Finding 06-73, and did not comply with earmarking and allowable costs requirements as reported in Finding 06-41.
- The Improving Teacher Quality State Grants Program (CFDA #84.367) did not comply with subrecipient monitoring requirements as reported in Finding 06-73 and did not comply with CMIA-90 cash management regulations as reported in Finding 06-74.
- The Help America Vote Act (CFDA #90.401) did not comply with equipment management requirements as reported in Finding 06-42.
- The Centers for Disease Control and Prevention Investigations Program (CFDA #93.283) did not comply with allowable costs/cost principles requirements as reported in Finding 06-43 and did not comply with subrecipient monitoring requirements as reported in Finding 06-73.
- The Temporary Assistance for Needy Families Program (CFDA #93.558) did not comply with eligibility and allowable costs requirements as reported in Finding 06-18, did not comply with a special test and provision related to individual assessment requirements as reported in Finding 06-46, did not comply with federal reporting requirements as reported in Finding 06-47, did not comply with allowable costs/cost principles requirements as reported in Finding 06-48, did not comply with subrecipient monitoring requirements as reported in Findings 06-45, 06-72, and 06-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 06-74.
- The Child Support Enforcement Program (CFDA #93.563) did not comply with subrecipient monitoring requirements as reported in Finding 06-72 and Finding 06-73 and did not comply with CMIA-90 cash management regulations as reported in Finding 06-74.
- The Low-Income Home Energy Assistance Program (CFDA #93.568) did not comply with eligibility and allowable costs requirements as reported in Findings 06-49, 06-50, 06-51, and 06-53, did not comply with subrecipient monitoring requirements as reported in Finding 06-72 and Finding 06-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 06-74.
- The Community Services Block Grant Program (CFDA #93.569) did not comply with subrecipient monitoring requirements, allowable costs requirements, cash management requirements, and period of availability requirements as reported in Finding 06-59 and did not comply with subrecipient monitoring requirements as reported in Finding 06-60 and Finding 06-73.
- The CCDF Cluster (CFDA #93.575 and #93.596) did not comply with eligibility and allowable costs requirements as reported in Finding 06-18, did not comply with allowable costs/cost principles requirements as reported in Finding 06-48, did not comply with subrecipient monitoring requirements as reported in Findings 06-45, 06-62, 06-72, and 06-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 06-74.
- The Foster Care Program (CFDA #93.658) did not comply with subrecipient monitoring requirements as reported in Findings 06-45, 06-64, 06-72, and 06-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 06-74.
- The Adoption Assistance Program (CFDA #93.659) did not comply with subrecipient monitoring requirements as reported in Findings 06-45, 06-64, 06-72, and 06-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 06-74.

- The Social Services Block Grant Program (CFDA #93.667) did not comply with allowable costs/cost principles requirements as reported in Finding 06-66, did not comply with subrecipient monitoring requirements as reported in Findings 06-45, 06-62, 06-72, and 06-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 06-74.
- The State Children's Insurance Program (CFDA #93.767) did not comply with procurement requirements as reported in Finding 06-67, did not comply with subrecipient monitoring requirements as reported in Finding 06-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 06-74.
- The Medicaid Cluster (CFDA #93.775, #93.777, and #93.778) did not comply with eligibility and allowable costs requirements as reported in Finding 06-18, did not comply with subrecipient monitoring requirements as reported in Findings 06-45, 06-72, and 06-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 06-74.
- The HIV Care Formula Grants Program (CFDA #93.917) did not comply with eligibility and allowable costs requirements as reported in Finding 06-70, and did not comply with subrecipient monitoring requirements as reported in Findings 06-72 and 06-73.
- The Social Security - Disability Insurance Program (CFDA #96.001) did not comply with CMIA-90 cash management regulations as reported in Finding 06-74.
- The Disaster Grants – Public Assistance Program (CFDA #97.036) did not comply with cash management, federal reporting, and subrecipient monitoring requirements as reported in Finding 06-71 and did not comply with subrecipient monitoring requirements as reported in Finding 06-73.

Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to those programs.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the Commonwealth's compliance with procurement requirements in the major federal programs listed above, and except for the noncompliance described in the preceding paragraph, the Commonwealth complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned costs as finding numbers 06-23, 06-25, 06-27, 06-28, 06-54, and 06-61.

#### Internal Control Over Compliance

The management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Commonwealth's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Commonwealth's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 06-17 through 06-26 and Findings 06-29 through 06-74.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding numbers 06-17 through 06-22, 06-24 through 06-26, 06-30, 06-32, 06-33, 06-35, 06-37, 06-39 through 06-53, 06-55 through 06-60, 06-62 through 06-74, as identified in the accompanying schedule of findings and questioned costs, to be material weaknesses.

This report is intended solely for the information and use of management, the Office of Inspector General—U.S. Department of Health and Human Services, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

June 18, 2007

# Schedule of Expenditures of Federal Awards



Commonwealth of Pennsylvania

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2006***

<b>CFDA #</b>	<b>CFDA Program Name</b>		<b>Federal Expenditures (000's)</b>
10.551	Food Stamps	1,166,024	
10.561	State Admin Matching Grants for Food Stamp Program	144,869	
	Total Food Stamp Cluster		1,310,893
10.553	School Breakfast Program	52,675	
10.555	National School Lunch Program	232,614	
10.556	Special Milk Program for Children	732	
10.559	Summer Food Service Program for Children	10,394	
	Total Child Nutrition Cluster		296,415
10.568	Emergency Food Assistance Program (Admin Costs)	2,404	
10.569	Emergency Food Assistance Program (Food Commodities)	10,796	
	Total Emergency Food Assistance Cluster		13,200
10.025	Plant & Animal Disease, Pest Control & Animal Care		3,148
10.069	Conservation Reserve Program		42
10.156	Federal-State Marketing Improvement Program		7
10.162	Inspection Grading and Standardization		137
10.353	National Rural Development Partnership		25
10.450	Crop Insurance		844
10.550	Food Donation		35,133
10.557	Special Supplemental Nutrition Program for WIC		134,803
10.558	Child and Adult Care Food Program		60,313
10.560	State Administrative Expenses for Child Nutrition		4,378
10.565	Commodity Supplemental Food Program		832
10.572	WIC Farmers' Market Nutrition Program (FMNP)		3,368
10.574	Team Nutrition Grants		50
10.582	Fresh Fruit and Vegetable Program		674
10.664	Cooperative Forestry Assistance		2,041
10.665	Schools and Roads - Grants To States		6,427
10.675	Urban and Community Forestry Program		10
10.678	Forest Stewardship Program		29
10.680	Forest Health Protection		165
10.902	Soil and Water Conservation		706
	<b>Total - Department of Agriculture</b>		<b>\$1,873,640</b>
11.307	Economic Adjustment Assistance		7,415
11.407	Interjurisdictional Fisheries Act of 1986		356
11.419	Coastal Zone Management Administration Awards		3,956
11.450	Automated Flood Warning Systems (AFWS)		1
11.457	Chesapeake Bay Studies		135
11.474	Atlantic Coastal Fisheries Cooperative Management Act		115
	<b>Total - Department of Commerce</b>		<b>\$11,978</b>
12.112	Payments to States in Lieu of Real Estate Taxes		144
12.400	Military Construction - National Guard		7,607
12.401	National Guard Military Operations & Maintenance Projects		41,668
	<b>Total - Department of Defense</b>		<b>\$49,419</b>
14.228	Community Development Block Grants/State's Program		57,928
14.231	Emergency Shelter Grants Program		3,666
14.235	Supportive Housing Program		81

- See Notes to Schedule of Expenditures of Federal Awards -

# **COMMONWEALTH OF PENNSYLVANIA**

## **Schedule of Expenditures of Federal Awards - June 30, 2006**

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
14.239	HOME Investment Partnerships Program	17,182
14.241	Housing Opportunities for Persons with AIDS	1,644
14.401	Fair Housing Assistance Program - State & Local	637
<b>Total - Department of Housing and Urban Development</b>		<b>\$81,138</b>
15.605	Sport Fish Restoration	7,690
15.611	Wildlife Restoration	8,477
Total Fish and Wildlife Cluster		16,167
15.250	Regulation of Surface Coal Mining	12,848
15.252	Abandoned Mine Land Reclamation (AMLR) Program	34,623
15.612	Endangered Species Conservation	19
15.616	Clean Vessel Act	12
15.625	Wildlife Conservation and Restoration	113
15.633	Landowner Incentive	1
15.634	State Wildlife Grants	2,159
15.808	U.S. Geological Survey - Research and Data Collection	66
15.810	National Cooperative Geologic Mapping Program	85
15.904	Historic Preservation Fund Grants-In-Aid	1,094
15.916	Outdoor Recreation - Acquisition, Development and Planning	3,734
<b>Total - Department of the Interior</b>		<b>\$70,921</b>
16.004	Law Enforcement Asst - Narcotics & Dangerous Drugs Training	715
16.011	Urban Areas Security Initiative	8,099
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	581
16.523	Juvenile Accountability Incentive Block Grants	3,082
16.540	Juvenile Justice & Delinquency Prevention - Alloc to States	1,877
16.548	Title V - Delinquency Prevention Program	292
16.549	Part E - State Challenge Activities	96
16.550	State Justice Statistics Prgm for Statistic Analysis Centers	4
16.554	National Criminal History Improvement Program (NCHIP)	834
16.560	Natl Inst of Justice Research, Eval and Devel Project Grants	977
16.572	State Criminal Alien Assistance Program	937
16.574	Byrne Evaluation Partnership Program	8,974
16.575	Crime Victim Assistance	15,200
16.576	Crime Victim Compensation	53
16.579	Edward Byrne Memorial Formula Grant Program	13,257
16.580	Ed Byrne Memorial St & Loc Law Enforce Asst Disc Grants	538
16.582	Crime Victim Assistance/Discretionary Grants	72
16.586	Violent Offender Incarceration & Truth in Sent Incent Grants	16,589
16.588	Violence Against Women Formula Grants	4,067
16.592	Local Law Enforcement Block Grant Program	1,019
16.593	Residential Substance Abuse Treatment for State Prisoners	909
16.607	Bulletproof Vest Partnership Program	(945)
16.609	Community Prosecution and Project Safe Neighborhoods	789
16.727	Enforcing Underage Drinking Laws Program	625
16.735	Protecting Inmates & Safeguarding Communities Grant Prgm	480
16.999	Miscellaneous	270
<b>Total - Department of Justice</b>		<b>\$79,391</b>

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2006***

<b>CFDA #</b>	<b>CFDA Program Name</b>		<b>Federal Expenditures (000's)</b>
17.207	Employment Service/Wagner-Peyser Funded Activities	40,908	
17.801	Disabled Veterans' Outreach Program (DVOP)	2,669	
17.804	Local Veterans' Employment Representative Program	3,411	
	Total Employment Service Cluster		46,988
17.258	WIA Adult Program	33,194	
17.259	WIA Youth Activities	35,611	
17.260	WIA Dislocated Workers	71,524	
	Total WIA Cluster		140,329
17.002	Labor Force Statistics		3,024
17.005	Compensation and Working Conditions		47
17.203	Labor Certification for Alien Workers		337
17.225	Unemployment Insurance		2,277,989
17.235	Senior Community Service Employment Program		2,605
17.245	Trade Adjustment Assistance		45,839
17.257	One-Stop Career Center Initiative		48
17.261	WIA Pilots, Demonstrations, and Research Projects		860
17.267	Incentive Grants - WIA Section 503		409
17.600	Mine Health and Safety Grants		592
17.601	Mine Health & Safety Counseling & Technical Assistance		452
17.802	Veterans' Employment Program		765
	<b>Total - Department of Labor</b>		<b><u>\$2,520,284</u></b>
20.205	Highway Planning and Construction	1,255,633	
23.003	Appalachian Development Highway System	82,510	
	Total Highway Planning and Construction Cluster		1,338,143
20.500	Federal Transit - Capital Investment Grants	14,285	
20.507	Federal Transit - Formula Grants	12,296	
	Total Federal Transit Cluster		26,581
20.600	State and Community Highway Safety	11,158	
20.601	Alcohol Traffic Safety & Drunk Driving Prevention Grants	773	
20.602	Occupant Protection	685	
20.604	Safety Incentive Grants for Use of Seatbelts	77	
20.605	Incentives to Prevent Operation by Intoxicated Persons	286	
	Total Highway Safety Cluster		12,979
20.005	Boating Safety Financial Assistance		2,390
20.106	Airport Improvement Program		16,729
20.217	Motor Carrier Safety		1,175
20.218	National Motor Carrier Safety		10,286
20.219	Recreational Trails Program		671
20.308	Local Rail Freight Assistance		912
20.505	Federal Transit - Metropolitan Planning Grants		2,967
20.509	Formula Grants for Other Than Urbanized Areas		13,472
20.513	Capital Assistance Program for Elderly & Disabled Persons		3,984
20.514	Public Transportation Research		649
20.700	Pipeline Safety		381
20.703	Interagency Hazardous Materials Training & Planning Grants		377
	<b>Total - Department of Transportation</b>		<b><u>\$1,431,696</u></b>

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2006***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
23.002	Appalachian Area Development	15
23.008	Appalachian Local Access Roads	586
23.011	Appalachian Research, Technical Assistance & Demo Projects	99
<b>Total - Appalachian Regional Commission</b>		<b>\$700</b>
30.002	Employment Discrimination - State & Local Agency Contracts	2,067
<b>Total - Equal Employment Opportunity Commission</b>		<b>\$2,067</b>
39.003	Donation of Federal Surplus Personal Property	7,849
39.011	Election Reform Payments	12,778
<b>Total - General Services Administration</b>		<b>\$20,627</b>
45.024	Promotion of the Arts - Grants to Organizations & Individuals	43
45.025	Promotion of the Arts - Partnership Agreements	772
45.310	Grants to States	6,281
<b>Total - National Foundation on the Arts and Humanities</b>		<b>\$7,096</b>
64.005	Grants to States for Construction of State Home Facilities	4,784
64.010	Veterans Nursing Home Care	281
64.014	Veterans State Domiciliary Care	3,502
64.015	Veterans State Nursing Home Care	22,811
64.111	Veterans Education Assistance	1,065
<b>Total - Department of Veterans Affairs</b>		<b>\$32,443</b>
66.001	Air Pollution Control Program Support	254
66.032	State Indoor Radon Grants	287
66.034	Surveys, Studies, Activities Relating to the Clean Air Act	25
66.419	Water Pollution Control - State & Interstate Program Support	960
66.432	State Public Water System Supervision	3,862
66.436	Clean Water Act Surveys, Studies, Investigations & Demos	1
66.438	Construction Management Assistance	79
66.454	Water Quality Management Planning	755
66.458	Capitalization Grants for Clean Water State Revolving Funds	47,200
66.460	Nonpoint Source Implementation Grants	6,772
66.461	Regional Wetland Program Development Costs	78
66.463	Water Quality Cooperative Agreements	250
66.466	Chesapeake Bay Program	1,290
66.467	Wastewater Operator Training Grant Program (Technical Asst)	87
66.468	Capitalization Grants for Drinking Water State Revolving Funds	25,807
66.471	State Grants to Reimburse Operators of Small Water Systems	219
66.472	Beach Monitoring and Notification Prgm Implementation Grants	127
66.474	Water Protection Grants to the States	269
66.500	Environmental Protection - Consolidated Research	25
66.511	Office of Research and Development Consolidated Research	144
66.605	Performance Partnership Grants	10,731
66.606	Surveys, Studies, Investigations and Special Purpose Grants	948

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2006***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
66.608	Environmental Information Exchange Network Grant Program	39
66.609	Protection of Children from Environmental Health Risks	16
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	717
66.707	TSCA Title IV State Lead Grants Certification	377
66.708	Pollution Prevention Grants Program	84
66.716	Surveys, Studies, Investigations, Demos and Educ Outreach	58
66.801	Hazardous Waste Management State Program Support	5,350
66.802	Superfund State Site - Specific Cooperative Agreements	9
66.804	State and Tribal Underground Storage Tanks Program	141
66.805	Leaking Underground Storage Tank Trust Fund Program	1,012
<b>Total - Environmental Protection Agency</b>		<b>\$107,973</b>
81.039	National Energy Information Center	25
81.041	State Energy Program	1,054
81.042	Weatherization Assistance for Low-Income Persons	14,651
81.117	Energy Efficiency and Renewable Energy Info Dissemination	83
81.119	State Energy Program Special Projects	277
81.999	Miscellaneous	150
<b>Total - Department of Energy</b>		<b>\$16,240</b>
83.105	Community Asst Program - State Support Services Element	227
83.536	Flood Mitigation Assistance	(142)
83.544	Public Assistance Grants	23
83.550	National Dam Safety Program	76
83.557	Pre-Disaster Mitigation	(47)
83.999	Miscellaneous	79
<b>Total - Federal Emergency Management Agency</b>		<b>\$216</b>
84.027	Special Education – Grants to States	406,388
84.173	Special Education – Preschool Grants	14,920
Total Special Education Cluster (IDEA)		421,308
84.002	Adult Education - State Grant Program	21,764
84.010	Title I Grants to Local Educational Agencies	468,835
84.011	Migrant Education - State Grant Program	7,592
84.013	Title I Program for Neglected and Delinquent Children	1,006
84.048	Vocational Education - Basic Grants to States	44,743
84.126	Rehabilitation Services - Vocational Rehab Grants to States	119,175
84.169	Independent Living - State Grants	542
84.177	Rehab Serv - Indep Living Services for Older Blind Individuals	1,910
84.181	Special Educ - Grants for Infants & Families with Disabilities	13,980
84.184	Safe & Drug-Free Schools & Communities - National Programs	695
84.186	Safe & Drug-Free Schools & Communities - State Grants	17,237
84.187	Supported Employment Serv for Indiv with Severe Disabilities	1,183
84.196	Education for Homeless Children and Youth	1,964
84.206	Javits Gifted and Talented Students Education Grant Program	90
84.213	Even Start - State Educational Agencies	7,103
84.215	Fund for the Improvement of Education	15,454
84.224	Assistive Technology	450

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2006***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
84.243	Tech-Prep Education	3,903
84.265	Rehab Training - State Voc Rehab Unit In-Service Training	145
84.282	Charter Schools	6,119
84.287	Twenty-First Century Community Learning Centers	30,980
84.298	State Grants for Innovative Programs	9,369
84.318	Education Technology State Grants	20,165
84.323	Special Education - State Personnel Development	452
84.330	Advanced Placement Program	175
84.331	Grants to States for Incarcerated Youth Offenders	664
84.332	Comprehensive School Reform Demonstration	12,965
84.336	Teacher Quality Enhancement Grants	3,940
84.340	Class Size Reduction	(5)
84.346	Voc Ed - Occupational & Employment Info State Grants	266
84.352	School Renovation Grants	(5)
84.357	Reading First State Grants	30,034
84.358	Rural Education	264
84.365	English Language Acquisition Grants	9,056
84.366	Mathematics and Science Partnerships	4,641
84.367	Improving Teacher Quality State Grants	114,105
84.368	Grants for Enhanced Assessment Instruments	517
84.369	Grants for State Assessments and Related Activities	14,856
	<b>Total - Department of Education</b>	<b><u>\$1,407,637</u></b>
89.003	National Historical Publications and Records Grants	57
	<b>Total - National Archives and Records Administration</b>	<b><u>\$57</u></b>
90.401	Help America Vote Act Requirements Payments	37,468
	<b>Total - Elections Assistance Commission</b>	<b><u>\$37,468</u></b>
93.044	Special Programs for the Aging - Title III, Part B	24,000
93.045	Special Programs for the Aging - Title III, Part C	27,024
93.053	Nutrition Services Incentive Program	5,748
	Total Aging Cluster	56,772
93.575	Child Care and Development Block Grant	227,432
93.596	Child Care Mandatory and Matching Funds of the CCDF	130,334
	Total CCDF Cluster	357,766
93.775	State Medicaid Fraud Control Units	3,517
93.777	State Survey & Cert of Health Care Providers & Suppliers	8,247
93.778	Medical Assistance Program	8,735,839
	Total Medicaid Cluster	8,747,603
93.041	Special Programs for the Aging - Title VII, Chapter 3	341
93.042	Special Programs for the Aging - Title VII, Chapter 2	16
93.043	Special Programs for the Aging - Title III, Part D	1,097
93.048	Special Programs for the Aging - Title IV and Title II	164
93.051	Alzheimer's Disease Demonstration Grants to States	394
93.052	National Family Caregiver Support	8,125
93.103	Food and Drug Administration - Research	33
93.110	Maternal and Child Health Federal Consolidated Programs	16

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2006***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
93.116	Project Grants & Coop Agreements for Tuberculosis Control	678
93.127	Emergency Medical Services for Children	157
93.130	Primary Care Services Resource Coordination & Development	231
93.136	Injury Prevention and Control Research	1,812
93.150	Projects for Asst in transition from Homelessness (PATH)	2,025
93.162	National Health Service Corps Loan Repayment Program	93
93.165	Grants for State Loan Repayment Program	75
93.197	Childhood Lead Poisoning Prevention Projects	1,606
93.230	Consolidated Knowledge Development & Application Program	5,575
93.234	Traumatic Brain Injury State Demonstration Grant Program	187
93.240	State Capacity Building	337
93.241	State Rural Hospital Flexibility Program	355
93.243	Substance Abuse and Mental Health Services - Projects	1,461
93.251	Universal Newborn Hearing Screening	140
93.256	State Planning Grant - Health Care Access for the Uninsured	323
93.259	Rural Access to Emergency Devices Grant	76
93.268	Immunization Grants	7,639
93.283	Centers for Disease Control & Prevention - Investigations	49,297
93.556	Promoting Safe and Stable Families	19,055
93.558	Temporary Assistance for Needy Families	647,871
93.563	Child Support Enforcement	121,994
93.566	Refugee & Entrant Assistance - State Administered Programs	5,465
93.568	Low-Income Home Energy Assistance	168,159
93.569	Community Services Block Grant	25,114
93.571	Community Services Block Grant Discretionary Awards - Food	66
93.576	Refugee and Entrant Assistance - Discretionary Grants	667
93.584	Refugee and Entrant Assistance - Targeted Assistance	593
93.585	Empowerment Zones Program	4,928
93.590	Community-Based Child Abuse Prevention Grants	1,130
93.597	Grants to States for Access and Visitation Programs	277
93.600	Head Start	367
93.602	Assets for Independence Demonstration Program	1,221
93.617	Voting Access for Individuals with Disabilities - Gov Grants	111
93.630	Developmental Disabilities Basic Support & Advocacy Grants	2,690
93.631	Developmental Disabilities Projects of National Significance	50
93.645	Child Welfare Services - State Grants	10,924
93.658	Foster Care - Title IV-E	321,231
93.659	Adoption Assistance	71,922
93.667	Social Services Block Grant	115,627
93.670	Child Abuse and Neglect Discretionary Activities	480
93.671	Family Violence Prevention and Services	3,000
93.674	Chafee Foster Care Independence Program	5,470
93.767	State Children's Insurance Program	149,052
93.768	Medicaid Infrastructure Grants to Support Competitive Employ	428
93.779	CMS Research, Demonstrations and Evaluations	2,429
93.786	State Pharmaceutical Assistance Programs	714
93.889	National Bioterrorism Hospital Preparedness Program	22,027
93.917	HIV Care Formula Grants	37,384
93.919	Coop Agreements for State-Based Cancer Early Detection Prgms	2,928
93.938	Coop Agreements to Support School Health Programs	156
93.940	HIV Prevention Activities - Health Department Based	4,456
93.944	HIV/AIDS Surveillance	761

- See Notes to Schedule of Expenditures of Federal Awards -

**COMMONWEALTH OF PENNSYLVANIA**  
**Schedule of Expenditures of Federal Awards - June 30, 2006**

CFDA #	CFDA Program Name	Federal Expenditures (000's)
93.952	Trauma Care Systems Planning and Development	16
93.958	Block Grants for Community Mental Health Services	15,574
93.959	Block Grants for Prevention & Treatment of Substance Abuse	56,932
93.977	Preventive Health Serv - Sexually Trans Diseases Control Grant	2,235
93.982	Mental Health Disaster Asst and Emergency Mental Health	276
93.988	Coop Agreements for State-Based Diabetes Control Programs	428
93.991	Preventive Health and Health Services Block Grant	5,733
93.994	Maternal and Child Health Services Block Grant to the States	28,394
93.999	Miscellaneous	1,407
	<b>Total - Department of Health and Human Services</b>	<b>\$11,104,136</b>
94.003	State Commissions	219
94.004	Learn & Serve America - School & Community Based Programs	720
94.006	AmeriCorps	5,716
94.007	Planning and Program Development Grants	120
94.009	Training and Technical Assistance	134
	<b>Total - Corporation for National and Community Service</b>	<b>\$6,909</b>
96.001	Social Security - Disability Insurance	77,707
	<b>Total - Social Security Administration</b>	<b>\$77,707</b>
16.007	State Domestic Preparedness Equipment Support Program	17,428
97.004	State Domestic Preparedness Equipment Support Program	39,442
97.067	Homeland Security Grant Program	5,239
	Total Homeland Security Cluster	62,109
97.008	Urban Areas Security Initiative	13,376
97.013	State Access to the Oil Spill Liability Trust Fund	52
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	120
97.029	Flood Mitigation Assistance	33
97.032	Crisis Counseling	674
97.036	Disaster Grants - Public Assist (Presidentially Declared)	37,680
97.039	Hazard Mitigation Grant	1,516
97.041	National Dam Safety Program	27
97.042	Emergency Management Performance Grants	2,561
97.050	Presidential Declared Dis Assist to Households - Other Needs	135
97.066	Homeland Security Information Technology & Evaluation Prgm	202
	<b>Total - Department of Homeland Security</b>	<b>\$118,485</b>
99.999	Miscellaneous	(530)
	<b>Total - Miscellaneous</b>	<b>\$(530)</b>
	<b>GRAND TOTAL</b>	<b>\$19,057,698</b>

- See Notes to Schedule of Expenditures of Federal Awards -

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Notes to the Schedule of Expenditures of Federal Awards - June 30, 2006***

### **Note A: Single Audit Reporting Entity**

The Commonwealth of Pennsylvania (the Commonwealth) includes expenditures in its schedule of expenditures of federal awards for all federal programs administered by the same funds, agencies, boards, commissions, and component units included in the Commonwealth's financial reporting entity used for its basic financial statements. However, the State System of Higher Education (SSHE), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Housing Finance Agency (PHFA), and the Philadelphia Shipyard Development Corporation (PSDC), which are discretely presented component units, elect to have their own single audits and their expenditures of federal awards are therefore excluded from the Commonwealth's schedule of expenditures of federal awards. These four component units are required to submit their own single audit reports to the federal Audit Clearinghouse.

### **Note B: Basis of Accounting**

All expenditures for each program included in the schedule of expenditures of federal awards are net of applicable program income and refunds.

Expenditures for CFDA #20.205, Highway Planning and Construction Program, are presented on the basis that expenditures are reported to the U.S. Department of Transportation. Accordingly, certain expenditures are recorded when paid and certain other expenditures are recorded when the federal obligation is determined.

Expenditures reported by the Pennsylvania Department of Transportation (PennDOT) for CFDA #97.036, Public Assistance Grants, are recorded when the estimated federal obligation is determined and reimbursed.

Expenditures reported under CFDA #10.550, Food Donation, and CFDA #10.569, Emergency Food Assistance Program, represent the value of food commodity distributions calculated using the U.S. Department of Agriculture, Food and Nutrition Service commodity price list in effect as of November 16, 2004.

Expenditures reported under CFDA #10.551, Food Stamps, represent amounts the Electronic Benefits Transfer (EBT) contractor paid to retail outlets for participants' food stamp purchases during the fiscal year ended June 30, 2006.

Expenditures reported under CFDA #93.658, Foster Care Title IV-E, include amounts that were previously disallowed and were in dispute. On March 13, 2007, the Commonwealth and the U.S. Department of Health and Human Services entered into an agreement to settle all claims, disallowances, and appeals related to service periods prior to January 1, 2007 under CFDA #93.658. The total amount of HHS reimbursement to DPW from the settlement was \$97.1 million. For the years ended June 30, 2005 and June 30, 2006, expenditures included on the Schedules of Expenditures of Federal Awards under CFDA #93.658 which were disallowed and later settled as part of this agreement were \$109.4 million and \$64.6 million, respectively.

Subrecipient expenditures reported under CFDA #14.228, Community Development Block Grants, CFDA #14.239, HOME Investment Partnerships Program, and CFDA #14.231, Emergency Shelter Grants Program, represent funds drawn directly from the Housing and Urban Development (HUD) Integrated Disbursement and Information System (IDIS) by subrecipients of the Commonwealth.

Amounts reported as expenditures for CFDA #39.003, Donation of Federal Surplus Personal Property, represent the General Services Administration's average fair market value percentage of 23.3 percent of the federal government's original acquisition cost (OAC) of the federal property transferred to recipients by the Commonwealth.

The remaining expenditures included in the schedule of expenditures of federal awards are presented on the cash plus invoices payable basis. Invoices payable represent Commonwealth expenditures recorded on the general ledger for which the Commonwealth Treasury Department has not made cash disbursements.

# COMMONWEALTH OF PENNSYLVANIA

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## Notes to the Schedule of Expenditures of Federal Awards - June 30, 2006

### Note C: Categorization of Expenditures

The schedule of expenditures of federal awards reflects federal expenditures for all individual grants that were active during the fiscal year ended June 30, 2006. The categorization of expenditures by program included in the schedule of expenditures of federal awards is based on the Catalog of Federal Domestic Assistance (CFDA). Changes in the categorization of expenditures occur based on revisions to the CFDA, which are issued on a real-time basis on the CFDA website.

### Note D: Oil Overcharge Funds

The Commonwealth has received restitutionary funds from certain oil companies, either directly or through the federal government, as a result of settlement agreements for overcharging customers. All oil overcharge funds expended by the Commonwealth have been included within the scope of its single audit in accordance with the settlement agreements and federal guidance.

Expenditures of such funds reflected in the schedule of expenditures of federal awards include \$3,557 under CFDA #81.041, State Energy Program; \$1.6 million under CFDA #93.568, Low-Income Home Energy Assistance; and \$149,729 under CFDA #81.999, Miscellaneous.

Oil overcharge funds received by the Commonwealth that remain unexpended earn interest which is credited on a monthly basis to the oil overcharge fund for future expenditure as approved in the Commonwealth's energy plan. At June 30, 2006, the Commonwealth had unexpended oil overcharge funds including interest of approximately \$1.1 million.

### Note E: Pennsylvania Infrastructure Investment Authority

The Pennsylvania Infrastructure Investment Authority (the Authority) is an instrumentality of the Commonwealth created by Act 16 of the General Assembly in March 1988 (the PENNVEST Act). The purpose of the Authority is to provide long-term, low-interest loans for corporations, partnerships, sole proprietorships, nonprofit organizations, authorities, and municipalities for repair, construction, reconstruction, rehabilitation, extension, and improvement of drinking water (CFDA #66.468) and wastewater (CFDA #66.458) systems. The Authority is funded through revenue bonds, federal grants, and Commonwealth general obligation bonds. The Authority is a component unit of the Commonwealth. The Authority accounts for the drinking water and wastewater programs in separate funds.

At June 30, 2006, the Authority had gross outstanding federal loans of \$706.8 million for CFDA #66.458 and \$147.1 million for CFDA #66.468. No losses were incurred by the Authority on these loans during the fiscal year ended June 30, 2006.

### Note F: Unemployment Insurance

In accordance with Department of Labor, Office of Inspector General instructions, the Commonwealth recorded State Regular Unemployment Compensation (UC) benefits under CFDA #17.225 on the schedule of expenditures of federal awards. The individual state and federal portions are as follows (amounts in thousands):

State Regular UC Benefits	\$2,074,050
Federal UC Benefits	55,048
Federal Admin.	148,890
Total Expenditures	<u>\$2,277,989</u>

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# Schedule of Findings and Questioned Costs



Commonwealth of Pennsylvania

# COMMONWEALTH OF PENNSYLVANIA

## Summary of Auditors' Results - June 30, 2006

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### Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  X  yes   no

Reportable condition(s) identified not considered to be material weaknesses?  X  yes   no

Noncompliance material to financial statements noted?   yes  X  no

### Federal Awards

Internal control over major programs:

Material weakness(es) identified?  X  yes   no

Reportable condition(s) identified not considered to be material weaknesses?  X  yes   no

Type of auditors' report issued on compliance for major programs:

Qualified for noncompliance in the following major programs:

Food Donation (CFDA #10.550)  
Food Stamp Cluster (CFDA #10.551 and #10.561)  
Child Nutrition Cluster (CFDA #10.553, #10.555, #10.556, and #10.559)  
Special Supplemental Nutrition Program for WIC (CFDA #10.557)  
Child and Adult Care Food Program (CFDA #10.558)  
National Guard Military Operations and Maintenance Projects (CFDA #12.401)  
Community Development Block Grants/State's Program (CFDA #14.228)  
HOME Investment Partnerships Program (CFDA #14.239)  
Abandoned Mine Land Reclamation Program (CFDA #15.252)  
Homeland Security Cluster (CFDA #16.007, #97.004, and #97.067)  
Trade Adjustment Assistance (CFDA #17.245)  
WIA Cluster (CFDA #17.258, #17.259, and #17.260)  
Highway Planning and Construction Cluster (CFDA #20.205 and #23.003)  
Capitalization Grants for Clean Water State Revolving Funds (CFDA #66.458)  
Capitalization Grants for Drinking Water State Revolving Funds (CFDA #66.468)  
Title I Grants to Local Educational Agencies (CFDA #84.010)  
Vocational Education – Basic Grants to States (CFDA #84.048)  
Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA #84.126)  
Twenty-First Century Community Learning Centers (CFDA #84.287)  
Reading First State Grants (CFDA #84.357)

# COMMONWEALTH OF PENNSYLVANIA

## Summary of Auditors' Results - June 30, 2006

Improving Teacher Quality State Grants (CFDA #84.367)  
 Help America Vote Act Requirements Payments (CFDA #90.401)  
 Centers for Disease Control and Prevention Investigations (CFDA #93.283)  
 Temporary Assistance for Needy Families (CFDA #93.558)  
 Child Support Enforcement (CFDA #93.563)  
 Low-Income Home Energy Assistance (CFDA #93.568)  
 Community Services Block Grant (CFDA #93.569)  
 CCDF Cluster (CFDA #93.575 and #93.596)  
 Foster Care Title IV-E (CFDA #93.658)  
 Adoption Assistance (CFDA #93.659)  
 Social Services Block Grant (CFDA #93.667)  
 State Children's Insurance Program (CFDA #93.767)  
 Medicaid Cluster (CFDA #93.775, #93.777, and #93.778)  
 HIV Care Formula Grants (CFDA #93.917)  
 Social Security – Disability Insurance (CFDA #96.001)  
 Disaster Grants – Public Assistance (Presidentially Declared) (CFDA #97.036)

Any audit findings disclosed that are required  
 to be reported in accordance with Circular  
 A-133, Section .510(a)?  X  yes   no

### Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster	Federal Expenditures (000s)
10.550	Food Donation	\$ 35,133
10.551 and 10.561	Food Stamp Cluster	1,310,893
10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster	296,415
10.557	Special Supplemental Nutrition Program for WIC	134,803
10.558	Child and Adult Care Food Program	60,313
12.401	National Guard Military Operations and Maintenance Projects	41,668
14.228	Community Development Block Grants/State's Program	57,928
14.239	HOME Investment Partnerships Program	17,182
15.252	Abandoned Mine Land Reclamation Program	34,623
17.207, 17.801, and 17.804	Employment Service Cluster	46,988
17.225	Unemployment Insurance	2,277,989
17.245	Trade Adjustment Assistance	45,839
17.258, 17.259 and 17.260	WIA Cluster	140,329
20.205 and 23.003	Highway Planning and Construction Cluster	1,338,143
66.458	Capitalization Grants for Clean Water State Revolving Funds	47,200
66.468	Capitalization Grants for Drinking Water State Revolving Funds	25,807
84.010	Title I Grants to Local Educational Agencies	468,835

# COMMONWEALTH OF PENNSYLVANIA

## Summary of Auditors' Results - June 30, 2006

84.048	Vocational Education – Basic Grants to States	44,743
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	119,175
84.287	Twenty-First Century Community Learning Centers	30,980
84.357	Reading First State Grants	30,034
84.367	Improving Teacher Quality State Grants	114,105
90.401	Help America Vote Act Requirements Payments	37,468
93.283	Centers for Disease Control and Prevention Investigations	49,297
93.558	Temporary Assistance for Needy Families	647,871
93.563	Child Support Enforcement	121,994
93.568	Low-Income Home Energy Assistance	168,159
93.569	Community Services Block Grant	25,114
93.575 and 93.596	CCDF Cluster	357,766
93.658	Foster Care Title IV-E	321,231
93.659	Adoption Assistance	71,922
93.667	Social Services Block Grant	115,627
93.767	State Children's Insurance Program	149,052
93.775, 93.777 and 93.778	Medicaid Cluster	8,747,603
93.917	HIV Care Formula Grants	37,384
96.001	Social Security – Disability Insurance	77,707
97.004, 97.067 and 16.007	Homeland Security Cluster	62,109
97.036	Disaster Grants – Public Assistance (Presidentially Declared)	37,680
	Total Federal Expenditures – Major Programs	<u>\$17,747,109</u>

Dollar threshold used to distinguish between Type A and Type B programs:

\$30,000,000

Auditee qualified as low-risk auditee?

    yes

  X  no

# COMMONWEALTH OF PENNSYLVANIA

## Index to Basic Financial Statement Findings - June 30, 2006

Finding No.	Finding Title	Impacted State Agency	Finding Page	CAP Page
06-1**	Internal Control Weaknesses Over Financial Reporting for the Lottery Fund (Prior Year Comment #05-3)	OB/CS	39	280
06-2**	Tobacco Settlement Investment Account Balances Were Not Being Properly Reviewed and Reconciled (Prior Year Comment #05-7)	TSIB OB/LECS	41	280
06-3**	Internal Control Weakness Over Financial Reporting in the Unemployment Compensation Fund (Prior Year Comment #05-14)	OB/LECS	43	280
06-4*	Internal Control Weaknesses Identified in Processing PTRR Claim Forms	DOR	44	280
06-5*	Lack of Documentation to Support Contracting and Procurement (Prior Year Comment #05-13)	OB/OA	46	280
06-6*	Internal Control Weaknesses Over Accounting for Assets Under Construction (Prior Year Comment #05-20)	OB/BFM DGS DCNR	48	280
06-7**	Internal Control Weakness Over Escheat Liability Estimation Methodology	TREAS OB/BFM	49	280
06-8**	Internal Control Weaknesses Over Tobacco Settlement Fund Commonwealth Universal Research Enhancement Grants (Prior Year Comment #05-11)	DOH	51	280
06-9*	Weaknesses in DOH Controls Over Annual Contractor and Service Provider Audit Requirements for the Tobacco Settlement Fund (Prior Year Comment #05-10)	DOH	56	280
06-10**	Internal Control Weaknesses Result in Improper Payments in the Tobacco Settlement Fund (Prior Year Comment #05-9)	DPW	59	281
06-11**	Internal Control Weakness Over GASB Statement #40 Note Disclosures in Basic Financial Statements (Prior Year Comment #05-21)	OB/BFM TREAS	62	281
06-12**	Errors and Internal Control Weakness in Reporting Securities Lending Amounts in the BFS (Prior Year Comment #05-18)	OB/BFM	64	281
06-13*	Internal Control Weakness in the Financial Accounting Records (Prior Year Comment #05-17)	OB/BFM	65	281

\* - Reportable Condition

\*\* - Material Weakness

CAP - Corrective Action Plan

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Index to Basic Financial Statement Findings - June 30, 2006***

<b>Finding No.</b>	<b>Finding Title</b>	<b>Impacted State Agency</b>	<b>Finding Page</b>	<b>CAP Page</b>
06-14*	Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System (Prior Year Comment #05-24)	OB/BFM	66	281
06-15**	Liability for Self-Insurance Was Misstated in the Preparation of the BFS	DGS/BRIM ATTY GEN	68	281
06-16*	Statewide Weaknesses Within the SAP Accounting System Controls (Prior Year Comment #05-22)	OB/BFM	70	282

\* - Reportable Condition

\*\* - Material Weakness

CAP - Corrective Action Plan

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2006***

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### **Finding 06 – 1:**

#### **Office of the Budget – Central Services Comptroller Office**

##### **Internal Control Weaknesses Over Financial Reporting for the Lottery Fund (A Similar Condition Was Noted in Prior Year Comment #05-3)**

**Condition:** The Central Services Comptroller Office prepared the Lottery Fund’s GAAP template, which contained misstatements due to accounting errors made during the fiscal year and due to errors made during the GAAP template preparation process. Collectively, the errors had the following impact on financial statement accounts:

- Liabilities – understated by \$16.3 million
- Revenue – overstated by \$14.2 million
- Accounts Receivable – understated by \$1.1 million
- Expenditures - understated by \$1.0 million

**Criteria:** Strong internal controls should ensure that accounting transactions are reported accurately and are appropriately reviewed and approved by management.

**Cause:** The above-noted Lottery Fund misstatements were caused by clerical errors in routine accounting functions to record Lottery fiscal activity during the fiscal year and due to oversights and errors in the preparation and review of the GAAP template for the Lottery Fund by the Central Services Comptroller Office.

**Effect:** Accounts in the government-wide and fund financial statements were misstated and required auditor adjustment. The noted weaknesses in internal review procedures could result in additional misstatements in the future.

**Recommendation:** The Central Service Comptroller Office should review and revise its accounting controls used to record Lottery activity during the normal course of business. Also, The Central Service Comptroller Office should review and evaluate procedures for the Lottery Fund GAAP template preparation to ensure amounts in the financial statements are correct.

**Agency Response:** The \$1.1 million understatement of Accounts Receivable was the result of preparer errors and inaccurate Lottery data. The information provided for June 30, 2006 was data from the prior fiscal year June 30, 2005. Central Services staff will conduct a more thorough review of the data provided by Lottery to ensure the information provided for the accrual period is not duplicated from the prior year.

The Revenue overstatement of \$14.2 million occurred because an adjustment memo was not prepared for the \$6.5 million Multi-State Lottery Association (MUSL) reimbursement, for the Match 5 bonus for the drawing date of February 18, 2006. Central Services will perform a monthly reconciliation of this account to ensure that all the necessary accounting transactions are recorded. Revenues were also affected by the \$801 thousand understatement of Accounts Receivable and \$8.5 million overstatement of the Field Paid Prizes. These occurred because of incorrect June 30, 2006 data. The preparer has adjusted the CAFR template instructions for these areas to ensure that they are accurate prior to finalizing the template.

Small-dollar misstatements also occurred as the result of the incorrect use of the value dates for various transactions. Central Services will examine how and why the errors occurred and work to proactively minimize similar problems in the future.

Central Services continues to develop and incorporate a supplemental review checklist to analyze and test data provided by Lottery, ensure that spreadsheets reflect accurate data, and verify that adjustments in instructions developed are followed.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2006***

### **Finding 06 – 1: (continued)**

In addition, Central Services is currently working directly with Lottery on changes in automated online games. We will review how online gaming data interfaces into the Lottery system, which is the basis for computing fiscal period accruals. We will continue to obtain an ongoing comprehensive understanding of the Lottery information used to prepare the CAFR template. Also, it can be observed that improvements between fiscal year end June 30, 2006 and June 30, 2005 have occurred in the CAFR template because of proactive action taken by Central Services. Also, because of the complexity of this template the auditors and Central Services staff continue to learn and improve the quality of this CAFR template.

**Auditors' Conclusion:** Based on the agency response, our finding and recommendation remain as previously stated. We will review any corrective action in our subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## **Basic Financial Statement Findings - June 30, 2006**

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### **Finding 06 – 2:**

#### **Tobacco Settlement Investment Board**

#### **Office of the Budget – Labor, Education and Community Services Comptroller Office**

#### **Tobacco Settlement Investment Account Balances Were Not Being Properly Reviewed and Reconciled (A Similar Condition Was Noted in Prior Year Comment #05-7)**

**Condition:** The Tobacco Settlement Act and amendments thereto established three different restricted revenue/receipts accounts within the Tobacco Settlement Fund (TSF), the Health Endowment Account (HEA), the Health Venture Investment Account (HVIA), and the Community Health Reinvestment Account (CHRA). In addition, a general TSF account was maintained to invest Master Settlement Agreement (MSA) payments from cigarette manufacturers pending disbursement for program purposes. As a result, four separate investment accounts were established with Mellon Bank: HEA, HVIA, CHRA and a general TSF account. While our reconciliation of the total of all investments balances held in the four accounts by Mellon Bank, to the investments recorded on the TSF records which support amounts reported on the BFS disclosed no errors, we found that neither Tobacco Settlement Investment Board (TSIB), nor LECS Comptroller personnel performed adequate reconciliations of the HEA, HVIA, CHRA and the general TSF accounts in order to ensure the funds were accounted for accurately by Mellon Bank and that each of the four individual account balances were accurate.

**Criteria:** An effective system of internal controls over financial accounting and reporting should contain a structured process whereby accounts are timely reconciled/analyzed on a periodic basis and such reconciliations/analyses are subject to supervisory review.

**Cause:** No documented procedures are in place to timely reconcile or analyze each TSF Mellon account on a periodic basis to ensure that cash and investment activity is properly, accurately and timely recorded within the correct Mellon account.

**Effect:** Since adequate internal control over TSF investment accounts was not maintained the investment income posted on the Commonwealth's budgetary accounting system may be inaccurate and could cause noncompliance with the Tobacco Settlement Act and amendments thereto. Further, future amendments to the Tobacco Settlement Act could impair the ability of the Commonwealth to report accurate reserve balances in the BFS. Also, for the three TSF restricted accounts and the general TSF account, the TSIB, or the LECS Comptroller did not allocate and record cash and investment balances correctly to allow for the timely and proper payment of bills from the TSF. We consider this a material weakness since the value of investments held within TSF accounts at June 30, 2006 was approximately \$1.2 billion.

**Recommendation:** TSIB and LECS personnel should implement and document procedures to perform periodic reconciliations of all four TSF investment accounts held by Mellon bank to ensure that investment activity is properly, accurately and timely recorded within the correct Mellon account, and that transactions recorded on the Commonwealth's records are posted to the correct budgetary appropriation. These procedures should also include a supervisory review of the reconciliations. This would give the Commonwealth a better system of checks and balances and better control over assets under its management, and ensure accurate reporting of balances.

**Agency Response:** In September 2006, LECS Comptroller Office filled an Accountant 4 position with the responsibility to manage the highly complex accounting issues of the Tobacco Settlement Fund and to ensure that current reporting and accounting practices provide accurate reporting. Historical errors affecting the availability of funding within TSF have been corrected. LECS now reviews all activity posted in each of the consolidated Mellon Bank accounts (HEA, HVIA, CHRA and TSF). LECS verifies all Mellon recorded transfers and expenses to information provided and approved by TSIB staff. Each month, LECS records out-of-scope activity into SAP and reconciles the Mellon bank statements to both the FM and FI modules of SAP. LECS and TSIB staffs are working with Mellon Bank to ensure that the bank correctly records private equity activity and all revenues and expenses are properly

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Basic Financial Statement Findings - June 30, 2006***

### **Finding 06 – 2: (continued)**

classified. These procedures, now in place within LECS Comptroller Office, provide accurate and timely reporting of HEA, HVIA, CHRA and TSF balances.

**Auditors' Conclusion:** Based on the agency response, our finding and recommendation remain as previously stated. We will review any corrective action in our subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## **Basic Financial Statement Findings - June 30, 2006**

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### **Finding 06 – 3:**

#### **Office of the Budget – Labor, Education and Community Services Comptroller Office**

##### **Internal Control Weakness Over Financial Reporting in the Unemployment Compensation Fund (A Similar Condition Was Noted in Prior Year Comment #05-14)**

**Condition:** The Commonwealth's Basic Financial Statements (BFS) contained material misstatements in the Unemployment Compensation (UC) Fund that required material adjusting entries by the auditors. Our testing of the UC Fund GAAP template led to two adjusting entries by the auditors totaling \$47.6 million resulting in a net decrease in fund balance by the same amount.

Similar to the prior year, the largest audit adjustment, in the amount of \$28.3 million, was related to the receivable for benefit overpayments. During the current year under audit, we again questioned various aspects of the L&I and LECS Comptroller Office receivable calculation methodology resulting in a net decrease of \$28.3 million. The second adjustment for \$19.3 million was the result of using an incorrect receivable report and omitting uncollectible accounts when calculating the unemployment assessments receivable. Furthermore, the LECS internal review procedures did not detect and correct these errors.

**Criteria:** Strong internal controls would ensure that account balances and adjustments are reported accurately in the BFS and are appropriately reviewed and approved by management.

**Cause:** LECS Comptroller internal review procedures in its UC GAAP template preparation process were not thorough enough to detect and correct the errors noted above by the auditors.

**Effect:** UC Fund account balances in the government-wide and fund financial statements were materially misstated and required auditor adjustment. In addition, the noted weakness in internal review procedures could continue to result in additional misstatements in the future.

**Recommendation:** LECS should evaluate its methodology and its internal review procedures for preparing the UC Fund GAAP template and ensure accruals are accurate. L&I should ensure reports used in GAAP template preparation are accurate.

**Agency Response:** The LECS Comptroller's Office has reviewed its internal process for template preparation and will change the receivable calculation method for the coming year. Also, we will work more closely with L&I to reduce errors on reports used for GAAP preparation.

**Auditors' Conclusion:** Based on the agency response, our finding and recommendation remain as previously stated. We will review any corrective action in our subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2006

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### Finding 06 – 4:

#### Department of Revenue

##### Internal Control Weaknesses Identified in Processing PTRR Claim Forms

**Condition:** During our audit of the Property Tax/Rent Rebate program expenditures, we identified internal control weaknesses in the Department of Revenue’s payment process. Of the 25 payments tested, we found two instances in which PTRR claims were paid without proper supporting documentation. In one instance, required documentation to support the amount of income reported was not attached to the claim form. In the other instance, documentation to support the amount of rent paid was attached to the claim form, but was not signed by the landlord.

**Criteria:** Claimants are required to submit documentation to support amounts reported on the PTRR claim form. Claim forms submitted without appropriate supporting documentation are to be placed on hold, and the reviewer is instructed to initiate the request for supporting documentation from claimants.

**Cause:** Upon detail review of the claim form, the reviewer failed to detect the missing required documentation to support income on the claim form. Also, the reviewer identified the rent certificate as being unsigned. However, the reviewer chose not to pursue getting a completed form as required because this was a repeat claim.

**Effect:** As a result of internal control weaknesses in processing PTRR claim forms, we identified potential overpayments of rebates in the PTRR program. Without improvement, overpayments could continue into the future.

**Recommendation:** We recommend that reviewers ensure they obtain all required documentation prior to approving a PTRR claim form for payment.

**Agency Response:** In our new Tax Examiner and yearly update training, the Division trainer will explicitly cover both subject matters identified in the audit with the staff. However, as previously disclosed to the Auditor there are certain income lines where we do not request information from claimants. This is due to the Personal Income Tax (PIT)/PTRR cross match audit conducted by the Department of Revenue (DOR) each year. This audit compares income data between the two systems, and the missing data in the PTRR system is obtained from the PIT system. The specific response to each of the conditions in the finding is enumerated below:

1. The supporting documentation for rent paid was not signed by the landlord. A review of this error concluded that the PA-1000RC, Rent Certificate and Rental Occupancy Affidavit, wasn’t signed by the landlord nor notarized when the claim was submitted. As stated above, this issue will be addressed in future training.

Follow-up – Upon review DOR staff determined that the claimant lived at the same address as in the prior year. The PA-1000RC did contain a note stating that the landlord refused to sign the affidavit and that the claimant was evicted in the middle of 2006.

2. The supporting documentation for the amount of income reported was not attached. As stated above, due to the PIT/PTRR cross match audit, Tax Examiners are not required to request supporting documentation for certain income lines. However, we will include a reminder to our staff on when they are required to request supporting documentation in future training.

Follow-up – Upon review DOR staff determined that most income lines would have been supported in the cross match audit and the one line not supported was questioned and verified with a proof document.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2006***

### **Finding 06 – 4: (continued)**

**Auditors' Conclusion:** Since the necessary documentation was not obtained at the time of payment, there is a control weakness in PTRR payment procedures. We will review any corrective action in our subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2006

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### Finding 06 – 5:

#### Office of the Budget Office of Administration

#### Lack of Documentation to Support Contracting and Procurement (A Similar Condition Was Noted in Prior Year Comment #05-13)

**Condition:** During prior audit periods, the Commonwealth awarded numerous statewide technology contracts to modernize and upgrade the Commonwealth's information systems technology, to outsource agency data center computer operations, and to consolidate the acquisition of telecommunications services. The contracts awarded for these types of technology services involve all major agencies in the Commonwealth. In our prior-year audits for the fiscal years ended June 30, 2005 and prior, we reported that management refused to provide us with key procurement documentation to enable us to audit the awarding of these contracts and to verify compliance with Commonwealth procurement regulations. We also disclosed numerous weaknesses in the Commonwealth's internal controls over documentation supporting procurement of these contracts in the prior year. It should be noted that these prior-year disclosures also involved contract awards, other than for technology, which were limited to specific agencies and funds.

Our current year follow up for the fiscal year ended June 30, 2006, disclosed that, as in the prior year, management continues its policy of refusing to provide us with key procurement documentation to enable us to audit the awarding of contracts to verify compliance with Commonwealth procurement regulations. Documentation again not provided to us for the above contract awards consisted of the following:

- List of proposal evaluation committee members.
- Copies of losing vendor proposals.
- Detailed scoring sheets used by evaluation committee members for each proposal submitted for review.
- Summary documentation to audit the overall scoring and selection process including maximum point values assigned to each major evaluation criterion and the evaluation committee members recommendations for vendor selection.
- Documentation to support that the evaluation committee verified that prospective vendor's cost proposals were reasonable.
- Documentation required for evaluating the participation of Socially and Economically Restricted Businesses (SERB) for each of the submitted proposals.

**Criteria:** The Commonwealth established procurement policy and procedures in the "Field Procurement Handbook" (M215.3 as Amended). Commonwealth agencies are required to adhere to this handbook when awarding contracts. Part III, Chapter 7 of the handbook details a step-by-step process that must be followed when a contract is to be awarded via a "Request for Proposal". Good internal controls require management to maintain sufficient documentation to demonstrate that proper purchasing procedures are reasonably followed and contracts are properly awarded. Regarding procurement duties, specific sections of Chapter 7 state:

*Evaluation Committee* 25. *Performs final technical and cost evaluations after discussions have been completed (i.e. score sheets).*

**Cause:** Management maintains that the identity of evaluation committee members, committee scoring sheets, SERB participation, losing proposals and other documents listed above are considered confidential information that we are not entitled to review. Management also maintains that these documents are not within the scope of a financial statement audit.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2006

### Finding 06 – 5: (continued)

In prior audits, management has referred to an October 2003 “agreement” with the Department of the Auditor General, which management claims resolved this issue. This “agreement” was part of a separate prior audit engagement with audit objectives and reporting requirements that were different than our audit of the Commonwealth’s BFS. Management claims that this so-called “agreement” resolves the issues to enable us to verify compliance with procurement regulations in our BFS audit. We noted, however, in our current-year audit of the BFS that this is not the case since management continues in its refusal to provide any documentation, summary or otherwise, related to the specific procurement items noted in the condition above. Our comment, therefore, does not change in this regard.

**Effect:** By refusing to provide the requested documentation, management has prevented the Department of the Auditor General from performing duties required of it by Pennsylvania’s Constitution and by Pennsylvania law. The Constitution provides that “all departments, boards, commissions, agencies, instrumentalities, authorities and institutions of the Commonwealth shall be subject to audits made in accordance with generally accepted auditing standards.” (Article VIII, Section 10) The Fiscal Code directs the Department of the Auditor General “to make all audits of transactions after their occurrence, which may be necessary, in connection with the administration of the financial affairs of the government of this Commonwealth,…” (72 P.S. § 402) Management has taken the position that the invocation of confidentiality supersedes these constitutional and statutory directives.

It should be further noted that management’s refusal also prevents us from performing a proper Single Audit of the Commonwealth’s major federal programs in accordance with OMB Circular A-133. Procurement is one of the key compliance requirements that is required by the federal government to be tested as part of the Single Audit, and since we cannot audit the Commonwealth’s compliance with procurement regulations in certain federal programs, our OMB A-133 Compliance Opinion must be qualified for this scope limitation.

Without the necessary documentation, we could not verify that management adhered to Commonwealth procurement standards and laws, or exercised due diligence in awarding the contracts disclosed above. More specifically, we could not verify that management awarded contracts to the most qualified vendors or that the appropriate Commonwealth officials conducted proper fiscal reviews of amendments that substantially increased contract costs. We also cannot ascertain whether proper controls are in place to prevent fraud, abuse, or other inappropriate activity from occurring during the contract procurement process. In short, management imposed scope limitations on our audit procedures.

Furthermore, management’s refusal to provide procurement documentation to our department is a violation of the Commonwealth Procurement Code, which states: *Retention of procurement records. All procurement records, including any written determinations issued in accordance with section 561 (relating to finality of determinations), shall be retained for a minimum of three years from the date of final payment under the contract and disposed of in accordance with records retention guidelines and schedules as provided by law. In accordance with applicable law, all retained documents shall be made available to the . . . Auditor General . . . upon request. (62 Pa.C.S.A. § 563)*

**Recommendation:** We recommend that management abandon its practice of withholding documentation in order to allow the Department of the Auditor General to perform its constitutional and statutory duties, and to provide the public and other interested stakeholders with assurance that laws and policies are being properly followed in the procuring of goods and services.

**Agency Response:** We have reviewed the comment and your recommendation and our position, as stated in the prior year’s response, remains unchanged. However, the Office of the Budget will meet with the Department of the Auditor General to explore potential solutions to this matter.

**Auditors’ Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2006

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### Finding 06 – 6:

**Office of the Budget – Bureau of Financial Management  
Department of General Services  
Department of Conservation of Natural Resources**

**Internal Control Weaknesses Over Accounting for Assets Under Construction (A Similar Condition Was Noted in Prior Year Comment #05-20)**

**Condition:** The Assets Under Construction (AUC) balance is comprised of construction projects that are not complete and therefore are not placed in service. When these projects are complete and ready to be placed in service, a settlement process should occur in SAP at the appropriate agency whereby the project is removed from AUC and transferred to General Capital Assets to begin being depreciated.

We noted during the performance of fieldwork and through discussion with Bureau of Financial Management (BFM) staff that the above mentioned agencies were improperly settling completed AUC projects or not settling them at all. In fact, for the majority of the completed projects it was the case that the agencies were not settling them, causing BFM to post adjustments to correct errors in the BFS. The settling of completed projects is not something that should take place only at year end. It is a process that should occur throughout the year upon the completion of each project. Furthermore, the lack of agency project settlement greatly increases the risk of AUC, General Capital Assets, Accumulated Depreciation and Depreciation Expense misstatements since the agency personnel are the ones who are actively managing the projects.

**Criteria:** Good internal control dictates that agency personnel possess the appropriate knowledge and expertise so that the agency's AUC data can be properly maintained in SAP. This includes ensuring that old projects do not remain in the AUC balance year after year and that completed projects are properly (including promptly) transferred to General Capital Assets.

**Cause:** The errors caused by the improper settling to SAP were primarily due to the Commonwealth's implementation of the statewide SAP accounting system. Even though SAP was implemented four years ago, agency personnel did not possess substantial knowledge of the settlement process. There has been active training in this area since the similar finding in the prior year, so lack of adequate staffing may be a contributing factor to this finding.

**Effect:** AUC, General Capital Assets, Accumulated Depreciation and Depreciation Expense may be misstated in the future if internal controls (including a review function at the agency) are not strengthened and proper training of agency personnel does not occur and resources are not adequate.

**Recommendation:** We recommend that procedures that were developed to provide proper instruction for agency personnel to ensure proper AUC reporting be reviewed for adequacy. We further recommend that agency personnel continue to participate in extensive training so that they possess the necessary knowledge of the required SAP sub-modules and gain experience and expertise regarding how to properly maintain the agency's AUC balance in SAP. Staffing levels should also be evaluated to ensure adequate resources are available.

**Agency Response:** This finding is appropriate as written. We will proceed with the development and implementation of a corrective action plan.

**Auditors' Conclusion:** The finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2006***

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### **Finding 06 – 7:**

#### **Treasury Department Office of the Budget – Bureau of Financial Management**

##### **Internal Control Weakness Over Escheat Liability Estimation Methodology**

**Condition:** The Treasury Comptroller Office utilizes a methodology to estimate the escheat liability at fiscal year end for reporting in the General Fund in the Commonwealth’s BFS. This methodology calculated the liability by averaging the past five years of claim payments, but did not consider the extent to which future claims may exceed such an estimate. This resulted in a \$286 million understatement in the escheat liability in the BFS, necessitating a BFS adjustment by the auditors.

**Criteria:** GASB Statement # 21, Accounting for Escheat Property, paragraph 5, states, “Escheat revenue should be reduced and a fund liability reported to the extent that it is probable that escheat property will be reclaimed and paid to claimants. Payments to claimants should reduce the liability. The liability should represent the best estimate of the amount ultimately expected to be reclaimed and paid, giving effect to such factors as previous and current trends in amounts reclaimed and paid relative to amounts escheated, and anticipated changes in those trends.” In order to comply with this requirement, the Treasury Comptroller Office should not simply average the last five years, but perform a yearly analysis as to the future amount ultimately expected to be paid to claimants.

**Cause:** It appears as though the methodology used to estimate this liability has not been reviewed or updated in recent years to achieve more accurate compliance with GASB #21.

**Effect:** If not corrected, the above-mentioned flaw in the Treasury Comptroller Office’s escheat estimation methodology will result in understatement of the liability in future years.

**Recommendation:** We recommend that the Treasury Comptroller’s Office reevaluate the methodology used to estimate the escheat liability for the BFS. In addition, we recommend that BFM more thoroughly review the Treasury GAAP template to avoid future BFS errors and auditor adjustments to the BFS.

**Agency Response:** The Treasury Comptroller’s Office agrees with the auditors that the methodology used in the past to compute the liability for abandoned and unclaimed property may not have been an accurate representation of the liability.

GASB 21 sets the requirement for estimating the liability associated with abandoned and unclaimed property. Paragraph 13 of Appendix B states “For entities whose laws provide that a claim against escheat property may be made into perpetuity, the liability to claimants is the amount expected to be reclaimed and paid (whenever that claim is made and paid) against property that has been escheated to the entity (whenever the escheat occurred). One way to estimate the liability is to analyze over a period of years the subsequent claims experience against escheat property collected in a particular year.”

As the result of auditor inquiry and in accordance with GASB 21, the Treasury Comptroller’s Office developed the current method of analysis to estimate the accounting liability of abandoned and unclaimed property received by the General Fund. Treasury has record of all property received and claimed under the Unclaimed and Abandoned Property statute. Records also exist of claims paid from the property received. Our actual payment experience from fiscal year ended June 30, 2000 through fiscal year ended June 30, 2006 is that Treasury has paid claims of approximately 20% of receipts. Receipts from this period represent 93% of property available to be claimed. The reported liability was calculated to reflect our payment history.

The reported liability reflected the new methodology, using 20% of all receipts for the period under analysis plus 20% of property available to be claimable property received prior to July 1, 1999.

**COMMONWEALTH OF PENNSYLVANIA**

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***Basic Financial Statement Findings - June 30, 2006***

**Finding 06 – 7: (continued)**

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as stated above. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2006

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### Finding 06 – 8:

#### Department of Health

##### Internal Control Weaknesses Over Tobacco Settlement Fund Commonwealth Universal Research Enhancement Grants (A Similar Condition Was Noted in Prior Year Comment #05-11)

**Condition:** Our testing of DOH Tobacco Settlement Fund expenditures revealed that, since inception, all monies granted to eligible institutions under the Commonwealth Universal Research Enhancement (CURE) program have been paid upfront and in full to the grant recipients at the start of each fiscal year's grant, without adequate monitoring of these funds by DOH.

The majority of DOH contracts with the approximately 45 CURE grant recipients extend far beyond the end of one fiscal year, and up to four years in length. In addition, as reported in the 2005-2006 Annual CURE Report maintained on the DOH website, during the past four years, only \$168.2 million of \$303.8 million, or 55 percent of all CURE funds distributed in the aggregate in the past four years have been expended by grant recipients as of June 30, 2006. Since the \$135.6 million in unexpended grant funds (or 45 percent of the CURE grant program) is no longer in Commonwealth bank accounts, the Commonwealth does not have direct control over this excess cash and these grant funds being held by the outside grant recipients are subject to an increased risk of loss to the Commonwealth. Furthermore, since DOH decided to pay out this grant money upfront at the start of each grant year, internal controls over DOH monitoring of this grantee cash should have been significantly enhanced. However, as explained below, this has not occurred.

DOH personnel indicated that audits are required of all CURE grantees that expend \$300,000 or more in a fiscal year, which would mitigate the risk involved with the advance funding of grants. However, our testing disclosed that for a sample of five CURE grantees required to submit audits for SFYE June 30, 2005 expenditures DOH has only received one of the grantee audits. The four grantees that did not submit audits of SFYE June 30, 2005 expenditures received \$26.5 million of the \$72.2 million in CURE funding (or about 37 percent) awarded and paid out during the prior SFYE June 30, 2005. Further, the grantee that received the most CURE funding during SFYE June 30, 2005 (\$16.3 million) and did not submit an audit to DOH, had fraud allegations leveled against it by the U.S. Government, as we noted in our prior audit, and entered into a settlement agreement with the U.S. Department of HHS to resolve their liability for allegedly engaging in grant fraud in the course of conducting NIH- and FDA-funded clinical research. While DOH did receive an audit of FYE June 30, 2004 expenditures for this grantee, it only included formula grants, and did not include non-formula grant expenditures.

In addition, we requested that DOH provide us access to performance reviews required to be completed under Section 910 (a) of the Tobacco Settlement Act for grants to eligible institutions under the CURE program. However, officials at DOH refused to provide us access to any performance review reports for CURE grants, even after assurances that we would not disclose the name of any grantees and their performance ratings. Therefore, in addition to the control weaknesses, we could not verify that the required performance reviews were performed.

Several of our prior-year audits have disclosed the same internal control weaknesses noted above over this CURE funding with inadequate corrective action by DOH continuing through the end of the current year.

**Criteria:** Prudent use of Commonwealth funds dictates that payments to grantees normally be made as reimbursements or as close to a grantee's cash needs as is reasonably possible. If advanced payments are deemed necessary by management, steps should be taken to significantly increase the monitoring of the program.

Contracts with CURE grantees include an audit clause that requires an audit to be performed in accordance with *Government Auditing Standards* whenever the grantee expends \$300,000 or more in state grant funds within a year.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2006

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### Finding 06 – 8: (continued)

The Tobacco Settlement Act 77 of 2001 states:

*Section 910. Accountability Procedures.*

(a) *Requirements.* – An Applicant that receives a research grant under this chapter shall be subject to a performance review by the Department upon completion of a research project or more often as deemed necessary by the Department. ...Information shall...include, as applicable, the following:

(1) *The progress made in achieving expected research goals and objectives.*

(b) *Penalty.* – Notwithstanding any other provision of this chapter, an applicant that receives an unfavorable review by the Department under Subsection (A) may be subject to a reduction in or ineligibility for research grant funding under this chapter.

**Cause:** DOH personnel indicated that CURE grant recipients had to be paid the full amount of the contract by October 31 of the subsequent fiscal year or any remaining funds would lapse without special approval of the Office of the Budget (OB). Further, DOH personnel indicated that they initially requested OB to make the CURE appropriations continuing appropriations so the funds would not lapse in the subsequent fiscal year; however, OB did not approve the DOH request. Based on this, DOH personnel felt their best option was to pay all grantees in one advance payment and require that the funds be kept in interest bearing accounts. DOH personnel could not explain why all required grantee audits were not submitted.

Regarding our request for access to CURE grantee performance reviews, DOH officials inappropriately believe we were requesting that the reviews be made public. As a result, DOH personnel stated that if they were to release the reports to the public, the Department would face challenges by institutions that would not want to have any negative comments in the reports. Almost all reports include weaknesses; therefore, it is likely that most institutions would object, if they knew the reports were going to be made public. Performance review costs would increase, as grantees would appeal the reviews and DOH would have to repeat the performance reviews with new experts. DOH is also concerned about possible legal challenges and the diversion of staff effort to respond to press inquiries. As stated above, we are not asking DOH to make the reports public, only that DOH provide us with access so we can perform our required audit responsibilities to verify compliance.

**Effect:** Since over \$135 million in Tobacco Settlement funds (or about 45 percent of the entire CURE program during the past four years) remain unexpended in the possession of grantees as of June 30, 2006, and in addition are not being properly monitored by DOH, the Commonwealth is exposing significant amounts of Tobacco Settlement funds to the risk of loss by the grantee through possible financial failure, or other risk of nonperformance. This condition has been occurring for the last five years since the 2001 inception of the CURE grant program. Further, since DOH is not placing any limits on the amount of fiscal year advances to its grantees, the Commonwealth is not able to maximize the amount of investment income for the State's Tobacco Settlement Fund.

Since grantees are not submitting their required audits, DOH cannot determine if grantees are administering CURE grants in compliance with CURE legal and contract requirements.

Since DOH officials will not provide CURE grantee performance review reports to us, we could not test compliance with the Accountability Procedures requirements of Section 910 of the Tobacco Settlement Act.

**Recommendation:** DOH, in conjunction with OB, should consider establishing procedures to either reimburse grant recipients for the actual cost of research services performed or, at a minimum, establish procedures that continue to allow for advancing of grant funds in a manner that resembles the grant recipient's needs, but with significantly enhanced DOH program monitoring. We noted, for example, that if DOH more closely limited and/or monitored the advance cash of at least its larger grantees, which are small in number, internal control would be strengthened for a large

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2006***

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### **Finding 06 – 8: (continued)**

percent of the CURE funding being paid out. By doing this, the Commonwealth would be better safeguarding its own assets and also have a stronger hand in monitoring the actual expenditures by the grant recipients.

Also, the State's Health Endowment Account would achieve additional investment income which is necessary to continue funding Tobacco Settlement Fund health programs after tobacco settlement payments from cigarette manufacturers cease in the future.

Further, DOH needs to ensure that all annual CURE grantee audits required to be submitted are completed, received, and followed up on as necessary. This would provide better assurance that CURE grant funds are being properly expended and would enhance DOH's monitoring controls over the excess cash sitting in grantee accounts over long periods of time.

DOH should allow the auditor access to CURE grantee performance review reports so we can test for compliance with the Accountability Procedures requirements of Section 910 of the Tobacco Settlement Act.

**Agency Response:** DOH believes it took the appropriate steps necessary to ensure grant recipients were reimbursed in the best manner possible, and at the same time, took into consideration steps to safeguard the Commonwealth's funding.

When the Tobacco Settlement Act was passed with specific requirements related to the Research Grants, DOH consulted with its Legal Office, Comptroller's Office, and the Office of the Budget on the best course of action to take to effectively utilize, monitor and manage these funds. Full concurrence was received from all parties that language should be inserted in the grant agreements to provide for advance payments. These grant agreements were developed and fully executed, with approvals from DOH's Agency Head, Comptroller's Office, Legal Office, Office of General Counsel and the Attorney General's Office.

All health research grant recipients are required to invest the funds in an insured interest bearing account and all interest earned must be invested in the health research. Grantees are required to report how the funds generated by interest earned are used for health research. Any unspent funds – on original grant funds and interest earned – must be returned to the Commonwealth at the end of the grant.

Health research grant recipients are research institutions that have received at least three consecutive years of funding from the National Institutes of Health. As such, all grantees have proven records of performance.

The Tobacco Settlement Act funds for health research were intended to be administered as grants, not contracts. The act states that recipients must adhere to federal ethical and procedural standards related to research grants and that the state should select the competitive health research grants using federal criteria for the award of research grants. Upfront payments allow the institutions to competitively hire world-class researchers and to purchase needed equipment without delays. As a result, they are able to complete research faster, improving the likelihood of attracting additional research funding into the state and bringing research results to commercial development in a timelier manner.

Health research grantees are held accountable for the dollars invested in health research by a performance review process. In accordance with the Tobacco Settlement Act, all research projects upon completion are subject to a performance review. If a recipient receives an unfavorable review, the grantee may be ineligible for future funding. This system ensures that health research funds are invested productively and that unproductive grantees will not receive future health research funding.

Upfront payments have also eliminated the need for DOH to create an extensive bureaucracy to manage the program. If the payment system is changed to require cost reimbursement or reimbursement based on expenditures, DOH would need to add at least one professional and two full time administrative staff to process the invoices /expenditure reports,

# COMMONWEALTH OF PENNSYLVANIA

## *Basic Financial Statement Findings - June 30, 2006*

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### **Finding 06 – 8: (continued)**

budget revisions, and grant amendments. Thus, the Commonwealth ultimately may lose more money than it gains if the system is changed to a cost reimbursement system. Furthermore, the Tobacco Settlement Act does not permit expenditures on staff to manage the program; so these additional positions would be state funded.

In addition to the burden imposed on the state, the cost reimbursement system would create more paperwork for grantees, both for the researchers managing the projects and their administrative staff. This would translate into less money being used for research by the grant recipients, thus defeating the intent of the Act.

The DOH contracts with the CURE grantees include an audit clause that requires an audit to be performed in accordance with *Government Auditing Standards* whenever the grantee expends \$300,000 or more in state grant funds within a year.

For the CURE program, grant expenditures are reported to DOH based on the State Fiscal Year (SFY: July 1 – June 30). The Audit Period, however, is defined in the grant agreement as, “the twelve-month period immediately following the effective date of the contract...and any successive twelve-month period thereafter.” In most cases, the Audit Periods are not the same as the State Fiscal Years, and further, they are not the same as the organizations’ fiscal year. In addition, some organizations use “stub periods” as a way to change their Audit Periods to match state or organization fiscal years. These differences have led to continuing discrepancy with the audit reporting, and may have resulted in one or more audits not being properly submitted.

DOH has been working to ensure that audits were and are submitted in accordance with the grant agreements. For all grants ever awarded totaling \$300,000 or more, grantees were asked to complete an Audit Submission Report, which included expenditures for each 12-month audit period and dates when the audit reports were submitted to DOH if the due date is past. Grantees were also asked to submit electronic copies of all audit reports that previously had been submitted. This was necessary because prior to the 2006-2007 grants, grantees were not required to (and thus did not) provide copies of their audit reports to program staff for review. Therefore, staff could not properly monitor the process. (The language in the 2006-2007 RFAs was changed so that grantees are now required to automatically provide the audit information to program staff.)

Program staff also developed an audit tracking system to ensure that audits, both past and future, have been and will be submitted as required. However, monitoring this system and tracking audit submissions is an extremely time-intensive process. DOH must work one-on-one with each of the grantees in order to: 1) obtain the financial information necessary to monitor the process; and 2) ensure that audits are properly submitted for those required to do so, which includes providing and tracking requests for extensions. With the ever-growing number of grants and projects (currently there are approximately 190 grants and almost 900 projects), the program currently does not have the staff resources necessary to continually monitor this audit process. DOH is working to fill an additional position to monitor this audit submission process and hopes to obtain an additional staff member in the near future to ensure that all annual CURE grantee audits are submitted as required.

As mentioned above, health research grantees are held accountable for the dollars invested in health research by a performance review process. In accordance with the Tobacco Settlement Act, all research projects upon completion are subject to a performance review. If a recipient receives an unfavorable review, the grantee may be ineligible for future funding. This system ensures that health research funds are invested productively and that unproductive grantees will not receive future health research funding.

It has been the policy of DOH not to release the performance review reports to anyone except the Principal Investigator on the nonformula grants and the Grant Coordinator on the formula grants.

However, in order to comply with the auditors’ request for public access to performance review reports, the DOH has revised its policy. In the fall of 2006, DOH began notifying grantees that, for grants ending on or after July 1, 2007, the final performance review report, the grantee’s response to the report and the grantee’s Final Progress Report will be

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2006

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### Finding 06 – 8: (continued)

made publicly available on the CURE Program's Web site. These reports will be posted approximately 12-16 months after the end of the grant to allow sufficient time for the completion of the performance review reports and for the grantees to prepare responses to negative comments and criticisms.

The DOH is willing to release individually requested performance review reports for grants with end dates prior to July 1, 2007 to the auditors provided that the Department of the Auditor General agrees in writing that the information in the reports (including, but not limited to, the specific grantee names, project ratings, and reviewer comments) will not be publicly released. The reports may be referenced for statistical purposes regarding DOH's compliance, but the specific grantees are not to be identified in any publicly released reports.

**Auditors' Conclusion:** We acknowledge the points made in DOH's agency response, but our conclusion that there is a continuing weak control environment over the proper maintenance of these funds has not changed. Over 45 percent of the funds remain unspent after four years of DOH's payouts, so on average, nearly two years' worth of funds paid out have obviously not been needed as of yet by the grantees to operate their programs. In addition, since the \$135.6 million in TSF cash sitting in grantee accounts represents 20 percent of total TSF revenues in the current year and over 12 percent of total TSF net assets at year end, we consider this DOH practice, which has continued for the last five years with similar results, to be unreasonable to the TSF overall. Also, the DOH response failed to address the part of our recommendation stating that DOH should strengthen controls over at least its larger grantees to mitigate the potential financial impact of this control weakness, and at the same time minimize the additional cost to the parties implementing corrective action.

Regarding the missing CURE grantee audits, the DOH should continue to work with grantees to ensure all required audits are performed, obtained and reviewed by program staff.

Regarding DOH's stated willingness in its response to provide individual performance reviews to the auditors only under the condition that the Department of Auditor General unilaterally agrees in writing that the information in the reports will not be made public, we consider this inappropriate and unnecessary. Further, we did not request that DOH make the performance reviews available to the public; however, as indicated in the response above, DOH is changing its overall policy regarding the public availability of performance reviews for all grants ending on or after July 1, 2007 to have all final reports made publicly available. Given this change in overall policy and the requirements of Section 903(b)(5) of the Tobacco Settlement Act on public hearings and input on, among other things, accountability procedures, we believe DOH should not withhold any individual performance reviews from auditor review, so our finding remains as previously stated on this issue.

Accordingly, our finding and recommendation, with the above clarifications, remain as previously stated.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2006

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### Finding 06 – 9:

#### Department of Health

##### Weaknesses in DOH Controls Over Annual Contractor and Service Provider Audit Requirements for the Tobacco Settlement Fund (A Similar Condition Was Noted in Prior Year Comment #05-10)

**Condition:** Our testing of the receipt of contractor audits during the SFYE June 30, 2006 under the Tobacco Use Prevention and Cessation program disclosed that DOH did not have an adequate system in place to ensure annual audits are conducted or followed up on for Tobacco Settlement funding received for the SFYE June 30, 2005. Tobacco Use Prevention and Cessation funding of \$44.9 million was awarded to about 45 contractors during the SFYE June 30, 2005, but audit reports were not received for 8 of these 45 contractors in our current year. Further, DOH could not provide annual reports from any service providers, nor did DOH timely complete and post to its website the annual report on the use of Tobacco Use Prevention and Cessation funds for the SFYE June 30, 2005. The annual report was not posted to the DOH website until after September of 2006 or over nine months after the November 30, 2005 deadline required by law.

Similar internal control weaknesses over contractor audits and service provider reports were reported in our prior-year audit with inadequate follow-up by DOH to obtain all required prior-year audits and correct the weaknesses for the current year audits due.

**Criteria:** The Tobacco Settlement Act 77 of 2001 applicable to Tobacco Use Prevention and Cessation states:

##### *Section 703. Powers and Duties of the Department*

*(10) To prepare and submit a report no later than November 30, 2002, and annually thereafter to the Chair and Minority Chair of the Public Health and Welfare Committee of the Senate and the Chair and Minority Chair of the Health and Human Service Committee of the House of Representatives. The Annual Report shall be made available for public inspection and posted on the Department's publicly accessible world wide web site.*

##### *Section 707. Service Providers*

*(b) Service Provider Annual Report. – A service provider awarded a grant under this chapter shall annually report to the primary contractor and to the Department all of the following:*

- 1. Expenditures made with grant awards.*
- 2. Whether the goals set by the primary contractor have been met and the methodology utilized to measure program results.*

##### *Section 709. Accountability.*

*(a) Audits. Contracts with Statewide contractors and primary contractors and grants to service providers shall be subject to audit as provided by law. Contracts with Statewide contractors and primary contractors and grants to service providers shall be subject to an annual audit by the department. Audits of these contracts and grants are to be conducted in accordance with generally accepted government auditing standards.*

**Cause:** The DOH system in place does not provide for timely receipt and follow up on contractor audits every year. Regarding the annual report being transmitted late, DOH personnel indicated there is a large amount of “red-tape” to go through to get the reports approved, printed and posted to the Department’s website. No explanation was available for the lack of annual reports from service providers.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2006***

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### **Finding 06 – 9: (continued)**

**Effect:** Since DOH does not have an adequate system in place to ensure receipt and follow-up on contractor audits, it cannot be assured that DOH complied with Section 709(a) of the Tobacco Settlement Act. Due to the overall internal control weakness, DOH cannot be assured the funds are being spent in compliance with the Act. Also, DOH is not in compliance with Section 707 of the Tobacco Settlement Act as it relates to the service provider reporting. Further, DOH is not complying with the reporting requirements of Section 703 in a timely manor.

**Recommendation:** DOH should implement adequate controls to ensure that all annual reports and audits required by Section 703(10), 707(b) and 709(a) of the Tobacco Settlement Act are completed, received, and followed up on as necessary. DOH should also ensure that the annual report is timely posted to its website.

**Agency Response:** Although the Tobacco Settlement Act 77 of 2001 requires an Annual Report be published by November 30 each year, audit/closeout reports from primary and statewide contractors that contain final end of year expenditure information are not due until 120 days after the end of a 12-month contract period or by October 31 each year. Upon receipt of the fiscal year closeout reports, the Annual Report must be drafted, reviewed and approved by the DOH. This is a timely process which cannot be accomplished by the November 30 deadline for publishing the Annual Report.

However, as a result of the previous GAAP audit finding (#05-10), the DOH established additional criteria for a more timely submission of the 2005-2006 Annual Report. As a result of the corrective action initiated, the 2005-2006 Annual Report was available on the DOH website approximately nine months earlier than the previous Annual Report.

Service Provider reports are submitted to the Primary Contractor. The Primary Contractor is responsible for the submission of expenditures and contract outcomes through DOH's web-based reporting system and the mandatory completion of DOH's Annual Report template that fulfills the requirements of Act 77, Chapter 7, DOH Annual Report.

During SFYE June 30, 2006 DOH took the following steps to improve the auditing of tobacco primary contractors and statewide contractors:

- All contractors were required to include budgetary provisions in their yearly budgets to ensure that required audits would be conducted even though they experienced a 28% cut in funding in 2005 and an additional 8% cut in funding in 2006.
- Primary and Statewide Contractors received numerous broad-broadcast emails to every contractor reminding them of their audit responsibilities on June 30, 2006, October 17, 2006, October 23, 2006, and December 6, 2006. As the October 31, 2006 deadline for audit reports approached email messages were sent to individual contractors reminding them of their auditing responsibilities.
- A spreadsheet was developed and shared with the DOH Bureau of Administrative and Financial Services, Audit Resolution Section (Audit Section) providing the name of all of the entities including total expenditure amounts by contractor with audit due dates and extension dates if appropriate.
- The Audit Section provided receipt dates to the Program staff on a weekly basis. Contractors not submitting their audit reports by the defined due dates have been contacted on a regular basis reminding them that their audit is due.

As of February 1, 2007, all but eight of the 45 Primary Contractors required to submit an audit have submitted their audit reports. The remaining eight Primary Contractors have been contacted numerous times by their Project Officers regarding their audit responsibilities.

**Auditors' Conclusion:** DOH should ensure that all required contractor reports and audits are timely received and followed up on and the annual report is timely posted to the website each year. We will review any corrective action in our subsequent audit.

**COMMONWEALTH OF PENNSYLVANIA**

***Basic Financial Statement Findings - June 30, 2006***

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**Finding 06 – 9: (continued)**

Accordingly, our finding and recommendation, with the above clarifications, remain as previously stated.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2006

### Finding 06 – 10:

#### Department of Public Welfare

##### Internal Control Weaknesses Result in Improper Payments in the Tobacco Settlement Fund (A Similar Condition Was Noted in Prior Year Comment #05-9)

**Condition:** Our testing of uncompensated care (UC) payments to hospitals in the Tobacco Settlement Fund disclosed DPW has not developed an adequate audit or monitoring plan to prevent, detect, and resolve the submission of erroneous data by hospitals, which would cause improper TSF payments. When calculating these payments under Section 1103 of the Tobacco Settlement Act, the number of Medicare SSI days as a percentage of total inpatient days, the number of Medical Assistance days as a percentage of total inpatient days, and the amount of UC provided as a percentage of net patient revenue are the three key percentages used to determine a qualified hospital. However, this data used to calculate payments to qualified hospitals has not been subject to independent on-site audits or DPW reviews since SFYE June 30, 2002. As a result, data supplied by hospitals could be unsupported and inaccurate.

In addition, the Department of Auditor General, in separate audit engagements performed by the Bureau of State-Aided Audits of Section 1105 extraordinary expense claims for Budget Year 2004-05, disclosed that \$2,074,432 in net payments received by the hospitals should be returned to the Commonwealth. This net overpayment consisted of forty-five facilities receiving overpayments totaling \$3,914,854, and forty-three facilities being underpaid by \$1,840,422. Of the \$12,478,661 in 2004-05 payments made to hospitals by DPW, only \$10,404,229 was actually eligible for reimbursement in accordance with the Act.

**Criteria:** The Tobacco Settlement Fund Act 77 of 2001 states:

##### *Section 1102. Definitions*

*"Qualified hospital." An eligible hospital which has an uncompensated care score at or exceeding the median score of all eligible hospitals.*

##### *Section 1103. Hospital uncompensated care payments.*

*(b) Department responsibilities. The department has the following powers and duties:*

- (3) Calculate uncompensated care scores for eligible hospitals under Section 1104(c).*
- (4) Calculate and make payments to qualified hospitals under Section 1104(d) on an annual basis.*

##### *Section 1104. Eligibility and payment.*

*(c) Uncompensated care scoring. The department shall annually calculate the uncompensated care score of each eligible hospital from collected data. If information necessary to determine the uncompensated care score of an eligible hospital is unavailable due to the refusal of the hospital to provide the information, the hospital shall not be eligible for payment from the Hospital Uncompensated Care Program. If the department determines that such data cannot be provided after due diligence, the department shall use the average of the collected data. An eligible hospital's uncompensated care score shall be the sum of the following, using three-year average data as determined by the department:*

- (1) The amount of uncompensated care provided as a percentage of net patient revenue based on the most recent hospital financial analysis data reported to the council in accordance with the Act of July 8, 1986 (P.L.408, No.89), known as the Health Care Cost Containment Act.*

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2006

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### Finding 06 – 10: (continued)

- (2) *The number of Medicare SSI days as a percentage of total inpatient days based on the most recent data available to the department.*
- (3) *The number of Medical Assistance days as a percentage of total inpatient days based on the most recent data available to the department.*

*Section 1105. Reimbursement for extraordinary expense.*

*(d) Payment methodology. -- Payment to a hospital under this section shall equal the lesser of the cost of:*

- (1) The extraordinary expense claim; or*
- (2) The prorated amount of each hospital's percentage of extraordinary expense costs as compared to all eligible hospitals' extraordinary expense costs, as applied to the total funds available in the hospital extraordinary expense program for the fiscal year.*

**Cause:** Regarding the lack of audits or on-site reviews of Section 1103 payment data DPW decided to rely on the desk reviews of hospital cost reports as DPW personnel do not believe any undetected errors would be significant.

Section 1105 payments were in error due to incorrect patient payor designations within data submissions by hospitals.

**Effect:** The above data discrepancies caused improper UC payments to hospitals from the Tobacco Settlement Fund. If the noted internal control weaknesses are not corrected, these improper payments will continue into the future.

**Recommendation:** DPW should establish procedures to ensure that UC Section 1103 and 1105 claims data submitted by hospitals is valid and properly supports payments per the Tobacco Settlement Act. This should include an audit or monitoring plan that will ensure data submitted by hospitals is accurate, and includes appropriate audit resolution when inaccurate data is submitted. In addition, DPW should resolve all issues related to the UC payments made to hospitals after ensuring that they are based on correct and accurate data and make the necessary payment adjustments to each hospital.

**Agency Response:** The Department strongly disagrees with the auditor's finding and most of its recommendations. The three data sets: MA days, SSI days, Uncompensated Care and Net Patient Revenue data are derived from information submitted by hospitals to the Department (MA days), Medicare Fiscal Intermediaries (SSI days) or the Pennsylvania Health Care Cost Containment Council (PHC4). The MA days are extracted from hospital MA cost reports. These are audited by the Bureau of State Aided Audits, and audited MA days are used when there is a full year of data available. The SSI days are identified from Centers of Medicare and Medicaid Services (CMS) website. This data is validated by Medicare Fiscal Intermediaries. The PHC4 data is verified by PHC4, and prior to use in Tobacco calculation the data undergoes two verifications, meaning it is two years past the reporting period. In addition, all data used in Tobacco calculations is sent to individual hospitals for final verification prior to the commencement of calculations.

With regard to auditor's concern that the Department uses information that is un-audited or lacks on-site reviews for calculations related to Section 1103 (Uncompensated Care), we have previously noted that audited information is used whenever possible. As referenced in prior responses, the Bureau of State-Aided Audits previously audited UC payments for FY 2001-2002. While they did find some concerns with the data, they did not think they were of major concern deserving their attention and have concentrated on the Extraordinary Expense (EE) payments.

The Department continues to follow the criteria outlined in the Tobacco Settlement Act of 2001 and will strive to consistently use the best available data. As noted in earlier responses to previous GAAP Audit findings, the Department has initiated an internal and external validation process. Beginning with FYE 02 tobacco payments, the Department

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2006***

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### **Finding 06 – 10: (continued)**

implemented an internal validation process that includes computer programming cross checks to ensure the accuracy of data outcomes and a core team of personnel who individually analyze the calculations for facilities. As an external validation, all data is sent to each facility for verification, and the final calculations are reviewed and accepted by the hospital industry. These processes and improvements to them have been explained in prior responses.

The Department agrees that there are issues with the EE payments and continues to work with the PHC4 to improve the claims data accuracy. However, this information is supplied to the Department by PHC4, and use of this data in Tobacco calculations is prescribed by the legislation. The payment issues noted are a result of claims data submitted to and supplied by the PHC4. The Department does recapture any overpayments identified by the Bureau of State-Aided Audits and processes additional payments to hospitals when the audits identify underpayments.

**Auditors' Conclusion:** We requested that DPW provide evidence that data used in the calculation of payments was audited or subject to on-site reviews. However, for MA days DPW did not provide anything to document that it used properly audited or reviewed data. Further, no audits or reviews were provided for other data used in Section 1103 UC payments.

Also, while DPW may have some validation procedures in place, those procedures do not detect significant reporting errors. Given the high historic error rates in hospital data which have not been detected by DPW's current validation procedures, it appears that audits or other testing of documentation supporting the data are necessary. Separate audits of hospital data continue to disclose high dollar value error rates as noted in the condition above. Further, DPW's decision to focus audit efforts solely on EE payment data does not appear reasonable. Without audits or testing of documentation supporting the data that hospitals submitted for Section 1103 payments, there remains limited assurance that the data is correct to ensure these payments are in accordance with the law.

Based on the agency response, the finding and recommendation, with the above clarifications, remain as previously stated. We will review any corrective action in our subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2006***

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### **Finding 06 – 11:**

#### **Office of the Budget – Bureau of Financial Management Treasury Department Comptroller Office**

#### **Internal Control Weakness Over GASB Statement #40 Note Disclosures in Basic Financial Statements (A Similar Condition Was Noted in Prior Year Comment #05-21)**

**Condition:** We noted material errors and control weaknesses in our audit of the GASB Statement #40 note disclosures in the BFS as follows:

- In our review of the aggregate duration summary provided by BFM, we determined that BFM's disclosure for commercial paper was incorrect because \$5 million in commercial paper for which duration was not available was included in the calculation of average weighted duration.
- In our review of the detailed disclosure information provided by Treasury, we determined that Treasury omitted \$27 million in certificates of deposit and \$22 million in U.S. Government Agency investments from the disclosures for the INVEST Program for Local Governments Fund.
- In our review and testing of the support for the quality disclosure, we noted Treasury incorrectly reported as unrated, \$814 million in investments that were rated as AAA by Standard and Poor's.
- In our review and testing of the disclosure for concentration, we noted BFM incorrectly aggregated over \$350 million in investments issued by the Federal Home Loan Bank with over \$800 million in investments issued by the Federal Home Loan Mortgage Corporation.

**Criteria:** Strong internal controls should ensure investments are consistently and accurately disclosed as required by the applicable governmental accounting standards and that disclosures are appropriately reviewed and approved by management. This should include a review of the support for the summary-level information provided to BFM prior to its submission.

**Cause:** Review of the GASB 40 disclosure by Treasury and BFM did not include comparisons of supporting information to amounts disclosed at the level of detail required to detect the above errors.

**Effect:** There were material errors in the GASB 40 note disclosures presented to the auditors.

**Recommendation:** We recommend that procedures be put in place to ensure that investment disclosure summaries are reviewed and compared to the supporting detail prior to being reported to ensure the accuracy of required note disclosures in the BFS.

**Agency Response:** Treasury agrees with the assessment of control weaknesses related to GASB Statement #40 Note Disclosure in the Basic Financial Statements. The Treasury Department compiles individual segments of that are supplied for use in the preparation of the note disclosure, but cannot comment on changes to that data presented in the final disclosure.

Time constraints and staff changes in the Treasury Department Comptroller's Office resulted in errors and omissions in the detailed information provided to the Bureau of Financial Management.

The Treasury Department Comptroller's Office has hired additional staff enabling segregation of preparation and review of the disclosure prior to submitting to BFM. Training focusing on Audits of State and Local Governments has been provided to staff responsible for preparation and review of required disclosures.

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Basic Financial Statement Findings - June 30, 2006***

### **Finding 06 – 11: (continued)**

Bureau of Financial Management has agreed to extend the deadline for submission of the disclosure, which will allow Treasury more time to prepare and review.

The combined effects of additional time, additional staff and more training should correct weaknesses attributable directly to the Treasury Department.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2006***

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### **Finding 06 – 12:**

#### **Office of the Budget – Bureau of Financial Management**

##### **Errors and Internal Control Weakness in Reporting Securities Lending Amounts in the BFS (A Similar Condition Was Noted in Prior Year Comment #05-18)**

**Condition:** We noted several errors in our audit of Temporary Investments in the BFS requiring securities lending adjustments as follows:

- As the result of an error in preparing the securities lending adjustment for the State Workers Insurance Fund, an auditor-proposed adjustment of \$41.5 million was recorded.
- In disclosing the value of securities on loan for State Workers Insurance Fund and State Employees Retirement Fund in the notes to the financial statements, BFM incorrectly used the value of securities on loan as of June 30, 2006, instead of the values at December 31, 2005. Both funds have a December 31 year end.

**Criteria:** As stated in GASB 28, paragraph 6, “Cash received as collateral on securities lending transactions and investments made with that cash should be reported as assets.” Strong internal controls should ensure that securities lending collateral and the related liabilities are reported and disclosed accurately and in accordance with the applicable governmental reporting standards.

**Cause:** Internal controls at BFM failed to detect the error in reporting SWIF’s securities lending collateral, in reporting cash collateral received, and the errors in the disclosure for SWIF and SERS.

**Effect:** Temporary investment balances and securities lending collateral were misstated for a major fund in the BFS. The note disclosure of fair value for securities on loan was also materially incorrect for two funds. Additionally, the reporting of the cash received, in lieu of the fair value of reinvested cash collateral, was incorrect. These errors required auditor adjustments to the BFS.

**Recommendation:** An effective internal control environment should provide for a thorough review of investment adjustments and disclosures prior to providing them to the auditors. We recommend that BFM review this part of their control environment and modify appropriately to ensure material errors in disclosures are identified and corrected before the information is provided to the auditors.

**Agency Response:** BFM generally accepts this finding as written. However, for the first bulleted condition valued at \$41.5M, BFM used the number that Treasury initially provided. Then Treasury found, after several iterations, that the number provided had to be adjusted. BFM has already talked to Treasury about this issue and has put a process in place to prevent its recurrence.

**Auditors’ Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2006***

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### **Finding 06 – 13:**

#### **Office of the Budget – Bureau of Financial Management**

##### **Internal Control Weakness in the Financial Accounting Records (A Similar Condition Was Noted in Prior Year Comment #05-17)**

**Condition:** In performing our review of the Commonwealth’s internal control procedures with respect to the GAAP financial reporting system, we noted that there were numerous Balance Sheet accounts which were not reconciled, analyzed or reviewed on a timely basis. As a result of a similar prior year finding, procedures were begun to be put in place, and processes initiated to reconcile, analyze and review significant Balance Sheet accounts more timely. However, we noted this initiative was only partially implemented by the end of the fiscal year. Fundamental to any system of internal control over accounting records is a required process where significant Balance Sheet accounts are timely reconciled to subsidiary records or analyzed/reviewed at the account line item level if a particular account does not have a subsidiary ledger. Failure to perform such a reconciliation/analysis on a timely basis could allow for material errors to exist in the financial records that would go unidentified, ultimately resulting in misstated financial statements.

**Criteria:** An effective internal control environment over financial accounting and reporting should contain a structured process where significant Balance Sheet accounts such as receivables oftentimes are timely reconciled/analyzed on a periodic basis, and such reconciliations/analyses are subject to supervisor review.

**Cause:** The SAP implementation did not include a process whereby all significant Balance Sheet accounts would be “open item managed” and automatically cleared on a timely basis. Additionally, compounding the problem is the lack of all revenues flowing directly through the SAP system. This open item management functionality would in many cases enable an analyst to timely and easily determine on a detailed level what discrete transaction or groups of transactions comprise a particular Balance Sheet account, and make timely corrections as appropriate. We understand improvements have been made in current tools available to provide analysts with adequate information to determine with relative speed and ease open line items of a Balance Sheet account. We further understand that BFM is currently in the process of continuing to develop, refine, and fully implement this functionality.

**Effect:** As a result of not fully implementing a method to timely open item manage Balance Sheet accounts by the end of the fiscal year, as well as not fully implementing procedures to timely reconcile accounts not subject to open item management, numerous accounts were not reconciled/analyzed by the end of the fiscal year.

**Recommendation:** Procedures should be fully established whereby each Balance Sheet account is reviewed, and significant accounts are reconciled/analyzed on a monthly basis. The Commonwealth should continue to work to provide the ability to “open item manage” and autoclear each significant Balance Sheet account timely. Where open item management is not available/functional, alternative reconciliation procedures must be established and executed. SAP should be fully configured to provide for a timely automatic clearing of accounts where appropriate. Additionally, all reconciliations/analyses should be performed and documented monthly and prior to the finalization of the GAAP templates. Finally, monthly and prior to template finalization, the reconciliations/analyses should be timely reviewed by a knowledgeable supervisor, and this review should also be documented.

**Agency Response:** We accept this finding as presented.

**Auditors’ Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2006***

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### **Finding 06 – 14:**

#### **Office of the Budget – Bureau of Financial Management**

##### **Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System (A Similar Condition Was Noted in Prior Finding #05-24)**

**Condition:** In our review and testing of the Commonwealth's internal controls over the One-Time Vendor Payment function within the SAP system, we noted internal control weaknesses regarding the One-Time Vendor Payments posted. There were inadequate formal policies related to the use of the One-Time Vendor functionality in SAP for most of the year until Management Directive 310.28, Use of One-Time Vendor Records in SAP, was published near the end of the fiscal year on June 16, 2006. Also, we noted that in some Comptroller Offices, the SAP system allows an Invoice Processor to input a One-Time Vendor invoice and forward the payment request over to Treasury without on-line supervisor review and approval. Additionally, there were no apparent automated controls in the SAP system to prevent an Invoice Processor from approving and entering any One-Time Vendor Invoice, or amending vendor information on SAP after a one-time vendor payment is made.

We did not identify any erroneous or unauthorized payments to One-Time Vendors on SAP as part of our audit testwork, nor based on our audit inquiries, has Treasury noted any errors due to these weaknesses as part of its independent fiscal review process. However, our One-Time Vendor Payment analysis procedures demonstrated that multiple payments are routinely recorded in SAP to the same vendor as One-Time Vendor disbursements. In these instances, One-Time Vendor accounts in SAP are not being used for a single instance/very infrequent payments, thereby increasing the risk that a vendor may be paid multiple times for the same invoice. Additionally, we identified instances where payments were made using the One-Time Vendor Account in SAP where a vendor account existed in the SAP Vendor Master tables which should have been used for those payments.

In addition, the SAP audit logs were not reviewed on a regular basis to specifically determine the extent of multiple transactions posted for One-Time Vendors on SAP, and check on the appropriateness of this practice and related costs.

**Criteria:** Restricting the use of the One-Time Vendor accounts in SAP and the proactive monitoring of the One-Time Vendor account activity are vital to protecting the Commonwealth from potential undetected improper vendor payments.

**Cause:** These issues related to the One-Time Vendors are caused by programmatic weaknesses in the SAP system, and exacerbated by the lack of a specific One-Time Vendor audit review to determine if improper payments are made. In addition, the interfaces into SAP from legacy systems have not been mapped, in that legacy vendor numbers are not converted to a standard SAP vendor number, but rather the legacy information is mapped directly to the One-Time Vendor account. Further, until the complete implementation of Management Directive 310.28, a large number of employees had the ability to post a One-Time Vendor Payment in SAP, and there are no detailed formalized policies and procedures in place to guide the users as to the proper use of the One-Time Vendor codes.

**Effect:** The lack of effective One-Time Vendor Payment policies and procedures until late in the fiscal year, the lack of a post transaction review specific to One-Time Vendor Payments, and the lack of mapping legacy vendor activity to SAP vendor codes, increases the future risk of misappropriation of assets, inappropriate changes to data or files, and unauthorized activity. The increase in these risks would be significant in areas where manual controls outside the SAP system are not in place and effectively functioning to prevent or detect erroneous or unauthorized payments. Further, such situations clearly increase the need for more manual monitoring, review, and verification of One-Time Vendor activities and transactions. Additionally, the built-in SAP functionality (and that in Treasury) to identify duplicate payments is very limited for One-Time Vendor Accounts, making the detection of duplicate payments to a vendor subject to normal review procedures only.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2006

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### Finding 06 – 14: (continued)

**Recommendation:** We recommend that the formal policies and procedures promulgated in Management Directive 310.28 be fully implemented for the One-Time Vendor Payment process. Furthermore, a program should be established that continually monitors directive compliance and ensures adequate training for impacted personnel.

We also recommend reviewing the current legacy vendor feeds into SAP to determine if recurring payments to the same vendor can be mapped to an individual vendor account, rather than to the One-Time Vendor Accounts in SAP. Further, a process should be implemented to review all legacy feeds into SAP to verify that adequate internal controls over disbursements exist on the origination side.

**Agency Response:** We generally concur with this finding. As noted in the finding, new policy has been issued in the form of Management Directive 310.28, Use of One-Time Vendor Records in SAP, that significantly improves the internal controls over one-time vendor activity. Furthermore, BFM is devising a program of routine monitoring of one-time vendor account activity.

As noted in our response to Comment 05-24 in the June 30, 2005 Single Audit Report, the auditors appear to misunderstand the purpose of the one-time vendor file. The one-time vendor file was never to be used solely "for a single instance/very infrequent payments" as noted in the finding. The file is routinely and appropriately used to capture multiple payments that may be made to a single vendor, especially in those instances where it is not cost effective to enter this vendor into the central vendor master file or to maintain vendor data for interfaced payments. The finding should be revised to remove this phrase.

**Auditors' Conclusion:** We do not agree with management's comment that the auditors do not understand the purpose of the One-Time Vendor file. We understand that this file may be appropriately used for more than one payment to a single vendor, and that there are cost considerations in management's use of the central vendor master file in SAP. However, based on our analysis, the One-Time Vendor file is being routinely used by numerous agencies in the Commonwealth to continually make payments to a single vendor through SAP. As an example, we noted a single vendor receiving about 100 payments through the One-Time Vendor accounts during our current year, which we think is unreasonable. We believe management's use of this SAP account needs to be better managed to ensure that the risks associated with the account are appropriately mitigated. Our finding and recommendation, with the above clarifications, remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2006

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### Finding 06 – 15:

**Department of General Services  
Bureau of Risk and Insurance Management  
Office of Attorney General**

#### **Liability for Self-Insurance Was Misstated in the Preparation of the BFS**

**Condition:** We noted errors and control weaknesses in our audit of the self-insurance tort liability as follows:

- The attorneys responsible for handling cases arising from claims against the Commonwealth are not timely notifying the Underwriting and Claims Division of the Bureau of Risk and Insurance Management (BRIM) of changes in case status and reserve amounts. As a result, there was a 67%, or \$9 million difference between case reserves in BRIM's reserve database and the reserves confirmed by the attorneys. A second sample of reserves resulted in similar differences. As a result of the differences, a \$73.4 million auditor adjustment to reduce the noncurrent liability for claims against the Motor License Fund was recorded.
- Our testing of BRIM's incurred but not reported (IBNR) liability disclosed inconsistencies in the calculation methodology that have the potential to over- or understate the liability for tort claims.

**Criteria:** GASB Statement No. 10 requires insurance-type liabilities to be reported on the balance sheet when information available prior to the date of the financial statements indicates that it is probable that a liability has been incurred and when the amount of the liability, including any IBNR, can be reasonably estimated. Strong internal controls should ensure that liabilities reported are reasonable and that the data on which the liabilities is based is as accurate as possible.

**Cause:** BRIM requests that the attorneys responsible for their cases notify the Bureau regularly when there is a change in the status or reserves for a case. In addition, a request for updates to case status and reserves is normally sent to the attorneys at fiscal year-end. In the current year, no request for updates was forwarded to the attorneys by BRIM. On the basis of our testing, it appears that the attorneys are not providing regular updates to BRIM when cases have been dismissed, or settled without a payment by the Commonwealth. Additionally, in situations in which an attorney does notify BRIM that a case is closed, there appear to be instances in which BRIM closes the primary claim, but does not close additional related claims that were entered into the database with separate claims numbers. There were also numerous cases on BRIM's claims system which were not in the attorneys' case management system as active cases. Both BRIM and the attorneys have determined that there is little if any potential for a liability to result from such "dormant" claims, some of which are more than 20 year old, and that it would be reasonable to remove the related reserves from the reported liability. The inconsistencies noted in the IBNR calculations relate to the use of prior year data in calculating the number of claims incurred during the fiscal year, but reported in one or more of the following fiscal years. The number of cases used in the calculations was not updated from the prior year.

**Effect:** The self-insurance tort liability is based on the recorded reserves in BRIM's database and the calculated IBNR. When case reserves are not accurate in BRIM's case management system, the reserve portion of the liability will be inaccurate. The IBNR calculations also depend on the accuracy of case status and case reserve data in BRIM's case management system. Therefore, inaccuracies in case based reserves will also affect the calculation of the IBNR reported as part of the liability. Additionally, we noted that there were inaccuracies in the calculation of the IBNR that could have resulted in material differences in reporting the total liability.

**Recommendation:** We recommend that BRIM and its attorneys perform a thorough and more timely review of cases in the claims and case management systems to determine whether there are additional cases with reserves that should be removed from the liability, either because they are known to be closed or because it is highly likely that the cases have closed. Additionally, we recommend that a knowledgeable individual timely review the IBNR calculations to ensure they are reasonably accurate.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2006***

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### **Finding 06 – 15: (continued)**

**Agency Response:** The Department of General Services, Bureau of Risk and Insurance, and the Office of Attorney General, Bureaus of Tort Litigation and Civil Law are implementing new procedures to ensure the accuracy of open tort claims and the current liability associated with each claim.

In addition to individual notifications when a litigation case is closed, the Office of Attorney General will provide a weekly or monthly list of cases closed during the period.

Prior to the close of each fiscal year, the Bureau of Risk and Insurance Management will reconcile the OAG – ICMS database list of open cases with their RiskMaster system.

Prior to the close of each fiscal year, the Office of Attorney General will review all open cases and provide a report to the Bureau of Risk and Insurance Management indicating their assessment of the current liability for each case.

The Bureau of Risk and Insurance Management will include the OAG ICMS matter number on the RiskMaster database for all open OAG litigation cases.

Prior to the close of each fiscal year, the Bureau of Risk and Insurance Management will close any claim not in litigation where the statute of limitation has expired.

Prior to the close of each fiscal year, the Bureau of Risk and Insurance Management will ensure that all reserves are updated in the RiskMaster system.

Adherence to this process will provide control over the inventory of open claims and claims activity, which are the foundation for IBNR projections. The Bureau of Risk and Insurance Management will add an additional review of the source data, methodology and calculations of the final report of short and long term liabilities before they are submitted to the Bureau of Financial Management.

We are confident these steps will allow us to more accurately report on the current liabilities of tort claims against the Commonwealth, its officials and employees.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2006

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### Finding 06 – 16:

#### Office of the Budget – Bureau of Financial Management

##### Statewide Weaknesses Within the SAP Accounting System Controls (A Similar Condition Was Noted in Prior Year Comment #05-22)

**Condition:** In our review and testing of the Commonwealth’s internal controls over transactions posted to the SAP accounting system, we noted internal control weaknesses regarding segregation of duties in the SAP environment. These weaknesses related to costs posted directly to the Commonwealth’s Goods Receipt/Invoice Receipt (GR/IR) account and vendor master records. There were 693 users having segregation of duties conflicts in relation to posting expenditures on the SAP system including the following:

- 132 users have the ability to Post Goods Receipt, and Enter an Accounts Payable Voucher.
- 61 users have the ability to Post Goods Receipts, Enter an Accounts Payable voucher, and Post an outgoing payment
- 613 users have the ability to Post an Accounts Payable Voucher and Post an Outgoing payment.
- 6 users have the ability to maintain a vendor master record, Post an AP voucher, and post an outgoing payment.
- 15 users have the ability to maintain a vendor master record, and make an accounts payable voucher entry.

Also, it appears that there is no formal procedure for monitoring the SAP security log on a regular basis to help ensure that there are no potential user access issues, and to mitigate the control weaknesses noted above.

**Criteria:** Proper segregation of duties on the SAP System is critical in minimizing and mitigating the risks of inappropriate transactions occurring.

**Cause:** It appears that many of these roles and conflicts were created in order to provide IES staff and others within the agencies with the ability to assist in multiple situations during an expedited implementation timeframe, and to overcome problems noted during the transition from the old ICS accounting system to SAP. However, it does not appear that the complete requisite revocation and refinement of roles has occurred, since the bulk of the implementations occurred during prior audit periods. Additionally, it appears that a number of these role conflicts have been reviewed and approved by management after evaluating the associated business requirements.

**Effect:** Segregation of duties conflicts in SAP system role assignments increase the potential risk of misappropriation of assets, inappropriate changes to data or files, and unauthorized activity, and could be significant weaknesses where manual controls outside the SAP system are not effective. Further, such situations increase the need for increased outside monitoring, manual review, and external verification of SAP activities and transactions.

**Recommendation:** Overall, we recognize that the Commonwealth is aware of the criticality of the requirements and assignments surrounding SAP security as this topic is addressed by SAP Security Procedures Document Section 2.2.4 “Audit Services” and by Management Directive 205.37. The Management Directive specifies requirements for compensating management controls where segregation of duties concerns exist, and management has determined that the current role structure is in the best interest of the Commonwealth for efficiency and other reasons. We recommend that the procedures be developed and implemented to ensure compliance with the requirements of this directive. Further we recommend that the role conflicts noted in the Condition above be investigated and resolved/documented in accordance with Commonwealth policy.

Further, we recommend that there be a documented review of the SAP Security Log on a regular basis to help ensure that there are no potential user access issues.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2006***

### **Finding 06 – 16: (continued)**

We also recommend a periodic review of the system security settings to ensure that users do not have authorization to transactions that are inconsistent with the user's job function. This review should include the review of the various SAP roles to ensure that segregation of duties conflicts do not exist within an individual role.

**Agency Response:** Management has reviewed the draft finding and offers the following:

In the Recommendation portion of the finding, the auditors state that "management has determined that the current role structure is in the best interest of the Commonwealth for efficiency and other reasons." This is not correct. We have not made such a determination. This statement infers that management accepts the 693 exceptions noted by the auditors without further action. Management constantly strives to maintain an adequate system of internal controls within the parameters of sound business practice. This is evidenced by the policies and procedures set forth in MD 205.37, "Role Assignment, Security, and Internal Control Maintenance," which sets forth policy and procedures for dealing with situations where role conflicts exist because of business needs and where mitigating controls outside the system are required to be devised and implemented. Furthermore, when necessary, the role structure may be modified to strengthen internal controls - new roles may be established, roles may be refined, or particular transactions may be added to or removed from specific roles. When new systems such as SRM or Plant Maintenance are implemented, new roles are created to ensure that internal controls are maintained in those systems.

Other than the above, management accepts the finding and recommendation as written.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2006

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
06-17**	10.550	Food Donation Program	Internal Control Weaknesses and Noncompliance With Processor Recordkeeping and Reporting Requirements Result in Inaccurate SEFA Reporting and Questioned Costs of \$1,145 (Prior Year Finding #05-1)	\$1,145	AGRI	79	283
06-18**	10.551 93.558 93.575 93.596 93.778	Food Stamps Program Temporary Assistance for Needy Families Child Care and Development Block Grant Child Care Mandatory & Matching Funds Medical Assistance	Internal Control Weaknesses at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #05-2)		DPW	85	283
06-19**	10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Noncompliance and Weakness in Internal Controls Over DOH's Program Monitoring of WIC Local Agencies		DOH	92	284
06-20**	12.401	National Guard Military Operations and Maintenance Projects	Noncompliance and Weakness in Internal Control Over Charging of Personnel Costs		DMVA	94	284
06-21**	14.228 14.239	Community Development Block Grants HOME Investment Partnerships Program	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #05-8)		DCED	98	284
06-22**	16.007 97.004 97.067	Homeland Security Cluster	Internal Control Weaknesses and Noncompliance in PEMA's Subrecipient Monitoring (Prior Year Finding #05-11)		PEMA	101	284
06-23*	17.207 17.801 17.804 17.225 17.245	Employment Service Cluster  Unemployment Insurance Trade Adjustment Assistance	Weaknesses Exist in the SAP FARS Replacement System Resulting in Questioned Costs of \$1,023,100 (Prior Year Finding #05-12)	\$1,023,100	L&I LECS	105	284
06-24**	17.245	Trade Adjustment Assistance	Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (Prior Year Finding #05-15)		L&I	108	284

\* - Reportable Condition  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2006

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
06-25**	17.245	Trade Adjustment Assistance	Unallowable Benefit Payments Result in Questioned Costs of \$638 (Prior Year Finding #05-16)	\$638	L&I	113	284
06-26**	20.205 23.003	Highway Planning and Construction Cluster	Internal Control Weakness Over Expenditure Information Reported on the SEFA		TRANS	119	284
06-27	20.205 23.003	Highway Planning and Construction Cluster	Duplicate Vendor Payment Results in Questioned Costs of \$176,617	\$176,617	PADOT TRANS	120	284
06-28	20.205 23.003	Highway Planning and Construction Cluster	Noncompliance With OMB Circular A-87 Cost Principles Results in \$392,536 in Questioned Costs	\$392,536	PADOT	121	284
06-29*	84.010 84.367	Title I – Grants to Local Educational Agencies Title II – Improving Teacher Quality State Grants	Internal Control Weaknesses in PDE Scheduling of On-Site Monitoring Visits to LEAs		PDE	123	285
73 06-30**	84.010	Title I – Grants to Local Educational Agencies	Inadequate Controls Over PDE’s Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #05-21)		PDE	124	285
06-31*	84.010 84.367	Title I – Grants to Local Educational Agencies Title II – Improving Teacher Quality State Grants	Inadequate Controls Over Ensuring LEA Compliance With MOE Requirements		PDE	128	285
06-32**	84.048	Vocational Education – Basic Grants to States	PDE Allocated VOC ED Funds to Subrecipients Based on Outdated Statistical Data (Prior Year Finding #05-23)		PDE	130	286
06-33**	84.048	Vocational Education – Basic Grants to States	Errors and Internal Control Weaknesses in PDE’s VOC ED Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (Prior Year Finding #05-22)		PDE	132	286

\* - Reportable Condition  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2006

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
06-34*	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	A Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #05-25)		L&I	136	287
06-35**	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs		L&I	139	287
06-36*	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Internal Control Weakness Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA Results in \$64,177 in Unsupported Program Income		L&I	140	287
06-37**	84.287	Twenty-First Century Community Learning Centers	Internal Control Weaknesses in the OMB Circular A-133 Subrecipient Audit Monitoring System		PDE LECS	142	287
06-38*	84.287	Twenty-First Century Community Learning Centers	Internal Control Weakness in PDE's Monitoring of Federal Earmarking Requirements		PDE	144	288
06-39**	84.357	Reading First State Grants	Noncompliance Noted in PDE's Allocations of Reading First Subgrant Awards to LEAs		PDE	146	288
06-40**	84.357	Reading First State Grants	Noncompliance and Internal Control Weakness in the LECS Comptroller Office System of Cash Management		LECS	149	288
06-41**	84.357	Reading First State Grants	Internal Control Weaknesses and Noncompliance With Earmarking Requirements Result in Questioned Costs of \$1,669,416	\$1,669,416	PDE	150	289
06-42**	90.401	Help America Vote Act Requirements Payments	DOS Did Not Perform Adequate Monitoring of Subrecipients		DOS	153	289
06-43**	93.283	Centers for Disease Control & Prevention - Investigations	Noncompliance and Internal Control Weakness Regarding Semi-Annual Certifications for Personnel Costs (Prior Year Finding #05-26)		DOH	156	289

\* - Reportable Condition  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2006

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
06-44**	93.283	Centers for Disease Control & Prevention - Investigations	Weaknesses in DOH Program Monitoring of CDC Subgrantees (Prior Year Finding #05-27)		DOH	158	289
06-45**	93.558 93.575 93.596 93.658 93.659 93.667 93.778	Temporary Assistance for Needy Families Child Care and Development Block Grant Child Care Mandatory and Matching Funds Foster Care – Title IV-E Adoption Assistance Social Services Block Grant Medical Assistance	DPW Did Not Specify CFDA Number and Other Required Award Information in Subrecipient Award Documents, Resulting in Noncompliance with OMB Circular A-133		DPW	160	289
06-46**	93.558	Temporary Assistance for Needy Families	Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (Prior Year Finding #05-28)		DPW	162	289
06-47**	93.558	Temporary Assistance for Needy Families	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #05-29)		DPW	164	290
06-48**	93.558 93.575 93.596	Temporary Assistance for Needy Families Child Care and Development Block Grant Child Care Mandatory and Matching Funds	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs of at Least \$28,252 (Prior Year #05-30)	\$28,252	DPW PHHS	169	290
06-49**	93.568	Low-Income Home Energy Assistance	Systemic Weaknesses Exist in LIHEAP That Resulted in Potential Fraud and Abuse and Questioned Costs	Unknown	DPW	172	290
06-50**	93.568	Low-Income Home Energy Assistance	Control Weaknesses Found in Administering LIHEAP Cash Benefits Result in Questioned Costs	Unknown	DPW	180	290
06-51**	93.568	Low-Income Home Energy Assistance	Control Weaknesses Found in Administering LIHEAP Crisis Benefits Result in Questioned Costs	Unknown	DPW	185	291
06-52**	93.568	Low-Income Home Energy Assistance	DPW Failed to Adequately Monitor the Processing of LIHEAP Applications		DPW	190	292

75

\* - Reportable Condition  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2006

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
06-53**	93.568	Low-Income Home Energy Assistance	Control Weaknesses and Potential Abuse Found in Administering the Weatherization Assistance Program Result in Potential Questioned Costs	Unknown	DCED	193	292
06-54*	93.568 81.042	Low-Income Home Energy Assistance Weatherization Assistance for Low-Income Persons	Two Local Agencies Wasted \$94,081 Providing Weatherization Services to the Same Dwellings in Philadelphia and Result in Potential Questioned Costs	\$94,081	DCED	198	292
06-55**	93.568	Low-Income Home Energy Assistance	DCED Does Not Adequately Review Weatherization Assistance Program Expenditures for Accuracy Prior to Approving Local Agency Grant Payments		DCED	202	292
06-56**	93.568	Low-Income Home Energy Assistance	Weaknesses in Contracting for Services Exist at Local Agencies		DCED	204	292
06-57**	93.568	Low-Income Home Energy Assistance	The Most Vulnerable and Needy Pennsylvanians Do Not Always Receive Priority and are Waiting up to Nine Years to Receive Weatherization Services		DCED	206	292
06-58**	93.568	Low-Income Home Energy Assistance	DCED Failed to Adequately Monitor Local Agencies		DCED	208	292
06-59**	93.569	Community Services Block Grant	Weaknesses in Internal Controls Over Subgrantees Result in \$37,772 in Questioned Costs (Prior Year Finding #05-33)	\$37,772	DCED	210	292
06-60**	93.569	Community Services Block Grant	Weaknesses in Internal Controls Over DCED On-Site Monitoring of Subgrantees		DCED	213	293
06-61*	93.575 93.596	Child Care & Development Block Grant Child Care Mandatory & Matching Funds	Internal Control Weaknesses and Inadequate Support for Federal Earmarking Requirements Result in Questioned Costs of \$3,135,166 (Prior Year Finding #05-35)	\$3,135,166	DPW	215	293

76

\* - Reportable Condition  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2006

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
06-62**	93.575 93.596 93.667	Child Care & Development Block Grant Child Care Mandatory & Matching Funds Social Services Block Grant	Weaknesses in DPW Program Monitoring of Subgrantees (Prior Year Finding #05-34)		DPW	217	293
06-63**	93.658	Foster Care - Title IV-E	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #05-36)		DPW PHHS	221	293
06-64**	93.658 93.659	Foster Care - Title IV-E Adoption Assistance	DPW Office of Children, Youth and Families Documentation Supporting the Licensing of Foster Care and Adoption Assistance Agencies is Incomplete (Prior Year Finding #05-37)		DPW	223	293
06-65**	93.658	Foster Care - Title IV-E	Internal Control Weakness Over Expenditure Information Reported by PHHS Comptroller on the SEFA (Prior Year Finding #05-6)		PHHS	225	293
06-66**	93.667	Social Services Block Grant	Lack of Documentation and Internal Control Weaknesses in DPW's Youth Development Centers Result in Unknown Questioned Costs Up To \$10 Million	\$10,000,000	DPW PHHS	226	294
06-67**	93.767	State Children's Insurance Program	Internal Control Weakness in PID Procedures to Ensure Actuarial Soundness of Monthly Premium Rates (Prior Year Finding #05-39)		PID	231	294
06-68**	93.767	State Children's Insurance Program	PID Did Not Perform Adequate Monitoring of CHIP Subrecipient Insurance Providers (Prior Year Finding #05-38)		PID	233	294
06-69**	93.917	HIV Formula Care Grants	DOH Did Not Perform On-Site Monitoring of HIV Subgrantees		DOH	236	294
06-70**	93.917	HIV Formula Care Grants	Weaknesses in Internal Controls Over Eligibility Determinations Result in an Undetermined Amount of Questioned Costs Up To \$27,118,545 (Prior Year Finding #05-41)	\$27,118,545	DPW PHHS	237	294

\* - Reportable Condition  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2006

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
06-71**	97.036	Disaster Grants - Public Assistance	Internal Control Weaknesses in PEMA's System of Cash Management and Federal Reporting (Prior Year Finding #05-19)		PEMA PPR	244	295
06-72**	Various	Various	Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (Prior Year Finding #05-45)		DPW	247	295
06-73**	Various	Various	Noncompliance and Internal Control Weaknesses Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Findings #05-43 and #05-44)		OB/BOA	249	295
06-74**	Various	Various – All Major Programs Covered by CMIA	Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$1.76 Million Known Understatement of the CMIA Interest Liability (Prior Year Finding #05-46)		OB/BFM	253	295
Total Questioned Costs				\$43,677,268			

78

\* - Reportable Condition  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 17:

#### CFDA #10.550 – Food Donation Program

##### Internal Control Weaknesses and Noncompliance With Processor Recordkeeping and Reporting Requirements Result in Inaccurate SEFA Reporting and Questioned Costs of \$1,145 (A Similar Condition Was Noted in Prior Year Finding #05-1)

**Condition:** As part of the FD Program, processors enter into contracts to convert certain donated commodities into end products. These end products are then distributed by the processors to eligible recipient agencies. BFD uses information submitted electronically from the processors to record distributions of donated commodities used in end products by individual recipient agencies for the year. The total processor distributions to all recipient agencies recorded on BFD's system and reported by BFD on the 6/30/06 SEFA was \$14,651,161.

In our prior year audit, our testwork revealed questioned costs and major weaknesses in BFD's system used to accumulate and report inventory activity from the processors monthly performance reports. Our follow up and testwork for the current year disclosed that similar weaknesses existed throughout our audit period. In particular, our testing of BFD's system used to account and report for the processing of donated commodities revealed the following:

- In order to test the accuracy of the processor distributions reported by BFD for the current year on the SEFA, we selected a sample of 25 recipient agencies receiving end products from 11 different processors. We then selected one donated commodity for each recipient agency and requested confirmation from the related processor of the total pounds of donated commodity for FY 2006 that were included in the end products distributed to the recipient agency. The total dollar value of donated commodities tested for our 25 items was \$224,133 out of the \$14.6 million population for processors disclosed above.
- For one of the 25 recipient agencies in our sample, there was a difference in the pounds of donated commodity reported by BFD and the pounds of donated commodity confirmed by the processor, resulting in questioned costs of \$1,145 as follows:

<u>School Number</u>	<u>Pounds of Donated Commodity Reported by BFD on SEFA</u>	<u>Pounds of Donated Commodity Confirmed by Processor</u>	<u>Difference in Pounds</u>	<u>Unit Price</u>	<u>Unsupported Questioned Costs</u>
2-07-48-330	12,970	12,175	795	1.44	\$1,145

The processor stated that the difference of 795 pounds was due to an error made by the processor in reporting the pounds of donated commodity included in the end products shipped to this school.

- For four of the 25 recipient agencies in our sample, all of which receive end products from the same multi-state processor, there were differences between the pounds of donated commodity confirmed by the processor and the pounds of donated commodity reported by BFD resulting in an understatement of distributions reported on the SEFA of \$393 as follows:

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 17: (continued)

School Number	Pounds of Donated Commodity Reported by BFD on SEFA	Pounds of Donated Commodity Confirmed by Processor	Difference in Pounds Affecting BFD's Reporting of Distributions on SEFA	Unit Price Per Pound	Overstatement (Understatement) of Distributions Reported on SEFA
2-01-25-101	8,836	8,848	(12)	1.44	(\$17)
2-05-07-350	10,140	10,161	(21)	1.44	(30)
2-06-22-400	8,816	8,780	36	1.44	51
2-08-46-030	14,413	10,018	(276) *	1.44	(397)
Total	42,205	37,807	(273)	1.44	(\$393)

For each of the four schools noted above, the multi-state processor confirmed that the quantity of donated commodity reported by BFD on the SEFA was the quantity reported to BFD by the processor for the year under audit. However, in reviewing their information for the confirmation procedures, the processor subsequently determined and confirmed that the quantities reported to BFD for all four of these schools were inaccurate. Specifically, the processor stated that they had made errors in their conversion calculations of the donated commodity used in the end products distributed to three of these schools (2-01-25-101, 2-05-07-350 and 2-06-22-400) when reporting this information to BFD. As a result of these conversion errors, the pounds of donated commodity distributed to each of these schools was not accurately reported by BFD on the SEFA. Further, BFD did not have any procedures in place during the year under audit to review multi-state processors end data conversions to ensure the accuracy of the quantity of donated commodity used in end products distributed to these recipient agencies.

\* Regarding the difference for school 2-08-46-030, the processor stated that they had made several errors in reporting distributions to BFD for this school during the year under audit. Specifically, the processor reported shipments totaling 5500 pounds to BFD in April 2006 for this school but the actual shipments were made to and should have been reported for a different school (2-03-35-030). Additionally, the processor made shipments to school number 2-08-46-030 in September 2005 totaling 829 pounds but incorrectly reported the shipment to BFD for school 2-03-35-030. Although these errors resulted in incorrect amounts being reported for each of these schools, these errors had no effect on total distributions reported on the SEFA. The remaining difference of 276 pounds was caused by a transposition error by the processor when reporting a shipment to BFD in February 2006 and resulted in an understatement of distributions reported on the SEFA of \$397.

- BFD is required to submit an Annual Processor Reconciliation Report (Annual Report) to USDA for each processor participating in the FD Program which reports all inventory activity for each donated commodity on hand at the processor location. In order to test the accuracy and completeness of the Annual Report submitted to USDA for the year under audit, we selected a sample of eleven processors and one commodity for each processor. We then compared the inventory activity (i.e., beginning inventory balances, receipts, shipments, etc) reported by BFD for each processor and related commodity to the processor's monthly performance reports. Based on our testing of the Annual Report, we noted the following:
  - For two of the eleven commodities in our sample, there were discrepancies between the receipts and shipments reported by BFD and the amounts contained in the processor performance reports. BFD subsequently determined that the receipts and shipments reported on the Annual Report for these two commodities were incorrect. The inaccuracies in BFD's reported shipments for these two commodities also resulted in a net understatement of distributions reported on the SEFA of \$1,734.
  - For one of the eleven commodities in our sample, there was a discrepancy between the receipts reported by BFD and the amount contained in the processor's performance reports. BFD subsequently determined that the receipts reported for this commodity on the Annual Report were incorrect.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 17: (continued)

- BFD did not report any beginning inventory balances for any of the processors on the Annual Report due to a problem with the extraction of this information from the BFD system. This error also resulted in differences between the ending inventory balances reported by BFD and those contained in the processor performance reports.
- During our walkthrough of the procedures used by BFD to prepare the Annual Report, we noted, through discussions with BFD, that one processor was incorrectly included on the Annual Report. This processor incorrectly reported shipments of donated commodities to BFD that had already been reported by another processor. These shipments should have been reported to BFD as “backhauled commodities” to avoid double reporting of these distributions on the Annual Report and on the SEFA. As a result, the distributions were reported twice on the SEFA by BFD resulting in an overstatement on the SEFA of \$1,047.
- BFD does not have adequate procedures in place for the supervisory review and approval of the amounts contained on the Annual Report to ensure amounts reported are accurate, complete and supported by the processor records.

In response to our prior year finding, BFD implemented monthly reconciliation procedures to ensure the information electronically submitted by the processors was properly recorded in BFD’s system. Additionally, BFD implemented procedures, in connection with their on-site monitoring of recipient agencies, to verify the accuracy of the shipments of donated commodities being reported by the processors. However, based on our testing and the errors noted above, these procedures were not adequate. Further, the monthly reconciliations are not adequately documented by BFD.

In the prior year we noted that BFD’s procedures for the on-site monitoring of its in-state processors did not address two of the four areas that are required by federal regulations. Specifically, BFD’s on-site monitoring did not include procedures to review the processor’s production and quality control records to support the figures on the processor’s end product data schedule and did not include procedures to ensure adequate measures and procedures are in place to protect the donated food. Our current year follow up revealed that BFD did establish procedures to address these two areas during their on-site monitoring of in-state processors through the use of a Processor Review Checklist. However, for one of the two in-state processors that we selected for testing during the year under audit, we noted that BFD did not complete two questions on this checklist, one of which specifically addressed a review of the processor’s production and quality control records to support the processor’s end product data schedule. Further, BFD could not provide any documentation to support the performance of this procedure. Also, we noted that the written communication of the monitoring results sent to this processor and USDA indicated that the production records were reviewed by BFD and that the records supported the processor’s end product data schedule.

**Criteria:** 7 CFR, Part 250.16 (a) regarding maintenance of records, states, in part:

*(a) General requirements. (1) Accurate and complete records shall be maintained with respect to the receipt, distribution/use and inventory of donated foods including:*

*(i) End products processed from donated foods. . .*

7 CFR, Part 250.30 regarding processor reporting states:

*m. Performance reports. (1) Processors shall be required to submit to distributing agencies monthly reports of performance under each processing contract with year to date totals. . . . The report shall include:*

- (i) A list of all recipient agencies purchasing end products under the contract;*
- (ii) Donated-food inventory at the beginning of the reporting period;*
- (iii) Amount of donated foods received during the reporting period;*
- (iv) Amount of donated foods transferred to and /or from existing inventories;*
- (v) Number of units approved end products delivered to each eligible recipient agency during the reporting period and the number of pounds of each donated food represented by these delivered products;*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 17: (continued)

(vi) *Donated food inventory at the end of the reporting period.*

USDA Memo #04-011 dated April 8, 2004 regarding the Policy on the Submission of Quarterly Processing Performance Reports states:

*We will discontinue the requirement to submit quarterly processing performance reports to the Regional Office and will use the reconciliation reports to verify beginning inventory levels, shipments, usage and excess inventory levels.*

The USDA State Processing Program Handbook, page 57, provides the following guidance regarding on-site reviews of processors:

*On-Site Reviews: Every year each distributing agency must conduct on-site reviews of 50 percent of the processors whose total operations are conducted within that State. This means that a review of all “In-State” processors must be completed by the distributing agency every two years.*

*Planning the Review: The following four areas must be evaluated during each review:*

- *Adequate records are being maintained to ensure program compliance;*
- *The sales documentation supports the inventory reductions reported on the monthly performance reports;*
- *The production and quality control records support the figures on the end product data schedules; and*
- *Adequate measures and procedures are in place to protect the donated food.*

**Cause:** Regarding the errors in the end product data conversions cited in the condition for three schools in our sample, BFD does not perform any verification of these conversion factors used by the processors to ensure that the quantity of donated commodities included in the end products shipped to these recipient agencies, is accurate. BFD does review these end product data conversions for its in-state processors during their on-site visits. However, the majority of the processors participating in the FD Program are multi-state processors and are not subject to these on-site visits. With respect to the other errors made by this multi-state processor in reporting distributions to BFD for school 2-08-46-030, BFD stated that these errors were a result of the other school (2-03-35-030) having a similar name to the school in our sample.

For the unsupported costs of \$1,145 for the one school in our sample, the processor made an error in reporting the pounds of donated commodity shipped to this school and the error was not detected by BFD.

Regarding the discrepancies cited for the Annual Processor Reconciliation Report, BFD indicated that some of these discrepancies, including the absence of any beginning inventories, were due to a problem with the extraction of this information from BFD's system. Additionally, BFD did not have adequate procedures in place to ensure the information electronically submitted by the processors was accurate and properly recorded in the BFD system and on the Annual Report prior to submission to USDA. Further, BFD does not have adequate procedures in place to ensure that processors are properly accounting and reporting for backhaul commodities.

With respect to the on-site monitoring of in-state processors, BFD stated that the BFD personnel responsible for completing the two questions on the processor checklist for the in-state processor cited in the condition were not present during the on-site visit and that BFD forgot to follow up on the open items. Additionally, BFD uses a standard letter to communicate the monitoring results but there is no review of this letter by BFD to ensure the information being communicated is accurate.

As in the prior years, BFD also stated that staffing changes have taken place in the last several years and the related development of new computer software to handle the volume of data associated with the FD Program have contributed to the internal control weaknesses and errors cited in the condition.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 17: (continued)**

**Effect:** Distributions reported on the SEFA for one of the 25 schools in our sample in the amount of \$1,145 are unsupported and are therefore questioned. Additionally, our sampling and testing of processor distributions also disclosed that FD program expenditures on the SEFA are not accurate. Although SEFA misstatements in the current-year were not material, significant SEFA errors could occur in future years.

Further, BFD did not have an adequate system in place during the year under audit for the proper recording, reporting, and monitoring of inventory activity that was transmitted electronically from the processors, including the preparation and submission of the Annual Processor Reconciliation Report to USDA. Further, BFD did not have adequate documentation to support the performance of on-site monitoring for one of its in-state processors and does not have adequate procedures in place to ensure that the communication of these monitoring results is accurate. Additionally, there continues to be an overall lack of segregation of duties with respect to the processor recordkeeping and reporting by BFD.

**Recommendation:** We recommend that BFD pursue appropriate settlement of the \$1,145 in questioned costs with USDA.

Regarding the verification of the end product data conversions for multi-state processors, we recommend that BFD consider modifying their monthly reporting requirements for processors to include information on the quantity of end products shipped to recipient agencies. Alternatively, BFD could test these data conversions as part of their sales verification of processor distributions performed during on-site visits of schools. This would be the most efficient method since the processor invoices are located at the schools and include the quantity of end products shipped to the schools.

Further, although BFD implemented procedures during the year to ensure the processor information being electronically submitted to BFD is accurate and properly reported by BFD, we noted that these procedures were not consistently followed, not adequately documented and did not detect errors on the SEFA and Annual Report. Accordingly, we recommend that BFD strengthen these procedures by ensuring that the monthly reconciliations of processor information are being performed and documented for all processors, by testing the end data conversions for multi-state processors as stated above, by establishing review procedures to verify the accuracy of the information extracted for the Annual Report and by ensuring that backhaul commodities are properly reported by processors. Further, we recommend that BFD ensure that these procedures provide for a proper segregation of duties with respect to the processor recordkeeping and reporting.

With respect to BFD's monitoring of in-state processors, we recommend that BFD ensure that all items on the processor checklist are completed before any written communication of results is prepared by BFD. Additionally, the monitoring documentation and written communication should be reviewed to ensure that all areas have been addressed and that the communication is consistent with and supported by the monitoring results.

**Agency Response:** The procedures implemented by the Bureau of Food Distribution continue to improve the reliability of the processor activity reported for the 2005/06 program year. While this finding is continued from prior years the questioned costs have been greatly reduced. In the 2004 Single Audit the Bureau had questioned costs of \$52,917 and the 2005 Single Audit had questioned costs of \$3,651. The 2006 Single Audit identified questioned costs of \$1,145 from the processing activity of over seventy-five authorized processors distributing 36.8 million pounds of commodity with a value of over \$14,650,000 to the Commonwealth's 850 Food Authorities.

While the Bureaus efforts cannot totally eliminate the element of human error during the processing of thousands of transactions that are reported monthly, we hope to minimize it by reviewing of all transactions in conjunction with Recipient Agency Sales Verification. This year a processor mistakenly transposed a number on a report and another error occurred due to the similarity in school district names. The BFD will continue to train its staff with the purpose of improving the reliability of processor records.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 17: (continued)**

All processors will be notified of the potential of error due to the similarity of some school district names so that only the proper school district will be charged for commodity activity. In addition to the districts noted in the finding, the Bureau of Food Distribution will identify other school districts with similar names and regularly monitor commodity activity to prevent future errors.

The Bureau will establish procedures for testing end data conversions for multi state processors and strengthen the implementation of procedures and processes that have already been established as noted by the auditor.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 18:**

**CFDA #10.551 – Food Stamps Program**

**CFDA #93.558 – Temporary Assistance for Needy Families**

**CFDA #93.575 – Child Care and Development Block Grant**

**CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund**

**CFDA #93.778 – Medical Assistance**

### **Internal Control Weaknesses at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (A Similar Condition Was Noted in Prior Year Finding #05-02)**

**Condition:** In connection with our audit of the TANF and FS Programs for SFYE June 30, 2006, we reviewed reports issued by other auditors during our audit period in order to determine if the reports had any impact on the programs. Based on our review, we noted that another bureau within the Department of the Auditor General performed separate audits of certain DPW County Assistance Offices (CAOs) in order to determine if public assistance payments for the TANF and FS programs were made only to eligible recipients. Based on our review of these individual CAO audit reports issued during our audit period (which covered various prior audit periods up through August of 2005), we noted that the other auditors identified internal control weaknesses which are systemic in nature and impact our current year under audit when evaluated on a statewide basis.

Our review of these other auditor's reports covering prior periods and discussions with the other auditors indicated the following:

- The CAO caseworkers failed to obtain and/or document the information to determine recipient eligibility. Specifically, the case records were missing documentation regarding recipient eating and living arrangements, school attendance, resources, signed releases for Authorization of Information, employability assessment and reassessment forms, and case narratives. Additionally, pay stubs and employer verification forms were often absent from the case records and the social security numbers of legally responsible relatives were known to the CAOs but were not entered into the Income Eligibility and Verification System (IEVS). Further, the CAOs did not always have proper procedures to ensure that recipients are reporting updated information required to maintain their eligibility. Specifically, recipients failed to report updated income, resources, address changes, changes in living expenses, changes in household composition and criminal convictions, with no DPW follow up.
- The CAO caseworkers do not adequately monitor recipient compliance with court-ordered payment plans for fines, costs and/or restitution associated with criminal convictions. Per state law (Act 1996-35) and DPW's Cash Assistance Handbook, recipients that are not in compliance with the payment plans are not eligible to receive public assistance benefits.
- The CAO caseworkers are entering the incorrect codes into DPW's Automated Restitution Referral and Computation (ARRC) System, which is used to compute, track and recover overpayments. In most cases, the improper coding stops the system's processing of an overpayment and refunding these overpayments to HHS. Additionally, the CAO caseworkers are not following the procedures relative to investigating suspected overpayments, controlling and documenting investigations, and referring overpayments timely.
- The State has established and implemented an Income Eligibility and Verification System (IEVS), which is used for coordinating data exchanges with other federally assisted benefit programs. The CAO caseworkers are required to access this information and compare the information against the case file when making eligibility determinations. However, the CAO caseworkers are not reconciling the information in IEVS to the income information in the case file and are not verifying or failing to document verification of the information in IEVS with third parties. Additionally, the caseworkers are not using IEVS on eligibility re-determinations.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 18: (continued)**

- CAO caseworkers failed to enroll recipients in Employment and Training Programs (ETPs). Additionally, the CAO caseworkers did not monitor recipients' compliance with program requirements when the recipients were enrolled in the ETPs. Further, CAO personnel did not adjust recipient benefits when they became aware that the recipients were no longer attending their required programs.
- The CAO caseworkers are not reviewing the Support Pass-Through (SPT) income in CIS to determine the impact on the Food Stamps benefit. An STP is an increase in a recipients' cash benefits which occurs when the Domestic Relations Office forwards child support money for recipients to DPW. Since Food Stamps benefits are based on a recipient's income, the increase in cash benefits may result in a concurrent, but not equal, decrease in the recipient's Food Stamps benefit.
- Special allowances are paid to TANF recipients for items such as transportation, clothing, shelter and childcare so the recipients can participate in approved work-related activities. The CAO caseworkers are not ensuring the recipients' forms for child care allowances are adequate and complete and that child care payments to providers are considered in the calculation of any welfare benefits paid to the providers. Additionally, these special allowance payments are not being monitored by CAO personnel to ensure the payment is being used for its intended purpose and to recoup special allowances that were not used for their intended purpose.
- CAO caseworkers are not considering all income and allowable deductions when completing the budgeting process. Additionally, the caseworkers did not properly verify gross income using pay stubs and statements from employers and failed to verify shelter costs with rent receipts and statements from landlords.

In analyzing the above results, we noted that the internal control weaknesses which led to these errors would also impact eligibility determinations in the Medical Assistance Program. Additionally, the control weakness relative to the DPW special allowances for child care costs would impact the allowability and eligibility of payments in the Child Care Cluster.

As part of the Welfare-to-Work program under TANF, DPW employed individuals receiving Cash and Food Stamp assistance. In a separate investigation conducted by DPW and the Pennsylvania Inspector General's Office, we were informed during the prior year Single Audit that some individuals employed under the Welfare-to-Work program were assigned to CAOs and given improper access to the Cash and Food Stamp benefits authorization system; as a result, these individuals had the ability to fraudulently grant themselves and other family members additional Cash and Food Stamp benefits for which they were not eligible. Since DPW had no overall policy in place restricting the access of these benefit recipients within the benefits authorization system, an internal control weakness is present. As of June 30, 2006 DPW has not implemented corrective action for this weakness.

In addition to the internal control weaknesses identified by other auditors above, we also performed testing of DPW's Comprehensive Supervisory Review (CSR) and Targeted Supervisory Review (TSR) processes at the County Assistance Offices. The CSR documents the review of the propriety of eligibility determinations and re-determinations made by the CAO caseworkers while the TSR focuses on specific problem areas identified in caseworker compliance with established DPW procedures. The CSR is to be performed on a monthly basis by an individual independent of the CAO caseworker who initially determined eligibility. A CSR is required to be performed for a CAO in any month in which a more selective TSR is not performed.

We randomly selected a sample of 25 CAOs to ensure that required CSRs and TSRs were performed by DPW for the period under audit. For each CAO in our sample, we haphazardly selected one month and requested a certain number of CSRs or TSRs based on the number that were required to be completed by the CAO for the month. Our testing disclosed that of the 658 CSRs and TSRs that were required to be completed by the 25 CAOs, a total of 67 or 10.18%, in four CAOs were not completed as follows:

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 18: (continued)

<u>CAO</u>	<u>Month Selected</u>	<u>Number of CSRs or TSRs Not Completed</u>
Dauphin County	October 2005	7
Mercer County	January 2006	25
Snyder County	April 2006	25
Union County	May 2006	10
	TOTAL	<u>67</u>

We noted this to be an internal control weakness over eligibility determinations and re-determinations since CAOs are not following established control procedures.

**Criteria:** Cash Assistance Handbook Section 104.3, "Screening Interview," provides instructions to the caseworkers on assisting the applicant in completing the application (PA 600) for public assistance and states in part:

1. *Explain that every question on the PA 600 must be answered.*
4. *Determine what information needs to be verified and explain what is needed to verify the information.*

Cash Assistance Handbook, Section 104.42, "Responsibilities of the County Assistance Office," provides instructions to the caseworkers on the application process and eligibility determination process and states in part:

5. *Initiate or update the budget group information based on the completed PA 600 and the facts presented during the interview:*
6. *Ensure that each applicant has a social security number (SSN).*

Cash Assistance Handbook Section 178.1, "General Policy," states in part:

*The CAO will verify conditions of eligibility, need, income, and resource items at application. The CAO will verify income, resources, and any other eligibility factors which are subject to change at redetermination.*

Sources of verification include:

- Written evidence;*
- Public records;*
- Collateral contracts;*
- Automated sources; and*
- Other means which will establish the truth of the client's statement.*

DPW regulations and Act 1996-35 state:

*Assistance may not be granted to any person who has been sentenced for a felony or misdemeanor offense and who has not otherwise satisfied the penalty imposed on that person by law....*

Additionally, Cash Assistance Handbook, Section 104, "Application," Appendix B-1, "Procedure for Criminal History Inquiry," states in part:

*An answer to any question which indicates he is on probation or parole and has either not paid all fines, costs and restitution or is not in compliance with an approved payment plan, will result in ineligibility.*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 18: (continued)**

Cash Assistance Handbook, Section 135.44 states:

*Special allowances for supportive services are available to clients who are enrolled in RESET, have an approved AMR and are actively participating in an approved activity or to enable them to accept or continue employment.*

Further, Section 138.83 of the Cash Assistance Handbook, “Verification Needed for Authorization of Payment”, states in part:

*Before authorizing the initial payment of a special allowance for a supportive service, the CAO will determine:*

- *Whether the supportive service requested is necessary to enable the participant to engage in an approved education or training activity or to apply for employment;*
- *The expected charge for the service or item requested;*
- *The date the service or item is needed by the participant; and*
- *The date the service or item is required under the provider’s usual payment policy or practice*

The DPW Supplemental Handbook (SH), Chapter 910, “Restitution and Disqualification,” Section 910.1 “General Policy,” states:

*An overpayment exists when a client receives assistance for which he is ineligible.*

*The DPW is responsible by law to identify overpayments and recover overpayments from clients.*

The DPW Supplemental Handbook, Chapter 910, “Overpayment Recovery” Section 910.11, “Responsibilities of the CAO,” stipulates that “*The CAO is responsible for:*

- *Determining if a budget group or FS household has been overpaid;*
- *obtaining verification of the income or resource and documenting the circumstances which caused the overpayment;*  
*and*
- *furnishing the OIG with any current information which may affect action on the overpayment.”*

Additionally, Section 910.4 of the DPW Supplemental Handbook, “What Actions Follow a Discovery of a Possible Overpayment,” states:

*The CAO will take the following actions upon discovery of a possible overpayment: enter the overpayment data into the Automated Restitution Referral and Computation (ARRC) system; explore the facts that caused the overpayment; obtain verification to decide if an overpayment did or did not occur; determine the type of error that caused the overpayment; update the ARRC system and refer the overpayment to the OIG.*

Cash Assistance Handbook, Section 135.1, regarding Employment and Training Requirements states:

*At authorization, redetermination or partial redetermination, each individual who is required or volunteers to participate in the Road to Economic Self-Sufficiency through Employment and Training (RESET) program is enrolled in RESET, including individuals who meet the eligibility criteria for Extended TANF.*

*NOTE: Individuals who receive food stamps must participate in the Food Stamp Employment and Training Program unless they are exempt or participate in RESET as a cash assistance recipient. See FSHB, Chapter 535 Employment/Training Requirements.*

The FNS Handbook 310, Section 1050-Child Support Payments Received From Absent Parent, states:

*An important type of household income in many cases is child support payments. The composition of the household may indicate whether the reviewer should seek additional information with regard to the probability of support payments.*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 18: (continued)**

In addition, OMB Circular A-133 - Subpart C.300 (b) provides that the auditee shall:

*Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.*

**Cause:** As disclosed in our prior-year finding, the CAO caseworkers are not following established DPW policies and procedures for maintaining case records, including compliance with the retention period for DPW forms, for processing information obtained from recipients and collateral sources, and for determining recipient benefits. Based on our discussions with the other auditors, the errors are primarily the result of caseworkers not being adequately trained and supervised in the performance of their duties. Additionally, the other auditors also indicated that case records which lacked the required information may have been the result of frequent transfers of cases among caseworkers. Regarding the weak system access controls for Welfare-to-Work employees, DPW management was not aware of this weakness until they called for the Pennsylvania OIG investigation in the prior year.

With regard to the monitoring of compliance with court-ordered payment plans, state law and the Cash Assistance Handbook require the caseworkers to verify compliance with court-ordered payment plans. This occurs at the initial application and at eligibility re-determinations. Since the re-determinations are typically at a six or twelve-month interval, some recipients make a court-ordered payment at the initial application and at eligibility re-determinations but not during the intervening months. The CAO interprets this as being in compliance and authorizes benefits for months in which no court-ordered payments are made. We further noted that, in the Philadelphia metropolitan area, where by far the largest federal program payments are made, there is little or no enforcement of Act 1996-35 or DPW's Cash Assistance Handbook requiring adherence to court-ordered payment plans to ensure continuing client eligibility.

With respect to the CSRs and TSRs that were not completed for Snyder County and Union County, we were informed that all or certain supervisors were involved with the implementation of new software and did not have time to complete the required number of reviews. For Dauphin County, DPW indicated that the CSRs were completed but could not all be retrieved due to a database failure. For Mercer County, the supervisors were involved with the implementation of new software and a payment accuracy review and did not have time to complete the CSRs and TSRs for the month.

**Effect:** Due to the control weaknesses identified at the DPW CAOs, there is limited assurance that DPW's eligibility determinations/re-determinations and related benefit payments, including special allowance payments, are being made in accordance with federal regulations and that overpayments and over-issuances are being processed by DPW accurately and completely. Errors are occurring in eligibility determinations for MA, TANF and FS and not being detected by DPW on a timely basis.

**Recommendation:** We recommend that DPW ensure the CAO caseworkers receive additional training and are more thoroughly supervised to follow established DPW policies and procedures regarding eligibility determinations and re-determinations. Additionally, we recommend that DPW and the CAOs evaluate existing procedures in place to ensure recipients are complying with reporting requirements relative to maintaining welfare eligibility. Further, we also recommend that DPW and its CAOs strengthen system access controls for Welfare-to-Work participants employed at the CAOs, and establish procedures to ensure DPW's compliance with Act 1996-35 and ensure recipient compliance with court-ordered payment plans.

Finally, we recommend that DPW's CAOs comply with the requirement mandating that all CAOs perform CSRs or TSRs on a monthly basis since the completion of these reviews is designed to identify specific problem areas with respect to caseworker's eligibility determinations and to implement corrective action to address the deficiencies.

**Agency Response:** Four of the five recommendations given by the auditors in this years finding are repeats from the prior year. The Department of Public Welfare (DPW) has taken measures to improve accuracy, training, system access controls, and supervision since the prior year finding. Below are the recommendations from this years finding followed by descriptions of the progress made on the four repeated recommendations since the prior year and a response to the new recommendation (number 2 below).

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 18: (continued)**

1. Ensure caseworkers receive additional training and are more thoroughly supervised to follow established DPW policies and procedures regarding eligibility determinations and re-determinations.
2. Evaluate existing procedures in place to ensure recipients are complying with reporting requirements relative to maintaining welfare eligibility.
3. Strengthen system access controls for Welfare-to-Work participants employed at the CAOs.
4. Establish procedures to ensure DPW's compliance with Act 1996-35 and ensure recipient compliance with court-ordered payment plans.
5. Comply with the requirement mandating that all CAOs perform CSRs or TSRs on a monthly basis.

In response to the first recommendation (repeat finding), DPW has ensured that the caseworkers receive additional training by utilizing e-learning modules offered through the Staff Development program. Since the audit, DPW has increased the frequency of e-learning and established standards for successful completion of each e-learning module. These improvements are part of DPW's Effective Management Program established in calendar year 2007. As further corrective action, a monthly TSR has recently been developed to strengthen the supervision of eligibility determinations. Additionally, management will reinforce to staff the importance of following established DPW policies and procedures regarding eligibility determination and redeterminations.

In response to recommendation #2 (new finding), OIM has ensured that caseworkers review the policy related to recipient compliance with reporting requirement relative to maintaining eligibility. On September 4, 2006, shortly after the audit period, DPW implemented the TANF Work Support Component (WSC) Program to more quickly assist those who are employable. However, if a client fails to report to the WSC contractor, their TANF case is closed. The WSC Program will greatly improve DPW's ability to adjust benefits when the recipient is no longer attending their required programs. Also, an educational DVD giving detailed eligibility requirements is being developed to educate clients who visit our CAO reception areas. Lastly, TSRs have been automated and are mandated monthly. TSRs will replace CSRs for an undefined period to focus on problematic areas.

In response to recommendation #3 (repeat finding), participants in the Welfare-to-Work programs, if employed at the CAO, are not granted access to CIS. Operations Memorandum 050705, dated July 7, 2005, to Executive Directors provides a process for each CAO to review internal procedures. The Security Process Overview is a self-assessment tool to be used by CAO management staff. Statewide security standards for the CAOs were issued in 2005. An e-mail was sent to all Area Managers on May 25, 2007 reiterating the Security Process Overview tool, and Area Managers were charged with insuring proper completion of the tool by the CAOs.

Participants in the Welfare-to-Work programs employed at the CAO are permitted to have access to client information at the worksite, restricted to what is needed to perform assigned job duties. DPW reviews confidentiality policy and requirements, including HIPAA (Health Insurance Portability and Accountability Act) rules with the participant, and obtains the same signed assurances from the participant as DPW would for all employees. The Security Process Overview tool is used by each CAO to determine if the participant is violating confidentiality standards and rules.

In response to recommendation #4 (repeat finding), OIM uses the Income Eligibility Verification System (IEVS) that allows for the exchange of information with local courts and other authorities. IEVS Exchange 10 screens have been revised which has made it easier for the caseworker to interpret the information on the screens. Policy clarifications and a desk guide have also been issued to staff to strengthen compliance in this area. Also, CAOs have collaborative arrangements with courts to exchange information to address inquiries and updates. It is the OIMs policy to review criminal history at application and reapplication or if new information is received between reapplication, the CAO then acts on the information received.

In response to the last recommendation (repeat finding), DPW recently developed an Automated TSR system that focuses on problematic areas identified through audit reviews, internal data reviews and effective management strategies. The specialized TSR serves as a major component of the set of performance metrics for the Effective Management Program. TSRs will replace CSRs for an undefined period until program accuracy is accomplished. It

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 18: (continued)**

should be noted that, in addition to the TSR corrective action plan, DPW has significantly improved its CSR/TSR completion rate. In the prior year finding (#05-02), the completion rate was 76.9%, while this year's finding shows a completion rate of 90%.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 19:

#### CFDA #10.557 – Special Supplemental Nutrition Program For Women, Infants, and Children

##### Noncompliance and Weakness in Internal Controls Over DOH's Program Monitoring of WIC Local Agencies

**Condition:** Federal regulations require DOH to perform on-site program monitoring of its WIC local agencies at least once every two years. During federal fiscal year 2006, DOH performed on-site program monitoring for 14 of its 24 WIC local agencies. We reviewed program monitoring performed by DOH for five of these local agencies. The results of our testing disclosed that for one of the five local agencies, Bucks County Department of Health, DOH could not provide the letter from DOH management to the local agency informing them of the results of the monitoring including findings, recommendations, and required corrective action. Without this letter we found no evidence of DOH's supervisory review and approval of the local agency's monitoring results. In addition, DOH could not provide documentation of the local agency's corrective action plan. DOH's monitoring results revealed corrective action was required in the areas of client confidentiality, certification and eligibility, nutrition education contacts, and approval of nutrition education plan by State.

**Criteria:** Regarding management evaluation and monitoring reviews, 7 CFR 246.19 states:

*(b) State agency responsibilities.*

- (1) The State agency shall establish an on-going management evaluation system which includes at least the monitoring of local agency operations, the review of local agency financial and participation reports, the development of corrective action plans to resolve Program deficiencies, the monitoring of the implementation of corrective action plans, and on-site visits. The results of such actions shall be documented...*
- (4) The State agency must promptly notify a local agency of any finding in a monitoring review that the local agency did not comply with program requirements. The State agency must require the local agency to submit a corrective action plan, including implementation timeframes, within 60 days of receipt of a State agency report of a monitoring review containing a finding of program noncompliance. The State agency must monitor local agency implementation of corrective action plans.*

**Cause:** DOH could not provide the letter to notify Bucks County Health Department of monitoring results or the local agency's corrective action plan. No further explanation was provided by DOH.

**Effect:** Without the letter informing the local agency of monitoring results, it cannot be assured that monitoring was reviewed and approved by DOH management. In addition, it cannot be assured that the local agency was formally informed of the results of the monitoring. Since DOH could not provide the local agency's corrective action plan it cannot be assured that acceptable corrective action is being performed by local agency to resolve their deficiencies. This makes the monitoring process less effective in ensuring that the local agency is in compliance with federal regulations.

**Recommendation:** We recommend that DOH improve procedures to ensure that local agency program monitoring and corrective action is reviewed and approved by DOH management, local agencies are properly informed of the results, and reasonable documentation is retained as support.

**Agency Response:** In order to correct the issue, DOH's WIC Program developed a specific monitoring tool designed to keep them apprised of the progress of all Local Agency Program Reviews. This tool ensures that local agency program monitoring and corrective action is reviewed and approved by DOH management, local agencies are properly informed of the results, and reasonable documentation is retained as support.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 19: (continued)**

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in our subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 20:**

#### **CFDA #12.401 – National Guard Military Operations and Maintenance Projects**

##### **Noncompliance and Weakness in Internal Control Over Charging of Personnel Costs**

**Condition:** The personnel costs for the NGMO Program are primarily charged to a particular grant (appendix) based on the employee's assigned facility (State Armories, Fort Indiantown Gap buildings, Air National Guard buildings, etc). These personnel costs charged by employees working on the NGMO Program are reimbursed by the federal government based on the FFP rate for the related facility as outlined in the federal "Facilities Inventory and Support Plan (FISP) and/or appendix.

The Fort Indiantown Gap (GAP) has numerous facilities covered in the FISP with varying FFP rates and accounts for the largest portion of personnel costs charged to the NGMO program. The costs for the employees involved in maintaining and repairing these facilities at the GAP are allocated to the different facilities using the State Reservation Maintenance Work Order (WO) System. This system is used by DMVA to track the employees' time by facility and an after-the-fact adjustment is required to be made at the end of each month in SAP to redistribute the employees' costs, where applicable, to the facilities based on the actual hours charged.

In order to test the allowability of the personnel costs charged to the NGMO program for the year ended June 30, 2006, we selected a sample of 17 employees charging costs to the NGMO program, which included twelve employees whose personnel costs were subject to reallocation through the WO system. During the year ended June 30, 2006, DMVA incurred personnel costs of \$14,512,107 consisting of \$9,386,984 in salaries and wages and \$5,125,123 in fringe benefits. While our testing showed that the personnel costs were necessary and reasonable, we noted the following control weaknesses with respect to DMVA's charging of personnel costs:

- We noted that DMVA did not obtain the semi-annual certification for any personnel costs charged 100% to the NGMO program as required by OMB Circular A-87. This certification documents that the respective employee worked solely on the NGMO Program for the period covered by the certification. Although employee job descriptions and auditor interviews supported the allowability of the current-year employee activities and related charges to NGMO, the missing semi-annual certifications required by OMB A-87 represents an overall internal control weakness in DMVA's documentation procedures supporting all of its personnel charges to the NGMO program.
- For state employees hired specifically for a federally funded position under the NGMO program, the federal government determines the maximum number and types of employees required under each grant. Each employee position is authorized by a federal program manager through the completion of a "Request Approval to Create and Announce a Federally Funded State Employee Position" DMVA-AS-MCA Form 1. For 7 of the 12 employees in our sample that were hired for these federally funded positions, DMVA was unable to locate the required form. Through a review of the job description, we were able to determine that the type of work being performed by each of the 7 employees appeared to be authorized under the applicable appendix.
- In addition to the weaknesses noted above, the following weaknesses were noted that are specific to the WO system used to redistribute the personnel costs for maintenance and repair employees at the GAP:
  - Each maintenance and repair employee at the GAP completes a manual weekly "Labor and Equipment Sheet". This sheet lists the date, total hours, work order# and facility# and is signed by the employee. However, we noted that DMVA has no formal procedures in place to require a supervisory review and approval of these sheets to ensure that the information provided by the employee is complete and accurate. For five of the 12 employees who were required to complete these time sheets in our sample, we noted that there was no evidence of a supervisory review and approval of the timesheets.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 20: (continued)**

- The information from the employees' "Labor and Equipment Sheets" mentioned above is manually entered into the WO system by a clerical employee. However, there are no formal automated or manual controls in place to ensure that the data input is complete and accurate and that the related allocations by work order and facility are proper.
- For eleven of the twelve employees included in our sample, whose costs were subject to reallocation through the WO system, we noted significant time lags between the date the employee's payroll information was entered into the WO system and the date the monthly WO adjustment was posted in SAP to reallocate the employee's payroll costs. The time lags for these eleven employees ranged from two to five months. Although these monthly adjustments were not made on a timely basis for these eleven employees, we did note that DMVA had procedures in place to ensure that all WO adjustments for the year under audit were posted to SAP as of year end except for the June 2006 adjustment, which posted after year end. This one month lag is consistent with the prior year time lag and the net effect on the current year SEFA is \$3,517 which is not material to the NGMO program.
- Several weaknesses in the information technology controls were also noted in connection with this WO system. Through our walkthrough of DMVA's information technology processes, application change management and user administration, we noted that a formal application change process has not been implemented including documentation requirements of change request authorization, testing, and approval. Additionally, separate application environments have not been established to perform development and testing activities prior to implementation of the change in the application production environment. Further, documentation is not created/retained for the addition of users to the WO system nor are functional limitations applied to application users. There were only 12 users in the application but more sensitive functions (i.e. change in SAP pay rates used in WO system) were not restricted.

This WO system is also used to allocate materials used by the repair and maintenance employees among the various facilities. Therefore, these weaknesses noted above would also affect the material costs charged to the NGMO program through the WO which totaled \$689,704 during the year ended June 30, 2006.

As part of our audit, we also reviewed reports issued by other auditors during our audit period in order to determine the impact on the NGMO program. We noted that the Commonwealth's Bureau of Payroll Operations (BCPO) conducted a performance audit of DMVA that included an examination of SAP attendance and absence data, personnel actions, payroll expense postings and payroll related employment practices, including applicable supporting documentation. The report covered the period from October 1, 2004 through September 30, 2005. Based on our review of this report, we noted certain control weaknesses cited in the report which existed during our audit period SFYE 6/30/06 and, although no NGMO personnel costs were specifically identified as unallowable, we consider them to be significant to the NGMO program as follows:

- DMVA does not have adequate procedures in place to detect employees who have separated or who are absent without pay and continue to remain on the payroll.
- DMVA did not follow established Commonwealth and agency policies and procedures for personnel management and administration. Specifically, DMVA did not have adequate supporting documentation for employee absences and hours reported in SAP, supporting documentation did not agree to the hours charged in SAP and forms for employee absences were not properly signed or dated.
- DMVA is not utilizing the available SAP internal HR/payroll exception reports to monitor agency activities. The other auditors indicated that the use of these reports by DMVA could have detected certain of the errors noted during their audit.
- DMVA did not have a formal segregation of duties policy regarding transactional responsibilities for related parties.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 20: (continued)

**Criteria:** OMB A-87, Attachment B, Section 8(h) pertaining to the support for salaries and wages states, in part:

- (3) *Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.*

The ITIL (IT Infrastructure Library) provides a framework of “best practice” guidance for IT Service Management and is the most widely used and accepted approach to IT Service Management in the world. According to this framework, there are several best practices which should be in place to manage Service Delivery, Application Management, Security Management and Infrastructure Management.

The CobIT (Control Objective for Information Technology) published by the IT Governance Institute serves as a framework for IT governance, control and assurance. CobIT provides a set of 34 high-level control objectives, one for each of the IT processes, grouped into these four domains: planning and organization; acquisition and implementation; deliver and support; and monitoring.

Both of these framework documents listed above (ITIL and CobIT) provide specific criteria which, if followed, would resolve the information technology weaknesses cited in the condition.

In addition, good internal controls over personnel costs would include procedures to ensure that adequate documentation is maintained in each personnel file to support the authorization of the employee’s federally funded position, that the input used for the redistribution of these costs through the WO system is subject to supervisory review and approval, that the input is consistent with the output and that adjustments are posted in a timely manner to SAP.

**Cause:** DMVA indicated that they were not aware of the semi-annual certification requirement under OMB A-87 for employees charged 100% to the NGMO program. Regarding the forms authorizing the federally funded positions created for state employees, DMVA indicated that these forms are not placed in an employee’s personnel file upon hiring. Since these forms are authorizations to create or fill a certain position, the forms are difficult to locate for a particular individual once the individual has been hired.

With respect to the WO system, DMVA indicated that an overall review of the monthly adjustment is performed for reasonableness but based on our discussions with DMVA, this review is not adequate and is not documented. Additionally, DMVA does not have any formal procedures in place to ensure that all timesheets input into the WO system are reviewed and approved by the employee’s supervisor. Regarding the time lags in the postings of the WO adjustments to SAP during the year under audit, DMVA indicated that this was a result of a heavy workload by DMVA staff. Further, during the development of the WO system, documentation requirements were not established to provide adequate controls over change management and logical access processes.

**Effect:** Although our audit determined that personnel costs charged to the NGMO program in our sample were allowable, the lack of the semi-annual certifications for 100 percent charged employees and the lack of the forms authorizing the federally funded state employee positions, represent significant deficiencies in the required documentation to demonstrate the allowability of costs under OMB A-87. Further, without strengthened internal controls over this supporting documentation and over the reallocation of employee costs through the WO system, unallowable costs may be charged by DMVA to the NGMO program in the future.

**Recommendation:** DMVA should establish procedures to develop the federally-required semi-annual certification for all employees being charged 100% to the NGMO program. We also recommend that DMVA include a copy of the “Request Approval to Create and Announce a Federally Funded State Employee Position” form in each employee’s personnel file upon hiring to support the federal authorization and charging of the employee’s costs to the NGMO Program. Additionally, DMVA should implement formal procedures for the supervisory review and approval of the

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 20: (continued)**

“Labor and Equipment Sheets” completed by the maintenance and repair employees to ensure the data, which is the source for the reallocations performed in WO, is accurate and complete. Further, DMVA should also implement procedures to ensure that the input of payroll information from these Labor and Equipment Sheets into the WO system is consistent with the generated output and that the monthly WO adjustments are posted to SAP in a timely manner.

With respect to the weaknesses in the information technology controls, we recommend that DMVA implement and document a change management process that incorporates requirements for necessary documentation to evidence compliance with the established process. Additionally, DMVA should implement test and/or development environments for the WO system and separate the development access to the production environment as appropriate. Further, DMVA should implement procedures for the documentation and retention requirements for new user requests for the WO system and build functionality limitations into the application.

Finally, we recommend that DMVA fully implement the corrective action outlined in their response to the findings contained in the BCPO report noted in the condition.

**Agency Response:** The Department of Military and Veterans Affairs is in agreement that there is a need for improvement with regard to internal control over charging of personnel costs to federal grants. The Department will begin working on a corrective action plan immediately.

With regard to the Commonwealth’s Bureau of Payroll Operations performance audit for the period October 1, 2004 through September 30, 2005, the Department has fully implemented corrective action plans for each finding.

**Auditors’ Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 21:**

#### **CFDA #14.228 – Community Development Block Grant**

#### **CFDA #14.239 – HOME Investment Partnerships Program**

#### **DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (A Similar Condition Was Noted in Prior Year Finding #05-8)**

**Condition:** DCED performs during-the-award monitoring of the CDBG and HOME subrecipients primarily through on-site visits, conducted on a cyclical basis. The subrecipients to be monitored in a given year are identified on a monitoring schedule along with the projects and specific compliance areas.

As part of our audits of the CDBG and HOME Programs, we performed procedures to determine if DCED's during-the-award monitoring procedures were adequate on-site. Based on our review of the DCED 2005-2006 Monitoring Schedule, we noted that a total of 71 CDBG subrecipients and 47 HOME subrecipients were scheduled for on-site visits. However, our inquiry revealed that on-site visits were completed for 32 CDBG subrecipients and 11 HOME subrecipients. Accordingly, DCED only completed 45 percent and 23 percent of the on-site visits scheduled for the CDBG and HOME Programs, respectively. Further, the results of our testing within the CDBG and HOME Programs disclosed that for one (CDBG) of the 20 subrecipients selected from the DCED schedules of subrecipients DCED claimed to have monitored, the on-site monitoring report was not yet completed. Therefore, DCED's during-the-award monitoring of its subrecipients was not adequate to provide reasonable assurance of the subrecipients' compliance with federal regulations.

During the year ended June 30, 2006, DCED reported subrecipient expenditures for the CDBG and HOME Programs of \$57,101,534 and \$16,490,384, respectively. These expenditures represented approximately 98 percent of the total CDBG program expenditures and 96 percent of the total HOME program expenditures. There were a total of 325 and 127 subrecipients with current year expenditures for the CDBG and HOME Programs, respectively.

Within our testing of A-133 subrecipient audits, we found a material amount of subrecipients under both the CDBG and HOME programs received less than \$500,000 during SFYE June 30, 2005 and would not have been required to submit an A-133 Single Audit to the Commonwealth during SFYE June 30, 2006. As a result, we consider inadequate during-the-award monitoring noted above to be a material weakness in each program.

In addition, DCED only closed out 9 HOME subrecipient projects during SFYE June 30, 2006, 5 projects during SFYE June 30, 2005, and 2 projects during SFYE June 30, 2004, compared to 47 and 79 projects closed out during prior SFYE June 30, 2003 and June 30, 2002, respectively. Also, DCED only closed out 39 CDBG subrecipient projects during SFYE June 30, 2006 compared to 61 projects closed out during SFYE June 30, 2005. DCED cannot closeout the projects until monitoring is performed.

Our prior year finding disclosed that DCED does not perform on-site monitoring for Community Housing Development Organization (CHDO) operating grants. DCED stated that their procedures for reviewing CHDO operating grants include: 1) Review of initial application to ensure all costs are allowable; 2) Review of Fiscal Status Report submitted at contract closeout by the subgrantee to ensure that all costs are recorded as CHDO operating expenditures; and 3) Obtain and review a single audit if required to be submitted by the subgrantee. Effective January 29, 2002, DCED implemented additional procedures which require CHDO's to provide additional documentation at closeout which was to be reviewed by DCED for compliance with HOME regulations and eligibility of operating costs. Additional documentation should include CHDO's total operating costs for the fiscal year, two expenditure invoices each from categories of travel, training, and equipment purchases, and evidence that a housing project is completed or underway. In May 2003, HUD reviewed DCED's CHDO operating grant monitoring procedures and approved the procedures that DCED implemented on January 29, 2002, with the exception that DCED should require CHDOs to submit a complete list of expenditure invoices and DCED should select which invoices are to be reviewed. However, our prior year audit disclosed DCED did not obtain a complete list of expenditures for the entire closed operating grants and did not select a sample of invoices to be reviewed from this entire population of expenditures for the grant as specified in the procedures approved by HUD in May 2003. None of the nine HOME projects closed out during SFYE June 30, 2006 noted above were CHDO operating grants, and therefore, we were unable to evaluate any DCED corrective action in response to our prior year finding.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 21: (continued)

During SFYE June 30, 2006, CHDO operating grants were \$345,795, or 2.0 percent of total DCED HOME program expenditures of \$17,182,314.

Furthermore, during SFYE June 30, 2005 HUD OIG performed an audit of the Commonwealth's HOME Program for the purpose of determining whether the Commonwealth was adequately monitoring subrecipients to ensure HOME funds are expended on allowable HOME activities and whether the Commonwealth was properly allocating staff time for administration of the program. The HUD OIG audit report contained 2 findings with a combined 11 recommendations. HUD OIG concluded that the Commonwealth is not adequately monitoring its subrecipients to ensure HOME funds are expended on eligible HOME activities and is improperly allocating its staff's time for the administration of the HOME Program. In addition, HUD performed a monitoring review of the Commonwealth's HOME Program on June 20 through 24, 2005. The focus of this review was the Commonwealth's responsibility for managing the day-to-day operations of the HOME Program. HUD concluded that the Commonwealth failed to demonstrate it has adequate oversight of the day-to-day operations of the HOME Program. This evaluation resulted in one finding for which corrective action is required. Problems disclosed in the findings reported by HUD OIG and HUD existed during our audit period SFYE June 30, 2006, and resolution to these findings between DCED and HUD remain ongoing through our testing date.

**Criteria:** Regarding subrecipient monitoring, 24 CFR Section 85.40 (a) states:

*Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.*

The OMB Circular A-133 Compliance Supplement Part 3, M. Subrecipient Monitoring, states:

*During-the-Award Monitoring-Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*

In addition, HUD stated that the CHDO should provide a listing by category, by vendor, by invoice with cost and purpose, and DCED should choose the invoices with supporting documentation to be provided.

**Cause:** DCED indicated that staffing shortages prevented DCED from completing all of the on-site visits that were scheduled in their monitoring cycle. Further, DCED indicated that the on-site visits that were not completed on the 2005-2006 Monitoring Schedule will be added to the 2006-2007 Monitoring Schedule. Due to monitoring not being completed, DCED could not closeout the subrecipient projects.

**Effect:** DCED did not adequately perform during-the-award monitoring of the CDBG and HOME subrecipients to ensure compliance with federal regulations. Further, both the CDBG and HOME Programs have a material amount of subrecipient expenditures each year that are not subject to the audit requirements of OMB Circular A-133. Therefore, the timely completion of these on-site visits is vital in providing DCED with reasonable assurance that the program's subrecipients are complying with federal regulations and that DCED is fulfilling its responsibilities under OMB Circular A-133 with respect to subrecipient monitoring. In addition, DCED will accumulate a large backlog of subrecipient projects to be closed out.

**Recommendation:** We recommend that DCED ensure that all on-site visits are completed within the scheduled monitoring cycle to provide reasonable assurance that subrecipients are complying with federal regulations and subrecipient projects get closed out in a timely manner. In addition, we recommend that DCED strengthen its monitoring of CHDO operating grants by implementing the procedures approved by HUD in May 2003. Furthermore, DCED should implement corrective action to resolve the findings reported by the HUD OIG audit and the HUD monitoring review.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 21: (continued)**

**Agency Response:** Over the past several years, there have been a significant number of retirements, delays in the process, unanticipated early resignations by some of the new hires, and the learning cycle for new staff to gain the experience, which have collectively contributed to not being able to fully accomplish our monitoring goals over this period. During the past year, the existing staff have been called upon to fill the gaps where possible. The staffing events of the past few years have been unusual and while staffing changes could certainly occur in the future, they should not be as significant. Moreover, we anticipate being able to absorb those changes without as great a disruption.

DCED, in the hiring of several vacant positions, will seek to add monitoring support responsibilities to the new hires in order to meet our subrecipient monitoring responsibilities. In addition, DCED has entered into a MOU relationship with the Labor, Education and Community Services Comptroller's Office to provide limited financial management reviews of CDBG and HOME grantees. The Comptroller's Office was involved with about 25 reviews, 3 involved HOME program contracts, this past year and will probably be doing a similar number next year.

The monitoring schedule for 2006-07 was again an aggressive one which attempted to build in all the monitoring not accomplished in the previous three years; the number of monitoring visits completed was less than a normal year's schedule. During the 2007-08 schedule, which is an aggressive schedule, it is expected to come close to fully completing this schedule since we are once again fully staffed with five Grant Managers. Monitoring will be the priority task for the Grant Managers.

We will continue to implement the revised closeout instructions for CHDO Operating grants and expect to see this process fully met in the future. In addition, contract closeouts will also be a priority and we anticipate completing a significantly greater number of closeouts for both CDBG and HOME contracts over the next 12 months.

DCED submitted a response to HUD to address and close the HUD OIG Audit and Program Monitoring. During 2006 and 2007, DCED received and will continue to receive training and technical assistance from Dennison Associates, a HUD TA Provider, on shoring up our staff's understanding of the HOME Program as well as our recordkeeping and monitoring process of our sub recipients.

DCED will also be working with Dennison Associates to develop a tracking system which should simplify the development of monitoring schedules and provide a system to more closely monitor the staff's progress and accomplishments in the monitoring schedules.

**Auditors' Conclusion:** Based on the agency response, our finding and recommendations remain as previously stated. Based on the numerous unresolved findings mentioned above in the prior-year HUD audit and review of the HOME Program, and the potential for noncompliance and/or fraud noted in both the HOME and CDBG Programs at the subrecipient level, DCED needs to work closely with HUD to improve its monitoring of subrecipients in a number of areas in the future.

Based on HUD's results, these areas include: reviewing potential conflicts of interest at the local level, improving local self-assessment procedures and documentation, and employing a sufficient number of staff and fully utilizing available HOME administrative funds to improve DCED's program oversight. In addition, HUD is also recommending improvements in DCED's on-site monitoring documents to better support the extent of its review and verification process, improve explanations supporting DCED conclusions, better track subrecipient monitoring correspondence and follow up, improve DCED verification of subrecipient program income, obtain more timely and pertinent information on subrecipient compliance and performance, and improve the overall grant closeout process and related documentation.

Furthermore, since DCED is working closely with HUD to resolve the findings in HUD's reports, DCED's internal controls over its subrecipients are in the process of changing. We will audit these ongoing program changes, as mandated by HUD, in future Single Audits.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 22:**

**CFDA #16.007 – State Domestic Preparedness Equipment Support Program**

**CFDA #97.004 – State Domestic Preparedness Equipment Support Program**

**CFDA #97.067 – Homeland Security Grant Program**

### **Internal Control Weaknesses and Noncompliance in PEMA’s Subrecipient Monitoring (A Similar Condition Was Noted in Prior Year Finding #05-11)**

**Condition:** Under the HS Cluster, PEMA purchases specialized emergency response equipment primarily on behalf of nine local task forces (subrecipients) and other state agencies using grant funds provided by U.S. Department of Homeland Security’s Office of Domestic Preparedness (ODP) to enhance their capabilities and increase their preparedness to respond to acts of terrorism. Each local task force has a lead county which serves as the fiscal agent for the task force. The purchases made on behalf of the local task forces are based on detailed lists prepared by the task forces and submitted to PEMA. Further, these purchases are considered non-cash assistance to the task forces and, therefore, are required to be included on their SEFAs, and audited in accordance with OMB Circular A-133.

PEMA also uses ODP grant funds to reimburse the local task forces for counter-terrorism training, planning, and exercise needs as well as costs associated with increased security measures at critical infrastructure sites. Additionally, PEMA reimburses the 67 counties for personnel and benefit costs under the Emergency Management Performance Program which is part of the 2005 Homeland Security Grant Program (HSGP).

In order to test the allowability of the HS Cluster program expenditures, we randomly selected a sample of 47 payments for purchases by PEMA (primarily equipment and related items), consisting of 35 payments for nine local task forces, 2 payments for a non-task force subrecipient and 10 payments for other state agencies during the year ended June 30, 2006. Additionally, we selected a sample of 13 cash payments to the local task forces and other subrecipients during the year ended June 30, 2006.

While our current year testing showed that cash payments to the subrecipients and equipment purchases made by PEMA on behalf of the subrecipients and other state agencies were necessary and reasonable, our prior year audit disclosed control weaknesses and noncompliance with respect to PEMA’s monitoring of the nine local task forces. Our follow up for the current year disclosed similar weaknesses existed through the audit period. Specifically, we noted the following:

- PEMA does not have formal procedures in place to review the detailed equipment lists submitted by the subrecipients to ensure the items being requested are included on the federal government’s authorized list of allowable equipment under the grant agreement and address the subrecipient’s actual needs. Further, our testing of equipment purchases by PEMA revealed that for 15 of the 47 purchases in our sample, PEMA did not have a properly signed receiving report on file to support the receipt of the equipment by the designated location within the task force’s region as required under the contract with each task force. We also noted that PEMA did not have a properly signed receiving report on file for an additional three non-task force purchases in our sample. Since PEMA was able to subsequently obtain supporting documentation and confirm the receipt of the equipment by the task forces, subrecipients, and other state agencies for these sampled items as a result of our audit, no costs are questioned. Additionally, we noted that receipts of equipment and related items are in certain cases being entered into SAP and paid by PEMA based only on verbal confirmation of receipt from the subrecipient or other state agency, and that PEMA is not following up to ensure they obtain all the signed receiving documents.
- PEMA does not conduct any on-site visits within the area served by each task force or have any other means to ensure that the equipment purchased is at the proper location and is being used for its intended purpose.
- For grants beginning in federal fiscal year 2003, the contract with each local task force requires submission of a semi-annual “interim performance report” to PEMA to document the status of the task force’s terrorism planning, training, program administration and exercise activities. Although our testing revealed that these reports were properly submitted by the task forces during the year under audit, our conversations with PEMA personnel revealed that PEMA does not review the information on these reports to monitor the task force’s activities.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 22: (continued)

- Our testing of PEMA's contracting with the subrecipients revealed that PEMA is not communicating award information such as CFDA name and CFDA number for non-cash assistance to these subrecipients as required by federal regulations. With respect to the lack of award communication to the task forces, PEMA has determined that the lead counties for each task force are the subrecipients for all pass-through awards of non-cash assistance. Since the majority of federal assistance covered under these contracts with the task forces is in the form of non-cash assistance, this lack of award communication and designation of the lead counties as the subrecipients, increases the likelihood that these expenditures are not being properly reported by the lead counties or by the ultimate recipient of the equipment on their respective SEFAs. Further, there is limited assurance that the equipment delivered to the entities within the task force region is being audited for compliance, including the compliance requirements under Requirement F in the A-133 Compliance Supplement which address federal equipment management regulations. During our current year review of A-133 subrecipient audit reports for the HS Cluster and through conversations with OB-BOA, we noted that the total expenditures reported on the SEFA for certain A-133 audit reports received by the Commonwealth from these lead counties did not agree to the expenditures recorded at the state level by PEMA or that no expenditures were reported on the SEFA by the lead county.

During the year under audit, the expenditures for these task forces reported on the SEFA totaled \$47,014,871 or 76 % of the total HS Cluster expenditures of \$62,108,513. A total of \$40,256,780 of the \$47,014,871 in expenditures to the task forces was in the form of non-cash assistance. Therefore, we consider the weaknesses and noncompliance to be material.

**Criteria:** The OMB A-133 Compliance Supplement Part 4, Section A. regarding Activities Allowed or Unallowed states:

#### 1. Activities Allowed-General

- a. Funds may be used to enhance the capability of State and local jurisdictions to prepare for and respond to terrorist acts including events of terrorism involving weapons of mass destruction and biological, nuclear, radiological, incendiary, chemical, and explosive devices. Allowable activities include purchase of needed equipment and provision of training and technical assistance to State and local responders.

Each grant agreement between DHS or ODJ and PEMA includes a detailed list by category of Allowable Equipment, Exercise, Training and Planning /Administrative Costs.

Additionally, the contract between PEMA and each task force includes the following provisions:

*The (name of the task force) agrees that, within the limits of the grant amount, it will submit a detailed list of ODP authorized equipment to PEMA no later than (specific date), so that the equipment may be purchased by PEMA for the use of the (name of the task force).*

*Upon receipt of the equipment list, PEMA will review the list to ensure that only ODP authorized equipment items are contained on the list. Following its review and approval, PEMA will, subject to cost limitations, purchase all of the approved equipment.*

Good internal control dictates that PEMA obtain proper detailed support for equipment purchases under the HS Cluster at the time of payment and properly maintain this supporting documentation on file.

The OMB Circular A-133 Compliance Supplement Part 3, M. Subrecipient Monitoring, states:

*A pass through entity is responsible for:*

*Award Identification: At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 22: (continued)**

*During-the-Award Monitoring-Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*

The contract between PEMA and each task force for all grants starting in federal fiscal year 2003 includes the following provision:

*The (name of the task force) agrees to submit interim performance reports to PEMA on or before June 1 and December 1 of each year to document the status of the (name of the task force) terrorism planning, training, program administration and exercise activities.*

**Cause:** We noted that DGS, which handles the purchasing function for all Homeland Security equipment and related items, performs a limited review of the equipment being requested by the subrecipient for reasonableness. However, DGS indicated that their review does not include more detailed procedures to ensure that the purchase is authorized under the applicable federal and subgrant agreements and addresses the actual needs of the subrecipient. Further, we were informed that the planners at PEMA are responsible for performing the review of the equipment lists submitted by the subrecipients to ensure the purchases are authorized under the federal and subgrant agreements. However, in discussions with the planners, we were informed that no such review was performed during the year under audit. Regarding the missing or unsigned receiving reports, PEMA indicated that in certain cases the receiving information is entered into SAP based on a verbal confirmation from the subrecipient or state agency and that they instruct the recipient to mail or fax the signed receiving report to PEMA. However, the required documentation is not being provided in many cases and no follow up is performed.

With respect to the performance reports, PEMA indicated that they are using these reports to prepare PEMA's required semi-annual reports to DHS, but they are not using them as a monitoring/assessment tool.

The lack of communication of award information to the subrecipients for non-cash assistance appears to have been an oversight when the contracts were initially executed since we noted that PEMA did adequately provide this communication to its other subrecipients expending cash assistance under the HS Cluster. This lack of award communication and PEMA's determination that the lead counties for each task force are the subrecipients for pass-through awards of non-cash assistance, appears to have contributed to this non-cash assistance not being properly reported on subrecipient SEFAs in A-133 audit reports.

**Effect:** PEMA did not have adequate procedures in place during the year under audit to perform during-the-award monitoring of the subrecipients to ensure compliance with federal regulations. Additionally, PEMA did not communicate the federal award information to the subrecipients for non-cash assistance during the year under audit and there is limited assurance, as evidenced by our review of certain A-133 subrecipient audit reports and discussions with OB-BOA, that this non-cash assistance is being properly reported and audited at the subrecipient level. As a result, PEMA is not fulfilling its responsibilities under OMB Circular A-133 with respect to subrecipient monitoring.

**Recommendation:** We recommend that PEMA establish formal procedures to review the list of equipment purchases being requested by each task force or other subrecipients to ensure all items being requested are authorized under the federal and subgrant agreements and address the needs of the subrecipient. Additionally, we recommend that PEMA establish a system to perform on-site visits of the areas served by the task forces or develop other means to ensure that the equipment is at the proper location and is being used for its intended purpose. With respect to reporting of this non-cash assistance at the state and subrecipient level, we recommend that PEMA contact DHS and determine if PEMA's treatment of these lead counties as subrecipients for pass-through awards of non-cash assistance is proper. Based on guidance provided by DHS, we further recommend that PEMA communicate the federal award information to the designated subrecipient for non-cash assistance awards. Finally, we recommend that, in conjunction with the performance of on-site visits, PEMA also review the information provided in the performance reports submitted by the task forces to monitor the status of the task forces' activities.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 22: (continued)**

**Agency Response:** The Pennsylvania Emergency Management Agency is in agreement that there is a need for improvement with regard to internal control over equipment and subrecipient reporting. The Department will begin working on a corrective action plan immediately. Regarding our prior year audit control weaknesses, our corrective action plan will address all open audit issues.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 23:

#### CFDA #17.207, 17.801, and 17.804 – Employment Service Cluster

#### CFDA #17.225 – Unemployment Insurance

#### CFDA #17.245 – Trade Adjustment Assistance

#### Weaknesses Exist in the SAP FARS Replacement System Resulting in Questioned Costs of \$1,023,100 (A Similar Condition Was Noted in Prior Year Finding #05-12)

**Condition:** For the State Fiscal Year ended June 30, 2006, approximately \$15.6 million was allocated to the ES Program Cluster through the SAP FARS replacement cost allocation system, representing over 33 percent of ES Cluster costs of \$46.9 million reported on the current SEFA. These costs were required to be allocated to the ES Cluster in accordance with L&I's Cost Allocation Plan (CAP) submitted to and approved by USDOL. Three categories of costs were allocated through this system: Cost Center Overhead (CC O/H), Administrative Staff and Technical (AS&T) charges, and Allocated Leave for employees. As a result of our current year testing, we noted several weaknesses pertaining to this system as follows:

- Of the total costs allocated to the ES Cluster through the SAP FARS replacement system, \$762,750 (Federal Grant Nos. E-9-5-5-5052 and ES-14019-04-55) was recorded under G/L account number 6900930, "Grant Historical Expenditure Reclass for FARS". This G/L account was established to transfer costs from the old FARS system into the SAP system when the new SAP FARS replacement system was placed into operation several years ago. Our inquiries of LECS personnel disclosed that these transactions appeared to be adjusting transactions from a prior audit period, but LECS personnel could not provide any documentation to support the allowability of these amounts. Further, we noted an additional \$209,608 (Federal Grant No. UI-14457-05-55) charged to the Unemployment Insurance Program and \$50,742 (Federal Grant Nos. TA-13517-04-55 and TA-14402-05-55) charged to the Trade Adjustment Assistance - Workers Program for similar types of costs during the audit period.
- During our prior year audit, we noted that neither IES nor the LECS Comptroller's Office had written policies or procedures in place to ensure that costs for all major federal programs were properly allocated each month by reviewing and reconciling the allocations to ensure they were complete and correct, or for correcting any allocations that were incorrectly calculated. Our follow-up in the current year disclosed that a similar weakness existed for the fiscal year ended June 30, 2006.
- Our testing associated with the SAP GA-14 Report disclosed that Allocated Leave is not reported separately on this report. Since the leave allocation is a separate process within the SAP FARS replacement system, these costs should be reported separately on the GA-14 Report.

The above weaknesses in the SAP FARS Replacement System also affect the UI and TAA programs at L&I, since these major programs also include similar costs charged through this same cost allocation system. It should be noted that we only detail tested costs allocated to the ES Cluster due to their major significance (i.e., 33 percent) in relation to total ES Cluster expenditures as a whole. We did not include these other major programs in our testing since allocated costs in these other programs constitute an immaterial percentage of these programs as a whole.

**Criteria:** 29 CFR 97, Subpart C states:

*97.20 Standards for financial management systems.*

*(a) A state must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and procedures of the State, as well as its sub grantees and cost-type contractors, must be sufficient to –*

*(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 23: (continued)

(3) *Internal control. Effective control and accountability must be maintained for all grant and sub grant cash, real and personal property, and other assets....*

With respect to record retention, 29 CFR 97.42 states:

(b) *Length of Retention Period. (1) Except as otherwise provided, records must be retained for three years from the starting date...*

In addition, OMB Circular A-87, Attachment A, Section C.1., regarding the factors affecting allowability of costs states in part:

a. *Be necessary and reasonable for proper and efficient performance and administration of Federal awards.*

j. *Be adequately documented.*

**Cause:** With respect to the costs recorded under G/L account number 6900930, LECS personnel researched these transactions but could not provide us with any documentation supporting the allowability of these costs. LECS personnel could not explain why this documentation was not available. Regarding the monthly reconciliation process, LECS and IES personnel indicated that no formal policies or procedures were implemented during our audit period. However, LECS personnel indicated that they performed some informal reconciliations, but these reconciliations were not documented and, therefore, could not be audited.

Regarding the leave amounts on the GA-14 Report, IES personnel indicated that they requested a change to this report and the change should be made in the subsequent audit period.

**Effect:** Since no documentation was available to support the \$1,023,100 of costs under G/L account number 6900930 in the ES Cluster, UI and TAA programs, these costs are questioned as unallowable. In addition, although the allocation process for individual charges appeared to be working correctly based on our current year testing, without a formal monthly review and reconciliation process, and without separate tracking of allocated leave on the GA-14 Report, there is limited assurance that the allocation process will function correctly in the future.

**Recommendation:** L&I and LECS Comptroller's Office should pursue appropriate settlement with the federal government for the questioned costs of \$1,023,100 as noted in the condition above.

Further, the LECS Comptroller's Office and/or IES should perform reconciliation procedures and/or review reports to ensure that costs for all major federal programs have been properly allocated each month. These reports should be reviewed by supervisory personnel, and reasonable evidence of that review should be retained as support.

IES should ensure that Allocated Leave is separately reported on the GA-14 Report since it is a separate component of the allocation process.

**Agency Response:** Regarding the transactions that occurred under the G/L account number 6900930, it is as stated that these encompassed adjusting transactions from a prior audit period. They were not new costs – rather they were a fix of old cost, i.e., transactions that had already been processed in the system. However, source documentation supporting the adjustment was not maintained.

Policies and procedures do exist for allocation processing and have been submitted both to the auditors and to USDOL as part of our corrective action plan for the previous year's corrective action plan. However, the auditors are correct in that formalized written procedures do not yet exist for the reconciliation. The SAP GA-14 Report is currently the tool that acts as a catalyst to check for completeness of allocation of expenses for both the CCOH and AS&T cost centers. These reports are produced monthly and reviewed in meetings on a weekly basis by IES and Comptroller's Staff to determine accuracy and to randomly test various aspects. Corrections, improvements and enhancements are continuously being developed as a result of these reviews. The reports themselves are then maintained by IES as are the reviews and notes from the meetings.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 23: (continued)**

Lastly, regarding the leave allocation portion, it is a separate process and does not fall entirely under the same fund where the CCOH and AS&T allocations occur. The portion of the Leave Allocation that does impact the FARS fund is currently in development to be incorporated to be part of the GA-14 Report as a separate column.

**Auditors' Conclusion:** As a result of our audit inquiries, LECS personnel indicated that during our audit period, formal reconciliation procedures were not developed nor was there documentation (i.e., sign-offs) maintained as proof that the reconciliations were performed or to document when the reconciliations were actually performed. Any changes or improvements made after our audit period will be reviewed as part of our subsequent audit. Therefore, the finding and recommendation remain as previously stated.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 24:

#### CFDA #17.245 – Trade Adjustment Assistance

##### Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (A Similar Condition Was Noted in Prior Year Finding #05-15)

**Condition:** L&I is required to submit an ETA 563 Report titled “Quarterly Determinations, Allowance and Reemployment Services Under the Trade Act,” to USDOL on a quarterly basis. The ETA 563 report provides information on eligibility determinations, income support payments, reemployment services and training. The data supplied on the ETA 563 is used by USDOL to measure the effectiveness of the TAA and NAFTA-TAA programs in helping adversely affected workers adjust and find new employment.

Each quarter, L&I submits the ETA 563 in electronic format to USDOL. The submission includes a row for each certified petition under regular TAA and NAFTA-TAA. Each row contains 37 data fields used to report both financial and statistical information by petition number; seven data fields include financial and 30 data fields include statistical information.

In order to test the accuracy of the information submitted to USDOL, we obtained the ETA 563 submitted for the quarter ended 6/30/06 for the TAA petitions. This report contained 980 petitions, many of which only had one or a minimal number of data fields completed. We judgmentally selected a sample of ten of the larger petitions with the most data submitted, and requested documentation to support the financial and statistical information reported by L&I in the 37 data fields for each petition. The petitions selected were #40757, #50123, #54465, #56260, #56418, #57039, #57434, #57549, #57723, and #58510. We haphazardly selected a sample of 40 individuals from the supporting documentation provided by L&I for the ten petitions in order to determine if the information for the individual was properly reported in each of the 37 data fields. Our testing of the ten petitions disclosed discrepancies for 22 of the 37 data fields as follows:

- For 11 of the 37 data fields, there were differences between the statistical information reported and the supporting documentation provided by L&I as follows:

Field	Total Number Reported for all Ten Petitions	Total Number Supported for all Ten Petitions	Difference
1a-Request for Determination of Entitlement	75	111	(36)
3a-First Basic Payment	92	108	(16)
4a-Weeks of Basic Paid	1505	1912	(407)
5a-Amount of Basic Paid	\$532,195	\$678,527	\$(146,332)
6a-Final Basic Payment Exhaustions	16	45	(29)
7a-Final Basic Payment, Eligibility Expired	7	8	(1)
2b-Number (Additional TRA) Determined Entitled	11	20	(9)
4b-Additional TRA Weeks Paid	568	735	(167)
5b-Amount of Additional TRA Paid	\$208,817	\$277,719	\$(68,902)
6b-Final Additional TRA Payment, Exhaustions	1	0	1
13-Overpayments Total Amount	\$11,024	0	\$11,024

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 24: (continued)

- For an additional 2 of the 37 data fields, there were differences between the statistical information reported and the supporting documentation provided by L&I as follows:

Field	Total Number Reported for Ten Petitions	Total Number Supported for Ten Petitions	Difference
2a-Number Determined Entitled	105	121	(16)
3b-First Payment of Additional TRA	1	0	1

Further, based on our sampling of 40 individuals from the supporting documentation, we noted additional discrepancies in the above data fields as follows:

For field 2a, we noted that three of the 40 individuals in our sample were improperly included as support for the field. Specifically, we noted that the determination of eligibility as documented on the ETA 8-57A was made for these three individuals in a different reporting quarter. Additionally, we noted that for five of the 40 individuals in our sample, the determination of eligibility was made in the reporting quarter and therefore these five individuals were improperly excluded as support for this field.

For field 3b, we noted that two of the 40 individuals in our sample should have been included as support for this field since both individuals received their first payment of additional TRA during the reporting quarter.

- For field 18, there were no discrepancies between the statistical information reported and the supporting documentation. However, we noted that one of the 40 individuals in our sample had a job referral during the reporting quarter and therefore should have been included as support for this field.
- For field 20, there were no discrepancies between the statistical information reported and the supporting documentation. However, we noted that two of the 40 individuals in our sample should have been included as support for this field since both individuals were Title III participants.
- For field 24, there were no discrepancies between the statistical information reported and the supporting documentation. However, we noted that two of the 40 individuals in our sample were not in training as of the end of the reporting quarter and therefore were improperly included as support for this field.
- For fields 27a, 27b, 28a, 28b, 29a and 29b, there were no discrepancies between the statistical information reported and the supporting documentation. However, we compared the reported amount in field 27b, 28b and 29b for all petitions on the 563 report to the amount in L&I's SAP accounting system for the reporting quarter. For field 27b-Training Related Cost-Amount of Benefits, our comparison indicated that the amount in SAP was lower than the reported amount by \$10,373,257. For field 28b-Job Search Allowance Amount, the 563 report total was \$463 lower than the amount reported in SAP. Also, for field 29b-Job Relocation Amount, the 563 report total was \$3,618 higher than the amount reported in SAP. Accordingly, it appears that the amounts reported in fields 27a-Training Related Costs-Number of Benefits, 28a-Job Search Allowance-Number of Benefits and 29a-Relocation- Number of Benefits for all petitions on the 563 report may not be accurate.

In addition to the data discrepancies noted above, we also noted the following weaknesses in reporting procedures:

- In the prior year, we noted that L&I did not appear to be using the proper definition in accumulating data for Field 16, "Applicants New". We also noted in the prior year that L&I did obtain clarification from USDOL on the definition that should be used in compiling information to report in this field. However, the program used to

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 24: (continued)

accumulate data for this field for the reports submitted during the year under audit was not based on this definition and therefore there is little assurance that the information in this field is accurate and complete. Further, we were unable to test the data in this field due to the uncertainty as to what individuals were required to be included.

- In the prior year, we also noted that the definition used by L&I to accumulate data for Field 17, “Applicants Active”, only included individuals who had an active ES registration and were TAA eligible. However, if an individual was in TAA training, had a waiver, or was receiving benefits but did not have an open ES registration, the individual was not included in this field which appeared to contradict the reporting instructions. Our current year follow up revealed that L&I used the same definition for this field on the current year reports and therefore this weakness has not been corrected.
- For two of the data fields, Field 8, “Disqualifications-EB Work Test” and Field 9-“Disqualifications-Training”, we noted that L&I reported zeros on the report for all petitions since L&I had no procedures in place to compile information for these fields.

In addition to our detail testing of the 563 report for the quarter ending June 30, 2006, we also performed a reconciliation of the total benefit payments on the four quarterly ETA 563 reports for the year ended June 30, 2006 to the total reported on the SEFA. Our testing revealed that the total benefit payments on the four quarterly 563 reports were \$4,336,041 less than the total benefit payments reported on the SEFA, which agreed to L&I’s accounting records, and L&I was unable to provide an explanation of the difference.

**Criteria:** 20 CFR 617.57 states:

- (a) *Recordkeeping. Each state agency will make and maintain records pertaining to the administration of the Act as the Secretary requires and will make all such records available for inspection, examination and audit by such Federal officials as the Secretary may designate or as may be required by law. Such recordkeeping will be adequate to support the reporting of TAA activity on reporting form ETA 563 approved under OMB control number 1205-0016.*

Part D, Chapter III of the ETA Handbook 315 on the Trade Adjustment Assistance Program provides the reporting instructions for ETA 563 and states in part:

2. *General Instructions. Each report is for reporting activity under a specified certified petition. A separate report is required for each certified petition under which services are provided.*
4. *Preparation of the Report. “Overview. The ETA 563 report has three basic types of data items—counts of people, counts of actions (TRA payments, job referrals, etc.), and dollar amounts. With few exceptions, the data items which report numbers of people are meant to be accurate counts of claimants under the petition number. Please be careful not to double-count people in these categories, i.e., do not include the same person more than once in any quarterly report or in reports for more than one quarter. Exceptions will be noted below where the item is discussed....”*

*“d. Section C, Reemployment Services (line 300). (1) Column 16 Applicants, New. Enter on line 300 the number of newly-registered applicants for reemployment services. Include previously registered applicants newly identified as TAA adversely affected workers.”*

*“d. Section C, Reemployment Services (line 300). (2) Column 17, Applicants, Active. Enter on line 300 the number of applicants in active status as of the end of the reporting period. Include applicants currently enrolled or participating in TAA approved training. Within one reporting period, there must be no double-counting of applicants. However, the same applicant(s) may remain active, and be reported as such, in more than one reporting period.”*

Training and Guidance Letter (TEGL) No. 6-03 regarding the revisions to the USDOL allocation process for disbursing TAA training and administration funds states:

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 24: (continued)

*Overview of Funding Process-ETA is adopting an annual process for disbursing TAA funds for training and associated administrative costs. The annual allocation process will utilize a set formula for distributing 75% of available TAA training funds. .... The factors that will be used in determining each state's share of the formula funds include prior year allocations of trade training funds and participant levels.*

*Program Reporting-The new funding process emphasizes the importance of accurate and timely reporting of program participant and expenditure data on the ETA 563 and SF 269. Reported data on these forms will take on increasing importance in determining the level of funds states may receive each year for serving trade affected workers. ....*

**Cause:** L&I indicated that the errors noted in the condition are primarily due to the use of so many different systems to accumulate information for this report. L&I could not explain the differences cited in the condition between the supporting documentation provided and the numbers or amounts reported. Also, the programming for certain data fields on the report is based on definitions that do not capture all individuals that should be included in the respective field. Further, L&I does not have adequate procedures in place to prevent the above errors and ensure the accuracy and completeness of amounts on the ETA 563 report submitted to USDOL. With respect to the difference between the total benefit payments reported on the 563 reports and the amount reported on the SEFA, L&I could not provide an explanation.

**Effect:** Based on the number of errors cited in the condition and the lack of supporting documentation for information on the ETA-563 for the quarter ended June 30, 2006, and based on the unreconciled difference between the total benefit payments reported on the 563 reports for the year and the SEFA, L&I did not comply with federal reporting requirements. L&I's procedures also provide limited assurance that the information submitted to USDOL on the ETA 563 is accurate and complete. Further, inaccuracies in the amounts reported on the ETA-563 could directly affect the future funding levels for TAA since the factors used in determining each state's share of formula funds include information reported on the ETA 563.

**Recommendation:** We understand that the 563 report was revised by USDOL effective 10/1/06, which eliminated certain data fields that were previously required to be included in the 563 reports submitted for the year under audit. Accordingly, L&I should modify their existing systems to ensure that information being provided for the data fields that have been retained in the 563 report is accurately accumulated and reported to USDOL. Further, we recommend that L&I review all data fields that categorize individuals based on definitions to ensure the criteria used is in accordance with the reporting instructions and federal program regulations. Further, we recommend that L&I store their data used to generate the quarterly 563 reports and ensure that the data can be retrieved in order to fully support the information being reported to the federal government. Also, L&I should ensure that amounts reported on the 563 reports agree to the accounting records supporting the SEFA.

### **Agency Response:**

#### **Differences in ETA-563 Data Items Related to TRA Benefit Payments**

The Department neither confirms nor disputes the audit findings relating to TRA-related data on the ETA-563 report. As the auditors note, the ETA-563 report has been revised effective with the 4<sup>th</sup> quarter of 2006. All of the TRA-related fields have been removed from the report except three data items related to first payment, weeks paid, and amount paid for Basic TRA, and three data items related to these same elements for Additional TRA.

The discrepancies in the number of weeks paid and the amounts paid for both Basic and Additional TRA are due, in part, to the manual process currently necessary to issue payments. To ensure accurate counts and amounts for these fields, weeks must be released for payment using specific codes. If not done correctly, Basic TRA weeks and amounts can be included in the data for Additional TRA, and vice versa.

The Department will notify appropriate staff of the importance of releasing TRA benefit payments using correct procedures to ensure the accuracy of the data reported.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 –24: (continued)**

#### Difference Between SEFA Amounts and ETA-563 TRA Amounts

The Department had implemented some modifications in the 4<sup>th</sup> Quarter of 2005 to data collection and reporting due to discrepancies contained in the preliminary findings for SFYE 6/30/2005. The Department had anticipated that these balances would more closely match the amounts provided in the SEFA report. A partial explanation for the difference continues to be that the ETA-563 amount is based on the check issue date, while the SEFA amount is based on the date the amount is posted. There is usually at least a one business day difference, but could be longer during a weekend or holiday break. When this occurs at the monthly or quarterly reporting dates, the amounts in the two reports will necessarily be different. The Department will further investigate reasons for the discrepancies or processing anomalies that may further account for the differences in the amounts, and provide the investigation results in the future.

#### Difference Between SAP Amounts and ETA-563 TAA Amounts

During the Fiscal Year in question, Pennsylvania had a large amount of NEG money that needed to be used. At ETA's urging, Pennsylvania fiscal staff "transferred" the costs of certain TAA training from the TAA fund accounts to the NEG accounts. This was done post-ETA-563 report generation. Therefore, the monies reported on the ETA-563 were expended from the TAA accounts at the time of the reports, and were only backed out later. ETA provided no guidance at the time of the transfer, or subsequently, regarding the necessity, or lack of necessity, in changing the associated training costs that had already been reported in the ETA-563. The ETA Handbook 315 guidance is unclear in this regard. The Department will seek guidance from ETA regarding their position.

Pennsylvania is using Common Measures to report TAA information to USDOL, so the proposed revisions regarding TAA (training, waivers, employment, etc.) are no longer reported via the ETA-563 Quarterly Report.

It should be noted that in a May 11, 2006 Determination Letter from the U.S. Department of Labor, that the Single Audit Finding #04-10 for SFYE 6/30/2004 was determined to be resolved after review of the additional corrective actions forwarded on March 28, 2006, as well as quarterly progress reports that are submitted for their review.

**Auditors' Conclusion:** As noted in the agency response, the initial submission of the revised ETA-563 report will be for the 4<sup>th</sup> quarter of 2006 (October 1, 2006 through December 31, 2006). Accordingly the changes mentioned in the agency response, including the elimination of numerous data fields on the report, were not effective during our audit period. We will consider these revisions to the report along with any corrective action in our subsequent audit.

Based on the agency response, the finding and recommendation, with the above clarification, remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 25:

#### CFDA #17.245 – Trade Adjustment Assistance

#### Unallowable Benefit Payments Result in Questioned Costs of \$638 (A Similar Condition Was Noted in Prior Year Finding #05-16)

**Condition:** As part of our testing of TAA program expenditures, we randomly selected 45 Trade Readjustment Assistance (TRA) weekly benefit payments made to claimants during SFYE June 30, 2006 and determined whether claimants were eligible for TRA and whether they received the correct benefit amount. Our testing disclosed the following overpayments:

- For one of the claimants in our sample (Claimant A), the individual became eligible for a new UI claim on 6/26/05. However, the individual improperly received TRA benefits for the check week ending (CWE) dates of 7/2/05, 7/9/05, 7/16/05 and 7/23/05. L&I identified the TRA overpayments for all four weeks in question and subsequently applied three of the TRA overpayments (including the benefit payment in our sample for CWE 7/9/05) to the UC benefits payable for the same weeks. However, for the TRA payment for the CWE date of 7/2/05, L&I did not recoup the overpayment through UI and therefore, the amount of \$341 is ineligible and questioned. Further, although L&I properly recouped three of the TRA overpayments through UI totaling \$1,023, an adjustment of only \$140 was made by L&I to the 026 Fund cashbooks. Accordingly, the cashbooks were not properly adjusted to reflect these three overpayments. Since the cashbooks are the source for the benefit payments reported on the SEFA, the SEFA is overstated by a total of \$883.
- The amount of the TRA weekly benefit amount (WBA), including the dependent's allowance, is required to equal the UI WBA most recently payable following the individual's first qualifying separation. For four of the claimants in our sample (Claimants B, C, D and E), the UI WBA following the claimant's initial separation was subsequently reduced by 2.3% effective 1/1/05 due to a change in the UC regulations. However, the TRA WBA, which was also reduced by L&I effective 1/1/05, did not agree to the adjusted UI WBA. For each of these four claimants, the adjusted TRA WBA was \$1 higher than the adjusted UI WBA. As a result, there are questioned costs for these four claimants totaling \$153. The amount of questioned costs for each claimant is equal to \$1 times the number of weekly TRA benefits received by the claimant during the period under audit as shown below.
- For one of the claimants in our sample (Claimant F), the UI WBA following the claimant's initial separation was subsequently reduced to \$304 effective 1/1/05 due to the change in the UC regulations discussed above. However, the TRA WBA of \$312 was not reduced by L&I. Accordingly, a total of \$8 of each TRA WBA received by the claimant during the year under audit is ineligible resulting in total questioned costs of \$144 as shown below.

Therefore, the total amount questioned from the above overpayments (Federal Grant No. UI-14457-QO and UI-1543-TZ) is as follows:

Claimant	*Weekly Benefit Amount	Weeks in Question	Weekly Benefit Amount Overpaid	**Total Questioned Costs
A	\$341	1	\$341	\$341
B	472	26	1	26
C	425	52	1	52
D	472	25	1	25
E	257	50	1	50
F	312	18	8	144
			Total	<u>\$638</u>

\* Includes dependent's allowance if applicable.

\*\*Calculated as Weeks in Question x the Weekly Benefit Amount Overpaid

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 25: (continued)

For Claimant B, the 26 payments under the weeks in question are for the check week ending dates of 9/17/05 through 3/11/06 and include the benefit payment in our sample for check week ending date of 10/8/05. For Claimant C, the 52 payments under the weeks in question are for the check week ending dates of 7/2/05 through 6/24/06 and include the benefit payment in our sample for check week ending date of 1/7/06. For Claimant D, the 25 payments under the weeks in question are for the check week ending dates of 9/17/05 through 3/4/06 and include the benefit payment in our sample for check week ending date of 2/18/06. For Claimant E, the 50 payments under the weeks in question are for the check week ending dates of 7/16/05 through 6/24/06 and include the benefit payments in our sample for check week ending date of 5/6/06 and 5/27/06. For Claimant F, the 18 payments under the weeks in question are for the check week ending dates of 2/25/06 through 6/24/06 and include the benefit payment in our sample for the check week ending date of 2/25/06.

In our testing of TRA benefit payments, we also noted incorrect underpayments of benefit amounts. For one of the 45 claimants in our sample (Claimant G), the TRA WBA of \$235 was based on the UI WBA for the most recent qualifying separation date versus the UI WBA for the first qualifying separation date of \$272. As a result, the claimant was underpaid TRA for 48 weeks during our audit period for a total underpayment of \$1,776. The 48 weeks includes the benefit payment in our sample for check week ending date of 5/27/06.

The total amount of the 45 benefit payments tested was \$16,426 which consisted of 25 payments for basic TRA totaling \$9,393 and 20 payments for additional TRA benefits totaling \$7,033. The total TRA benefit payments made during the year were \$38,796,551. Based on the federal ETA-563 reports submitted for the year under audit, the TRA benefit total consisted of approximately \$25,331,946 for basic TRA and \$13,464,605 for additional TRA benefits.

### **Criteria:**

20 CFR 617.11(a)(2)(c)(v) states in part that:

*The individual must... (A) have exhausted all rights to any UI to which the individual was entitled and (B) not have an unexpired waiting period applicable to the individual for any such UI.*

20 CFR 617.13 (a) states in part that:

*Regular allowance-The amount of TRA payable for a week of total unemployment shall be an amount equal to the most recent weekly benefit amount of UI (including dependents' allowances) payable to the individual for a week of total unemployment preceding the individual's first exhaustion of UI following the individual's first qualifying separation.....*

The following UC Benefit Announcement was posted on the PA Labor & Industry Internet:

*The PA UC Law contains provisions that automatically adjust benefit payments when the balance in the Unemployment Compensation Trust fund is low. The balance in the Fund has declined to a level where benefit payments for any compensable week of unemployment that occurs on or after January 1, 2005 must be reduced by 2.3 percent. This benefit reduction will continue to be applied to compensable weeks ending in calendar year 2006.*

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in Section \_\_\_\_ .510 states in part:

(a) Audit findings reported. *The auditor shall report the following as audit findings in a schedule of findings and questioned costs:*

- (3) *Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor . . . The auditor shall also report known questioned costs when likely questioned costs are greater than \$10,000 for a type of compliance requirement for a major program. . . .*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 25: (continued)

**Cause:** Regarding the error that led to the TRA benefit overpayment for Claimant A, the TRA overpayment for the CWE date of 7/2/05 was identified by L&I but could not be applied to the UI payment for that week since the week was a UI “wait week” and no UI was allowed to be paid to the claimant. Further, the local office “stop” indicating that a TRA overpayment existed was removed prematurely from the UC claim. Regarding Claimants B, C, D and E, L&I’s calculation of the 2.3% reduction in the TRA WBA does not consider the dependent allowance whereas the UC WBA calculation includes the dependent allowance. As a result, the TRA WBA calculation, in some cases, results in a higher WBA than the UC WBA. With respect to Claimant F, an error was made in establishing this individual’s WBA due to the manual process involved in setting up the TRA claims. For Claimant G, the UI WBA for the most recent qualifying separation was used in error by L&I to calculate the TRA WBA. Further, L&I did not have adequate procedures in place to detect these errors.

**Effect:** Since TRA benefits were overpaid to the six claimants listed above, there are ineligible questioned costs of \$638. Also, based on the questioned costs and the underpayments cited in the condition, L&I’s existing procedures are not adequate to ensure that TRA eligibility determinations and related benefit payments are being made in accordance with federal regulations and that TRA overpayments identified are being properly followed up by L&I.

**Recommendation:** We recommend that L&I repay the \$638 in questioned costs, or pursue appropriate settlement with, the U.S. Department of Labor. L&I should also pursue appropriate settlement regarding the underpayments of TRA benefits noted in the condition above. Additionally, we recommend that L&I strengthen existing procedures at the PA CareerLink sites and at the agency level to ensure that TRA benefit payments are made only to eligible claimants, are for the proper amount, and that appropriate follow up is performed on all TRA overpayments, including related adjustments to the SEFA.

### Agency Response:

#### Claimant A:

In this case, compensable week ending 7/2/05 was the valid waiting week on the UC claim. The waiting week is not payable and therefore was not recoupable. The Department erred by prematurely removing the local office stop indicating that a TRA overpayment existed. The next payable week after 7/23/05 should have been recouped to completely offset the overpayment.

In regards to the incorrect reporting of the overpayment in the cashbooks, the Department agrees that at the time of deposit there was a mistake made with regard to the coding on the document, which did deposit the money into the incorrect funding stream. A subsequent correction document was made to correct the deposit in SAP and the Cash Books. However, that correction is in this year’s current business and not the year being audited.

#### Claimant B, C, D, and E:

The Department believes the TRA weekly benefit amounts were correctly paid as issued to claimants B, C, D, and E, and disagrees with the finding of \$153 in improperly paid benefits. For reduction purposes, UC calculates by adding the original WBA with dependent’s allowance, calculating the reduction and then reducing both the WBA and dependent’s allowance. However, TRA only reduces the WBA by the 2.3% reduction, excluding any dependent’s allowance due to the Trade Act requirements related to calculating both a “weekly benefit rate” and a “maximum benefit amount.”

Section 404(e)(4) of the Pennsylvania UC Law provides for reduction of UC benefits, specifically referring to reducing the claimant’s “weekly compensation,” meaning after any other applicable reductions have been applied. Section 404 (e)(4) clearly differentiates “weekly compensation” from “weekly benefit rate,” since there are references to the “weekly benefit rate” separately from any “weekly compensation” references.

However, the Trade Act does not refer to “weekly compensation” at all. The Trade Act Regulation at 20 CFR 617.13(a) requires that a worker’s TRA WBA be the same as the worker’s most recent UI WBA of UI payable for a week of total unemployment before exhaustion. The most recent UI WBA allows the TRA WBA to change; this change may be an increase or a decrease in the WBA, and a similar increase or decrease in the TRA MBA.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 25: (continued)**

The maximum amount of TRA payable is found at 20 CFR 617.14, which provides that the TRA maximum amount payable is the TRA WBA multiplied by 52 minus the total sum of UI to which the individual was entitled (or would have been entitled if the individual had applied therefore) in the individual's first benefit period. So, not only will the TRA WBA be reduced, the TRA maximum amount will be lower.

The Trade Act requires that any reduction be applied to the calculation of the TRA “weekly benefit amount,” and, correspondingly to calculation of the TRA “maximum amount.” So, the 2.3% reduction was applied to the claimant’s original UC WBR, not including any dependent’s allowances. The Trade Act does not base its calculations on a variable “weekly compensation” amount since to do so could produce an absurd result. For instance, a claimant whose last UC payment was significantly reduced due to other reductions for that specific week, or was a partial payment would receive a parallel significantly reduced TRA weekly amount. Or alternately, if the 2.3% reduction were applied to a full week of UC that had already been reduced by 2.3%, the result would be a double application of the 2.3% reduction. This is plainly another illogical result.

Consequently, based on the Trade Act and instructions from USDOL, the Department applied the 2.3% reduction to the claimant’s UC WBR before any other reduction. USDOL’s instructions did not include any direction that the reduction was equally applicable to any dependent’s allowance since dependent’s allowances are not considered as part of the regular UC WBR. Due to this up front application rather than an after-the-fact “weekly compensation” application, any dependent’s allowance amounts were not included. All of the claims in question had dependent’s allowances payable. This accounts for the \$1 weekly difference between the UC weekly benefit payment and the TRA weekly benefit payment.

#### Claimant F:

The Department agrees that 2.3% reduction was not applied to the TRA claim and resulted in an overpayment of \$8 per week for weeks ending 2/25/06 through 6/24/06.

#### Claimant G:

The Department agrees that basic TRA was paid based on the incorrect UI-qualifying AB 8-21-05 which had a WBA of \$235 instead of the correct UI-qualifying claim AB 8-26-01 which had a WBA of \$272 resulting in underpayment of benefits to Claimant G.

#### Questioned Costs:

In general, the Department makes a genuine effort to ensure that TRA benefits are properly paid in accordance with the Trade Act Law and its regulations. TRA claims are initially processed and eligibility determined through eight regional UC Service Centers. The UC Service Center staff submits eligible claims to an operations unit in the Labor and Industry Building. The operations unit staff further reviews the documents submitted for eligibility, and issues a financial determination and establishes a benefit payment account if eligible. If the documents do not support eligibility for TRA benefits, the documents are returned to the UC Service Center to issue an ineligible determination to the worker. However, even with this second level review, errors can occur since most of the initial and subsequent review entails manual review. The Department has embarked on a major UC electronic system modernization, which will update the existing TRA electronic filing and benefit payment systems. This will include automatic calculation and adjustment of TRA benefits, and will preclude manual errors of this nature. Planning and development of the benefits portion of this project, including TRA, began in 2006 and projected to be implemented in May 2010.

We also note that the current TRA claim and benefit payment system is still primarily a manual system, with limited automated system checks. However, our current instructions and procedures are in accordance with the current Trade Act law, regulations and other federal guidelines. The errors noted are due to human errors, not due to failure to have the proper instructions and procedures in place.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 25: (continued)**

In addition, the Federal Programs Unit of the Bureau of UC Benefits and Allowances has provided training sessions in the past, to the TRA staff, in each of the eight UC Service Centers and the operations staff located in central office. Training sessions were held for new TRA staff in three UC Service Centers between May and September 2006. Training sessions were also held at central office for new operational staff in January 2007. Additional training sessions will be provided in the near future as required due to significant changes in staff. These trainings sessions reviewed both the initial and continued requirements for proper payments of TRA benefits. The complete TRA Claims Processing Manual was placed on the Department's Intranet, Labor & Industry On-Lion, or LION, for use by both UC Service Center staff and operations unit staff.

#### Claimant A:

Proper instructions regarding the overpayment procedure were provided during several training sessions and will be again in the future. Attached is a page from the 'TRA Claims Processing Manual' that evidence instructions on overpayment processing.

The Department agrees to repay \$341.

#### Claimant B, C, D, E:

Since the Department believes that benefit payments were properly made, no further actions are required.

#### Claimant F:

The Department issued an overpayment for 26 weeks of basic TRA for weeks ending 2/29/06 through 8/19/06, for \$208. A revised financial determination was issued on January 17, 2007, correcting the WBA from \$307 to \$299 for claimant F (copy attached). Also, please see the attached claim record general annotations screen and overpayment history screen.

Currently, if an eligible worker has a TRA-qualifying UC claim with a benefit year that ends or exhausts with a compensable week that ends on or after 1/6/07, the TRA WBR will not be reduced by 2.3%. This information is available online at [www.state.pa.us](http://www.state.pa.us), PA Keyword: unemployment (copy of web page attached), and is provided to workers when notified that a petition has been certified (copy of UC-1301 attached). The number of workers whose TRA WBA will be affected by the 2.3% reduction will begin to significantly diminish in 2007, and will continue to do so. Accordingly, any potential errors will eventually be eliminated due to attrition.

#### Claimant G:

The Department issued a revise financial determination revising the TRA WBA from \$235 to \$272 on January 23, 2007 (copy attached). The Department issued supplemental payments totaling \$1,776 representing \$37 per week for weeks ending 7/2/05 through 5/27/06 ('TRA Claim File Inquiry Record' attached) to claimant G on February 2, 2007.

Attached are several pages from the 'TRA Claims Processing Manual' that evidence instructions on the identification of the TRA-qualifying UC claim. Also, a weekly claims update was issued on January 26, 2007, to the UC Service Centers, which reiterated the importance of identifying the correct TRA-Qualifying Claim (copy attached).

**Auditors' Conclusion:** Based on our review of the TAA regulations as cited in the criteria of the finding, it appears that the calculation of the 2.3% reduction in the TRA WBA should include the dependents' allowance and be consistent with the calculation of the UI WBA. Regarding the "instructions" from USDOL on this 2.3% reduction, we reviewed the correspondence between USDOL and L&I that was provided by L&I and noted that USDOL did not specifically address the dependents' allowance in the calculation. Accordingly, we further recommend that L&I pursue this matter with USDOL and obtain written clarification from USDOL as to whether this reduction should consider the dependents' allowance.

***COMMONWEALTH OF PENNSYLVANIA***

***Federal Award Findings and Questioned Costs - June 30, 2006***

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**Finding 06 – 25: (continued)**

As a result, our finding and recommendation, with the above clarifications, remain as stated above.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 26:

#### CFDA #20.205 – Highway Planning and Construction

#### CFDA #23.003 – Appalachian Development Highway System

#### Internal Control Weakness over Expenditure Information Reported on the SEFA

**Condition:** The PADOT Comptroller office performs periodic reconciliations of subrecipient expenditure data in SAP to a federal program expenditures Data Table which is used to prepare the SEFA. At the end of the fiscal year, the PADOT Comptroller Office prepares an adjustment to the SEFA to record subrecipient expenditures that were not included in the Data Table but were recorded in SAP. Our testing of program expenditures of the HPC Cluster (CFDA # 20.205), found that \$22,417, 849 was recorded on the SEFA in error during the preparation of this adjustment. The SEFA was corrected as a result of our audit.

**Criteria:** 49 CFR 18.20 provides the following standards for financial management:

*(b)(1) Financial Reporting. Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.*

*(b)(3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real property and personal property, and other assets.*

Additionally OMB Circular A-133, Section 310 (b) regarding the Schedule of Expenditures of Federal Awards states in part that:

*(b) The auditee shall also prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements. At a minimum the schedule shall: (3) provide total federal awards expended for each individual federal program.*

**Cause:** A clerical error occurred during the preparation of the Final Subrecipient Expenditures Report Total which was used to adjust the SEFA for expenditures not included in the Data Table but recorded in SAP. Additionally, an internal control weakness exists due to lack of PADOT Comptroller Office review of the Final Subrecipient Expenditures Report prior to the preparation of the SEFA adjustment.

**Effect:** The adjustment was reported incorrectly on the SEFA due to PADOT Comptroller oversight. The error resulted in a \$22,417,849 overstatement to the SEFA, which had to be adjusted downward. Without adequate internal controls in place, the SEFA may continue to be misstated in the future.

**Recommendation:** We recommend that the PADOT Comptroller Office implement procedures to ensure adequate review of reports used to adjust the SEFA for the HPC Cluster.

**Agency Response:** The error that resulted in an improper adjustment amount was clerical in nature. To prevent errors of this type in the future, all proposed data table adjustments and supporting documentation will be reviewed and approved by the Assistant Comptroller for Accounting before the adjustment is processed.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 27:

#### CFDA #20.205 – Highway Planning and Construction

#### CFDA #23.003 – Appalachian Development Highway System

#### Duplicate Vendor Payment Results in Questioned Costs of \$176,617

**Condition:** Our CAFR audit testing of nonpayroll expenditures for SFYE June 30, 2006 that were HPC Cluster-related at PADOT disclosed a \$176,617 vendor payment that was erroneously made twice for the same services during our audit period. As a result of our audit inquiries, PADOT and PADOT Comptroller Office pursued repayment from the vendor for subsequent reimbursement to FHWA; however, repayment by the vendor did not occur during our audit period. As a result, the \$176,617 payment was an unallowable expenditure within the HPC Cluster as of June 30, 2006, and is, therefore, questioned.

**Criteria:** OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, in Section \_\_\_\_\_.510 states in part:

(a) *Audit findings reported.* The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

(3) *Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor...*

**Cause:** The duplicate payment was made on September 12, 2005, as a result of a revised invoice submitted by the vendor, at the request of PADOT, after the original invoice was already paid earlier that day.

**Effect:** The vendor overpayment was not repaid to PADOT and refunded to FHWA prior to June 30, 2006, resulting in \$176,617 in questioned costs (Federal Project No. F-X122-135).

**Recommendation:** We recommend that PADOT pursue appropriate settlement of the \$176,617 in questioned costs with FHWA.

**Agency Response:** The Department of Transportation has pursued appropriate settlement and has resolved this entire matter. The PADOT Comptroller's Office on October 27, 2006 made reimbursement in the amount of \$176,617.35 to the FHWA as a result of the vendor overpayment. As of May 1, 2007 the entire amount of \$176,617.35 has been repaid by the vendor to PADOT.

**Auditors' Conclusion:** The finding remains as stated.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 28:

#### CFDA #20.205 – Highway Planning and Construction

#### CFDA #23.003 – Appalachian Development Highway System

#### Noncompliance With OMB Circular A-87 Cost Principles Results in \$392,536 in Questioned Costs

**Condition:** Our testing of \$392,536 in costs charged to the HPC Cluster for PADOT rent of department-owned equipment disclosed noncompliance with the allowability provisions of Federal OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, as follows:

- We sampled two HPC Cluster transactions totaling \$4,789 from the above-mentioned equipment rental total for the year and noted that accounting clerks in PADOT’s District No. 03 used the incorrect base in applying the rental rate, and overcharged the HPC Cluster as a result. Instead of properly using hours as the base, the clerks mistakenly used miles, which was a much higher number than hours. Out of the \$4,789 charged for these two transactions, \$4,107 (or 86 percent) represented unallowable overcharges to HPC due to using the wrong base. We also noted that the \$122,543 in total charged to this rental cost category by District No. 03 for the year far exceeded all the other 11 districts and three central offices charging these costs to HPC, the average being about \$21,000 per office and the second highest district total being \$40,758. Based on our testing and analysis, the \$122,543 charged to the HPC Cluster by this district is incorrect and unreasonable.
- In addition to our sampling, we also reviewed the equipment rental rates being applied throughout our current year for reasonableness. We noted that the rates being used were not reasonable, nor were they consistent over time, stable in amount, or adequately monitored and understood by PADOT staff for appropriateness. PADOT utilized its automated Maintenance Operations and Resources Information System (or MORIS) to calculate equipment rates to charge HPC in the current year. PADOT makes minimal manual adjustments every year to these system-calculated rates, which fluctuate widely in many cases, in an attempt to make the charges as consistent as possible. However, PADOT ultimately relies on the equipment rental rates calculated by MORIS that are inconsistent and incorrect, with little or no follow up to determine their correctness or reasonableness, or the appropriateness of the system calculation methodology. For these reasons, we determined that the equipment rates in effect during our current audit period could not be relied on and the \$392,536 charged for the year is not reasonably supported as required by OMB Circular A-87.

**Criteria:** To be allowable under OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, Paragraph C.1., a cost must:

- (a) *Be necessary and reasonable for the performance and administration of Federal awards.*
- (b) *Be allocable to Federal awards under the provisions of A-87.*
- (g) *Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87.*
- (j) *Be adequately documented.*

**Cause:** PADOT officials stated that staffing limitations prevented them from instituting more advanced monitoring and review procedures to understand and ensure the reasonableness of these rental charges to HPC.

**Effect:** As a result of unallowable charges to HPC in violation of OMB A-87, \$392,536 in current year HPC Cluster costs (under numerous FHWA federal project numbers) are questioned.

**Recommendation:** We recommend that PADOT pursue appropriate settlement of the \$392,536 in questioned costs with FHWA. We also recommend that PADOT implement improved oversight of these equipment rental charges to HPC to ensure they are necessary, reasonable, and adequately supported in accordance with OMB Circular A-87.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 28: (continued)**

**Agency Response:** The Department of Transportation will pursue appropriate settlement regarding the \$4,107.00 unallowable overcharge to the HPC. Engineering District 3-0 agrees that data entry errors were made and has already begun the process of working with the Comptroller's Office to reimburse the FHWA for this \$4,107 amount. District 3-0 has performed a cursory review of the equipment rental charge of \$122,543 and has determined that the amount (other than the \$4,107 error) is reasonable. It must be mentioned that District 3-0 has their own drill crew and bridge inspection crane crew that are unique to this District and that would account for some of the higher rental charges for them compared to the other Districts. We therefore can't agree with the statement that the \$122,543 amount charged is incorrect and unreasonable which gives the impression that the amount is significantly in error. District 3-0 will perform a more detailed review of their charges against this account to insure that the amount billed the FHWA for this time period is in fact accurate.

We also can't agree that the equipment rental rates in MORIS are incorrect and unreasonable. As part of our corrective action plan the Equipment Division within the Bureau of Maintenance and Operations will be reviewing the current methodology to determine if these rates in MORIS are correct and reasonable. The Department will also follow-up with the organizations that make charges against GL account 6399996 to insure that they are correctly following Department policies and procedures when applying these rates.

Effective July 9, 2007 MORIS will be replaced by the plant maintenance module of SAP. In the past the Equipment Division has had the responsibility for maintaining these equipment rates in MORIS but with this change the SAP Finance Division within the Bureau of Fiscal Management will take over a much bigger role in this process and will be actively involved in reviewing the methodology used in calculating these rates and overseeing the application of the rates in the SAP system. This evaluation process will take place over the 2007/2008 fiscal year and we expect to have any revised methodology and adjusted equipment rates in place effective July 1, 2008.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 29:**

#### **CFDA #84.010 – Title I – Grants to Local Educational Agencies**

#### **CFDA #84.367 – Title II – Improving Teacher Quality State Grants**

#### **Internal Control Weaknesses in PDE Scheduling of On-Site Monitoring Visits to LEAs**

**Condition:** Our audit for SFYE June 30, 2006 disclosed an internal control weakness in that PDE did not have adequate procedures to schedule and track its subrecipient LEAs for on-site monitoring visits in the Title I and Title II programs. To ensure LEA compliance with federal regulations, PDE monitors all participating LEAs on-site at least once every three years. The current audit year of July 1, 2005 to June 30, 2006 was the second year of the three-year cycle of July 1, 2004 to June 30, 2007. PDE prepares yearly monitoring schedules and we examined the three yearly schedules to verify if all LEAs were scheduled for monitoring. We found four LEAs that were not scheduled for review. Until we brought the scheduling error to PDE's attention, PDE was not aware that four LEAs were not scheduled to be monitored. PDE added the LEAs to the monitoring list for the 2006-2007 year.

In addition, a large number of LEAs (213 out of the 501 LEAs in the state) were scheduled for review in the third year of the cycle compared to the two previous years. Given the average of 167 LEA visits each year over a three year cycle, this is 46 more LEAs than the average, thus raising the risk that one or more LEAs may not be visited by PDE in the third year due to limited staff, resources or timeframes. In fact, we noted in prior audits that PDE has failed to monitor all its LEAs in the three-year cycle.

**Criteria:** An effective internal control procedure should ensure that every LEA participating in Title I and Title II is scheduled and tracked for monitoring during the three-year review cycle.

**Cause:** PDE maintains separate yearly monitoring schedules. They do not combine and review the schedules into one list of all LEAs to be monitored over the three year cycle. By using separate schedules and failing to properly review them, PDE does not ensure that all LEAs are scheduled for monitoring.

**Effect:** Due to PDE's inadequate review and oversight, LEAs are not being properly scheduled to receive on-site visits to verify and ensure compliance with Title I and Title II regulations.

**Recommendation:** We recommend that PDE devise a proper monitoring schedule and establish procedures to review and ensure that all participating LEAs are scheduled for monitoring during each three-year review cycle. The three-year schedule should be updated as reviews are completed so that LEA monitoring is properly tracked and scheduled.

**Agency Response:** The Pennsylvania Department of Education's Consolidated Program Monitoring ensures that all LEAs are monitored for compliance with federal regulations at least once during a three-year cycle. Occasionally, necessary changes are made to the schedule due to the large number of LEAs (501) and Charter Schools (over 100) along with the ongoing responsibilities of the Division of Federal Programs. When LEAs cannot be monitored within one year of the cycle, they are rescheduled to the following year. Additionally, new charter schools were added to the cycle as they opened. All of these factors led to the increased number of LEAs monitored in the third year of the current monitoring cycle.

The four LEAs missed on the cycle have been added and will be monitored within the three-year cycle.

Beginning in the 2006-07 year, a new cycle listing has been developed that includes all involved LEAs and their assigned year within the cycle. This comprehensive listing will ensure that all LEAs are monitored within a three-year cycle.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 30:**

#### **CFDA #84.010 – Title I – Grants to Local Educational Agencies**

##### **Inadequate Controls Over PDE’s Consolidated State Performance Report and the Annual State Report Card (A Similar Condition Was Noted in Prior Year Finding #05-21)**

**Condition:** Title I federal education grant moneys are enacted under the Elementary and Secondary Education Act (ESEA) as amended and by the No Child Left Behind (NCLB) federal legislation of 2002 as amended. Under ESEA and NCLB, Title I services are to be linked to state-determined performance standards that are expected of all children. To that end, assessment exams are given to students in an effort to identify and assist schools that do not make adequate yearly progress towards meeting the standards.

PDE ensures that Local Education Agencies (LEAs) annually review the progress of each Title I school to determine whether the schools are making adequate yearly progress (AYP). Under NCLB, the general rule is that LEAs and schools that do not make AYP for two consecutive years are identified for improvement, are classified under a status called Needs Improvement I. A school that has not made AYP for three consecutive years is classified as Needs Improvement II. A school that has failed to meet AYP for four consecutive years is classified as Corrective Action I and a school that has not made AYP for five consecutive years is classified as Corrective Action II. Schools under the above classifications are all considered under an improvement status. For schools in the above classifications, the LEAs must create school plans and work with PDE to implement the plans to ensure that students can make AYP.

Schools can avoid being in a Needs Improvement status by being classified as Making Progress. A school that is Making Progress does not meet the performance target but reduces the failure rate by 10% or more.

According to NCLB, PDE must annually review the progress of each LEA that receives Title I funds to determine whether the LEA made AYP. PDE must identify for improvement any LEA that fails to make AYP for two consecutive years or was in an improvement status. PDE must identify the LEA for corrective action if it continues to fail to make AYP.

PDE must report annually to USDE and make certain information widely available within the state including the number and names of each school identified for improvement, the reason why the school was identified, and measures taken to address the achievement problems in the school. Based on data received from an outside vendor, PDE must prepare and submit reports to USDE on the Consolidated State Performance Report (CPR). Further, PDE must prepare and disseminate an annual State Report Card (SRC) including the number and name of each school and LEA identified for improvement.

As part of the reporting and AYP process, PDE contracted with an outside vendor to provide numerous services which included: designing state assessment materials at PDE specifications; providing assessment testing materials to students in the subjects of reading and mathematics; training the exam administrators; scoring each assessment exam; compiling assessment results by school and LEA; and providing a master results data file to LEAs and PDE.

PDE has also contracted with another vendor who is responsible for reporting the AYP process on the CPR and SRC. In addition this vendor posts and maintains assessment results on a web site called PAAYP.com. PAAYP is the Pennsylvania Adequate Yearly Progress web page. The PDE web site has a link to the PAAYP web page so anyone making an inquiry via the PDE web page is directed to the vendor’s web page. The SRC information is also posted to the PDE web page. School year 2004-2005 information was posted in October 2006.

Although PDE has contracted with these vendors, PDE is required to collect, compile, and determine the accuracy of information about the number and names of schools in need of improvement and report this information on the CPR and SRC. While some information comes directly from the vendor, other reporting information on the CPR and SRC comes from PDE.

For the CPR, we obtained a paper copy and haphazardly selected fields to trace to source documentation. In our testing of the CPR we noted the following:

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

### **Finding 06 – 30: (continued)**

- Sections 1.4.3.1 and 1.4.4.1 of the CPR instructed PDE to provide a list of districts in school improvement status. The report noted, “See list attached”. However there was no list attached and PDE had no copy and had to contact USDE for the file. Therefore, PDE did not have the list in their files and did not maintain a complete CPR on file.
- PDE reported inaccurate information in the CPR Section 1.4.2. PDE inadvertently reported the number of Title I school districts as 3,025, but there are only 501 school districts in the entire Commonwealth.
- PDE understated the number of Persistently Dangerous Schools (PDS). PDE reported on the CPR Section 1.7 that the Commonwealth had nine PDS at the beginning of school year 2005-2006, all from the largest LEA in the state in Philadelphia City School District (PCSD). However, based on federal criteria, we determined that at least four other PCSD schools qualified as PDS.

With regard to the SRC, the vendor posted the SRC to their web page during the current audit year. The vendor also prepared an Adobe file of the SRC that we printed and tested during our audit.

In testing the SRC we selected numerous fields from the Web SRC and the paper copy of the SRC. PDE was unable to provide detailed supporting documentation and audit trails for several fields, including:

- The number of schools and districts meeting AYP and making progress as noted on the web SRC
- The number of Highly Qualified Teachers (HQT) on the paper SRC
- The State Overall Results in Mathematics on the paper SRC

PDE uses the expertise of two vendors to compile the assessment score data and develop the data included in the SRC. PDE said they verify one vendor’s data by performing data queries on the file of test results provided by the other noted vendor. However, PDE does not independently work from its own criteria but merely keeps creating queries until they match the results of the two vendors.

In the prior year, PDE indicated that it performs various automated data validation checks (i.e., record counts and control totals) and comparisons of year to year on test score data received from its outside contractor, but has no formal documented procedures supporting these steps. Further, for any supervisory review of the data that PDE performs, there is no documented evidence on what type of review procedures were done and no evidence of PDE’s supervisory review and approval. We were unable to perform data validation checks due to PDE’s inability to provide detailed supporting documentation and audit trails.

Based on the results above, we found that PDE has inadequate documentation procedures regarding the collection, compiling and verifying the accuracy of the data reported in the SRC and CPR.

In April 2006, PDE developed an accountability checklist and a quality control approval document to provide an audit trail. This document will be used during the FYE 6/30/07 audit year. Therefore, this documentation evidencing any review of the data was lacking for FYE 6/30/06.

**Criteria:** Title I, Sections 1111(h)(1) and (4) of ESEA state:

*(h) Reports.*

*(1) Annual State Report Card.*

*(A) In General. Not later than the beginning of the 2002-2003 school year, unless the State has received a 1-year extension pursuant to subsection (c)(1), a State that receives assistance under this part shall prepare and disseminate an annual State report card.*

*(C) Required Information. The State shall include in its annual State report card—*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 30: (continued)

- (i) *information, in the aggregate, on student achievement at each proficiency level on the State academic assessments described in subsection (b)(3) (disaggregated by race, ethnicity, gender, disability status, migrant status, English proficiency, and status as economically disadvantaged, . . .*
  - (v) *aggregate information on any other indicators used by the State to determine the adequate yearly progress of students in achieving State academic achievement standards;*
  - (vii) *information on the performance of local educational agencies in the State regarding making adequate yearly progress, including the number and names of each school identified for school improvement under section 1116; and*
- (4) *Annual State Report to the Secretary. Each State educational agency receiving assistance under this part shall report annually to the Secretary, and make widely available within the State—*
- (A) *beginning with school year 2002-2003, information on the State’s progress in developing and implementing the academic assessments described in subsection (b)(3);*
  - (E) *the number and names of each school identified for school improvement under section 1116(c), the reason why each school was so identified, and the measures taken to address the achievement problems of such schools;*

**Cause:** PDE depends heavily upon the outside vendors for the determination of making AYP and identifying schools in the improvement classification. Further, it appears that PDE has an inadequate number of staff devoted to the Consolidated State Performance Report and State Report Card effort. Since timeliness of the reports is viewed as most critical, accuracy of the information is left to the vendor to ensure. In addition, we found that various divisions within the department were responsible for certain parts of the CPR and SRC. It appeared as if no one group took responsibility for the entire product to ensure the overall accuracy of the information reported.

**Effect:** Inaccurate information was included in the CPR in violation of federal regulations. Considering that our review of the PDS issue only focused on the largest LEA of the Commonwealth, there are schools within other LEAs that could possibly have PDS data inaccurately reported.

USDE and the public cannot be reasonably assured that CPR and SRC information is complete and accurate. A situation exists whereby one vendor controls the assessment process from creating the tests to scoring, and another vendor controls the reporting of results without adequate oversight by PDE. With such control by the vendors, inaccurate AYP data could be reported in the future. LEAs and schools in need of improvement may not be properly identified, tracked, and reported resulting in noncompliance with NCLB.

Furthermore, all the parties involved with complying with NCLB (e.g., PDE, LEAs, and schools) have a vested interest in making AYP and in having fewer rather than more schools qualify for the PDS designation. These interests may be subject to an increased risk because of the inaccurate reporting of data. Therefore, adequate oversight of all parties and their reported information is most critical to USDE and the public.

**Recommendation:** PDE management should institute reasonable documented measures to insure that data is complete and accurate as reported on the CPR and SRC. Assessment data should be documented in detail, tested, and reviewed by PDE to ensure it’s accuracy before it is compiled for the reports.

PDE should strengthen and better document internal controls over the collecting, compiling, verifying accuracy, and reporting of data. PDE should develop comprehensive written procedures to document the process. Procedures should include independent verification, supervisory review, and documented sign-offs. Audit trails should be documented that show individual and school data rolling-up into the summary data presented on the CPR and SRC. Procedures, audit trails, data summaries, and reviews and approvals should be retained on file by PDE.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 30: (continued)**

**Agency Response:** The Pennsylvania Department of Education (PDE) understands the importance of complete and accurate data reported on the Consolidated State Performance Report (CSPR) and the State Report Card (SRC). PDE understands that reasonable documented measures must be taken to insure that the data is accurate and correct. Some measures have already been implemented as a result of past years' audits, and they will be observed in future audit years. For example, PDE developed an Accountability Checklist and a Quality Control approval document, which were used to verify 2006 PSSA data. Other written procedures will be developed to ensure that reasonable measures are taken to ensure that data is accurate and correct.

PDE questions the auditor's comments that PDE verifies one vendor's data by creating queries until the data matches the results of another vendor. The two vendors in question, Data Recognition Corporation (DRC) and the Grow Network, provide different and separate services. DRC provides assessment results to PDE, and PDE verifies the data following the documented Accountability Checklist and the Quality Control approval document. After PDE has verified that the data is correct, DRC provides the file to the Grow Network for the purpose of producing reports. PDE reviews and verifies the reports produced by the Grow Network using the same criteria that PDE has communicated to the Grow Network. Two and three year comparisons are completed for the Report Card to search for significant changes, and when they occur, they are addressed by further review with Grow Network and DRC. The multiple queries noted in the finding were a response by PDE to the auditor's request to verify specific data.

**Auditors' Conclusion:** Although PDE management disagrees with our disclosure about matching data from two different vendors, and claims that they verify the accuracy of the data independently, PDE has provided no documentation to support their independent verification of vendor data, using their own criteria. If data analyses or data queries are being performed by PDE, these data analyses and queries need to be retained as support on file for the propriety of the data being submitted to USDE.

As a result, our finding and recommendation remain as previously stated. We will review any corrective action in our subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 31:

#### CFDA #84.010 – Title I – Grants to Local Educational Agencies

#### CFDA #84.367 – Title II – Improving Teacher Quality State Grants

#### Inadequate Controls Over Ensuring LEA Compliance With MOE Requirements

**Condition:** PDE requires each of its subrecipients to submit an Annual Financial Report (AFR) with expenditure information to calculate and measure subrecipient compliance with federal Maintenance of Effort (MOE) requirements each fiscal year. PDE's Bureau of Information Systems extracts the necessary AFR information, determines net expenditures, and generates the current-year MOE report that compares net expenditures year to year. Net increases or decreases are calculated on the MOE report, and decreases in net expenditures greater than 10 percent should be identified as potentially not meeting the MOE requirement and require investigation by PDE.

Our testwork disclosed two subrecipients where expenditure levels decreased by more than 10 percent in the current year. PDE identified those subrecipients but failed to notify the subrecipient or conduct follow up procedures to properly verify subrecipient compliance with MOE.

**Criteria:** Section 9521 of the Elementary and Secondary Education Act (ESEA) states:

- (a) *IN GENERAL.-A local educational agency may receive funds under a covered program for any fiscal year only if the State educational agency finds that either the combined fiscal effort per student or the aggregate expenditures of the agency and the State with respect to the provision of free public education by the agency for the preceding fiscal year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding fiscal year.*
- (b) *REDUCTION IN CASE OF FAILURE TO MEET.-*
  - (1) *IN GENERAL.-The State educational agency shall reduce the amount of the allocation of funds under a covered program in any fiscal year in the exact proportion by which a local educational agency fails to meet the requirement of subsection (a) of this section by falling below 90 percent of both the combined fiscal effort per student and aggregate expenditures (using the measure most favorable to the local agency).*

**Cause:** This deficiency is the result of inadequate management oversight of the MOE process. Although the MOE report was produced and reviewed by PDE staff, the staff inadvertently excluded the follow-up procedures. Further, management neglected to review the staff's work or results and ensure the necessary follow up procedures were performed.

**Effect:** Without an adequate review process, PDE is not properly monitoring its subrecipients for MOE compliance. MOE regulations are in place to ensure that local and state spending in education does not decrease on account of the federal grant moneys. According to regulations, for subrecipients with expenditure decreases of more than 10 percent, PDE shall reduce the amount of allocation of funds in proportion by which the LEA fails to meet MOE.

**Recommendation:** PDE should take the necessary actions to ensure that the MOE report is fully and properly reviewed each year and subrecipients not meeting MOE requirements are contacted in a timely manner. Further, for the subrecipients identified, PDE should contact them and resolve the MOE issue, as applicable. Any follow up action taken by PDE should be documented and maintained on file.

**Agency Response:** PDE annually reviews and determines each subrecipient's compliance with Maintenance of Effort (MOE), as required by the legislation. Procedures exist and are carried out annually to establish compliance with MOE.

The current MOE process will continue with additional explicit procedures and management oversight to ensure compliance.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 31: (continued)**

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. After investigating the MOE issues with the two subrecipients, PDE should also pursue appropriate settlement with the federal awarding agency on any MOE noncompliance noted. Furthermore, we will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 32:

#### CFDA #84.048 – Vocational Education – Basic Grants to States

##### PDE Allocated VOC-ED Funds to Subrecipients Based on Outdated Statistical Data (A Similar Condition Was Noted in Prior Year Finding #05-23)

**Condition:** During our current audit, we found that PDE allocated FFY 2005-06 Postsecondary and Adult VOC-ED funding based on outdated Pell Grant data in noncompliance with VOC ED federal regulations. The current year allocation was based on the number of 1999-2000 Pell grant recipients rather than on the preceding year Pell Grant recipients as required by 20 USC 2352.

In addition, we found that PDE allocated FFY 2005-06 secondary VOC-ED funding based on outdated census data in noncompliance with VOC ED federal regulations. The current year allocation was based on 1995 census data rather than current available census data as required by 20 USC 2351.

**Criteria:** 20 USC 2352 (a) (2) related to Postsecondary and Adult allocations, states:

*Each eligible institution or consortium of eligible institutions shall be allocated an amount that bears the same relationship to the portion of funds made available under section 2322(a)(1) of this title to carry out this section for any fiscal year as the sum of the number of individuals who are Federal Pell Grant recipients... enrolled in programs meeting the requirements of section 2355 of this title offered by such institution or consortium in the preceding fiscal year bears to the sum of the number of such recipients enrolled in such programs within the State for such year.*

20 USC 2351(b) related to Secondary allocations, states:

*(b) Special distribution rules for succeeding fiscal years*

*Except as provided in Section 2353 of this title and as otherwise provided in this section, each eligible agency shall distribute the portion of funds made available under Section 2322(a)(1) of this title to carry out this section for fiscal year 2000 and succeeding fiscal years to local educational agencies within the State as follows:*

*(1) 30 percent*

*30 percent shall be allocated to such local educational agencies in proportion to the number of individuals aged 15 through 19, inclusive, who reside in the school district served by such local educational agency for the preceding fiscal year compared to the total number of such individuals who reside in the school districts served by all local educational agencies in the State for such preceding fiscal year.*

*(2) 70 percent*

*70 percent shall be allocated to such local educational agencies in proportion to the number of individuals aged 15 through 19, inclusive, who reside in the school district served by such local educational agency from families with incomes below the poverty line (as defined by the Office of Management and Budget and revised annually in accordance with section 9902(2) of title 42) applicable to a family of the size involved for the fiscal year for which the determination is made compared to the number of such individuals who reside in the school districts served by all the local educational agencies in the State for such preceding fiscal year.*

**Cause:** According to PDE management, they were unaware of the requirement to use preceding year Pell Grant information in its postsecondary allocation formula until they had been notified via the results of the June 30, 2004 Single Audit, during April 2005. According to PDE management, it was too late to implement a change until after the FYE June 30, 2006.

**Effect:** PDE allocated its 2005-06 postsecondary and secondary funding using incorrect data which may have caused each subrecipient to receive an incorrect share.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 32: (continued)**

**Recommendation:** We recommend that PDE use the correct Pell Grant and census data in allocating VOC ED funding. Also, we recommend in the future that PDE keep current with federal regulations and allocate Postsecondary and Adult and Secondary VOC ED funding appropriately.

**Agency Response:** The Pennsylvania Department of Education has been notified of this audit finding for the Commonwealth's Single Audit Report for the year ending June 30, 2006. Corrective actions were implemented during 2006. As stated in the Single Audit for the year ending June 30, 2005, results of the corrective actions will be evident for the review of the Single Audit for the year ending June 30, 2007.

PDE is collecting updated Pell data on an annual basis as required under Section 20 USC 2352(a)(2). The 2004-05 Pell data was used in the funding distribution formula for post-secondary and adult education programs for 2006-2007 fiscal year.

PDE is using updated 2003 Census data as required under Section USC 2351(b). The 2003 Census data has been loaded into the funding distribution formula for secondary programs for 2006-2007 fiscal year. The requirement for the use of updated Census data has been followed annually since receiving the initial finding in July 2005 during the review of the 2004-05 Single Audit.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 33:

#### CFDA #84.048 – Vocational Education – Basic Grants to States

##### Errors and Internal Control Weaknesses in PDE’s VOC ED Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (A Similar Condition was Noted in Prior Year Finding #05-22)

**Condition:** PDE is required to submit a Consolidated Annual Performance, Accountability, and Financial Status Report, otherwise known as the Comprehensive Annual Report (CAR), to provide VOC-ED performance data to USDE. There are 24 total sub-indicators reported on Form IV of the CAR. Fourteen are reported under the four Core indicators of performance and the remaining ten are reported as additional measures. Three different bureaus within PDE are responsible for gathering data for preparation of the CAR. Supporting data is received on hard-copy reports, on diskette, or via the internet from LEAs and outside contractors who administer standardized testing.

In our prior-year audit of the 2003-2004 CAR, we found inadequate controls at PDE over the compilation and review of CAR data to ensure the data is accurate and complete prior to submission to USDE. In our current audit follow up, we sampled and tested six sub-indicators (1S2, 2S2, 1S1, 1P2, 3P2, and 4S1) out of the 24 sub-indicators in the 2004-2005 CAR, and we found material data errors and noted that prior-year weaknesses had not been corrected as follows:

- Consistent with the prior year, for sub-indicator 2S2 (Diploma, Secondary Level), we noted that the CAR definition for the numerator did not agree to the USDE/PDE agreed-upon definition. The USDE/PDE definition stated that the numerator was the number of career and technical education (CTE) students who successfully achieved competency levels at or above competent on the test contractor Job Ready Assessments, but the actual data reported was based on students who achieved competency levels at or above advanced. PDE did provide us with a revised agreed upon definition for this numerator, however, we were unable to determine if this revision was made prior to the submission of the 2004-2005 CAR.
- As in the prior audit, PDE did not include the results of all PDE approved tests in the data for CAR reporting of the 1S2 and 2S2 sub-indicators, as required by the USDE/PDE agreed upon definition, so the data was incomplete. Like last year, BCTE indicated that schools did not submit the necessary data to categorize the results into the basic, competent, or advanced levels required for its inclusion in the CAR. Without reliable alternate test data, the differences in the 1S2 and 2S2 data could not be determined.
- In testing the contractor data used to report the 2004-2005 CAR data for 1S2 and 2S2, we found that the totals per the contractor reports did not agree to the amounts on the CAR. Also, the denominators for both 1S2 and 2S2 should have been identical, but differed. PDE could not provide support or an explanation for these differences, which should not have occurred. While the data differences themselves in the current year did not appear significant, PDE’s internal controls to properly track, review and report the data to USDE remain deficient.
- For sub-indicator 1P2 (Postsecondary Occupational Attainment) and 1P1 (Postsecondary Academic Attainment), we noted that the USDE/PDE final agreed upon measurement definition for the 2004-05 CAR was not consistent with 1P1 and 1P2 data actually reported. The USDE/PDE definition referenced students completing education programs, but the actual data reported was based on enrollments, not program completion. Also, the USDE/PDE definition for 1P2 referenced the number of programs, but actual data reported was based on the number of students.
- USDE VOC ED officials conducted an on-site visit to PDE in 2005, and noted additional problems with sub-indicators 1P1 and 1P2 in their November 2005 Report for the 2003-04 CAR, stating that required disaggregated data for gender, ethnic background, and special populations was not reported by PDE. In our auditor follow-up, we discovered that required disaggregated data for gender and ethnic background for these two sub-indicators, had not been collected or reported by PDE in the 2004-2005 CAR report. Additionally, we noted that post secondary Tech Prep data was missing from the 2004-2005 CAR report.

**Criteria:** Federal Regulation 34 CFR 80.40 regarding a state’s performance reporting, provides, in part:

(1) *Grantees shall submit annual performance reports . . .*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 33: (continued)**

(2) *Performance reports will contain, for each grant, brief information on the following:*

(i) *A comparison of actual accomplishments to the objectives established for the period . . .*

Federal Law 20 USC 2323(c) states:

(c) *Report*

(1) *In general*

*Each eligible agency that receives an allotment under Section 2321 of this title shall annually prepare and submit to the Secretary a report regarding –*

(A) *The progress of the State in achieving the State adjusted levels of performance on the core indicators of performance; and*

(B) *Information on the levels of performance achieved by the State with respect to the additional indicators of performance, including the levels of performance for special populations.*

20 USC 2323(b)(2) related to VOC ED State Performance Measures, states:

(2) *Indicators of performance*

(A) *Core indicators of performance*

*Each eligible agency shall identify in the State plan core indicators of performance that include, at a minimum, measures of each of the following:*

(i) *Student attainment of challenging State established academic, and vocational and technical, skill proficiencies.*

(ii) *Student attainment of a secondary school diploma or its recognized equivalent, a proficiency credential in conjunction with a secondary school diploma, or a postsecondary degree or credential.*

(iii) *Placement in, retention in, and completion of, postsecondary education or advanced training, placement in military service, or placement or retention in employment.*

(iv) *Student participation in and completion of vocational and technical education programs that lead to nontraditional training and employment.*

(B) *Additional indicators of performance*

*An eligible agency, with input from eligible recipients, may identify in the State plan additional indicators of performance for vocational and technical education activities authorized under this subchapter.*

20 USC 2342 related to the VOC ED State Plan states:

(c) *Plan Contents. The State Plan shall include information that:*

(20) *describes how the eligible agency will ensure that the data reported to the eligible agency from local educational agencies and eligible institutions under this subchapter and the data the eligible agency reports to the Secretary are complete, accurate, and reliable.*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 33: (continued)**

In order for PDE to ensure that the CAR is accurate and in accordance with program requirements, strong internal controls should be developed, functioning, and documented for each year's CAR submitted to USDE.

**Cause:** PDE officials believed at the time of submission of the CAR that the data was reasonably accurate and complete and that their compilation and reporting procedures were appropriate. PDE's corrective action plan for our prior year finding was not fully implemented for the 2004-2005 CAR, which was tested during the current audit. Implementation dates for all corrective actions will not be evident until we review the 2005-2006 report in SFYE June 30, 2007.

**Effect:** As a result of continued internal control weaknesses and the lack of documentation noted above, we were unable to verify the reasonableness, accuracy, or completeness of CAR data reporting VOC ED program results to USDE. Also, the CAR contains erroneous data that is not being detected and corrected by PDE.

The Carl D. Perkins Vocational and Technical Education Act of 1998 (P.L. 105-332) established the core indicators of performance as referenced in Section 113(b)(2)(A) of the act. The act also authorized sanctions based on states' failing to meet these performance levels, and incentive grants to states for exceeding performance levels established under the act and under the Workforce Investment Act (WIA, P.L. 105-220). Incorrect CAR data can affect the Commonwealth's performance reporting, and in turn its eligibility for incentive grants or possible sanction for failure to meet agreed upon levels of performance.

**Recommendation:** We recommend that PDE review and improve its internal control procedures over the CAR and establish a system to ensure that all CAR data is accurate, complete, adequately supported, and is analyzed and properly reviewed prior to submission. Furthermore, PDE should ensure that errors noted above are corrected as necessary for all sub-indicators in the CAR. Any changes to the CAR for incorrect or missing data should be communicated to USDE.

**Agency Response:** The auditors review disclosed errors and weaknesses in PDE's internal controls over the Vocational Education Consolidated Annual Performance, Accountability, and Financial Status Report submitted to USDOE.

The Bureau of Career and Technical Education (BCTE) response that the data errors noted from prior year weaknesses had not been corrected is as follows:

- BCTE did revise the agreed upon CAR definition for the numerator with approval by USDE's Regional Accountability Specialist assigned to Pennsylvania. The data submitted for the 2004-2005 CAR met the definition agreed upon. This change was explained to the auditor of the 2004 CAR data. A signed revised explanation of change was submitted to the state auditor as evidence, which indicates the revision was made December 3, 2003.
- BCTE pursued an extensive review of all third party assessments during 2006-2007 year. The approved assessments unable to provide required data are no longer approved and will not be utilized by the schools. All approved test results will be reported on the 2007 CAR.
- BCTE continues to work toward enhanced reliability and accuracy of the data to USDOE. As the finding notes, the data differences are not significant. This is an indication that the changes in internal control processes have made a difference in the quality of data reported. Continuing improvements will be seen in the data reported in each consecutive year. Additionally, data is received from the contractor and other test providers early enough for BCTE to perform comprehensive checks before submission to USDOE.
- The version used to negotiate levels of performance for the 2005 CAR and thereafter for 1P1 and 1P2 respectively is as follows:

**1P1 Numerator:** Number of occupationally specific students who reach a state defined threshold level of career and technical education who perform at or above the 2.5 grade point average (GPA) in academic courses in the reporting year.

**1P1 Denominator:** Number of occupationally specific students who receive grades in academic courses during the reporting year.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 33: (continued)**

**1P2 Numerator:** Number of occupationally specific students who reach the state-defined threshold level of career and technical education who perform at or above the 2.5 grade point average (GPA) in occupational courses in the reporting year.

**1P2 Denominator:** Number of occupationally specific students who receive grades in occupational courses in the reporting year.

As in two prior year audits, the use of programs versus students was in effect only at the beginning of Perkins III and has not been used since. Correct FAUPL definitions measure the percent of students who met the standard.

- As noted in prior year audits' findings, the sub-indicators 1P1 and 1P2 data has been corrected with the implementation of the correction effective 2005-2006 reporting year. The data collection system Pennsylvania Adult and Postsecondary Student Attainment (PAAPSA) implemented in the 2006 CAR collected and reported all data elements for 1P1 and 1P2 and included Tech Prep data.

**Auditors' Conclusion:** Regarding the agreed upon CAR definitions for the 2004-2005 CAR in the agency response first bullet above, the auditors contacted USDE to confirm if a change was made and approved by USDE. According to USDE, PDE did not revise any definitions for the reporting year 2004-2005. All other management assertions in the agency response above relate to future submissions of the CAR.

As a result, our current-year finding remains as previously stated. We will review any corrective action in our subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 34:

#### CFDA #84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States

##### A Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (A Similar Condition Was Noted in Prior Year Finding #05-25)

**Condition:** As a result of federal resolution of multiple prior audit findings on debarment and suspension requirements, OVR was required to manually check the List of Parties Excluded from Federal Procurement and Nonprocurement Programs for new vendors enrolled in RSBS after August 1, 2000. OVR was also required to document the date when new vendors were checked for debarment/suspension in a field named "Debar Review" on the "Supplier Master Display" screen in OVR's computerized vendor system. During a prior audit period on June 19, 2003, OVR enhanced its system by adding a new data field named "Date Record Added" to indicate the date each new vendor is initially added to the vendor file.

We tested a sample of 19 vendors receiving RSBS payments in SFYE June 30, 2006, to verify whether OVR was documenting its review of the Federal List after August 1, 2000. We noted that for 8 of these 19 vendors, the respective vendor file indicated a "Date Record Added" between August 1, 2000 and June 19, 2003, indicating a review for debarment/suspension appeared necessary. However, for all eight vendors, there was no indication in the "Debar Review" field that the vendor was reviewed for debarment or suspension in accordance with federal resolution of the prior audit finding.

Our testing also disclosed that only one out of 19 vendors had a date in the "Debar Review" field, indicating that OVR reviewed the vendor for debarment or suspension. Ten out of 19 vendors tested were grandfathered under USDE's finding resolution dated August 1, 2000 since they were existing vendors as of that date, and OVR was not required to check existing vendors for debarment or suspension. However, these vendors were still in use by OVR for SFYE June 30, 2006, and there is a risk that grandfathered vendors could have been debarred or suspended subsequent to August 1, 2000 and not detected, since OVR is not required to check existing vendors for debarment or suspension.

**Criteria:** USDE Regulation 34 CFR 85.300, regarding participants' responsibilities for debarment and suspension, states in part:

*Section 85.300 What must I do before I enter into a covered transaction with another person at the next lower tier?*

#### *Doing Business With Other Persons*

*When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:*

- a. Checking the Excluded Parties List System;*
- b. Collecting a certification from that person if allowed by this rule; or*
- c. Adding a clause or condition to the covered transaction with that person.*

34 CFR 80.36(a) states:

*When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.*

Commonwealth Management Directive 215.9, Section 7.a.(2)(B), dated 4-16-99, states:

*If the agency makes a written determination of responsibility, the determination shall contain a statement that the contractor was determined to be responsible pursuant to this directive. This statement shall be included in the agency's contract file.*

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 34: (continued)**

**Cause:** A letter written by USDE personnel in August 2000 regarding resolution of a similar prior year finding stated that USDE accepted OVR's corrective action, which was to manually verify that all new vendors added on or after August 1, 2000 were not on the List of Parties Excluded from Federal Procurement and Nonprocurement Programs before these vendors were entered into OVR's computerized vendor file.

With respect to the eight vendors in question, OVR represented that these were not new vendors (i.e. added on or after August 1, 2000) and, therefore, they were not checked for debarment/suspension. In response to the prior year finding, effective June 19, 2003 OVR added an unchanging field called "Date Record Added" to the "Supplier Master Display" screen to indicate the date each new vendor is initially added to the vendor file. The date used as the "Date Record Added" for vendors existing prior to June 19, 2003 was the date from the "Add/Change Date" field. However, as noted in the prior year audit finding, the "Add/Change Date" field is automatically updated any time a change is made to the vendor file (i.e., address, phone number, contact person, etc.), so this date does not necessarily represent the date the vendor was initially added to the system. Therefore, for vendors existing prior to June 19, 2003 with "Date Record Added" dates between August 1, 2000 and June 19, 2003, and no date in the "Debar Review" field, there is no way to determine if the vendor was an existing vendor as of August 1, 2000 and not required by USDE to be checked for debarment/suspension, or if the vendor was new between August 1, 2000 and June 19, 2003, and required to be checked for debarment/suspension.

Furthermore, OVR could not provide any additional documentation to support that these eight vendors existed prior to August 2000 since their system only maintains historical data for three years. Therefore, OVR could not support their representation that these were not new vendors and should not have been reviewed for debarment or suspension.

In addition, USDE's finding resolution which did not require existing vendors as of August 1, 2000 to be checked for debarment or suspension seems to be outdated. Ten out of 19 vendors tested during SFYE June 30, 2006 were existing vendors as of August 1, 2000 who were still in use by OVR during SFYE June 30, 2006 and have not been checked for debarment or suspension in six years.

**Effect:** Since L&I personnel did not adequately document their verification that new service providers were not on the List of Parties Excluded from Federal Procurement and Nonprocurement Programs, a control weakness exists and there is limited assurance that RSBS funds were not paid to service providers who have been debarred or suspended from participating in federal programs.

There is also a risk that existing vendors as of August 1, 2000 who were still in use by OVR during SFYE June 30, 2006 could have been debarred or suspended and not detected, since USDE's finding resolution states that OVR is not required to check existing vendors for debarment or suspension.

**Recommendation:** We recommend that OVR personnel should check the Federal Excluded Parties List System when OVR personnel authorize a payment to a service provider in order to ensure that the service provider is not debarred or suspended. Since OVR uses some vendors for multiple years, checking vendors for debarment or suspension only when they are added to OVR's vendor list may not be adequate to address RSBS vendors who could become debarred or suspended at a later date. OVR should also maintain adequate documentation to support when service providers were checked for debarment or suspension.

**Agency Response:** This is a repeat of last years finding, but OVR's position remains unchanged from last year. OVR still does not agree that this finding should be issued. The auditors continue to feel they do not have the prerogative to decide not to issue this finding. Though this may be the technically correct position to take, it nevertheless seems to fail the test of reasonability when you review the facts. As we stated in our previous response to this finding, we cannot be expected to document that a debarment review has been conducted for any vendor added to our vendor file prior to June 19, 2003. This date is when, in accordance with our plan of correction for the audit period ending June 30, 2002, the Date Record Added field was added to our vendor file. Prior to the addition of the Date Record Added field, you could not verify with any degree of certainty when a vendor was added to our vendor file. In this year's finding they indicated 8 of the 19 vendors they tested had a Date Record Added between August 1, 2000 and June 19, 2003, which means these 8 vendors could all have been, and probably were, added to our vendor file before August 1, 2000. All eight

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 34: (continued)**

of these vendors failed the debarment test while it appears the 11 vendors entered into our system on or after June 19, 2003 all passed the debarment test. We have always felt the purpose of an audit was to correct deficiencies, but once those deficiencies were corrected that the auditee would be given credit for making the correction and would not have their feet held to the fire for matters that had obviously occurred before the deficiencies were corrected. It appears we are in a catch 22 situation. Until such time as we can obtain written clarification from RSA (USDE) stating they accept our corrective action plan, which asks that all vendors added to our system before June 19, 2003 be exempted from the Debarment review process, we will be unable to resolve this finding. We have been in contact with RSA (USDE) and have discussed this matter with them. They have asked us to provide them with an email regarding this situation, which we are currently in the process of doing, and they will provide us with their guidance and opinion on this matter. When this is sent we plan to copy BFM and the auditors with whom we are working on this matter. At the same time we will also be request RSA's technical assistance on the other matter brought to our attention in this matter, which is how we can best set up a process to do ongoing reviews of existing vendors.

**Auditors' Conclusion:** Only one vendor out of 19 vendors tested actually had written evidence of being checked for debarment and suspension. OVR uses many vendors for multiple years, and OVR's current procedures do not appear to be adequate to ensure that OVR's vendors are not debarred or suspended. USDE's finding resolution dated August 1, 2000 appears to be outdated because providers could have become debarred or suspended since the time of the previous resolution. Since over half of our sample items pertained to vendors that were "grandfathered" under USDE's prior resolution, there is little assurance that these vendors have not become debarred or suspended since OVR does not have procedures to re-check their debarment status. OVR should implement procedures to check all vendors for debarment or suspension on a regular basis. Therefore, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 35:

#### CFDA #84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States

##### Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs

**Condition:** The majority of employees charging personnel costs to RSBS work solely on Vocational Rehabilitation-related activities, and their salaries and benefits are charged 100 percent to RSBS and, therefore, do not maintain timesheets as supporting documentation. In lieu of timesheets, OVR implemented a federally-required semi-annual certification process during the fiscal year ended June 30, 2005 to certify that these OVR employees worked solely on the RSBS program.

Based on our audit inquiries, sampling of transactions, and review of job descriptions supporting the OVR employees charged 100 percent for the fiscal year ended June 30, 2006, we found the documented grant activities of OVR personnel to be allowable under RSBS. Although we determined OVR's activities to be allowable, we noted that for 2 employees, whose salaries were charged 100% to the RSBS program, with salaries totaling \$1,608 out of a sample of 13 employees with salaries totaling \$5,349, OVR did not include the employees in the signed semi-annual certifications on file to re-certify that the respective employees worked solely on the RSBS program during the audit period. During the state fiscal year ended June 30, 2006, OVR charged personnel expenditures of \$30,683,671 in salaries and \$11,223,709 in fringe benefits, or \$41,907,380 in total (federal portion) to the RSBS program.

**Criteria:** OMB Circular A-87, Attachment B, Section 8(h), pertaining to the support for salaries and wages states, in part:

- (3) *Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.*

**Cause:** OVR indicated that the employees in question should have been included in the signed semi-annual certifications but were inadvertently not included due to lack of review and oversight by OVR personnel. An internal control weakness exists in OVR's procedures to identify and ensure that the semi-annual certifications include all applicable employees being charged to the RSBS program.

**Effect:** Although our audit determined OVR personnel costs to be allowable, OVR's semi-annual certification documents did not include all of the 100 percent-charged employees. Therefore, OVR is not in compliance with a significant documentation requirement in OMB Circular A-87. In addition, without adequate procedures over the semi-annual certification process, there is limited assurance that OVR will comply with OMB Circular A-87 requirements in the future.

**Recommendation:** OVR management should strengthen internal controls to review and ensure that all employees who are charged 100 percent to the RSBS program are properly included in the signed semi-annual certifications in accordance with the provision in OMB Circular A-87.

**Agency Response:** Two employees who were 100% Federally funded we inadvertently left off of OVR's Semi Annual Certification lists. OVR is in the process of reviewing all 100% Federally funded positions to determine that they should be 100% Federally funded and for all those that should be that they appear on OVR's Semi Annual certifications.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 36:

#### CFDA #84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States

##### Internal Control Weakness Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA Results in \$64,177 in Unsupported Program Income

**Condition:** As part of rehabilitating Social Security beneficiaries, OVR is permitted to request reimbursement from SSA for the costs incurred while serving eligible vocational rehabilitation clients in the RSBS program. These SSA reimbursements are considered program income to the RSBS program and deducted from expenditures reported on the SEFA. OVR received approximately \$6 million in program income from SSA during state fiscal year ended June 30, 2006, based on the claims submitted.

In order to request SSA payment, OVR prepares and submits a Vocational Rehabilitation (VR) Provider Claim form to SSA for each eligible client. Our SFYE June 30, 2006 testwork disclosed that for one out of three clients that we sampled, OVR did not retain and provide the VR Provider Claim form for our review. Also, OVR did not retain and provide the OVR-208 Forms which supported the expenses claimed by OVR on behalf of the client for which OVR was reimbursed by SSA, the wage documentation from L&I's Bureau of Unemployment Compensation which establishes that the client is gainfully employed, or the Notice of Determination which shows SSA approval of the claim.

The amount in program income for RSBS that was reimbursed by SSA for the one sample item in question was \$64,177 out of a total of \$171,608 for the three claims sampled (Document No. RE94016715 posted to the SAP System on 8/19/05).

**Criteria:** 34 CFR 80.20 provides the following standard for financial management:

(b)(3) *Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.*

34 CFR 80.42 regarding record retention states:

(b) *Length of retention period. (1) ...records must be retained for three years...*

(c)(3) *Records for income transactions after grant or subgrant support. In some cases grantees must report income after the period of grant support. Where there is such a requirement, the retention period for the records pertaining to the earning of the income starts from the end of the grantee's fiscal year in which the income is earned.*

**Cause:** OVR stated they could not locate the documentation noted above to support the particular VR Provider Claim Form. Further, OVR personnel could not explain why the documents related to the SSA claim were not retained.

**Effect:** Since there was no documentation to substantiate the proper determination the SSA claim for \$64,177 in program income recorded for RSBS, this income is not properly supported in violation of federal regulations. Since supporting documentation was provided for the additional two sample items selected, this is not considered to be a material internal control weakness. Because of this lack of documented support for the sample item in question, OVR provides little assurance that the SSA income received by L&I in the RSBS program for this item is correct or legally earned in the current year. In addition, without adequate procedures for properly documenting the VR Claim Forms submitted to SSA, there is little assurance that future claims will be adequately supported. Finally, the SEFA may also be misstated as a result.

**Recommendation:** OVR should pursue appropriate settlement of the \$64,177 in unsupported program income with SSA and ensure it has adequate documentation on file to support all program income received from SSA in the current fiscal year under audit. Also, OVR should implement procedures to ensure that all VR Provider Claim forms and supporting documents which substantiate the proper determination of the claim for reimbursement are retained for the time period required by the Federal government.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 36: (continued)**

**Agency Response:** We were unable to locate one case file the auditors had requested. Our plan of correction will be to review our case file retention procedures to determine what can be done to strengthen them and in addition we have decided to keep copies of the Social Security file information in Central Office for up to three years.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 37:

#### CFDA #84.287 – Twenty-First Century Community Learning Centers

##### Internal Control Weakness in the OMB Circular A-133 Subrecipient Audit Monitoring System

**Condition:** As part of our audit of the Twenty-First Century Community Learning Centers (21<sup>st</sup> CCLC) Program for SFYE June 30, 2006, we noted that approximately \$971,000 in subrecipient expenditures was recorded under SAP General Ledger (G/L) Account number 6603000, “Grants to Institutions”. However, upon inquiry of PDE personnel and review of supporting documentation, we determined that these expenditures should have been recorded under G/L account number 6600300, “Federal Payment – Governmental Subrecipients”. These mis-posted payments were made to three different subrecipients with the most, over \$535,000, going to one entity, the Renaissance Advantage Charter School.

Further review of the Commonwealth’s overall OMB A-133 subrecipient audit tracking system disclosed that, because of the error mentioned above, the payments to these three entities under the 21<sup>st</sup> CCLC Program were not included on the Commonwealth audit tracking system since G/L account number 6603000, “Grants to Institutions”, is not recorded on this system. As a result, the Commonwealth’s subrecipient tracking system incorrectly reported less than \$500,000 in federal funds subgranted to one of the three entities, the Renaissance Advantage Charter School, for SFYE June 30, 2006. Since this subrecipient appeared to be below the \$500,000 threshold for requiring an A-133 Single Audit, no follow up was conducted by Commonwealth officials to obtain a required A-133 audit from this subrecipient.

**Criteria:** Management Directive 305.21, “Payments to Local Governments and Other Subrecipients”, Section 5.b.(6) states the following:

*b. Agencies are responsible for:*

*(6) Ensuring that all encumbrance and expenditure transactions affecting payments to subrecipients are posted to the appropriate general ledger account.*

Also, OMB Circular A-133, Section 400, states the following:

*(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:*

*(4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.*

In addition, an effective internal control procedure would ensure that all subrecipient agreements and expenditure transactions are properly recorded on the accounting system.

**Cause:** PDE personnel indicated that, at the beginning of the new grant period, they mistakenly coded several subrecipient agreements to the incorrect G/L number but they were not detected as part of their review procedures. After PDE personnel identified the miscoding, they began using the proper G/L account coding. However, PDE personnel did not then go back and correct the miscoded agreements on SAP or on the A-133 audit tracking system because they did not believe significant amounts of agreements were affected.

**Effect:** As a result of using the improper G/L account coding, it appears that one entity, the Renaissance Advantage Charter School was not properly tracked for subrecipient audit purposes although they received funds in excess of \$500,000. Our review of the Federal Single Audit Database disclosed that the last audit submitted by the Renaissance Advantage Charter School was for the fiscal year ended June 30, 2004. No subsequent audits have been submitted to the Federal Single Audit Database. With respect to the two other entities noted in the condition above, the miscoding of the payments did not cause noncompliance in the current-year audit submission for these entities. However, if the internal control weakness is not corrected, noncompliance with A-133 may recur in future audit periods.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 37: (continued)**

**Recommendation:** We recommend that PDE personnel review all current and prior subrecipient agreements to ensure that they were properly coded. In addition, PDE should correct any prior mispostings to ensure that subrecipients will be properly tracked for audit submission. Furthermore, PDE should strengthen its internal controls to ensure that all future subrecipient agreements are properly coded on SAP and the overall A-133 audit tracking system.

**Agency Response:** The LECS Education & Community Services Federal Accounting Division (ECS) corrected the expenditures and subrecipient records of the three subrecipients that transpired as of July 1, 2006. Additionally, the open encumbrances remaining in GL account number 6603000 have been corrected. To insure that the correct GL account number is being assigned, LECS Document Review and Control Division will notify ECS of any fund commitment documents assigned to GL account number 6603000. In addition, ECS will verify that the correct GL account number has been assigned to the invoices prior to processing for payment. The new verification process will begin immediately, thereby insuring that the assignment of the GL account number is correct. The PDE, Bureau of Community and Student Services corrected the GL account number 6603000 of proceeding transactions due to a directive given by the LECS Comptroller's Office.

LECS has notified the Bureau of Audits that due to general ledger coding error, the Commonwealth's subrecipient tracking system was understated for Renaissance Advantage Charter School.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 38:

#### CFDA #84.287 – Twenty-First Century Community Learning Centers

##### Internal Control Weakness in PDE's Monitoring of Federal Earmarking Requirements

**Condition:** As part of our audit of the Twenty-First Century Community Learning Centers (21<sup>st</sup> CCLC) Program for SFYE June 30, 2006, we examined PDE's procedures relative to the earmarking requirements imposed by the Federal government on the 21<sup>st</sup> CCLC grants. Based on our review of the SAP accounting system, we noted that PDE establishes two separate appropriations for each Federal grant, one for the awards to subrecipients (or approximately 95% of each grant award) and one for state administration and state activities (or approximately 5% of each grant award). However, our inquiry of PDE personnel and review of supporting documentation disclosed that PDE does not track state administration and state activities separately on the SAP accounting system to properly account for the two percent and three percent maximum earmarks for these funds mandated by Federal regulations. PDE only tracks the combination of these two requirements together as five percent in total, which is not sufficient.

**Criteria:** Title 20 of the United States Code, Section 7172 states the following regarding State use of funds:

*(1) In general*

*Each State that receives an allotment under this part shall reserve not less than 95 percent of the amount allotted to such State under subsection (b) of this section, for each fiscal year for awards to eligible entities...*

*(2) State administration*

*A State educational agency may use not more than 2 percent of the amount made available to the State under subsection (b) of this section for—*

- (A) The administrative costs of carrying out its responsibilities under this part;*
- (B) Establishing and implementing a peer review process for grant applications described in section 7174(b) of this title (including consultation with the Governor and other State agencies responsible for administering youth development programs and adult learning activities); and*
- (C) Supervising the awarding of funds to eligible entities (in consultation with the Governor and other State agencies responsible for administering youth development programs and adult learning activities).*

*(3) State activities*

*A State educational agency may use not more than 3 percent of the amount made available to the State under subsection (b) of this section for the following activities:*

- (A) Monitoring and evaluation of programs and activities assisted under this part.*
- (B) Providing capacity building, training, and technical assistance under this part.*
- (C) Comprehensive evaluation (directly, or through a grant or contract) of the effectiveness of programs and activities assisted under this part.*
- (D) Providing training and technical assistance to eligible entities who are applicants for or recipients of awards under this part.*

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 38: (continued)**

**Cause:** Based on discussions with PDE personnel, they appeared to be cognizant of the Federal earmarking requirements associated with the 21<sup>st</sup> CCLC grants. In addition, PDE personnel noted that they have historically accounted for the state-level costs in the 21<sup>st</sup> CCLC grants in this manner, but could not provide any other justification for only tracking state administration and state activities costs as five percent in total, and not by their separate earmarks.

**Effect:** Since no system exists to track state administrative costs separately from state activities costs, there is no assurance that PDE is complying with the Federal earmarking requirements for 21<sup>st</sup> CCLC Grants.

**Recommendation:** We recommend that PDE establish procedures to track and account for state administrative costs separately from state activities costs in order to comply with Federal earmarking requirements for the 21<sup>st</sup> CCLC Program.

**Agency Response:** The 21<sup>st</sup> Century Community Learning Center Grant allotment is separated by the awards to subrecipients (95%) and the state administration and activities costs (5%). The Bureau of Community and Student Services will establish an account separating the state administration and activities allotment by earmarking the state administrative costs (2%) and the state activities costs (3%) to monitor these funds in accordance with Federal Regulation, Title 20, Section 7172.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 39:

#### CFDA #84.357 – Reading First State Grants

##### Noncompliance Noted in PDE’s Allocations of Reading First Subgrant Awards to LEAs

**Condition:** In accordance with PDE’s application to USDE for Reading First funds, Pennsylvania developed a competitive funding formula to allocate and award Reading First subgrants to eligible LEAs. The funding formula is based on a \$400 rate per enrolled student and \$2,000 per teacher in K-3 classrooms. PDE calculated allocations to LEAs for the initial Reading First grant in 2003-2004. That allocation became known as the base year and, as long as there has been no decrease in overall Reading First funds, PDE has allocated the same amount to each LEA every year since.

In order to test PDE’s 2005-2006 allocations, auditors recalculated the allocation for a sample of the six largest LEAs, out of a total of 35 LEAs receiving a grand total of \$25 million in Reading First awards for the year. For each LEA tested, we obtained the documentation to support child and teacher counts. The following chart illustrates the results of our recalculation:

<u>LEA Name</u>	<u># of K-3 Students</u>	<u># K-3 Students X \$400</u>	<u># K-3 Teachers</u>	<u># K-3 Teachers X \$2,000</u>	<u>Auditor Calculated Total Allocation</u>	<u>Actual 2005-06 Total Allocation</u>	<u>Difference</u>
Harrisburg SD	2,222	\$ 888,800	116.5	\$ 233,000	\$ 1,121,800	\$ 980,000	\$ (141,800)
Lancaster SD	1,800	\$ 720,000	80	\$ 160,000	\$ 880,000	\$ 880,000	\$ -
Pittsburgh SD	5,371	\$ 2,148,400	283	\$ 566,000	\$ 2,714,400	\$ 2,715,200	\$ 800
Philadelphia City SD	31,305	\$12,522,000	1,295	\$2,590,000	\$15,112,000	\$ 9,677,016	\$(5,434,984)
Reading SD	4,980	\$ 1,992,000	224.5	\$ 449,000	\$ 2,441,000	\$ 2,459,000	\$ 18,000
York City SD	1,814	\$ 725,600	76	\$ 152,000	\$ 877,600	\$ 877,600	\$ -

PDE was unable to provide an explanation for the differences noted above or an explanation of how the actual 2005-06 allocations were calculated. In addition, PDE was unable to provide evidence that they had performed procedures to verify that the number of students and teachers reported by the LEAs were accurate for the 2003-2004 base year.

In addition to the allocations noted above PDE subgranted \$1.05 million to LEAs, during fiscal year 2005-2006, from a federal award it received supplementing its 2004-2005 Reading First grant. These supplemental funds were not distributed competitively or on a proportionate basis. PDE awarded \$400,000 to the Harrisburg School District and then allocated the remaining \$650,000 to each of the 35 LEAs, including the Harrisburg School District, based on the LEA’s proportion of their original 2004-2005 awards. PDE was unable to provide adequate support as to why the Harrisburg School District received the additional \$400,000, while other LEAs did not.

**Criteria:** Federal Regulation 20 USC 6362 (c) relating to subgrants to local educational agencies provides, in part:

*A State educational agency that receives a grant under this section shall make competitive subgrants to eligible local educational agencies.*

PDE’s approved application to USDE for Reading First State Grants states in Section 1, Part C, Subpart entitled “Funding Formula”:

*Pennsylvania has determined that in order to implement the rigorous scope of activities defined in the Reading First initiative, the funding formula is based on approximately \$400 per student. Additionally, to compensate for smaller rural schools, the amount of \$2,000 per classroom teacher in the recipient building will be added to the formula.*

In order for PDE to ensure that allocations are accurate and in accordance with program requirements, strong internal controls should be developed to ensure allocation calculations are accurate and fully documented.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 39: (continued)**

**Cause:** PDE officials stated that the Commonwealth's Reading First program has had employee turnover and was the responsibility of several different bureaus since the program's inception several years ago. As a result, the PDE management that we spoke with were unable to locate the documentation supporting either the formula used to allocate the current subgrants to LEAs or the \$400,000 supplemental subgrant to the Harrisburg School District.

**Effect:** The 2005-2006 subgrant award allocations did not comply with the Reading First competitive funding formula approved by USDE. In addition, there are weak controls at PDE over ensuring that its LEA allocations are in compliance and properly agree to supporting documentation.

**Recommendation:** We recommend that PDE pursue appropriate settlement with USDE, the federal awarding agency, regarding the noncompliance with federal competitive funding requirements for Reading First. We also recommend that PDE review and improve its internal control procedures over allocations and ensure each LEA is receiving the amount of Reading First funds they are entitled to based on PDE's competitive funding formula. PDE should also ensure that the performance of these control procedures is adequately documented.

**Agency Response:** PDE was awarded a Reading First grant in the 2002-03 school year based on a grant application that was submitted and approved by the United States Department of Education (USDE). The funding formula in the approved grant application is, as the audit finding states, \$400 per enrolled K-3 student and \$2,000 per K-3 teacher.

The initial allocation of Reading First funds took place in the 2003-04 school year and was completed and approved by the former bureau director. Individual school district applications described the formula to be used (\$400/student & \$2000/teacher) and each district identified the numbers of K-3 students and K-3 teachers.

Of the six selected and tested school districts, two received funds commensurate with the number of students & teachers reported on the application. Two received less than the formula would provide (Harrisburg 12.6% less and Philadelphia 35.9% less) and two others received more (Pittsburgh .03% more and Reading .7% more). Because each district submitted applications that included the formula and no correspondence regarding discrepancies in the allocation were received from any of the four districts in question, the PDE believes these allocations were adjusted at some time after the submission of the application because of changes in student and teacher data.

In the case of the Philadelphia School District, it is possible the allocation was adjusted because of the size of the district. Philadelphia could easily take over half of the state's Reading First allocation, leaving minimal funds for other eligible districts. Philadelphia's allocation may have been reduced so that sufficient funds were available to others, but no documentation exists to support that theory. However, as stated above, because there is no correspondence from Philadelphia School District questioning the amount allocated, the PDE believes that changes to the allocation were made in consult with the district and that Philadelphia was in agreement.

Because the initial 2003-04 allocations were the basis for awarding each subsequent year's allocations and there are more than sufficient funds available to provide level funding to each district, the PDE believes that reducing allocations for the two districts that received less than 1% more funds than their applications warrant would be detrimental to instruction and student achievement.

The second issue within this finding is the allocation of \$400,000 to the Harrisburg School District from the supplemental funds awarded to Pennsylvania in the 2004-05 Reading First Grant. These funds were awarded to the Harrisburg School District to implement a new early immersion program. The remaining \$650,000 of the supplemental award was distributed to all Reading First school districts on a proportionate basis.

Although the early immersion program was an appropriate use of Reading First funds, PDE realizes that awarding the additional \$400,000 to Harrisburg School District was not in alignment with the funding formula approved by the USDE. Therefore, PDE will seek resolution with the U. S. Department of Education.

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 39: (continued)**

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 40:

#### CFDA #84.357 – Reading First State Grants

##### Noncompliance and Internal Control Weakness in the LECS Comptroller Office System of Cash Management

**Condition:** Our cash management testing of the Reading First (RF) Program at PDE in SFYE June 30, 2006 disclosed noncompliance and an internal control weakness in LECS Comptroller monitoring of RF subrecipients for excess cash. In reviewing the June 30, 2005 subrecipient Single Audit Report submitted by Philadelphia School District (PSD) in our current year, we noted a finding by the auditors which disclosed \$87,384 in interest earned by PSD in RF because of excess cash on hand, to be remitted back to PDE. In following up with LECS Comptroller, we learned that beginning in October of 2004, LECS made significant cash payments to PSD without properly verifying that expenditures were being incurred by PSD and the cash was actually needed. As a result, before proper LECS monitoring was performed, PSD's cash balance accumulated to \$3.3 million by January 2005 and was not fully expended until January 2006, or approximately one year later. As a result, LECS had to suspend RF payments to PSD for the entire 2005 calendar year to allow the district to spend the excess cash. Further audit follow up disclosed that LECS Comptroller made similar payments to its other RF subrecipients in the same manner as PSD disclosed above, before properly checking that the cash was actually needed by the subrecipients.

**Criteria:** The grant agreement for the Reading First Program, between PDE and PSD, Appendix C, Subpart 5(b) states:

*The Grant Recipient agrees to implement a cash management system which will ensure that only the minimum amount of cash required to effectively operate the program is requested and/or kept on hand.*

**Cause:** When annual RF subrecipient contracts are not finalized and signed until later in the fiscal year, LECS initial payments to the subrecipients are delayed. When the contracts are then signed, LECS makes one-time, catch-up payments and then begins routine monthly payments, without checking actual cash needs at the subrecipient level. In addition, the LECS quarterly monitoring of subrecipient cash activity is delayed, so RF subrecipients can easily build up excess cash that is not prevented or detected in a timely manner by LECS. While LECS noted that PSD had excess cash-on-hand, and properly suspended future payments, they made no effort to recoup the excess Reading First funds and timely reduce drawdowns from the federal government.

**Effect:** PSD was allowed to maintain an excessive amount of cash-on-hand for an extended period of time in violation of federal cash management regulations. In addition, the internal control weakness in LECS monitoring could cause similar noncompliance in the future.

**Recommendation:** We recommend that the LECS Comptroller's Office re-evaluate their cash management policies and procedures, and not allow LEAs to maintain significant cash balances for an extended period of time in violation of federal cash management regulations.

**Agency Response:** The LECS Comptroller's Office will re-evaluate the existing cash management policies and procedures and notify LEAs if significant cash balances exist for an extended period of time.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 41:

#### CFDA #84.357 – Reading First State Grants

#### Internal Control Weaknesses and Noncompliance With Earmarking Requirements Result in Questioned Costs of \$1,669,416

**Condition:** In our audit of the Reading First State Grants program, we found weaknesses in PDE’s internal controls to ensure compliance with grant earmarking requirements. As a result of the weaknesses, we found material noncompliance with grant requirements and \$1,669,416 of questioned costs.

Reading First earmarking requirements state that PDE may expend no more than 20% of each year’s grant award in three categories combined: 1) professional in-service and preservice development and review; 2) technical assistance for LEAs and schools; and 3) planning, administration, and reporting. Within this combined 20%, PDE may not spend more than 65% (or 13% of the total grant award) on professional in-service and preservice development and review; 25% (or 5% of the total grant award) for technical assistance for LEAs and schools; and 10% (or 2% of the total grant award) for planning, administration and reporting.

In reviewing RF costs charged to the SAP accounting system for our current year, we learned that PDE misclassified planning, administration, and reporting costs of \$1,652,515 as professional development and technical assistance expenditures within the 2004-2005 and 2005-2006 RF grant awards. When these costs are properly re-categorized, we determined that the maximum 10% administrative earmark (or 2% of each year’s grant award in total) for both grant years were exceeded by \$358,514 and \$48,834, respectively. Additionally, for the 2003-2004 grant award, we reviewed costs recorded on the SAP system and found that the maximum 10% administrative earmark (or 2% of each year’s grant award in total) was exceeded by \$1,262,068. Administrative expenditures in question as of FYE 6/30/06 are summarized as follows:

#### Summary of Questioned Administrative Costs

Grant Award	Federal Grant No.	Award Amount	2% of Grant Award	Actual Expenditures	Over/(Under) Earmark
2003-2004	S357A030039	\$30,827,511	\$616,550	\$1,878,618	\$1,262,068
2004-2005	S357A040039	30,330,660	606,613	965,127	358,514
2005-2006	S357A050039	31,927,705	638,554	687,388	48,834
Total Questioned Costs					<u>\$1,669,416</u>

Furthermore, because PDE did not separately track and monitor compliance for the 65% and 25% requirements (or 18% of each year’s grant award in total), but lumped the related costs together in the same SAP account, we were not able to determine whether PDE complied with these separate earmarks for costs charged to the program during our current-year under audit. Actual cumulative expenditures charged to this combined SAP account for each applicable Reading First grant as of June 30, 2006 were as follows:

#### Summary of Professional In-service/Technical Assistance Costs

Grant Award	Federal Grant No.	Award Amount	18% of Grant Award	Actual Expenditures
2003-2004	S357A030039	\$30,827,511	\$5,548,952	\$3,036,913
2004-2005	S357A040039	30,330,660	5,459,519	3,481,395
Total Costs				<u>\$6,518,308</u>

As a result, we could not determine whether PDE complied with the individual earmarks within the \$6,518,308 combined expenditure total.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 41: (continued)

**Criteria:** Federal Regulation 20 USC 6362 (d) relating to formula grants to state educational agencies and state use of funds, provides, in part:

- (1) *A State educational agency that receives a grant under this section may expend not more than a total of 20 percent of the grant funds to carry out the activities described in paragraphs (3),(4), and (5).*
- (3) *Professional inservice and preservice development and review – a State educational agency may expend not more than 65 percent of the amount of funds made available under paragraph (1)..*
  - (A) *To develop and implement a program of professional development for teachers, including special education teachers, of kindergarten through grade 3...*
  - (B) *To strengthen and enhance preservice courses for students preparing, at all public institutions of higher education in the State, to teach kindergarten through grade 3...*
  - (C) *To make recommendations on how the State licensure and certification standards in the area of reading might be improved.*
- (4) *Technical assistance for local education agencies and schools – a State educational agency may expend not more than 25 percent of the amount of funds made available under paragraph (1) for one or more of the following:*
  - (A) *Assisting local educational agencies in accomplishing the tasks required to design and implement a program under this subpart....*
  - (B) *Providing expanded opportunities to students in kindergarten through grade 3 who are served by eligible local educational agencies for receiving reading assistance from alternative providers....*
- (5) *Planning, administration, and reporting*
  - (A) *Expenditure of funds – a State educational agency may expend not more than 10 percent of the amount of funds made available under paragraph (1) for the activities described in this paragraph.*
  - (B) *Planning and administration – a State educational agency that receives a grant under this section may expend funds made available under subparagraph (A) for planning and administration relating to the State use of funds authorized under this subpart including the following:*
    - (i) *Administering the distribution of competitive subgrants to eligible local educational agencies...*
    - (ii) *Assessing and evaluating, on a regular basis, eligible local educational agency activities assisted under this subpart...*
  - (C) *Annual Reporting – in general a State educational agency that receives a grant under this section shall expend funds made available under subparagraph (A) to provide the Secretary annually with a report on the implementation of this subpart.*

In order for PDE to ensure that earmarking is accurate and in accordance with program requirements, strong internal controls should be developed, functioning, and documented.

**Cause:** PDE officials stated they have one contract with one vendor to provide both professional in-service and technical assistance to LEAs receiving Reading First funds. Since the contract with this vendor does not break down the services, PDE did not earmark these costs separately on SAP.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 41: (continued)**

PDE officials indicated that they were unaware that costs for planning, administration, and reporting were erroneously being charged against the budget for professional development and technical assistance. They stated that this misclassification of expenditures would be corrected for the 2006-2007 grant award.

The Commonwealth's Reading First program has had employee turnover and was the responsibility of several different bureaus since the program's inception. As a result, the PDE officials that we spoke with were not knowledgeable about the earmarking issues disclosed above.

**Effect:** The \$1,669,416 of Reading First administrative expenditures, representing the amounts in excess of the maximum earmark of 2 percent of total grant awards, are questioned as unallowable.

In addition, we could not determine if PDE complied with the 65% earmark (13% of grant award) for professional in-service and preservice development and review, and the 25% earmark (5% of grant award) for technical assistance for the \$6,518,308 in combined RF costs charged to these earmarks during our audit period.

Furthermore, if the internal control weaknesses and SAP errors noted above remain uncorrected, the potential exists for additional noncompliance with RF earmarking requirements and questioned costs in future years.

**Recommendation:** We recommend that PDE pursue appropriate settlement with USDE regarding: 1) the \$1,669,416 in questioned costs noted above; and 2) the \$6,518,308 in combined earmarking costs noted above that we could not audit for compliance.

We also recommend that PDE review and improve its internal control procedures over earmarking and ensure that all necessary accounts (i.e., internal order numbers) are created to properly earmark the grant award's budget when entered into SAP. PDE should establish a system to ensure that all invoices are accurate, adequately supported, analyzed and properly reviewed prior to being charged against a specific earmark account on SAP. PDE should also ensure that the performance of these control procedures is adequately documented.

**Agency Response:** As required, PDE staff placed 80% of grant funds into a local account to be allocated to eligible school districts and the remaining 20% of grant funds into an account for administration/state use activities. In 2005, PDE staff realized the account for administration/state use activities needed to be split so that administrative costs could be tracked separately. PDE staff went back to the first year of the grant and separated the administration/state use activities account into two separate accounts so that administrative expenditures could be tracked. In every year after 2005, separate accounts were set up for administration and state use.

Beginning in the 2007 fiscal year, three separate and distinct accounts will be maintained for administration, professional development and technical assistance. The legislated limitations of 10%, 65% and 25%, respectively, will be applied to these accounts.

While PDE understands the necessity for maintaining appropriate accounting management, PDE does not believe that funds were spent inappropriately. All administrative and state use funds were used to provide professional development and technical assistance to Reading First schools and evaluative information to both schools and the PDE.

PDE will work with USDE to resolve this finding.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 42:

#### CFDA #90.401 – Help America Vote Act Requirements Payments

##### DOS Did Not Perform Adequate Monitoring of Subrecipients

**Condition:** Our audit of DOS's procedures for during-the-award monitoring of DOS subrecipients for compliance with federal regulations and contract provisions revealed that DOS did not adequately monitor the activities of its subrecipients. Although DOS does review subrecipient payment requests and certain other documentation submitted by the subrecipients, including MOE certifications, we determined that DOS did not perform any on-site visits of the subrecipients during the year under audit. Without the performance of on-site visits, DOS has no assurance that the equipment purchased by the subrecipients is at the proper location and is being used for its intended program purpose and that other goods and services claimed on the quarterly payment requests were for allowable program purposes.

While A-133 audits of the HAVA subrecipients are required to be conducted each year, this auditing activity does not eliminate the need for on-site program monitoring since the timing, focus and scope of A-133 auditing activities after year end are clearly different than compliance monitoring by program officials during the year.

Further, our audit and a separate audit performed by the U. S. Election Assistance Commission (EAC) OIG also found that DOS did not communicate the federal equipment management requirements to its subrecipients during the year under audit. Additionally, the EAC OIG report also noted that DOS did not have any policies or procedures in place to ensure the counties complied with federal equipment management requirements. Specifically, the EAC OIG report found that six counties visited did not maintain property records or the records did not contain all of the required information regarding HAVA funded equipment. DOS did implement certain corrective action in response to this OIG finding, including amending each subrecipient contract to include a federal equipment management provision, but this corrective action occurred subsequent to our audit period.

During the year under audit, payments to subrecipients reported on the SEFA totaled \$32,255,528 or 86 % of the total HAVA expenditures of \$37,467,944. Therefore, we consider the weakness to be material.

**Criteria:** The OMB Circular A-133 Compliance Supplement Part 3, M. Subrecipient Monitoring, states:

*A pass through entity is responsible for:*

*Award Identification-At the time of the award, identifying to the subrecipient the Federal award information and applicable compliance requirements.*

*During-the-Award Monitoring-Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*

41 CFR Part 105 -71.132 regarding equipment states in part:

*(b) States. A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures. Other grantees and subgrantees will follow paragraphs (c) through (e) of this section.*

*(d) Management requirements. Procedures for managing equipment, whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:*

*(1) Property records must be maintained that include a description of the property; a serial number or other identification number; the source of property; who holds title; the acquisition date; and cost of the property; percentage of Federal participation in the cost of the property; the location, use and condition of the property; and any ultimate disposition data including the date of disposal and sale price of the property.*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 42: (continued)**

**Cause:** With respect to on-site visits of counties, DOS indicated that prior to 6/30/06, all county contact was made through conferences and regional forums. DOS subsequently realized that most counties required more personal assistance in the administration of this program and implemented procedures to perform on-site visits beginning in September 2006. Regarding communication of the federal equipment management requirements to the counties and related monitoring for compliance, DOS indicated that this was an oversight when the initial contracts were drawn up for the counties and an amendment was executed to each county contract in March 2007 to adequately communicate these requirements.

**Effect:** DOS's during-the-award monitoring procedures were not adequate since DOS did not perform any on-site visits of its subrecipients during the year under audit. Additionally, DOS did not communicate the federal equipment management requirements to its subrecipients during the year under audit and had no procedures in place to ensure compliance with these requirements. As a result, DOS is not fulfilling its responsibilities under OMB Circular A-133 with respect to subrecipient monitoring and has limited assurance that subrecipients are complying with federal regulations, including the federal equipment management requirements in Section F, Part 3 of the A-133 Compliance Supplement.

**Recommendation:** In response to the EAC OIG report mentioned in the condition, DOS indicated that on-site visits of certain subrecipients were performed beginning in September 2006. Further as stated in the condition, we also noted that DOS did amend the contract with each subrecipient to adequately communicate the federal equipment management requirements. Accordingly, we recommend that DOS continue to perform these on-site visits, which can be conducted on a cyclical basis, and ensure that the visits cover all activities of the subrecipient, and include procedures for the inspection of equipment purchases.

**Agency Response:** Pursuant to the findings of the U.S. Election Assistance Commission's Notice of Findings and Recommendation dated September 15, 2006, the Department of State (DOS) began corrective action on this issue in September 2006. DOS agrees with this finding as well and will continue with the current course of corrective action initiated last year.

As of April 11, 2007, all subrecipient contracts have been amended to include a federal equipment management provision. DOS will require that county records include, but not be limited to: a description of the property; a serial number or other identification number; the source of the property; the name of the title holder; the location; the use and condition of the property; and the acquisition date. If a county disposes of any equipment, it must include the date of disposal; the sale price of the property; and the percentage of Federal participation in the cost of the property. Any newly acquired property will need to be reported to DOS as well.

On May 29, 2007, DOS sent a memorandum to all counties reminding them of the requirement to inventory all equipment purchased with HAVA funds. On June 15, 2007, DOS plans to issue written notice that will direct counties to submit copies of their equipment inventories and establish a July 31, 2007 deadline for submission. An itemized list of information required for counties to fully comply with the Federal and State requirements will be included. Upon receipt, DOS will thoroughly review these records for accuracy and compliance with Part 41 CFR 105-71.132 of the Common Rule.

DOS will then require counties to submit updated inventories of property on an annual basis or any time the equipment status changes including, but not limited to: acquisitions, sales, replacement, lease, damages, losses. These records will be reviewed for compliance with Federal and State law.

DOS will also continue to conduct on-site visits on a cyclical basis to ensure that counties comply with the Federal and State requirements. These measures will provide assurance that the equipment purchased by the counties resides at the proper location and is being utilized for its intended program purposes.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 42: (continued)**

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 43:

#### CFDA #93.283 – Centers for Disease Control and Prevention - Investigations

##### Noncompliance and Internal Control Weakness Regarding Semi-Annual Certifications for Personnel Costs (A Similar Condition Was Noted in Prior Year Finding #05-26)

**Condition:** During the state fiscal year ended June 30, 2006, DOH incurred personnel expenditures of \$6.4 million in total for the CDC program. This represents 13 percent of total CDC program expenditures for the year. Based on our audit, we determined that DOH employee salaries and fringe benefits were charged 100 percent to CDC, and the employees did not maintain timesheets as supporting documentation for these personnel charges.

We noted that DOH did not support any of its personnel costs charged 100 percent to CDC with semi-annual certifications, which are required by OMB A-87, that the employees worked solely on the CDC program for the period covered by each certification. Although employee job descriptions, auditor interviews, and budget documents appeared to support the allowability of current-year employee activities and related charges to CDC, the missing semi-annual certifications required by OMB A-87 represents an overall internal control weakness in DOH's documentation procedures supporting all of its personnel charges to the CDC program.

**Criteria:** OMB Circular A-87, Attachment A, Paragraph C, states that to be allowable under federal awards, a cost must meet the following criteria:

- *Be necessary and reasonable for the performance and administration of federal awards;*
- *Conform to any limitations or exclusions set forth in A-87...*
- *Be adequately documented*

In addition, OMB A-87, Attachment B, Section 8(h), pertaining to the support for salaries and wages states, in part:

- (3) *Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.*

**Cause:** CDC personnel indicated that they were previously unaware of the OMB A-87 semi-annual certification requirement for employees who work 100 percent of their time on the CDC program.

**Effect:** The lack of semi-annual certifications to clearly support 100 percent of salary and fringe benefit charges to CDC is a significant deficiency in the required documentation to demonstrate allowability of costs within OMB Circular A-87. Without strengthened internal controls over DOH's documentation and charging of personnel costs, unallowable costs may be charged by DOH to the CDC program in the future.

**Recommendation:** DOH should establish procedures to develop the federally-required semi-annual certifications for its employees being charged 100 percent to CDC.

**Agency Response:** In June 2006, DOH's Office of Public Health Preparedness (OPHP) contacted CDC's Procurement and Grants Office (PGO) for clarification of the semi-annual time sheet certification requirement for CDC Public Health Emergency Preparedness (PHEP) grant-funded employees. In June 2006 OPHP was told by PGO that OMB Circular A-87 did not apply to the program. OPHP was told that interpretation of the OMB Circular A-87 was up to each State to determine the level of certification needed. No official Program Determination Letter was sent by the CDC. Based on this ruling, DOH determined that the Position Descriptions and verification of employee performance through annual performance reviews were sufficient. In January 2007, DOH's OPHP again contacted CDC to request that their ruling

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 43: (continued)**

be put into writing. The written determination issued by the CDC on January 30, 2007, conflicted with the initial information received by the CDC and is quoted below. CDC quoted 45 CFR 92.20 “Standards for Financial Management Systems: A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Accounting Records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract, and subgrant award documents, etc.” On April 24, 2007, further clarification was received from Sharon Robertson, CDC, PGO, who stated, “The OMB Circular essentially requires a semi-annual certification, while 45 CFR 92 requires that the State accounting rules be followed. The inquiry about the nature of the certification (hardcopy with signature, mail, etc.) is a situation in which the State rules must be followed. If the State rules are silent on the nature of the certification, then the State program office should ask their State policy office for clarification.”

Due to conflicting guidance from CDC as to what is considered sufficient documentation to meet OMB A-87, OPHP has developed a Monthly Personnel Activity Sheet. This Activity Sheet will be completed by all DOH employees charged to the CDC PHEP Cooperative Agreement on a monthly basis. The Report will detail each employee’s activities for the month and the percent of time spent on each activity to ensure their time is spent on Public Health Preparedness. The report will be submitted by the employee to their supervisor for verification and then submitted to OPHP by the appropriate Bureau Director. This monthly report will be implemented in May 2007.

**Auditors’ Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 44:

#### CFDA #93.283 – Centers for Disease Control and Prevention - Investigations

##### Weaknesses in DOH Program Monitoring of CDC Subgrantees (A Similar Condition Was Noted in Prior Year Finding #05-27)

**Condition:** Consistent with our prior audit, our review of DOH's procedures for during-the-award monitoring of CDC subgrantees for compliance with federal regulations revealed that DOH does not adequately monitor the activities of CDC subgrantees. We found that to monitor its subgrantee programs, DOH conducted one off-site meeting and one conference call with all participating CDC subrecipients during our audit period. However, there are no procedures established at DOH to conduct regular on-site visits to CDC subrecipients to ensure compliance with CDC program requirements. DOH indicated that it began an on-site review process during March 2007, after the end of our current audit period.

Our audit also found that each subgrantee contract requires subgrantees to submit periodic performance reports to DOH for monitoring and review. However, not all of the subgrantees are submitting the required performance reports. DOH indicated that, beginning in January 2007, after our current audit period, DOH implemented a tracking system to properly obtain the quarterly performance reports from all CDC subrecipients.

**Criteria:** The OMB Circular A-133 Compliance Supplement Part 3.,M. Subrecipient Monitoring, states:

*A pass-through entity is responsible for:*

*During-the-Award Monitoring – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*

**Cause:** DOH officials stated that the CDC program is still relatively new and has been growing rapidly, DOH management stated that DOH concerned itself with getting the funding out to subgrantees more than conducting on-site visits to monitor the subgrantee use of the grant funds.

**Effect:** DOH is not adequately performing during-the-award monitoring of subgrantee activities to ensure subgrantee compliance with applicable federal regulations. Without on-site visits, DOH cannot be certain that services supporting expenditures claimed by the subgrantees are allowable and in compliance. Also, without on-site monitoring, DOH cannot confirm that CDC equipment purchased is being used by the subgrantees for CDC purposes. As a result, DOH provides little assurance of subrecipient compliance with federal regulations.

**Recommendation:** DOH should ensure that on-site during-the-award monitoring of all of its CDC subgrantees is performed routinely. In addition, DOH should ensure all subgrantees submit the required periodic performance reports. The performance reports should be analyzed to enhance DOH's monitoring of subgrantee activities.

**Agency Response:** The Bureau of Community Health Systems (BCHS) developed the following procedures for quarterly reports and site visits for County and Municipal Health Departments (CMHDs).

1. **Quarterly Reports** – Sub-grantee monitoring issues are discussed and documented in both the bi-weekly preparedness planning and the bi-weekly budget meeting minutes, as they arise. DOH has a Project Officer assigned to each sub-grant who is required to be in regular contact with sub-grantees to ensure contract requirements are being met. The Project Officer must report on the status of the grant activities. This reporting is made part of the bi-weekly preparedness planning and/or bi-weekly budget meetings that DOH holds to evaluate overall grant activity and budget status. There have not been any contract activity deficiencies reported by Project Officers. If deficiencies are identified, DOH's process would be to first notify the grantee of the need for required corrective action and request a plan of action from the CMHDs of how the corrective action will be implemented and,

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 44: (continued)**

ultimately, withhold future payment if the deficiencies are not corrected. This includes non-submission of required reports. Upon submission of required sub-grantee Expenditure and Progress Reports, notations are made by the Project Officers evidencing their review for compliance with the grant purpose and budget. On January 31, 2007, BCHS implemented the following process for ensuring receipt of quarterly reports due on November 30, February 28, May 31 and August 30 of the contract period. BCHS emails a reminder to each of the CMHDs to inform them that the quarterly expenditure and narrative reports are due to BCHS.

A spreadsheet has been designed and maintained to track the receipt of the quarterly reports from each of the CMHDs. The spreadsheet also has a notes column to track any follow-up that has been, or will be, conducted in this regard. A final reminder, following the end of the last quarter, notifies the Grantee that the Grant Year End Report is due.

2. Site visits – BCHS has developed a site visit form to be used when conducting site visits with CMHDs. Upon final approval of the form, site meetings will be scheduled over the next several months with each of the ten CMHDs to ensure compliance with CDC program requirements. These meetings will be scheduled on an annual basis, or more often, as necessary. BCHS also meets quarterly with CMHD Executive Directors at which time a discussion is held to provide information on activities in the field. OPHP attends these meetings to discuss preparedness activities.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 45:

**CFDA #93.558 – Temporary Assistance for Needy Families**  
**CFDA #93.575 – Child Care and Development Block Grant**  
**CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund**  
**CFDA #93.658 – Foster Care – Title IV-E**  
**CFDA #93.659 – Adoption Assistance**  
**CFDA #93.667 – Social Services Block Grant**  
**CFDA #93.778 – Medical Assistance Program**

### **DPW Did Not Specify CFDA Number and Other Required Award Information in Subrecipient Award Documents, Resulting in Noncompliance With OMB Circular A-133**

**Condition:** For the federal programs listed above, DPW did not always identify the CFDA title and number, award name or name of the federal awarding agency in the award documents provided to county and nonprofit subrecipients. This failure resulted in the omission of the Adoption Assistance program (CFDA #93.659) on some county Single Audit SEFAs, and the omission of the Foster Care – Title IV-E program (CFDA #93.658) and the Child Care and Development Block Grant program (CFDA #93.575) on some nonprofit Single Audit SEFAs. Therefore, these major programs were not properly audited at the subrecipient level in compliance with OMB Circular A-133, further requiring DPW to follow-up with subrecipients to ensure they are aware of the correct award information and proper Single Audits are performed.

**Criteria:** The Federal OMB Circular A-133 Compliance Supplement Part 3, Section M., related to Subrecipient Monitoring by pass-through entities, states:

*A pass-through entity is responsible for:*

*Award Identification – At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.*

*Subrecipient Audits – (1) Ensuring that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133, as revised) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133...*

*Pass-Through Entity Impact – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.*

**Cause:** According to management, DPW informs county subrecipients of their federal award information using allocation letters and plans, and concluded that the award information historically provided was sufficient.

**Effect:** Failing to include the CFDA title or number in subrecipient award documents can cause subrecipients and their auditors to be uninformed about what specific program and other regulations apply to the funds. In addition, if the internal control weakness is not corrected, noncompliance with Circular A-133 audit provisions will continue to occur in the future.

**Recommendation:** DPW should timely and adequately identify the CFDA title and number, award name and name of Federal agency to all subrecipients on award documents. DPW should also ensure proper follow up with subrecipients in instances where they are not properly aware of and mis-reporting federal award information to DPW.

**Agency Response:** The Bureau of Financial Operations, Audit Resolution Section, has made DPW program office contact staff aware of this specific audit finding, and has requested they institute corrective action for the noncompliance issues presented in the finding.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 45: (continued)**

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 46:**

#### **CFDA #93.558 – Temporary Assistance for Needy Families**

##### **Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (A Similar Condition Was Noted in Prior Year Finding #05-28)**

**Condition:** During our current audit period, we reviewed 46 active TANF case files to ensure that DPW is making an assessment of the TANF participants skills, prior work experience, and employability. Our review disclosed that 22 of the 46 cases were exempt from this requirement due to the participant being disabled, the case being child only assistance, the participant was a caretaker, etc. For the remaining 24 cases, our review disclosed that only 5 case file records provided by DPW contained documentation supporting DPW's initial assessment of the skills, prior work experience, and employability of the TANF recipient. Therefore, DPW could not support compliance with federal welfare reform regulations.

**Criteria:** Federal regulation 45 CFR 261.11(a) states:

- (a) *The State must make an initial assessment of the skills, prior work experience, and employability of each recipient who is at least age 18 or who has not completed high school (or equivalent) and is not attending secondary school.*

In addition, 45 CFR 74.53(b) states:

- (b) *Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of submission of the quarterly or annual financial report.*

**Cause:** DPW personnel stated that the Department's assessments consist of the RESET Participant Guide to Success (Guide - PA 1680) and the job search process. RESET, which stands for Road to Economic Self-Sufficiency through Employment and Training, is the process by which the recipient and the caseworker together prepare a plan of action using the RESET Guide. During a prior audit period, the DPW, Office of Income Maintenance, issued Operations Memorandums to remind caseworkers of the requirement to file and retain the Participant Guide to Success, PA 1680, as part of the client's case record for a period of three years. While DPW officials could not explain why the CAOs failed to maintain a copy of the RESET Guide within the TANF recipients' case files, we noted that DPW was not requiring the completion of a RESET Participant Guide until after the initial job search activity was not successful. If participants obtained employment, Form PA 1680 was not completed. However, we believe that DPW must document an initial assessment of skills, prior work experience, and employability prior to any job search, as they are required by federal regulations, and are necessary to ensure that each participant is directed to the employment and/or training for each participant.

**Effect:** Since DPW could not provide a copy of the completed RESET Guide (PA 1680) for applicable case files we tested, it cannot support compliance with federal regulation 45 CFR 261.11. Further, since the documented assessments were not maintained, we could not determine whether TANF recipients received the appropriate training and/or employment placement guidance required by TANF regulations and the federal Welfare Reform Act of 1996.

**Recommendation:** DPW should strengthen its existing procedures to ensure that the assessment of skills, prior work experience, and employability of each recipient is properly documented within a RESET Guide (PA 1680) and retained in each case file as required.

**Agency Response:** The recommendation given by the auditors in this years finding is a repeat from the prior year. The recommendation by the auditors states that DPW should strengthen its existing procedures to ensure that the initial assessment is properly documented within a PA 1680 and that the PA 1680 is retained in the client's file. The DPW asserts that it has a strong initial assessment process. However, DPW has recognized the need for a simple clarification as to when the PA 1680 needs to be completed and retained and when it does not need to be. What follows is an explanation of what DPW has done to provide that clarification.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 46: (continued)

Since the implementation of the contracted assessment in January 2005 and the subsequent integration of assessment into the first activity in March 2006, as well as a revised Medical Assessment Form, DPW has determined the PA 1680 is only necessary in certain instances as outlined in the Cash Assistance Handbook, Chapter [135.11](#). This section of the handbook was updated subsequent to the current audit period and serves as a solid corrective action in so far as it clarifies when a PA 1680 needs to be filed. Some pertinent language is as follows:

#### Assessment of Individuals Who Are Referred to a Contracted Program

- *Individuals determined mandatory for participation in RESET who are referred to a contracted program receive assessment upon entry into the contracted program as part of the first activity in which the individual is enrolled.*
- *The Participant's Guide to Success, (PA 1680) is not needed for individuals who are referred to a contracted program.*

#### Assessment of Individuals Who Provide a Completed Medical Assessment Form at Application

- *A PA 1680 is not needed unless the specific information regarding the individual's skills, prior work experience and employability is not obtained from the PA 600 and the interview and the Medical Assessment Form.*
- *Caseworkers have been instructed to narrate in CIS the information obtained regarding the individual's skills, work experience and employability*

#### Assessment of Individuals Who Are Not Referred to a Contracted Program and Do Not Have a Completed Medical Assessment Form

- *Using the information contained in the Pennsylvania Application for Benefits (PA 600), in combination with the interview process, the caseworker obtains the information needed to prepare a narrative in CIS that contains specific information regarding the individual's skills, prior work experience and employability; **OR***
- *Using the PA 1680 the caseworker obtains the information needed to prepare a narrative in CIS regarding the individual's skills, prior work experience and employability. (**NOTE:** When a PA 1680 is required and completed, caseworkers have been instructed that the PA 1680 must be retained in the individual's case record file for a period of three years.)*
- *In addition to the narrative in CIS regarding the individual's skills, prior work experience and employability, the case worker must include where the information was obtained such as from the PA 600 and the interview process or from the PA 1680.*

Hence, according to the updated language in the Cash Assistance Handbook, a completed and filed PA 1680 is no longer necessary in a significant number of cases. Therefore, the PA 1680 being required in the file is more the exception than the rule. The DPW feels that this policy clarification effectively serves the client, is in line with federal regulations, and provides corrective action for the audit finding.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 47:

#### CFDA #93.558 – Temporary Assistance for Needy Families

##### Inaccurate Reporting on the TANF ACF-199 Data Report (A Similar Condition Was Noted in Prior Year Finding #05-29)

**Condition:** Within the TANF program, DPW is required to submit the TANF Data Report, or Form ACF-199, on a quarterly basis. The ACF-199 Report provides HHS with various types of data on Pennsylvania’s TANF participants including family type, work participation status, subsidized and unsubsidized employment activity, job search and job readiness activities, etc. Each quarter, DPW electronically submits a file to HHS that contains the aforementioned data. During prior audit periods, this file consisted of three individual monthly files (one for each month of the quarter) of all TANF participants contained on DPW’s Client Information System (CIS). Effective October 1, 2003, as allowed by program regulations, DPW began to select a stratified random monthly sample of 250-300 cases for submission to HHS, as opposed to the monthly files of all participants.

In order to test the data on the file submitted to HHS, we obtained the file for the sample month of March 2006. We selected a sample of 46 out of the 258 total cases in the data file, and attempted to trace the key line items as required by the OMB A-133 Compliance Supplement to documentation in the participant’s case file. Although we saw evidence of DPW’s review of these cases, the files did not always have the necessary documentation to support actual hours reported by category. Our testing disclosed reporting errors and/or documentation discrepancies for 25 of the 46 cases, or 54.3 percent, as follows:

- For two of the 46 cases (cases A and B), there was no Person-Level Data (i.e., date of birth, social security number, work participation status, etc.) reported in the ACF-199 report as required.
- Out of the 46 cases reviewed on the data report, 31 cases had no work activity for the period and 15 cases included work activity. However, for 3 of the 15 cases with work activity, or 20 percent, the number of unsubsidized weekly employment hours (Item #49) reported was not supported by any valid documentation in the case file as follows:

Case	Hours Reported
C	20
D	38
E	20

- Documentation provided with case F was a statement from the employer dated 9/1/05 stating that the participant was on training and was expected to work 30 hours per week with a salary of \$75.00 per week, or \$2.50 per hour. This rate was less than the mandated minimum wage of \$5.15 per hour. Copies of three checks dated 2/10/06, 2/17/06, and 2/24/06 for \$75 each from the employer were provided with no support for hours.
- Documentation provided with cases G and H reporting 38 and 51 hours of unsubsidized employment, respectively, were projections based upon inconsistent methodologies. For the first case, one week’s pay stub was used to project hours. In the second case, six weeks of pay stubs were used. Further, self-employment hours were projected upon gross income without a subtraction of business expenses as required.
- Three of the 46 case files reported work experience hours (Item #52). However, there were no check stubs, timesheets, or other valid documentation from the employer supporting actual hours worked within the case file, as follows:

**COMMONWEALTH OF PENNSYLVANIA**

***Federal Award Findings and Questioned Costs - June 30, 2006***

**Finding 06 – 47: (continued)**

Case	Hours Reported
I	40
J	40
K	10

For cases I and J, the individuals were acting as caretakers for disabled relatives, and by DPW policy these individuals were automatically given credit for 40 hours a week of work experience without any valid support for hours.

- Five of the 46 case files, reported Vocational Education Training hours (Item #56). However, there were no timesheets or other valid documentation from the provider supporting actual hours participated within the case file, as follows:

Case	Hours Reported	Hours Per Case File	Difference
L	29	10	19
M	1	*	1
N	30	11	19
O	30	*	30
P	27	*	27

\* The Vocational Education Training hours could not be determined since documentation supporting the hours reported was not included in the case file.

For cases L and N, DPW policy was to automatically give credit for study hours at a ratio of 2 to 1 for class hours without any valid support.

- One of the 46 case files, case Q, reported 5 hours of job skills training (Item #57). However, there was no documentation in the case file that support 5 hours reported.
- One of the 46 case files, case R, reported 10 hours Job Search and Readiness (Item #54). However, the case file only supports 3 hours, so 7 hours were not supported by the case file.
- Three of the 46 case files, cases S, T, and U, did not report the participants’ social security or other identifying numbers within the Person-Level Data on the Data Report as required. (The case file indicated that they were child only cases, and the parents were illegal aliens and, therefore, did not have social security numbers. We noted that, because of their status, these individuals were not receiving regular TANF benefits.)
- For 4 of 46 cases, cases V, W, X, and Y, the case file documentation included evidence of potential ineligibility for TANF benefits due to client relocation and/or participation in TANF in another state or due to resources in excess of \$1,000. The files included no evidence of DPW (or OIG) follow up to possibly curtail or recoup TANF benefits paid or make any potential adjustment to exclude these cases from the ACF-199 Data Report, as applicable.

**Criteria:** Section 411(a)(1) of the Social Security Act states, in part:

(A) *CONTENTS OF REPORT.—Each eligible State shall collect on a monthly basis, and report to the Secretary on a quarterly basis, the following disaggregated case record information on the families receiving assistance under the State program funded under this part:*

(xi) *If the adults participated in, and the number of hours per week of participation in, the following activities:*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 47: (continued)

- (III) Unsubsidized employment.
- (V) Job Search
- (VI) Job skills training or on-the-job training.
- (VII) Vocational Education

(xii) Information necessary to calculate participation rates under section 407.

In addition, 45 CFR Part 265.3 states:

(b) TANF Data Report. The TANF Data Report consists of three sections. Two sections contain disaggregated data elements and one section contains aggregated data elements.

- (1) Disaggregated Data on Families Receiving TANF Assistance – Section one. Each State must file disaggregated information... such as the type and amount of assistance received, educational level, employment status, work participation activities, citizenship status, and earned and unearned income. The data apply to adults and children.

Federal instructions regarding the completion of the TANF Data Report for Vocational Education training (Item #56) state:

#### 56. Vocational Educational Training

*Instruction: As noted above, the statute contains special rules limiting an adult's (or minor child head-of-household's) participation in vocational educational training to twelve months. Enter, in this data element, the average number of hours per week of participation in vocational educational training that are within the statutory limits.*

In addition, the instructions regarding job search and job readiness (Item #54) states:

#### 54. Job Search and Job Readiness Assistance

*Instruction: As noted above, the statute limits participation in job search and job readiness training in four ways as follows:*

*Limitations: The four limitations concerning job search and job readiness are: (1) Job search and job readiness assistance only count for 6 weeks in any fiscal year; (2) An individual's participation in job search and job readiness assistance counts for no more than 4 consecutive weeks; (3) If the State's (Tribe's) total unemployment rate for a fiscal year is at least 50 percent greater than the United States' total unemployment rate for that fiscal year or the State is a needy State (within the meaning of Section 403(b)(6)), then an individual's participation in job search or job readiness assistance counts for up to 12 weeks in that fiscal year; and (4) A State may count 3 or 4 days of job search and job readiness assistance during a week as a full week of participation, but only once for any individual.*

29 USC 206(a) regarding minimum wage states in part:

*. . . Every employer shall pay to each of his employees who in any work week is engaged in commerce or in the production of goods for commerce, or is employed in an enterprise engaged in commerce or in the production of goods for commerce, wages at the following rates:*

- (1) *except as otherwise provided in this section, . . . not less than \$5.15 an hour beginning September 1, 1997;*

Section 140.11 of the DPW Cash Assistance Handbook states:

#### 140.11 Resource Limits

*The resource total for each budget group is determined separately. The resource limit for each group is as follows:*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 47: (continued)

TANF	One or more persons	\$1,000
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*If the total equity value of all countable resources of the budget group exceeds the limit, the budget group is ineligible for benefits during each calendar month in which the resource limit exceeds the limits.*

**Cause:** DPW officials indicated that, over the years, they have considerably increased their staffing resources and their time and effort dedicated to preparing and submitting an accurate TANF ACF-199 Data Report to HHS, and they believe these improved procedures are reasonably adequate to comply with federal reporting requirements. They acknowledge there are still discrepancies in supporting some of the actual hours reported, but they believe that these discrepancies are not necessarily errors in the data submitted, and they are not likely to have any significant impact on Pennsylvania's work participation rate calculated by HHS. DPW officials further pointed out that in 2006, a report was issued by the Federal GAO on HHS's Welfare Reform practices which disclosed that HHS does not have a sufficient mechanism to identify problems in TANF work participation data submitted by all states on their ACF-199 Data Reports. Since this GAO Report disclosed that there are major inconsistencies in how ACF-199 data is being reviewed and verified for accuracy and propriety in the different states (e.g., actual hours of work activity vs. scheduled hours), DPW admitted they have been uncertain over the years as to the significance of the discrepancies reported in the past for Pennsylvania, especially in relation to the other states. DPW also stated they have not always been certain about documentation requirements in the past, and whether such documentation should consist of actual hours of work activity or scheduled hours.

Regarding the current-year discrepancies reported above, DPW officials could not explain why documentation was not available to support the hours reported for employment, education, training, etc. DPW further stated that they encounter difficulties in attempting to secure documentation from outside parties to support all actual hours reported for each case. DPW officials also did not explain why one participant was not paid the mandated minimum wage, or why benefit payments were made to potentially ineligible participants that either relocated or participated in TANF in another state or appeared to have resources in excess of the allowed amounts, but were determined eligible to receive TANF benefits and reported on the ACF-199 Report.

**Effect:** Based on the error rates and the nature of the errors noted in the condition, DPW did not comply with federal reporting requirements. In addition, overall information submitted to HHS on the ACF-199 Report is not accurate or properly supported as required by federal regulations. As a result, HHS may not be accurately calculating and evaluating Pennsylvania's work participation rates within the TANF program. Also based on information noted in our review of TANF files, benefits may have been granted to ineligible individuals who may have been inappropriately included in the ACF-199 Report with inadequate DPW follow up to correct these errors, which could be the result of fraud.

**Recommendation:** DPW should strengthen its existing procedures over their review of the monthly sample of cases to ensure that all reported work activities are properly documented, supported, and classified, and that all participants included in the TANF Data Report have been properly determined eligible for TANF benefits. In addition, DPW should evaluate the feasibility of submitting revised ACF-199 reports for the FFY 2006. Also, DPW should review and evaluate its procedures and controls to accumulate, review, and report its TANF information on the ACF-199 Report and make the necessary revisions to ensure that future information reported is complete, accurate, and properly supported by the participants' case files. Finally, for cases V, W, X, and Y, DPW should ensure proper follow up is performed to ascertain eligibility of these participants for TANF benefits and pursue settlement on ineligible payments, as appropriate.

**Agency Response:** The Department disagrees with this finding. As we have attempted to explain to the auditors on several occasions, the federal government allowed states to set their own policies and procedures as to what constituted acceptable verification for case files during the time period of the audit. Accordingly, we believe the audit scope and methodology should have evaluated the Department's compliance with its own policies and procedures instead of evaluating the cases against criteria that instead seem to have been selected by the auditors. Since the audit report uses other criteria instead of the Department's policies during that time period, we believe the audit's conclusion that the Department did not comply with federal reporting requirements is incorrect.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 47: (continued)**

In virtually all of the cases cited in the audit, the Department met its own verification criteria that were developed in accordance with federal policy. Therefore, the Department was in fact in compliance with federal reporting requirements during that time period. We would be happy to provide the auditors with a copy of our policies and procedures for the time period in question.

Please note that, in three of the 45 cases reviewed as the basis for the audit report, the Department agrees with the audit report's assertion that documentation is currently incomplete. Specifically:

- Case Q: The case file showed five hours of participation but did not have documentation to support that level of participation. The Department is currently attempting to obtain verification. Please note that even had this case had adequate verification, the case file did not show enough hours to be given credit as meeting federal participation requirements. The case therefore does not affect the calculation of the participation rate.
- Cases O and P: The case files for these individuals contained verification that they had enrolled in an acceptable class but did not have independent verification of their attendance at that class. The Department is currently attempting to obtain that verification.

Finally, passage of the Deficit Reduction Act in February 2006 changed the requirements for verification of reported hours to ones set by the federal government. In compliance with this law, the Department submitted changes to its verification policies and procedures as required under the Act in September 2006. The Department is currently awaiting final approval by the federal government which is expected in accordance with the Act by September 2007. We would also be happy to provide the auditors with our new work verification plan that has been submitted to the federal government.

**Auditors' Conclusion:** In our Single Audit, we have been testing DPW's ACF-199 Data Report, and we have reported similar errors in DPW's reporting, for many past fiscal years under audit. In its audit resolution correspondence, the federal government (HHS) has clearly supported our position on what constitutes reasonable documentation to support the data submitted on this report. The audit approach and criteria we have used in the current-year audit has not changed and is in agreement with the federal government.

We would further like to point out that we reviewed the federal government's general guidance (issued April 30, 2007) on the changes required by the Deficit Reduction Act referred to in the agency response. We noted that even under this new criteria, DPW's current documentation to support its ACF-199 Report data will not be sufficient in the future. For example, the new federal guidance indicates that ACF-199 data should be supported by written documentation showing actual hours of work, actual hours of participation in job search and training, actual pay stubs, timesheets, etc. and per our finding above, DPW is currently not obtaining these supporting documents. We believe that DPW should follow our recommendation above in order to meet the new federal guidance applicable to future ACF-199 Data Reports.

As a result, our finding and recommendation, with the above clarifications, remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 48:

**CFDA #93.558 – Temporary Assistance for Needy Families**

**CFDA #93.575 – Child Care and Development Block Grant**

**CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund**

**Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs of at Least \$28,252 (A Similar Condition Was Noted in Prior Year Finding #05-30)**

**Condition:** Within the TANF program, DPW pays TANF participants special allowances for child care and other purposes such as emergency shelter, transportation, automobile related expenses, etc. to assist the participant in their employment and training activities. DPW also pays special allowances for child care to TANF participants under the CCDF Cluster. We noted a total of \$194.6 million in total federal and state-funded special allowances posted to the Statewide SAP System for SFYE 6/30/06, which consisted of the following amounts (in millions):

<u>Special Allowance</u>	<u>TANF</u>	<u>CCDF</u>	<u>Total</u>
Child Care – Federal	\$27.9	\$14.4	\$ 42.3
Child Care – State	53.6	58.9	112.5
Other – Federal	21.5	--	21.5
Other – State	18.3	--	18.3
Total	<u>\$121.3</u>	<u>\$73.3</u>	<u>\$194.6</u>

It should be noted that the state-funded totals above represent special allowances paid to meet federal TANF and CCDF Maintenance of Effort (MOE) requirements. Special allowance payments recorded on SAP post via interface from DPW's agency-operated CIS system, where each individual special allowance payment is originally recorded.

Authorization and approval of special allowance payments is maintained on DPW standard Form PW-764, Authorization/Instruction Sheet, which is approved and signed by CAO personnel or approved on-line. Documentation such as sales receipts, verification of child care (as documented on Form PA-1583 or PA-1591), verification of housing assistance, etc. should be maintained with the PW-764 to support the allowability of each special allowance payment. Each special allowance payment, consisting of both the federal and state MOE amount, is posted to DPW's CIS System as one combined total.

In order to test TANF and CCDF special allowances paid to TANF participants during our audit period, we obtained a CIS printout of benefit payments made to 46 TANF participants sampled by us from the TANF ACF-199 Data Report submitted to HHS for our test month of March 2006. Based on our review of each CIS printout, we judgmentally selected a sample of 76 special allowance payments made throughout the current year to 22 of the 46 TANF participants totaling to \$28,252. This sample was selected from the overall population of \$194.6 million in special allowance payments charged as federal CCDF dollars, federal TANF dollars, and state MOE dollars combined (see table above). In response to our request for support, DPW did not provide any documentation to support the allowability of all 76 special allowance payments sampled, totaling to \$28,252.

It should be further noted that known fraud affecting TANF special allowances was documented in a separate Commonwealth OIG report covering a prior audit period. Also, as noted in another current-year Single Audit finding, DPW's reviews of case worker benefit-granting activities were not being performed as required. Therefore, this demonstrates a higher risk of potential fraud with special allowance expenditures.

In addition, prior to October 1, 2005, DPW could not provide audit trails to support the recording of individual CIS child care payments onto SAP for any EBT related payments. SAP is the Commonwealth's general ledger from which the SEFA is prepared. Current-year child care payments issued within TANF and CCDF with no audit trail from July 1, 2005 to September 30, 2005 totaled to \$13.2 million.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 48: (continued)

**Criteria:** 45 CFR Part 92.20(b)(2) states:

*Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.*

In addition, 45 CFR Part 92.42(b)(1) states:

*(b) Length of retention period. (1) Except as otherwise provided, records must be retained for three years. . .*

**Cause:** DPW officials could not provide the documentation to support TANF and CCDF special allowance payments requested for our sample. In addition, DPW and PHHS officials could not explain how individual child care expenditures on CIS are charged to CCDF and TANF on SAP, especially for EBT transactions, to support audit trails, prior to October 1, 2005.

In prior years, DPW's Division of Quality Control (QC) in the Office of Income Maintenance included sampling and review of special allowances as part of its oversight and monitoring procedures to ensure TANF and CCDF payments were appropriate and allowable. As part of our prior Single Audits of TANF and CCDF, we noted that QC's internal audit work performed throughout the fiscal year had a positive impact on overall internal control. However, in the current year, QC personnel no longer included special allowances in its review and testing of TANF and CCDF, so internal controls were not as effective in our current year.

**Effect:** DPW could not provide documentation to support \$28,252 of special allowance payments charged to TANF, which represents 100 percent of our sample. At least \$28,252 are, therefore, unallowable questioned costs. Since, as explained above, we could not track individual special allowance charges on CIS to SAP, we could not ascertain whether these CIS charges were made to TANF or CCDF, or whether the costs ended up as federal or state funded prior to October 1, 2005. In addition, DPW internal controls over its record keeping to support special allowance payments are not adequate. Based on the fact that DPW could not provide documentation to support any special allowance payments, we consider this weakness to be pervasive throughout the TANF and CCDF programs, and inappropriately puts the entire population of \$194.6 million in TANF and CCDF special allowances at high risk for lack of documentation. Therefore, there are additional unknown questioned costs up to the population of special allowance payments for the current year.

Furthermore, DPW cannot support whether TANF and CCDF child care expenditures were accurately transferred and posted to SAP and rolled up properly into the SEFA prior to October 1, 2005. Without the necessary audit trails to support amounts reported on SAP and the SEFA, an additional weakness is noted. Furthermore, like the total population of special allowance payments discussed above, we consider this audit trail deficiency to be a pervasive internal control weakness over the population of \$13.2 million in DPW child care payments to TANF participants for the period July 1, 2005 to September 30, 2005.

**Recommendation:** We recommend that DPW pursue appropriate settlement with HHS regarding the \$28,252 of questioned costs for TANF, and the unknown additional questioned costs noted above.

In addition, DPW should establish a system of strengthened internal controls over their case file documentation to support allowability and establish effective record retention procedures to ensure that adequate documentation is obtained and maintained on file to support TANF and CCDF special allowance payments. DPW should also establish procedures to ensure an adequate audit trail is available as support that all individual child care payments posted to CIS accurately trace to SAP and support each SAP posting and the proper roll-up into the SEFA.

**Agency Response:** The Department disagrees with the assumption that there is no documentation to support special allowances payments for any case selected for the audit. Case record documentation for special allowances was requested by the auditors in various phases during the month of June and was provided on June 19, 2007.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 48: (continued)**

The Department does have plans to restore Quality Control sampling and review of special allowances as recommended by the audit findings. Reviews will begin for the month of June 2007. We expect that this internal audit work will improve internal controls over issuance of special allowances.

**Auditors' Conclusion:** The documents provided by DPW in response to this finding did not resolve the noncompliance and questioned costs in the finding for the following reasons:

Payments for most non-child care special allowances were approved on-line by caseworkers, and not subject to supervisory review. We noted that most non-child care special allowances, whether approved on-line or with the use of a PW-764 form, were supported by estimates or bills from vendors, prospective employers, or educational institutions, and these special allowances were in most cases approved as additional authorizations on the client's EBT card in amounts ranging from \$11.76 to \$1,469.00 for our sample. However, none of the documents provided included paid receipts from the vendors, prospective employers, or educational institutions to evidence the client actually paid for and received the intended special allowance benefit. Such allowances included clothing, auto repairs, down payments for automobiles, books, supplies, equipment and tools. Also, in some instances CAO employees were granting two special allowances on the same day, or misclassifying the nature of the special allowance, thereby exceeding the regulatory DPW-imposed limits on special allowances (e.g., clothing allowances are limited to \$150 per job, books and supplies a \$500 limit, auto repairs a \$400 limit). We also noted that one CAO paid \$400 in our sample in September of 2005 for transmission repairs, and then violated the limit when it paid another \$400 in December of 2005 for transmission repairs for the same automobile. In each case, the CAO did not provide any paid receipts for the repairs, but only estimated bills. In another case, a CAO paid a \$300 emergency shelter grant; however, the lease provided was not signed by the tenant and the property address section of the lease was blank.

For child care special allowances paid, DPW did provide a copy of PA-1583 Child Care Invoice/Verification of Child Care Costs; however, such forms were missing the signature of the child care provider and/or the parent/caretaker certifying the child care was actually rendered, and in another case the form was dated prior to the end of the billing period.

We believe that DPW is not obtaining adequate documentation to support the actual use and application of its special allowance payments under TANF and CCDF, as required by federal regulations. Furthermore, based on the documents actually provided by DPW for our sample as a result of this draft finding, the lack of proper documentation to support special allowance payments appears to indicate pervasive non-compliance for the entire population of \$194.6 million for the current-year under audit. Therefore, the potential questioned costs are likely much higher than the amount actually questioned in our finding.

Based on the agency response, our finding and recommendation remains previously stated, with the above clarifications. We will review any corrective action in our subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

### **Finding 06 – 49:**

#### **CFDA #93.568 – Low-Income Home Energy Assistance Program**

##### **Systemic Weaknesses Exist in LIHEAP That Resulted in Potential Fraud and Abuse and Questioned Costs**

**Condition:** As part of our Single Audit of LIHEAP, we inquired about the existence of other internal or external audits of the program that could impact our Single Audit for SFYE June 30, 2006. We noted that the Pennsylvania Department of the Auditor General, acting separately, conducted a one-time independent audit of the LIHEAP program for SFYE June 30, 2006, and performed detailed compliance and internal control testing which was similar to the federally-required testing in our Single Audit. As a result, we obtained and reviewed the audit report for this separate audit. We are reporting the following finding and questioned costs, where applicable, related to LIHEAP:

DPW administers LIHEAP through respective CAO and Crisis Contractors. DPW utilizes the LIHEAP Information System (LIS) to process cash and crisis applications and to determine the benefit amount to be paid. The LIS relies on SSNs to track each applicant. Additionally, the LIS identifies household members claimed by each applicant when applying for LIHEAP benefits.

As part of our audit, we obtained LIS computer files from DPW containing benefit payment data processed between July 1, 2005 and June 30, 2006. The population of LIHEAP cash and crisis payments for SFYE June 30, 2006 was \$156,759,000, which included \$137,459,000 in federal payments (or 87 percent) and \$19,300,000 in state-funded benefits (13 percent). This population of payments was recorded on both the Commonwealth's statewide SAP accounting system and on DPW's in-house LIS system. Total federal LIHEAP expenditures reported on the June 30, 2006 SEFA was \$168.2 million. We used auditing software to extract LIHEAP data processed by six out of 67 CAOs (Philadelphia, Allegheny, Lancaster, Lehigh, Perry and York) and to search or "mine" the data for suspicious or questionable LIHEAP transactions based on applicant names, addresses, SSNs, or amount of benefits received. We also compared applicants' name and date of birth to a Social Security Administration file for SSN validation. Additionally, we compared applicants' household income to their 2005 Personal Income Tax (PIT) information provided by the Pennsylvania Department of Revenue. Out of the total state and federal population for SFYE June 30, 2006, Philadelphia CAO processed \$36.5 million in cash and crisis payments (or 23.3 percent of the total paid statewide), Allegheny processed \$13.2 million (or 8.4 percent), and the other four sampled CAOs processed a combined \$8.2 million in cash and crisis payments (or 5.2 percent). The six sampled CAOs processed a total of \$57.9 million in LIHEAP cash and crisis benefits, or 37 percent of the statewide total for the year. As a result, we identified situations that indicate potential fraud and abuse of LIHEAP benefits that relate to:

- applicants using SSNs that are invalid or associated with deceased individuals;
- applicants filing multiple applications using different SSNs;
- applicants living at different residences claiming the same household members;
- applicants underreporting income on their LIHEAP applications;
- applicants receiving excessive benefits; and
- applicants receiving benefits for water/sewer bills.

For Philadelphia County, we initially identified 982 applicants that had potential patterns of abuse, similar to the situations identified above. We asked the Philadelphia CAO to provide written explanations and documentation regarding these situations. The Philadelphia LIHEAP Coordinator, who oversees the operation, responded in writing that the situations in question were essentially due to data processing input (keypunch) errors. No supporting documentation was provided to substantiate this response. As a result of the Philadelphia CAO's response and its failure to provide any documentation to support its position, we selected 348 applicants from those initially identified and some from additional data mining and requested both cash and crisis applications, and other related support from the Philadelphia CAO and/or the Crisis Contractor.

Of the 348 applicants, we were only provided cash and/or crisis applications for 105 applicants (30 percent). The remaining 243 applicants' (70 percent) applications for either cash or crisis, or both (\$140,527 in total benefits paid) could not be located by the Philadelphia CAO and/or Crisis Contractor. Both the Philadelphia CAO LIHEAP

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 49: (continued)**

Coordinator and LIHEAP Crisis Contractor Coordinator agreed that they are responsible for maintaining this documentation and stated that the missing documentation could indicate potential fraud by employees. The Philadelphia CAO LIHEAP Coordinator stated that she was aware of past fraud situations whereby employees deliberately removed or never filed applications in case files, and then rearranged some of the alphabetical files to make someone think the application was misfiled rather than missing.

Based on our review of the applications provided for 26 of the 105 applicants, as well as other documentation received, we found 23 situations that either the Philadelphia CAO LIHEAP Coordinator or the LIHEAP Crisis Contractor Coordinator validated to be potentially fraud. In each case, the auditors presented the situations along with any supporting documentation to the respective coordinator for review. Based on their review, they confirmed that these appeared to be fraudulent situations. This assessment was based on their expertise, knowledge, and first-hand experience with prior fraudulent cases detected in the program. The following describes several of these situations:

1) **Benefits Received By Applicants Who Appeared to Fraudulently File Multiple Applications Using Variations of Their SSN**

We found six situations where applicants appeared to fraudulently file two or three applications and received benefits. Two applicants received cash benefits and four received crisis benefits. In one instance, we found that an applicant filed three crisis applications using three variations of her SSN, and received \$1,500 in crisis benefits. The LIHEAP Crisis Contractor Coordinator stated that this situation appeared to represent a scheme to fraudulently receive benefits. The range of potential fraudulent payments for these six situations totals \$2,700 to \$5,300.

2) **Benefits Received By Applicants Residing in the Same Household Who Appeared to Fraudulently File Separate Applications**

We found three situations involving applicants, residing in the same household, separately applying for crisis benefits using a slight variation in their address. In each situation, the household received \$900 in crisis benefits. The LIHEAP Crisis Contractor Coordinator stated that these are examples of households who have appeared to fraudulently receive excessive benefits. The range of potential fraudulent payments for these three situations totals \$900 to \$2,700.

3) **Benefit Payments Appeared to be Fraudulently Processed and Related Applicant Information Does Not Exist on the Database**

We found eight situations where applicants applied for and received the maximum crisis benefits totaling \$4,800 (\$600 x 8 applicants). Subsequent to these payments, these applicants received additional crisis benefits of \$2,700 by using slightly different SSNs. However, the crisis contractor database retained no data to support these later payments and no crisis applications were found at the crisis contractor's office. The range of potential fraudulent payments for these eight situations totals \$2,700 to \$7,500.

LIHEAP crisis benefit transactions are entered in the crisis contractor database and then manually sent to the CAO for entry into the LIS. The Philadelphia LIHEAP Crisis Contractor Coordinator stated that either the records for these later eight transactions were deleted from the crisis contractor database or never entered and someone at the CAO who processed the initial crisis transactions appeared to have fraudulently processed a second set of crisis transactions by varying the SSNs.

4) **Benefits Received By Applicants Residing in Large Subsidized Housing Complexes Who May Not Be Eligible For LIHEAP Cash Benefits**

We found six situations (\$2,128 in actual benefits paid) where applicants received LIHEAP cash benefits who reside at several complexes classified as subsidized housing. Our review of two of these applications raised concerns which were later supported by the CAO LIHEAP Coordinator that these applications should not have been processed due to insufficient information. Because these complexes are listed as subsidized housing, individuals

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 49: (continued)**

residing in them may be already receiving rent discounts and, therefore, not eligible to receive LIHEAP cash benefits. The CAO LIHEAP Coordinator stated that, because of insufficient documentation, one could not determine whether the individuals were receiving reduced rent. Furthermore, the Coordinator stated that these applications appeared suspicious due to a worker's signature not being legible on the application, and because the employee, who approved the second application, had been previously referred to the Office of the Inspector General for an employee fraud investigation regarding circumstances unrelated to this particular situation. With respect to the four other applications reviewed, the CAO LIHEAP Coordinator had similar responses.

Overall, 440 applicants residing at these complexes received LIHEAP benefits of \$101,614.

In addition to the potential fraud situations described above, we also found the following instances that warrant further investigation because initial indicators found through data mining, suggest possible fraud and abuse. Some of these are from our initial data mining and some are from subsequent data mining.

- 429 of the initial 982 applicants using SSNs associated with deceased individuals receiving LIHEAP benefits of \$162,381.

For example, an applicant who applied for and received LIHEAP cash benefits of \$238 and crisis benefits of \$300 in December 2005, used a SSN of an individual who died in May 2000.

- 549 applicants receiving benefits for water/sewer bills receiving LIHEAP benefits of more than \$182,000 (based on subsequent data mining).

According to DPW, if water is necessary to operate an applicant's heating system (e.g. steam heat/radiators) then LIHEAP benefits can be used to pay water bills. However, because the CAO or crisis contractor cannot verify water use in heating systems, these payments are suspect for potential fraud and abuse.

For example, an applicant was approved for a cash benefit of \$154 in December 2005, as well as two crisis payments totaling \$600 in November 2005 and April 2006, to be paid to the City of Philadelphia Water Revenue Bureau and applied toward the applicant's water/sewer bill balance. There was no documentation in the case file that indicated water was an integral part of the applicant's primary heating system.

A second applicant received benefits for three different utilities including \$86 for water/sewer bills. Again, nothing was in the case file supporting water usage.

- 8 applicants underreporting income on their LIHEAP applications. (Total LIHEAP payments to these applicants was \$4,085.)

For example, on November 30, 2005, an applicant with three additional household members reported 30 days of household income totaling \$1,564, which annualizes to \$18,768 (\$1,564 x 12). However, based on income reported by these household members on their 2005 PIT return, one member had approximately \$23,500 of income and another member had almost \$11,000 of income. Collectively, household income totaling \$34,500 exceeded the LIHEAP household limit for four members by \$8,377. Therefore, the household would not have been eligible for LIHEAP benefits.

Although we have hundreds of applicant transactions that appear to indicate potential fraud and abuse, due to the volume of concerns or the lack of documentation available, we did not analyze all of them. As a result, and in conjunction with potential fraud and abuse validated by the Philadelphia CAO LIHEAP Coordinator and LIHEAP Crisis Contractor Coordinator, we forwarded the information above and the applications received from the Philadelphia CAO and crisis contractor to the PA Office of Inspector General.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 49: (continued)**

Based on the data mining results for Philadelphia County, we also performed data mining techniques for Allegheny County, which processes the next highest number of LIHEAP applications. Because our preliminary data mining results showed similar situations of fraud and abuse in Allegheny County, we requested applications and supporting documentation for 230 applicants. While obtaining this documentation at Allegheny County, we interviewed the LIHEAP Crisis Contractor and the CAO Income Maintenance Program Representative who is responsible for program oversight. They each stated in December 2006 that they first became aware of possible fraud in LIHEAP when they began pulling the applications and documentation we requested. In fact, during our interview the LIHEAP Crisis Contractor confirmed the existence of potential applicant fraud in three situations based on arbitrarily reviewing some of the applications we requested. She acknowledged that they would be analyzing the applications and support for all the applicants we requested. However, as of March 14, 2007, the LIHEAP Crisis Contractor stated that this analysis has not been started due to being busy with current LIHEAP activities.

We also requested explanations and/or supporting documentation for 101 applicants in Lancaster County, 50 applicants in Lehigh County, 13 applicants in Perry County, and 83 applicants in York County who appeared to have used invalid SSNs or SSNs associated with deceased individuals, applicants living at separate residences both claiming the same household member, or applicants living in the same residence both applying and receiving excessive crisis benefits. We reviewed the explanations/information provided from these four counties for the 247 applicants and found the following:

Lancaster: Insufficient responses for 13 applicants using invalid SSNs, 10 applicants living at separate residences both claiming the same household member, and two applicants claiming different income on different applications. County management indicated possible impropriety for two other applicants using SSNs of deceased individuals. (Total benefits paid to these 27 applicants were \$6,254.) The explanations and/or support provided for the remaining 74 applicants were reasonable, and therefore not considered potential fraud situations.

Lehigh: Potential fraud was validated by county management for one situation related to using an SSN related to a deceased individual. Additionally, county management indicated possible impropriety for two situations related to using invalid SSNs. (Total benefits paid to these three applicants were \$500.) The explanations and/or support provided for the remaining 47 applicants were reasonable.

Perry: Insufficient responses for five applicants using SSNs associated with deceased individuals. As a result, these are potential cases of fraud and abuse. (Total benefits paid to these five applicants were \$1,327.) The explanations and/or support provided for the remaining eight applicants were reasonable.

York: Potential fraud was validated by county management for four applicants living at separate residences both claiming the same household member(s); and four applicants residing at two residences both applying and receiving excessive crisis benefits. Additionally, we found two insufficient responses: one related to an applicant using an invalid SSN, and one related to two applicants living at separate residences both claiming the same household member. These are additional cases of potential fraud. (Total benefits paid to these 10 applicants were \$2,313.) The explanations and/or support provided for the remaining 73 applicants were reasonable.

Based on these situations, we believe that the potential for fraud and abuse exists in each of these counties and have forwarded the applicable applications and documentation received from these counties to the PA Office of Inspector General.

**Criteria:** The LIS must be designed to ensure accountability and accuracy for the processing of LIHEAP applications. Computer controls, such as automatic SSN verification and checks with similar names, dates of birth, and addresses, must be in place to reduce the risk of fraud and abuse by applicants applying for LIHEAP benefits. In addition, manual controls at each CAO and crisis contractor must be in place and functioning to ensure the propriety and accuracy of LIHEAP benefits processed and paid. These controls would include written standard operating procedures, supervisory review and approval of application processing, independent review of application data entry, and reconciliation.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 49: (continued)**

**Cause:** The LIS does not perform SSN verification or other matching procedures with other computer systems to ensure the SSN is valid and associated with a legitimate individual. Furthermore, the system does not perform edit checks with respect to detecting irregularities or potential fraud and abuse regarding applications submitted with similar addresses, names, and SSNs. In addition, DPW lacks adequate monitoring of the LIHEAP program to ensure that fraud and abuse are minimized. As further explained in another finding, DPW's one monitor does not assess the adequacy of CAOs controls for processing applications, does not test any applications processed through the nine external crisis contractors, and does not verify application information is properly entered into LIS.

Additionally, no reconciliations are performed in Philadelphia between the crisis contractor database and LIS to ensure all crisis transactions have been accounted for and forwarded to the CAO for data entry to LIS. Also, an adequate supervisory review does not exist in the application approval and data entry process of applications into the LIS and crisis contractor databases.

**Effect:** Based on the LIHEAP documentation reviewed, as well as the affirmation by CAO and crisis contractor management validating potentially fraud situations, we believe applicants are fraudulently receiving LIHEAP cash and crisis benefits. This abuse may adversely impact future low-income residents that truly need assistance to stay warm and defray heating costs. In addition, any program involving fraudulent activity negatively affects the integrity of the program as well as the program's management. In addition, due to ongoing follow up by the PA OIG and DPW related to this finding, the total amount of questioned costs is not known. (Federal Grant Nos. G-06B1PALIEA and G-05B1PALIEA.)

**Recommendation:** We recommend that DPW:

- immediately improve LIS controls to ensure that every SSN entered into the system is valid and associated with a legitimate individual;
- ensure appropriate edit checks are developed immediately to detect irregularities or potential fraud and abuse on applications submitted with similar addresses, names, and SSNs;
- require reconciliations be performed between the crisis contractor database and LIS to ensure all crisis transactions have been accounted for and forwarded to the CAO for data entry;
- require CAOs and crisis contractors to independently verify SSNs prior to application approval; and
- ensure adequate supervisory review exists at CAOs and crisis contractors in the application approval and data entry process of applications into the LIS and crisis contractor databases.

**Agency Response:** Identifying and preventing potential fraud and abuse is a critical component of the Department of Public Welfare's efforts to administer LIHEAP benefits and the Department will investigate and prosecute to the fullest extent of the law any intentional effort to obtain these benefits through deception or illegal activity by individuals who are not entitled to them under law. As a result, we appreciate the Auditor General's efforts to identify applications which, if confirmed through further analysis, could potentially be the result of fraud.

The audit's methodology involved using data mining software to review all applications in six selected counties and to have the software identify or "flag" situations where the software's criteria raised an issue that might warrant further investigation. Of the 253,358 applications processed in these selected counties, the Auditor General's Office has provided the Department with 2,431 situations they believe warrant further review – approximately one percent of the applications processed in these counties. The Department is in the process of reviewing each individual case identified by the Auditor General. Of these 2,431 situations flagged by the data mining software, the Department has to date been able to resolve 1,304 – approximately 54 percent – as not being potential cases of fraud. We continue to review the remaining 1,127 situations that have not yet been resolved.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 49: (continued)**

Please note that the Department's review is not yet complete and we believe that many additional situations will ultimately be excluded when the review is complete. In order to meet the deadline imposed by the Auditor General's Office to have our response included in the report, however, the Department is reporting the results of its review to date. Once the review is complete, the Department will forward the results of the review to the PA Office of the Inspector General (OIG), including any unresolved cases that require further investigation.

As noted above, the Department's review has already yielded enough information to exclude 1,304 of the 2,431 situations identified in the audit report as not being cases of potential fraud and abuse. For example, the review has already found that:

- Social security numbers are used for tracking purposes only in the LIHEAP Program and eligibility is verified through a variety of separate processes other than through social security number. All payments are made directly to the individual's energy company on the applicant's behalf. With that in mind, the Department's review of these cases has found that:
  - In 176 cases where the social security number of the recipient is an individual who is currently deceased, the applicant was actually the surviving spouse or child of the individual whose social security number is used on the application. The deceased individual's social security number is used in this case as it was presented to verify the surviving beneficiary's income as required by regulation;
  - In 92 other cases where the applicant's social security number matched with the social security number of a deceased individual, our review showed that the social security number was incorrect due to data entry error (such as transposing two digits of the social security of the applicant);
- Seven applicants out of eight whose income as reported on state income tax forms is higher than the amount provided on their application were properly calculated under the Department's federally approved income eligibility rules;
- The Department has to date verified that 410 of the 440 cases cited in the audit report that went to residents of public housing who are required to pay for their heating from their own income under the terms of their public housing and therefore eligible for a LIHEAP payment; and

219 of the 247 cases – approximately 89 percent of the cases identified by the software in Lancaster, Lehigh, Perry and York Counties – are not cases of fraud but instead issues similar to those listed above or simple data entry issues (such as transposing two digits of social security number when entering information into the Department's automated system). The draft audit report itself notes that the Department provided reasonable explanations for approximately 82 percent of the cases flagged by the software in these counties. (Note: This total does not include 230 cases in Allegheny County noted in the audit report because the Auditor General's Office did not provide the Department with explanations of what in each case it believed required further review as it did with all other cases cited in the audit. Nonetheless, the Department has begun but not yet completed a review of the Allegheny cases and already ruled out 36 of the cases as being potential cases of fraud.)

Given these results, we would respectfully request that the Auditor General's Office consider revising its report to recognize that many of the issues identified in this audit finding could be better characterized or potential errors "flagged" by a software application for further review. The Department's review has provided strong evidence that many of the situations are in fact not fraud, but are instead "false positives" generated by the data mining software.

That notwithstanding, the Department is always looking for opportunities to improve its fraud and abuse systems and believes that several of the recommendations offered by the Auditor General's Office merit strong consideration and several are already being implemented. The Department had already begun or scheduled several future enhancements to the computer systems that are used to process LIHEAP applications, even prior to the initiation of the audit by the Auditor General's Office. For example, the Department will begin long-planned work on changes to its LIHEAP data

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 49: (continued)**

system that will be complete in time for the next LIHEAP season in November 2007 including the automatic generation of a unique identification number for each case and automatic electronic verification of social security numbers with the Social Security Administration. Changes such as these should eliminate a significant number of the “false positives” that were identified by the data mining software utilized by the Auditor General’s Office from future identification.

**Auditors’ Conclusion:** We agree that identifying and preventing potential fraud and abuse should be a critical component in DPW’s efforts to administer LIHEAP. However, as indicated in this audit report, DPW does not have adequate controls to effectively prevent or detect potential fraud and abuse in LIHEAP. Systemic weaknesses, including inadequate policies and procedures, insufficient training and supervision, as well as poor oversight, have resulted in DPW failing to detect or question potential fraud and abuse in LIHEAP.

We also take issue in DPW’s conclusion that our software “flagged” only approximately one percent of the transactions processed in the six counties examined. We did not place a percentage of the potential problems found, based on the population, because our data mining efforts only concentrated on certain obvious concerns, such as applicants receiving crisis’ benefits in excess of maximum amounts. There could be many other concerns found if additional efforts, beyond the time limits of performing this audit, were made. As a result, although we are encouraged by DPW’s willingness to review the 2,400 situations, DPW’s efforts in identifying potential fraud in LIHEAP should certainly go beyond investigating the situations found during our audit.

We are also troubled by DPW’s failure to address the major situations we found in Philadelphia that were validated by the CAO and crisis contractor to potentially be fraud. Based on the suspicious nature of these situations, it appears reasonable that DPW should have prioritized its efforts related to these situations rather than concentrating on the instances that warrant further investigation. Furthermore, we want to point out that DPW’s responses throughout this audit report fail to mention anything about the crisis contractors and the weaknesses noted in this report. We hope that DPW seriously considers our recommendations concerning crisis contractor controls and the need for additional DPW monitoring of crisis contractors.

With respect to DPW’s comments on its conclusion that 1,300 of the 2,400 cases are not cases of potential fraud and abuse, we question DPW’s determination that the 410 applicants living in public housing were eligible to receive LIHEAP. Based on our subsequent inquiry, we learned that DPW did not review the 410 files to make this determination. Instead, DPW provided us letters from four complexes that stated the heat was separately billed from the rent. DPW further explained that the heat was not a subsidized expense; and therefore, these applicants were eligible for LIHEAP. However, based on the six files we reviewed and discussed with the Philadelphia CAO LIHEAP Coordinator, these applications were also suspicious because employees approving some of these applications had been previously referred to the OIG for an employee fraud investigation regarding circumstances unrelated to this particular situation. Furthermore, of the 31 applications requested for applicants living in these complexes; DPW could only provide six (19 percent), which according to the Philadelphia CAO LIHEAP Coordinator could indicate potential employee fraud. As a result, the applications for the 410 applicants should still be reviewed due to the suspicious information found.

According to the GAGAS Reporting Standards, auditors are required to report known or likely fraud to parties outside the audited entity if the entity’s management fails to report such information to appropriate external parties or if the entity’s management fails to take timely and appropriate steps to respond to known or likely fraud. Included in the second circumstance is the auditor’s responsibility to report the entity’s failure to take timely and appropriate steps directly to the funding agency. As a result, the Department of the Auditor General will report our concerns to the Federal Government as part of the Single Audit for the Commonwealth of Pennsylvania for the fiscal year ended June 30, 2006. Furthermore, as indicated in the audit report, we have already reported our concerns to the PA OIG, in accordance with the Department of the Auditor General’s policy. *We hope that DPW and PA OIG work together in their efforts to investigate and prosecute potential fraudulent activity within LIHEAP.*

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 49: (continued)**

Based on DPW's response, the finding and recommendations remain as previously stated. After appropriate DPW and PA OIG follow-up is complete, we recommend that DPW pursue appropriate settlement of known questioned costs from this finding with the federal government.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 50:

#### CFDA #93.568 – Low-Income Home Energy Assistance Program

##### Control Weaknesses Found in Administering LIHEAP Cash Benefits Result in Questioned Costs

**Condition:** As part of our Single Audit of LIHEAP, we inquired about the existence of other internal or external audits of the program that could impact our Single Audit for SFYE June 30, 2006. We noted that the Pennsylvania Department of the Auditor General, acting separately, conducted a one-time independent audit of the LIHEAP program for SFYE June 30, 2006, and performed detailed compliance and internal control testing which was similar to the federally-required testing in our Single Audit. As a result, we obtained and reviewed the audit report for this separate audit. We are reporting the following finding and questioned costs, where applicable, related to LIHEAP:

Our review of DPW’s controls over the County Assistance Offices found control weaknesses regarding eligibility determinations, application processing, safeguarding of records, segregation of duties, and non-compliance with regulations. We interviewed personnel at four out of 67 CAOs: Lancaster, Lehigh, Perry, and Philadelphia counties. We also tested 102 approved and rejected LIHEAP cash applications processed at these offices. Cash applications represent LIHEAP benefits that are generally paid directly to fuel dealers or utility companies, but in certain circumstances may be paid directly to the applicant. These circumstances include when heat is included in rent or when the fuel dealer does not participate in LIHEAP.

During our interviews, we were told that cash applications are not always reviewed by a LIHEAP supervisor. Consequently, Energy Assistance Workers (EAWs-temporary employees), are improperly deciding an applicant’s acceptance or rejection without management oversight. We also found that the confirmation process used to ensure application information is accurately data-entered into the LIHEAP Information System (LIS) is not performed by the Lehigh CAO. The CAO supervisor indicated that, if the data in LIS is inaccurate and an application was processed incorrectly, the applicant would complain. Thus, the resolution of the complaint should satisfy the confirmation process. We also noted that, of the three remaining CAOs reviewed where the confirmation process is utilized, Lancaster and Philadelphia failed to retain the reports supporting this confirmation process in accordance with retention guidelines.

During our on-site visits, we also noted that case files were stored in boxes in unrestricted areas, allowing unlimited access and the potential of unauthorized destruction of applicant files. These files contain names, SSNs, addresses, and income information. Additionally, the physical flow of a cash application was not always tracked or controlled.

As part of our audit, we selected 102 cash applications and found 62 audit exceptions as noted in the following table:

#### Audit Exceptions

	Lancaster County	Lehigh County	Perry County	Philadelphia County	Total
Lack of Eligibility Documentation	2	2	1	1	6
Eligibility Income Calculation Errors	3	2	1	3	9
Lack of Approval Signature	0	24	1	0	25
Data Entry Errors	2	2	2	8	14
Direct Payment Errors	0	1	0	0	1
Applications Not Found	1	1	0	5	7
<b>Total Exceptions by Site</b>	<b>8</b>	<b>32</b>	<b>5</b>	<b>17</b>	<b>62</b>

The 62 audit exceptions noted in the above table were identified in 50 (49 percent) of the 102 LIHEAP cash applications tested. The following further details the audit exceptions identified:

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 50: (continued)

- Lack of Eligibility Documentation

The CAO EAWs and Income Maintenance Case Workers (IMCWs-full-time employees who also may process LIHEAP applications), are not including certain forms in the applicant's file to support eligibility determinations, as required by the State Plan and LIHEAP Manual. The applicant's file must contain proof that the applicant is responsible to pay for the heat and what type of heat is used, or, if the heat is included in rent, a current landlord statement. We found five applicant files that did not contain this information. Additionally, we found one file that did not contain documentation showing how household income was determined. (In total, the six applicants received \$2,004 in cash benefits during SFYE 6/30/06.)

- Eligibility Income Calculation Errors

EAWs and IMCWs are not correctly calculating applicant's household income. Income eligibility for LIHEAP benefits is based on gross earned income. Upon determining the applicant's eligibility, the EAW or IMCW is to deduct 20 percent of gross earned income for purposes of determining the LIHEAP benefit amount. During our review, we found two applications in which 20 percent of the earned income was not deducted prior to determining benefits, one application in which the child support income was not properly calculated, three applications in which household income was not supported by the proper 30-day income criteria, and three applications that contained basic addition and subtraction errors. (In total, these nine applicants received \$1,151 in LIHEAP cash benefits in SFYE 6/30/06.)

- Lack of Approval Signature

The CAO LIHEAP supervisor or IMCW is responsible to review each application and certify for completeness and accuracy by signing and dating the application before data information is entered into LIS. We found 25 applications that did not contain a proper approval signature.

- Data Entry Errors

Data entry clerks at CAOs are not entering or are incorrectly entering application information into the LIS. We found 14 errors involving: household members' names, SSNs, addresses, income amounts, and primary heating sources. The confirmation process used to verify the accuracy of data in LIS did not detect these errors.

- Direct Payment Errors

A direct payment is a benefit sent directly to the applicant because either the heat is included in the applicant's rent or the applicant's fuel vendor is not a participant in the LIHEAP program. One applicant did not meet either criteria and therefore should not have qualified for a direct payment although the applicant was LIHEAP eligible. Instead, the LIHEAP benefit should have been paid directly to the vendor.

- Applications Not Found

Seven cash applications could not be found in the applicant's case records. (In total, these applicants received \$1,896 in cash benefits in 6/30/06.)

According to LIS data, during SFYE June 30, 2006, DPW paid out \$91,744,000 in cash benefits to LIHEAP beneficiaries out of total LIHEAP benefits of \$156,759,000 paid for the year. Out of this total for LIHEAP expenditures, state-funded benefits amounted to \$19,300,000 and \$137,459,000 was federally funded, or an 87 percent/13 percent federal-state split for the year. Total federal LIHEAP expenditures reported on the June 30, 2006 SEFA was \$168.2 million.

**Criteria:** As part of administering LIHEAP, DPW must ensure adequate controls, including segregation of duties, are in place to ensure applicants requesting LIHEAP benefits are eligible and receive the appropriate benefit amounts.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 50: (continued)**

Because applicants' eligibility is manually determined, adequate written procedures, training, and documented supervisory review and approval are essential to ensure that applicant information and support are sufficient to determine eligibility in compliance with state regulations. In addition, proper documentation must be present to include support for household income, heating bills or documentation from a landlord that the landlord pays for heat and type of fuel used, and Social Security cards or medical assistance cards for all household members. Once eligibility is determined, controls need to be established to ensure all applications, both accepted and rejected, are accurately data entered into LIHEAP.

Finally, applications and support should be filed in a restricted area to ensure proper safeguarding of records.

**Cause:** All four CAOs have no written policy and procedures on how to process, approve, and store applicant files. Also, some personnel are not adequately supervised in the performance of their duties within the CAO. According to the Philadelphia CAO LIHEAP Coordinator, some errors are due to a large number of applications being processed with limited staff.

The LIHEAP Manual, used by the CAOs to administer LIHEAP is ambiguous and inadequate in addressing pertinent LIHEAP application procedures. For instance, one CAO takes the position that the approval of cash applications by a supervisor prior to data entry is unnecessary. He also believes that the confirmation process is pointless. Also, one CAO uses clerks to not only enter data into LIS, but also to conduct the confirmation process, because the manual does not specifically say a supervisor should perform those types of duties.

**Effect:** An opportunity for fraudulent activities exists due to poor controls over administering LIHEAP. As a result, there is limited assurance that eligibility determinations and related benefit payments are accurate and in accordance with regulations. In addition, due to ongoing follow up by the PA OIG and DPW related to this finding, the total amount of questioned costs is not known. (Federal Grant Nos. G-06B1PALIEA and G-05B1PALIEA.)

**Recommendation:** We recommend that DPW:

- ensure the CAO EAWs and IMCWs receive adequate training to properly process cash applications, and are properly supervised;
- ensure each CAO has a policy and procedure manual detailing application processing procedures beyond referencing to the State Plan and LIHEAP Manual, including safeguarding records;
- revise the LIHEAP Manual to provide proper guidance to the CAOs concerning the control environment and eliminate ambiguous wording of the State Plan requirements;
- monitor CAOs to ensure LIHEAP is properly administered; and
- address adequate staffing at CAOs.

**Agency Response:** We would like to thank the Auditor General's Office for bringing some of these issues to our attention. While we do not believe that any of the instances noted in the audit report resulted in fraud, we agree that a critical component of a well-run program includes the elimination of potential administrative weaknesses such as those identified in the report. The Department will review each recommendation in the audit report and make the appropriate change in its program training and documentation provided to field staff.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 50: (continued)

The Department would also like to provide the following comments related to the exceptions noted in this audit finding:

- Lack of Approval Signature: Approximately 40 percent of the exceptions noted in the audit report are related to the failure of a Lehigh County Assistance Office supervisor to sign and review applications processed by county energy assistance workers. At the time of the audit, the supervisor was newly assigned to LIHEAP and did not fully understand existing program requirements and his responsibilities. As soon as the employee was informed of the misunderstanding of existing procedures, the employee took action to correct the mistake. In the future, the Department will revise its training curriculum for this program to help ensure that supervisors are aware of this responsibility and all supervisory and program staff responsibilities are delineated as clearly as possible.
- Lack of Policy or Procedure Manuals: The audit report asserts that the Department does not have any written policy and procedures on how to process, approve and store applicant files. As noted during the Department's exit conference for this audit, the Department believes this finding is inaccurate. The policies and procedures for LIHEAP are contained in the following three documents, which we have provided to the auditors: the LIHEAP Manual, the LIHEAP State Plan and a volume that provides data entry instructions entitled "Using LIHEAP." These documents provide all the policy and procedures needed by staff and all of these documents were available to the workers operating the program prior to and during the LIHEAP season in question. We would agree that the audit has shown that the Department needs to do a better job assuring that these policies and procedures more readily available to field staff. As a result, the Department will place all relevant policies and procedures in one place on its intranet website and publicize the availability of these documents internally to every county assistance office in the commonwealth.
- Applications Not Found: The Department agrees that not being able to locate seven applications of the 102 sampled is a weakness in our system that needs to be corrected through better filing practices. We would like to point out, however, the five cases identified in the report that could not be found in Philadelphia at the time of the audit was the result of that office being in the process of moving and the relevant LIHEAP files had already been boxed and prepared for moving. We believe that as part of our review of the cases identified in this audit, the Department will find these five cases as well as the other two noted in the report.
- Other Audit Exceptions: While the Department will take steps to prevent similar errors from occurring in the future, we would like to note that our review of these cases has found that correcting the errors would not have affected the eligibility of the applicant nor the benefit amount disbursed to that individual's energy company.

**Auditors' Conclusion**: We disagree with DPW's statement regarding its belief that none of the "instances noted in the audit report resulted in fraud." As indicated in another finding, potential fraud by both applicants and employees was validated by the Philadelphia CAO and crisis contractor management from 23 situations. We learned during our audit that some of these situations involved CAO employees that were previously under investigation by the PA OIG. According to the LIHEAP CAO Coordinator, during the 2005-06 LIHEAP year potential employee fraud was found by CAO management. As a result of the CAO's investigation, one EAW admitted to fraudulent activity and was suspended pending an OIG investigation. Furthermore, according to the CAO Coordinator, potential fraud involving other EAWs, a data-entry clerk, and a supervisor was also discovered and forwarded to the OIG for investigation. We contacted the OIG, who acknowledged that an investigation was ongoing with the LIHEAP program. The OIG indicated that the investigation involved both applicant and employee fraud, it involved both the CAO and crisis contractor, and that the investigation could take a couple of years to complete, due to the extent of the issues involved. *Because the audit exceptions were not included in OIG's ongoing investigation regarding potential fraud and abuse, as noted in another finding, we have forwarded information and applications received from the Philadelphia CAO and crisis contractor as well as the five other counties tested to the OIG.*

Although we commend DPW for considering our recommendations, we disagree with DPW's comments related to the following audit exceptions:

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 50: (continued)**

- Lack of Policy and Procedure Manuals: We clearly state in the audit report that it was the four CAOs and not DPW that does not have written policies and procedures on how to process, approve and store files. This was acknowledged through interviews and observations with CAO personnel. CAOs only had available “global” policies and procedures that were ambiguous and inadequate. Therefore, it is important for the CAOs to have their own standard operating procedures, in addition to what DPW had developed.
- Applications Not Found: We acknowledge DPW’s commitment to correct its filing practices. However, we disagree that the only reason for the missing files is inadequate filing practices. As evident in another finding, we were provided with less than 100 applicant files from more than 300 requested. According to the Philadelphia CAO LIHEAP Coordinator, missing applications could also indicate potential fraud by employees.
- Other Audit Exceptions: We question DPW’s conclusion that its review of these exceptions found that correcting the errors would not have affected the benefit amount disbursed. For example, with respect to the nine eligibility income calculation errors, three applicants received either a benefit overpayment or underpayment based on the errors made.

Based on DPW’s response, the finding and recommendations remain as previously stated. After appropriate DPW and PA OIG follow-up is complete, we recommend that DPW pursue appropriate settlement of known questioned costs from this finding with the federal government.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 51:**

#### **CFDA #93.568 – Low-Income Home Energy Assistance Program**

##### **Control Weaknesses Found in Administering LIHEAP Crisis Benefits Result in Questioned Costs**

**Condition:** As part of our Single Audit of LIHEAP, we inquired about the existence of other internal or external audits of the program that could impact our Single Audit for SFYE June 30, 2006. We noted that the Pennsylvania Department of the Auditor General, acting separately, conducted a one-time independent audit of the LIHEAP program for SFYE June 30, 2006, and performed detailed compliance and internal control testing which was similar to the federally-required testing in our Single Audit. As a result, we obtained and reviewed the audit report for this separate audit. We are reporting the following finding and questioned costs, where applicable, related to LIHEAP:

The LIHEAP crisis benefit is administered by local CAOs, except in the following nine counties, where the crisis portion of LIHEAP is administered by crisis contractors: Allegheny, Carbon, Centre, Lackawanna, Lancaster, Luzerne, Philadelphia, Wyoming, and York. The nine crisis contractors, who process LIHEAP crisis benefits, cannot enter benefit information into DPW's LIHEAP Information System (LIS). Rather, they must process crisis benefits and then forward the information hard copy to the local CAO for entry into LIS. Based on interviews performed as part of our audit, we noted the following control weaknesses:

- User IDs and passwords assigned to crisis workers for data entry of crisis transactions into the database used by the Philadelphia crisis contractor were not properly secured. The Philadelphia Crisis Coordinator for the 2005-06 LIHEAP year admitted that user IDs and passwords were shared with non-data entry employees when crisis application processing demand was high.
- The Philadelphia Crisis Coordinator stated that, due to a computer software problem, no weatherization assistance referrals were entered into LIS during the 2005-06 LIHEAP year.
- The crisis contractors for York and Lancaster counties do not have access to LIS. As a result, for many crisis applications processed, the crisis worker must call the CAO to verify LIHEAP status, household composition, and income. On the other hand, the Philadelphia crisis contractor has read-only access to LIS to access this information.

As part of our audit, we also tested 89 approved and 20 rejected LIHEAP crisis applications and 32 crisis referrals to the Weatherization Assistance Program administered by the Department of Community and Economic Development. With regard to crisis referrals, if an individual contacts a CAO or crisis contractor with a crisis involving an inoperable heating system, the CAO or crisis contractor will determine if the individual is eligible for LIHEAP. Once eligible, the CAO or crisis contractor uses a referral form to refer the individual's information to a weatherization program contractor for it to assess and resolve the crisis.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 51: (continued)

The following table summarizes by county the audit exceptions we found reviewing these case files:

#### Audit Exceptions

<b>Crisis Applications</b>	<b>Lehigh County</b>	<b>Perry County</b>	<b>Lancaster County</b>	<b>Philadelphia County</b>	<b>York County</b>	<b>Total</b>
Crisis Not Resolved Within 48 Hours	3	2	0	1	1	7
Lack of Documentation	0	1	0	0	3	4
Certifier/Worker Signatures Missing on Crisis Applications	3	0	5	0	5	13
Data Entry Errors	11	14	24	3	23	75
Applications Could Not be Located	2	0	0	3	1	6
<b>Weatherization Program Referrals</b>						
Poor Record Keeping	0	0	0	5	1	6
Ineligible Applicants Referred to the Weatherization Program	0	0	0	1	1	2
<b>Total Exceptions By Site</b>	<b>19</b>	<b>17</b>	<b>29</b>	<b>13</b>	<b>35</b>	<b>113</b>

The 113 audit exceptions noted in the above table were identified in 74 (52 percent) of the 141 crisis applications and referrals tested (28 of the 74 applications contained more than one exception). The following describes the control weaknesses:

- Crisis Not Resolved Within 48 Hours

Seven crisis situations, involving the delivery of fuel oil and propane, were not resolved within 48 hours of the crisis, as required. The crisis resolutions ranged from three to seven days, including a situation where it took six days for oil to be delivered to an applicant.

- Lack of Documentation

We found four vendor receipts missing, which confirm fuel delivery and crisis benefit amount. (The four payments were for \$1,650.)

- Certifier/Worker Signatures Missing on Crisis Applications

Three applications from the Lehigh CAO and five applications from the Lancaster County crisis contractor lacked certifier signatures, and five applications from the York County crisis contractor lacked both the certifier and crisis worker signatures.

- Data Entry Errors

The 75 data entry errors involved 46 authorization dates, which is the date the crisis is approved as valid; 20 fuel delivery dates, which is the date the crisis is resolved; six application receipt dates; two crisis codes; and one household member composition. Generally, the data entry clerks would extract this information from a crisis worksheet completed by a CAO or crisis contractor employee. In many instances, the authorization and/or delivery dates were left blank on the crisis worksheet. As a result, data entry clerks at the CAOs appear to be entering the “date of input” as the authorization and/or delivery dates. Because crisis situations are required to be resolved within 48 hours, the authorization date, which starts the 48 hours and the delivery date which ends the crisis should be accurately entered into LIS to allow DPW to monitor the timeliness of crisis resolution by each county.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 51: (continued)

- Applications Could Not be Located

The crisis contractor in York could not locate an approved application and the crisis contractor in Philadelphia could not locate one approved and two rejected applications. Additionally, the Lehigh CAO could not locate two rejected applications. (Two approved payments were \$916.)

- Poor Record Keeping

In instances where applicants have inoperative heating systems, the crisis contractor or CAO is to fill out a Crisis Referral Form and fax it to the weatherization program contractor for resolution, who in turn, makes the necessary repairs. Once complete, the weatherization program contractor will complete the referral form indicating the services provided and how much the services cost and fax it back to the crisis contractor or CAO for eventual entry into LIS. Because the cost of repairing the heating system is paid by DCED, the entry into LIS is for informational purposes only.

As noted in the Audit Exceptions table, the Philadelphia crisis contractor did not have the completed referral forms showing that repairs were completed for the five crisis referrals. Additionally, at the York County crisis contractor, the referral form for one crisis referral was not found.

- Ineligible Applicants Referred to the Weatherization Program

In York County, an applicant was referred for weatherization assistance to have a furnace repaired (total paid was \$85), even though the next day the CAO rejected the applicant for LIHEAP cash benefits because income was above eligibility requirements. As a result, the applicant should not have been referred to the weatherization program.

In Philadelphia, an applicant was referred for weatherization assistance because the heating system was not working (total paid was \$177), even though the applicant was ineligible based on household income. The CAO erroneously granted LIHEAP eligibility using the wrong income amount. The crisis contractor relied on this LIHEAP eligibility determination to refer this applicant to the weatherization program.

According to LIS data, during SFYE June 30, 2006, DPW paid out \$65,015,000 in crisis benefits to LIHEAP beneficiaries out of total LIHEAP benefits of \$156,759,000 paid for the year. Out of this total for LIHEAP expenditures, state-funded benefits amounted to \$19,300,000 and \$137,459,000 was federally funded, or an 87 percent/13 percent federal-state split for the year. Total federal LIHEAP expenditures reported on the June 30, 2006 SEFA was \$168.2 million.

**Criteria:** Administering LIHEAP crisis benefits should include strong controls over application processing and resolution, safeguarding records, and maintaining compliance with regulations.

**Cause:** All three crisis contractors and five CAOs have no written policies and procedures, beyond the State Plan and the LIHEAP Manual, on how to process, approve, and store applicant files. The LIHEAP Manual, used by the CAOs to administer LIHEAP, is ambiguous and inadequate in addressing detailed application procedures.

**Effect:** An opportunity for fraud and abuse exists due to poor controls over administering the LIHEAP crisis benefit. As a result, there is limited assurance that crisis benefits are being processed in a timely and accurate manner. In addition, due to ongoing follow up by the PA OIG and DPW related to this finding, the total amount of questioned costs is not known. (Federal Grant Nos. G-06B1PALIEA and G-05B1PALIEA.)

The crisis contractor without access to LIS may be delayed in processing applications. Additionally, the lack of LIS access at the Lancaster crisis contractor office has resulted in additional costs to the CAO because it needs to designate one individual to answer calls dealing with applicant information that is only available on LIS.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 51: (continued)**

Although the coding problem at the Philadelphia crisis contractor has no dollar effect, it may affect the statistics kept by DPW on processing LIHEAP transactions and may result in inaccurate figures being presented to the U.S. Department of Health and Human Services.

**Recommendation:** We recommend that DPW ensure the crisis contractors:

- have adequate controls, including written policies and procedures, to accurately process crisis transactions;
- maintain adequate documentation;
- complete all pertinent information, including authorization and delivery dates, on crisis worksheet/data base output;
- verify applicant LIHEAP eligibility prior to forwarding crisis referrals to the weatherization program contractor;
- utilize LIS in their offices to promote efficiencies;
- follow up on referrals to the weatherization program to ensure they are completed, to obtain the completed referral form, and to ensure the information is forwarded for entry into LIS; and
- properly code weatherization assistance referrals to ensure entry into LIS.

We also recommend that DPW ensure the CAOs:

- complete all pertinent information, including authorization and delivery dates, on crisis worksheet;
- accurately data enter information in LIS;
- have written policies and procedures detailing application processing/approval and safeguarding records beyond referencing to the State Plan and the LIHEAP Manual;
- resolve crisis situations timely; and
- require certifiers to approve crisis applications prior to data entry.

**Agency Response:** We would also like to thank the Auditor General's Office for bringing these exceptions to our attention. The Department believes that many of the recommendations included in the audit report have merit and will make changes to our existing policies and procedures where appropriate.

The Department would also like to provide the following comments related to the exceptions noted in this audit finding:

- **Crisis Applications Not Resolved Within 48 Hours:** In five of the seven audit exceptions noted in the audit report, the oil delivery was made and the crisis was resolved within the 48 hour period. In these cases, the discrepancy noted in the audit report was the result of final data entry not being made until the vendor delivered a receipt. The other cases are still under review.
- **User IDs and Passwords Not Properly Secured and Crisis Contractors in York and Lancaster Counties Do Not Have LIS System Access:** During the time of the audit, all crisis contractors were given read-only access to the LIHEAP system. Some contractors chose not to avail themselves of this opportunity and continued the practice of calling the CAO to verify a household's status and/or eligibility for LIHEAP cash grants. While the limitation of read-only access to the system greatly limited the potential for fraud, the failure to secure passwords created issues related to the privacy of our clients. The Department will make changes to its curriculum for crisis contractors to reemphasize the importance of securing user identification and passwords not only as a potential weakness related to fraud but also as a matter of protecting client privacy.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 –51 : (continued)**

- Certifier/Worker Signatures Missing on Crisis Applications: The Department will take steps to reinforce the importance of ensuring the completeness of all applications including signatures. Please note that in all 13 cases noted in the audit report, the crisis application was rejected and the applicant was found not to be eligible for benefits.
- Data Entry Errors: In 72 of the 75 cases noted in this exception, the data entry error was that the date of data entry was not the same date as the fuel delivery. This error was arose from clerical staff confusion related to changes in the automated system used to process applications – staff were in fact following the previous year’s methodology. The Department will make changes to its training curriculum to help ensure that clerical staff understands the correct procedure.
- Ineligible Applicants Referred to Weatherization: Under the Commonwealth’s LIHEAP policies, ineligibility for the cash and crisis programs administered by the Department does not automatically make a client ineligible for the weatherization benefits administered by the Department of Community and Economic Development (DCED) and its own guidelines. Therefore, the Department does not believe it was in error referring the applicant noted in this audit exception to DCED.

**Auditors’ Conclusion**: We applaud DPW’s decision to implement the recommendations identified in the finding. However, we disagree with DPW’s comments related to the following three exceptions:

- Crisis Applications Not Resolved Within 48 Hours: As noted in the finding, all seven situations did not have fuel delivered within 48 hours. We compared the date the crisis was approved to the date the fuel was **actually delivered** per the fuel receipt in six of the seven situations. For the seventh situation, because no receipt was present, we used the dates noted on the crisis worksheet. We did not use the date the CAO or crisis contractor received the fuel receipt as stated by DPW.
- User IDs and Passwords Not Properly Secured and Crisis Contractors in York and Lancaster Counties Do Not Have LIS System Access: We disagree with DPW’s comment regarding read-only access being given to all crisis contractors, but some crisis contractors “chose not to avail themselves” of the read-only access. According to both the York and Lancaster crisis contractors, the read-only access to LIS did not work on their computers.
- Ineligible Applicants Referred to Weatherization: In response to DPW’s position that it was not in error in referring these applicants to DCED for weatherization benefits, we simply refer to the 2006 LIHEAP Final State Plan, which clearly explains that applicants seeking crisis benefits, including weather-related crises, must apply through the CAO or crisis contractor, who will determine LIHEAP eligibility. Because these applicants, who had weather-related crises, were not LIHEAP eligible, these applicants should not have been referred to the weatherization program for crisis resolution.

Based on DPW’s response, the finding and recommendations remain as previously stated. After appropriate DPW and PA OIG follow-up is complete, we recommend that DPW pursue appropriate settlement of known questioned costs from this finding with the federal government.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 52:**

#### **CFDA #93.568 – Low-Income Home Energy Assistance Program**

##### **DPW Failed to Adequately Monitor the Processing of LIHEAP Applications**

**Condition:** As part of our Single Audit of LIHEAP, we inquired about the existence of other internal or external audits of the program that could impact our Single Audit for SFYE June 30, 2006. We noted that the Pennsylvania Department of the Auditor General, acting separately, conducted a one-time independent audit of the LIHEAP program for SFYE June 30, 2006, and performed detailed compliance and internal control testing which was similar to the federally-required testing in our Single Audit. As a result, we obtained and reviewed the audit report for this separate audit, and noted the following finding related to LIHEAP:

During the 2005-06 LIHEAP year, DPW employed one monitor to perform its systematic review of processing LIHEAP applications at County Assistance Offices. As part of our audit, we reviewed the 17 monitoring reports issued during that program year. The monitor concluded on all 17 monitoring reports that the CAOs complied with program policies and procedures and found no compliance and administrative problems. However, we found through interviews and review of documentation that there were inefficiencies regarding the monitor's procedures for reviewing the LIHEAP application process. The following summarizes these problems:

- The monitor informs the CAO how many cash and crisis application acceptances and rejections to retrieve from the case files for review. However, the CAO is allowed to select which applications the monitor gets to review. This method does not allow the monitor to detect missing applications, as indicated in another finding disclosing that systemic weaknesses exist in LIHEAP that resulted in potential fraud and abuse.
- The monitor's testing procedures do not include verifying that the application information is properly entered into the LIHEAP Information System. Because the LIS uses household income, number of household members, type of fuel, and county of residence to determine the cash benefit amount, it is critical that this information be accurately entered. Additionally, SSN, household address, and vendor are also critical information to ensure the proper fuel account is credited.
- The monitor does not test any applications processed through the nine external crisis contractors with whom DPW contracts to process crisis applications for nine CAOs.
- The monitor does not assess the adequacy of the CAOs controls for processing LIHEAP applications. As noted in other findings for LIHEAP, we found control weaknesses in the five CAOs tested.
- Documentation supporting the monitor's review is not organized to allow an independent review to determine the adequacy of the results. The names and SSNs on the applications reviewed are listed on tablet paper. However, the steps tested and related conclusions are not documented or identified. Furthermore, the documentation that is supposed to support various interviews is limited to minimal notes on a tablet.
- The monitor does not ensure that each of the 67 CAOs are examined every four years, as required. Concerning the five CAO sites we visited, DPW stated that the monitor had not visited the York and Lehigh county CAOs in the last four years. The monitor admitted that he does not keep track of where he visits or use any methodology to determine which CAOs are to be selected for sampling and monitoring.
- The monitor did not make any unscheduled visits to any CAOs during the 2005-06 LIHEAP program year for investigative or follow-up purposes, even though the monitor was aware that the Philadelphia CAO had made referrals to the PA Office of Inspector General.

Overall, DPW failed to adequately administer LIHEAP. In addition to inadequate monitoring, DPW failed to ensure CAOs had written procedures to process LIHEAP applications, failed to ensure controls are adequate at CAOs, failed to assess the adequacy of application processing, written procedures and controls at crisis contractors, and failed to ensure the LIS has sufficient controls and edit checks to reduce the risk of fraud and abuse.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 52: (continued)

**Criteria:** The LIHEAP State Plan for the 2005-06 LIHEAP year identifies DPW's monitoring process as consisting of three-phases:

- *Reporting: All agencies (CAOs) are required to submit reports to the Office of Income Maintenance, which reviews them to determine any administrative problems that the agency may be encountering. If necessary, a monitor will visit that county [CAO] to observe the operation and suggest changes to alleviate existing problems.*
- *Systematic review: Approximately 25 percent of county operations are scheduled for review by a monitor during the program year. The review consists of an examination of case records and contacts with vendors and recipients, as needed, to determine if the agency is in compliance with State and Federal regulations.*
- *Unscheduled visits: Unscheduled visits will be used as an investigative measure. If information is received which suggests the possibility of misuse, misrepresentation, or any abuse, the monitor for the area will investigate the allegation.*

Prudent auditing and monitoring practices dictate that standard written procedures should exist to systematically select and monitor sites. These procedures would include: 1) a method of selecting case files to review, 2) ensuring that all necessary procedures were performed, 3) assessing the adequacy of controls, 4) ensuring procedures are adequately documented, summarized and reviewed, and 5) ensuring that all sites are monitored within a standard cycle.

**Cause:** DPW has not developed written procedures for selecting sites to monitor. Additionally, DPW does not have standard written procedures for conducting, documenting, reviewing and reporting on the monitoring visits. Furthermore, the monitor stated that even if a control weakness is found at a CAO, he would not include it in his report to DPW or convey it to the CAO because the monitor believes that he does not have the authority to require the CAO to make the change.

**Effect:** Without adequately monitoring the processing of LIHEAP applications, DPW lacks assurance that LIHEAP applications are processed accurately and that controls are adequate for preventing, detecting, and reporting fraud and abuse. Also, the lack of an effective monitoring system presents the opportunity for fraud and abuse to be perpetrated at the CAO level as evidenced by the potential fraud and abuse discussed in another finding.

**Recommendation:** Based on the results of our audit, we recommend that DPW ensure that necessary resources are available to allow for the immediate review of all CAOs and crisis contractors within the next 12 months.

In addition, we recommend that DPW develop written procedures and sampling methodology to ensure that all CAOs and crisis contractors processing LIHEAP applications are selected for systematic review by the monitor during a standard cycle. For those CAOs and crisis contractors who are considered high risk, a review should be conducted annually. These standard written procedures should include, but not be limited to:

- assessing controls;
- selection strategy of cash, crisis, and rejection applications, including the monitor determining which applications to examine, not the CAO;
- ensuring application materials are accurately entered into LIS;
- ensuring procedures performed and conclusions reached are adequately documented; and
- ensuring resolution to known deficiencies.

Finally, DPW should require that the monitor's documentation of its on-site monitoring be reviewed and approved by a supervisor to ensure that procedures performed were adequate and well documented and that the conclusions reached were reasonable.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 52: (continued)**

**Agency Response:** While we respectfully disagree with the audit report’s assertion that the processes the Department put in place to monitor the processing of LIHEAP applications failed to adequately monitor the program, the Department does believe that many of the recommendations offered in this audit finding could help improve our monitoring processes in the future. As a result, the Department is making the following changes to its monitoring policies for LIHEAP:

- Selecting cases for monitoring through a random sample;
- Creating a multi-year schedule to ensure that every county assistance office is reviewed at least every three years and that Philadelphia and Allegheny (which represent more than 30 percent of the caseload) are reviewed each year;
- Increasing the focus on items noted in the audit report such as the accuracy of information entered into our data system and the completeness of sample case files; and
- Codifying these changes in a new formal protocol that ensures that the results of the monitoring review are provided to the executive director of the CAO during a formal exit conference. The Department will also issue a final written report to the CAO leadership including a corrective action plan for any changes that are required.

**Auditors’ Conclusion:** We acknowledge DPW’s efforts to implement many of the recommendations reported in the finding, even though DPW disagrees with the report’s assertion that it failed to adequately monitor the processing of LIHEAP applications. As evident in this and other findings, the potential of fraud and abuse in LIHEAP clearly indicates that DPW’s monitoring efforts are insufficient.

DPW failed to ensure CAOs had written procedures to process LIHEAP applications, failed to ensure controls are adequate at CAOs, failed to assess the adequacy of application processing, written procedures and controls at crisis contractors, and failed to ensure the LIS has sufficient controls and edit checks to reduce the risk of fraud and abuse.

Based on DPW’s response, the finding and recommendations remain as previously stated.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 53:

#### CFDA #93.568 – Low-Income Home Energy Assistance Program

##### Control Weaknesses and Potential Abuse Found in Administering the Weatherization Assistance Program Result in Potential Questioned Costs

**Condition:** As part of our Single Audit of LIHEAP, we inquired about the existence of other internal or external audits of the program that could impact our Single Audit for SFYE June 30, 2006. We noted that the Pennsylvania Department of the Auditor General, acting separately, conducted a one-time independent audit of the LIHEAP program for SFYE June 30, 2006, and performed detailed compliance and internal control testing which was similar to the federally-required testing in our Single Audit. As a result, we obtained and reviewed the audit report for this separate audit. We are reporting the following finding and potential questioned costs, where applicable, related to LIHEAP:

As part of our review of DCED's controls over administering the Weatherization Assistance Program, we reviewed projects completed during the fiscal year ended June 30, 2006, and found client file errors/omissions, situations of potential abuse, and instances of noncompliance with weatherization program regulations. The following five conditions describe those weaknesses:

1. Client files contained audit exceptions. During our on-site visits to four local agencies located in Dauphin, Lancaster, Philadelphia, and York Counties, we selected 100 client files, (25 at each local agency) and found 178 audit exceptions as noted in the following table:

#### Audit Exceptions

Audit Exceptions	Local Agency				Total
	Dauphin	Lancaster	Philadelphia	York	
Ineligible Clients Received Services	0	0	0	1	1
Lack of Support for Project Costs	21	16	17	16	70
Services Provided More Than a Year After Approval Without Re-verifying Eligibility	0	0	3	0	3
Failed to Follow 48-Hour Crisis Rule	1	0	4	0	5
Crisis Clients Not Serviced Timely	3	1	8	1	13
No Evidence of Using Priority List	15	15	15	0	45
Missing/Incomplete Documentation	15	8	17	1	41
<b>Total Exceptions</b>	<b>55</b>	<b>40</b>	<b>64</b>	<b>19</b>	<b>178</b>

In some instances, multiple audit exceptions were noted in one client file. The 178 exceptions noted in the above table were identified in 82 of the 100 client files selected. The following describes these exceptions:

- Ineligible Clients Received Services.

After we questioned a client's income eligibility, management at York County agreed that it was miscalculated and that the client was not eligible to receive weatherization services according to income guidelines. As a result, an ineligible applicant improperly received \$8,791 worth of weatherization services.

- Lack of Support for Project Costs.

Out of 100 client files reviewed to verify the propriety of reported project costs, 24 lacked detailed documentation to support \$87,865 of related costs charged by subcontractors. We noted that the local agencies were accepting and approving for payment summary invoices from subcontractors. Local agencies do not

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 53: (continued)**

require detailed supporting documentation for the subcontractors' charges on summary invoices. Management at the Lancaster agency stated that there is no way to be sure that subcontractors are not overcharging the weatherization program for hours worked. Management also stated that it is not necessary to review supporting documentation due to familiarity with the subcontractors because they have provided services for the weatherization program for years. When asked if the local agencies perform any on-site audits of subcontractors' invoices, management stated that none are performed. We find that making payments based on summary invoices is not appropriate and presents an opportunity for abuse and overbillings by subcontractors.

Both the Dauphin and Lancaster agencies use employees to provide weatherization services. A review of 30 client files found \$41,318 of unsupported labor and other operating costs. When asked to support some of these costs, the agencies were unable to provide adequate documentation.

- Services Provided More Than a Year After Approval Without Re-verifying Eligibility.

As required in the grant agreements, an applicant's income eligibility must be re-verified if services are not provided within 12 months of approval. We found 3 instances in Philadelphia (total paid was \$4,472) where services were provided more than 12 months after the client was approved, including one client who received services nearly 14 months later, without having his/her income eligibility re-verified. Therefore, we could not determine if these 3 clients were still eligible to receive services. In addition, services for eight other clients were completed more than 12 months after their income eligibility was determined; however, we were unable to identify when services began.

- Failed to Follow 48-Hour Crisis Rule.

We found five instances where the local agency failed to follow the 48-hour Crisis Rule, which requires local agencies to take immediate action to address a crisis situation within 48 hours after being notified. Although local agencies must initiate action within 48 hours, they are not required to resolve the crisis situation during that time period. Crisis situations include inoperable heating systems, broken windows, and/or frozen pipes. Clients in these situations are referred to as "crisis clients." One crisis client with an inoperable heating system was referred to the Philadelphia agency on November 19, 2005, but the project was not assigned to a subcontractor until November 30, 2005, or 11 days later.

- Crisis Clients Not Serviced Timely.

In addition to the violations of the 48-hour crisis rule noted above, we also found instances in each local agency we visited where services were not provided timely to crisis clients, although most met the 48-hour crisis rule. Even though DCED policy does not specify a time period within which local agencies must resolve the crisis situations, we believe services need to be provided as soon as possible after the crisis was referred to the local weatherization agency. Temporary measures, such as loaning auxiliary heaters and providing blankets, are permitted when the heating system cannot be repaired or replaced timely. We found that 13 out of 40 crisis clients waited between 19 days and 5 months to receive services, which we believe is unreasonable. Additionally, we found no evidence that the local agencies provided any temporary measures to address these crisis situations.

- No Evidence of Using Priority List.

For three of the four local agencies listed, we could not determine if Pennsylvania's prioritized list of weatherization services was used as a basis to provide the most needed and beneficial services. This priority list was developed using the National Home Energy Audit and Mobile Home Energy Audit, which are industry accepted methods of determining the cost-effectiveness of weatherization services. DCED requires local agencies to follow it when selecting weatherization services to provide. However, only York County maintained the priority list in each client's file as evidence that it was used to determine the most appropriate weatherization services to provide.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 53: (continued)**

- Missing/Incomplete Documentation.

Although the documentation required to be maintained in each client's file is listed in the grant agreements, we found 41 client files having missing/incomplete documentation. For example, 15 Dauphin County files did not contain a signed Client Education Form, which is used to confirm that clients have received information on energy conservation methods they can use to lower their energy costs. In addition, 8 Philadelphia files contained incomplete Crisis Referral Forms, which are required to gather information for annual reporting.

2. Inconsistent income eligibility guidelines are used to approve weatherization program applicants. During our review of applicable regulations, we noted that weatherization program applicants must provide proof of actual income for all household members for the 12 months preceding the date of application. Acceptable documents include: pay stubs, W-2 forms, a statement from an employer validating wages, Social Security Administration statements or other reliable proof of income. In addition, regulations also allow for local agencies to automatically approve an applicant for weatherization services if any household member received assistance under the Department of Public Welfare's (DPW) Low-Income Home Energy Assistance Program (LIHEAP), or when they are referred to the local agency through the LIHEAP Crisis Weatherization Interface. This is based on the premise that income eligibility would have already been determined and approved through LIHEAP. However, DPW policy allows income eligibility for LIHEAP to be determined using various thresholds to include 12 months of income or a prorated calculation based on 30 days or 90 days of income prior to application submission.

As a result of applying inconsistent income guidelines, applicants who may not be eligible based on their actual income for the 12 months preceding the date of application would be approved if they received LIHEAP assistance based on their 30-day or 90-day prorated income. For example, people who work in seasonal industries, such as construction, may earn most of their annual income during certain times of the year and less income during other periods. If they applied for LIHEAP assistance after a month of less income, they may qualify using LIHEAP's 30-day prorated calculation, which would then make them eligible for weatherization services. We believe the inconsistent application of income criteria in determining eligibility promotes client abuse in the weatherization program. Finally, a situation could occur where two weatherization program applicants with similar income circumstances finds one qualifying for the weatherization program because he/she first applied for and qualified under one of the LIHEAP income guidelines, but the second applicant only applies for the weatherization program and does not meet the weatherization program-only income qualification guideline.

3. Local agencies treat renters differently from owners. Some renters may or may not receive weatherization services depending on their local agency's policy. For example, the local agencies we visited in Dauphin and Philadelphia provide services to all renters, including furnace replacement, provided the landlord gives permission for the local agency to do the work. In York County, renters will only receive a furnace replacement when the landlord agrees to pay half the cost, except in a crisis situation. In a crisis situation, the York County agency will replace the furnace with no money provided by the landlord. Renters covered by the Lancaster agency will not receive new furnaces, even in a crisis situation. DCED management stated that local agencies are permitted to obtain reimbursement from landlords; however, agencies should not maintain a blanket policy of refusing to replace furnaces at rental properties. During our review of 100 client files at the four local agencies, we found that \$23,224 was expended on 11 rental properties, including one property that incurred costs of \$3,559, without any reimbursement from the landlord.
4. There is no system in place to track client complaints. Local agencies are required to maintain a signed client appeal form in each client's file. This form includes procedures on how to report complaints regarding the services received. However, complaints are not tracked to identify potential systematic problems and not evaluated to determine the effectiveness and timeliness of complaint resolutions.
5. Written policies and procedures necessary to efficiently administer the weatherization program were lacking. These included policies and procedures for monitoring local agency activities, promoting the weatherization program, and allocating project costs.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

### **Finding 06 – 53: (continued)**

Total Weatherization program payments made by DCED during the fiscal year ended June 30, 2006, were \$19.9 million (or 11.8 percent) out of total federal LIHEAP expenditures of \$168.2 million on the June 30, 2006 SEFA under audit.

**Criteria:** Good internal control dictates that required applications, files, and reports are prepared accurately and properly reviewed by supervisors prior to approval. DCED is required to ensure that the quality of work and financial management controls at the local agency are adequate. These controls ensure an expected or required outcome and prevent or detect undesirable results. For example, controls are needed to ensure local agencies comply with the 48-hour crisis rule and complete services timely to resolve the crisis situations. DCED regulations state that upon notification of a crisis situation, local agencies must begin action to remedy the crisis situation within 48 hours. However, because DCED policy does not specify a time period in which crisis situations must be resolved and local agency management stated that time may be needed to obtain parts, we believe it is reasonable to expect crisis situations be resolved within two weeks, barring any extenuating circumstances that should be adequately documented in the client's file. Regardless of the reason for any delay, local agencies should provide temporary measures to alleviate the crisis until permanent solutions are available. When processing applications, adequate controls ensure that applicant eligibility is being consistently determined using criteria specified in the regulations and that all required documentation is accurate and maintained. Also, an adequate system to track complaints is necessary to measure weatherization program effectiveness and timely resolution. In addition, policies and procedures are essential to adequately administer the weatherization program.

To be allowable under OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, Paragraph C.1., a cost must:

- (a) *Be necessary and reasonable for the performance and administration of Federal awards.*
- (j) *Be adequately documented.*

**Cause:** DCED and the local agencies lack adequate policies and procedures to ensure weatherization program objectives are being achieved and the risk of fraud, waste, and abuse is reduced. DCED management monitors the local agencies; however, we found that these procedures were inadequate due to ineffective management guidance and oversight. DCED management also stated that limited staffing has prevented them from providing more guidance on the fiscal management of the weatherization program to the local agencies.

**Effect:** Inadequate controls at DCED and local agencies resulted in non-compliance with weatherization program regulations and failure to achieve certain weatherization program objectives, such as providing services timely. Additionally, inadequate control increases the risk of potential abuse of weatherization funding. It also resulted in ineligible applicants receiving assistance, such as the applicant who received more than \$8,700 worth of weatherization services even though the applicant was ineligible based on income. Finally, a situation could occur where two weatherization program applicants with similar income circumstances finds one qualifying for the weatherization program because he/she first applied for and qualified under one of the LIHEAP income guidelines, but the second applicant only applies for the weatherization program and does not meet the weatherization program only income guideline. Finally, inadequately documented payments in the Weatherization Program may lead to potential questioned costs. (Federal Grant Nos. G-06B1PALIEA and G-05B1PALIEA.)

**Recommendation:** We recommend that DCED strengthen its controls over the administration and oversight of the weatherization program by developing written policies and procedures for its local agencies. For example, DCED should require local agencies to adequately document their oversight to ensure that crisis situations were resolved timely or temporary measures were provided when delays occurred. Also, DCED should take a proactive stance to determine the 12-month income eligibility of all weatherization program applicants regardless of their LIHEAP eligibility. For clients in crisis situations referred to local agencies through the LIHEAP Crisis Weatherization Interface, we recommend that DCED develop policies and procedures to verify income eligibility based on actual income for the 12 months preceding the date referred, while maintaining the health and safety of these clients. DCED should also require that subcontractors submit detailed invoices with the labor and materials breakout to avoid the potential of subcontractor over billings. Finally, DCED should improve its monitoring of the local agencies to ensure consistency and compliance of weatherization program requirements.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

### **Finding 06 – 53: (continued)**

**Agency Response:** DCED concurs in part with the auditor position regarding documentation and the importance of consistent, enforceable, and appropriate policies and procedures. DCED did have existing policies in the form of Weatherization Directives. In recent years, these have been implemented as part of the Work Plan (administrative directives) and thus incorporated into the contract between DCED and Weatherization grantees; or as part of the Weatherization Standards and Field Guide (addressing technical issues).

We will update and re-issue separate policies and guidelines and require agencies to sign off on them as part of the contract. Technical issues will remain in the Standards and Field Guide.

We will also require all monitors to pay closer attention to eligibility and documentation when reviewing files, and will make it a part of the Monitoring Guide (see Response to Finding No. 9). We will also require that subcontractors submit detailed invoices for work completed.

DCED disagrees in part with the auditor findings regarding eligibility. Federal regulations allow the use of LIHEAP eligibility as a criterion for Weatherization eligibility as noted below. In accordance with DOE regulation 10 CFR 440.22 (a) (3), units are eligible for assistance under the Low-Income Home Energy Assistance Act of 1981.

**INCOME:** the 30-day, 90-day or one-year LIHEAP policy found at section 601.83 (a) of the FY 2007 LIHEAP State Plan requires that gross income be determined for a year. The interpretation of the use of the 30-day, 90-day or one-year gross income is that which is the most advantageous to the applicant. (This is cited in LIHEAP Policy Clarification PLC 7613710, dated February 25, 1998.)

The intent of the regulation is to provide as much flexibility as possible in determining household eligibility for services. This eligibility perspective is cited in LIHEAP Information Memorandum dated 6/1999, Optional Use of DOE Weatherization Rules for LIHEAP Funds Spent on Weatherization Activities.

Redetermination of eligibility of all DPW LIHEAP-determined-eligible households that are referred to the local weatherization agency via the LIHEAP Crisis Interface Program would be contrary to the intent of the program and the current operating policy and procedure in place between DPW and DCED. We will consult with DPW to determine how the policy can be strengthened so as to avoid future audit exceptions.

In one part of the findings, additional information is required before DCED can determine whether it disagrees with this finding. In the audit exceptions, auditors stated that, in thirteen cases, DCED grantees did not serve clients in a timely manner. Specific case information is needed to follow-up on those clients and this audit exception in greater detail and to offer further clarification on possible case-by-case exceptions.

**Auditors' Conclusion:** We acknowledge DCED's efforts to implement many of the recommendations reported in the finding. However, we disagree with DCED's comments regarding eligibility determination. Inconsistent eligibility determination between DPW and DCED can promote client abuse in the weatherization program. As noted in the finding, inequities can occur when two applicants with similar income receive different eligibility determinations as a result of applying inconsistent income guidelines, one based on a 30-day or 90-day prorated income and the other based on actual income for a 12-month period. We are encouraged by DCED's plan to consult with DPW to strengthen its policy.

With regard to DCED's comment that it needed additional information concerning 13 crisis cases that were not served timely, we submitted the requested information to DCED prior to receiving this response.

Based on DCED's response, the finding and recommendations remain as stated. We additionally recommend that, after follow up on the potential questioned costs and resolution is complete, DCED pursue appropriate settlement of questioned costs with the federal government. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 54:

#### CFDA #93.568 – Low-Income Home Energy Assistance Program

#### CFDA #81.042 – Weatherization Assistance for Low-Income Persons

#### Two Local Agencies Wasted \$94,081 Providing Weatherization Services to the Same Dwellings in Philadelphia and Result in Potential Questioned Costs

**Condition:** As part of our Single Audit of LIHEAP, we inquired about the existence of other internal or external audits of the program that could impact our Single Audit for SFYE June 30, 2006. We noted that the Pennsylvania Department of the Auditor General, acting separately, conducted a one-time independent audit of the LIHEAP program for SFYE June 30, 2006, and performed detailed compliance and internal control testing which was similar to the federally-required testing in our Single Audit. As a result, we obtained and reviewed the audit report for this separate audit. We are reporting the following finding and questioned costs, where applicable, related to LIHEAP:

During interviews with DCED and local agency management, we learned that the Philadelphia Housing Development Corporation (PHDC), run by the city of Philadelphia, and the Energy Coordinating Agency of Philadelphia (ECA), a non-profit community action agency, administer the weatherization program to residents in Philadelphia. These local agencies receive an allocation of funds from DCED to operate their weatherization programs independently. We found that both local agencies provide weatherization services for the same geographic region but do not coordinate their efforts to ensure that weatherization funds are not wasted on dwellings previously weatherized by the other local agency. Although reweatherization is permitted in certain circumstances, dwellings initially weatherized after September 30, 1993, typically are not eligible for additional weatherization services.

We reviewed an electronic file representing five years of PHDC completed projects through June 30, 2006. We also requested similar information from ECA in order to determine if any dwellings were weatherized by both local agencies; however, our review was limited because ECA only provided two years of information through June 30, 2006, because it required combining reports with different formats into one coherent report during an extremely busy time for ECA. After comparing the data from both local agencies, we identified 32 dwellings listed on their files that were potentially ineligible to receive services from one local agency or the other. We then requested the client case files for these projects. PHDC, however, was unable to locate two files. As a result, we could only verify that 30 dwellings received weatherization services from both local agencies, costing \$171,751, of which \$94,081 represented reweatherization costs on ineligible dwellings. Each dwelling received weatherization services costing between \$2,853 and \$8,810. The following table lists 30 dwellings by initial weatherization and reweatherization dates and their associated costs:

**Dwellings Weatherized by Both Philadelphia  
Local Agencies**

Dwelling	Initial Weatherization		Reweatherization		Total Weatherization Cost
	Date	Cost	Date	Cost	
1	12/11/2001	\$ 2,547	7/21/2005	\$ 2,632	\$ 5,179
2	1/22/2002	2,203	3/1/2004	2,267	4,470
3	2/22/2002	1,996	4/5/2006	4,975	6,971
4	5/14/2002	1,914	3/8/2006	2,282	4,196
5	6/18/2002	1,481	11/6/2005	2,333	3,814
6	8/7/2002	1,867	6/26/2004	4,323	6,190
7	11/19/2002	2,074	7/29/2005	2,307	4,381
8	2/25/2003	3,027	2/10/2006	3,617	6,644
9	3/3/2003	2,742	8/17/2005	2,440	5,182

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 –54 : (continued)

**Dwellings Weatherized by Both Philadelphia  
Local Agencies  
Continued**

Dwelling	Initial Weatherization		Reweatheringization		Total Weatherization Cost
	Date	Cost	Date	Cost	
10	6/26/2003	2,394	1/8/2006	2,813	5,207
11	7/29/2003	3,682	4/27/2005	2,597*	6,279
12	8/13/2003	2,673	3/3/2004	2,226	4,899
13	8/22/2003	1,825	8/22/2005	2,644	4,469
14	12/2/2003	3,454	7/21/2005	4,348*	7,802
15	12/4/2003	1,664	1/15/2005	3,190	4,854
16	12/18/2003	1,148	5/10/2005	1,705	2,853
17	1/18/2004	1,617	5/26/2006	3,411*	5,028
18	2/5/2004	2,608	6/3/2004	2,951*	5,559
19	3/3/2004	3,157	8/9/2004	1,075*	4,232
20	3/8/2004	3,109	3/8/2006	2,168	5,277
21	5/5/2004	4,919	6/7/2006	997*	5,916
22	6/29/2004	3,644	7/19/2005	4,758*	8,402
23	8/1/2004	2,626	1/3/2006	909*	3,535
24	11/17/2004	3,538	12/28/2005	4,830*	8,368
25	12/2/2004	2,575	4/22/2005	1,634	4,209
26	3/17/2005	2,543	4/21/2005	5,371*	7,914
27	4/29/2005	2,553	11/15/2005	3,007*	5,560
28	7/15/2005	2,448	2/22/2006	5,471*	7,919
29	9/8/2005	3,546	6/12/2006	5,264*	8,810
30	9/22/2005	2,096	11/4/2005	5,536*	7,632
	<b>Total</b>	<b>\$ 77,670</b>		<b>\$94,081</b>	<b>\$171,751</b>

**\* Reweatherized by PHDC amounted to \$50,525**

As shown in the above table, PHDC and ECA weatherized the same 30 dwellings for a total cost of \$171,751, spending an average of \$5,725 per dwelling. Management at PHDC stated that it was possible for the same dwelling to be serviced by both local agencies and admitted it was a weakness. PHDC explained that, if its energy auditors suspect that a home was previously weatherized, PHDC would contact ECA to determine whether it provided services at that dwelling. However, we noted that 14 of the 30 dwellings were initially weatherized by ECA for \$42,431, then subsequently reweatherized by PHDC for \$50,525. It appears that PHDC failed to recognize the initial weatherization and did not contact ECA prior to reweatherizing these dwellings. Of the 16 dwellings that received reweatherization service from ECA for \$43,556, PHDC provided initial weatherization for \$35,239. We also found that four clients indicated on their applications that their homes were previously weatherized, but ECA provided reweatherization services anyway totaling \$13,110.

Total federal LIHEAP expenditures under audit (CFDA #93.568) on the June 30, 2006 SEFA were \$168.2 million, with \$19.9 million charged to the Weatherization Assistance portion of LIHEAP. In addition, DCED also charged \$15 million to DOE's non-major Weatherization Program under CFDA #81.042 during the fiscal year ended June 30, 2006.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 54 : (continued)

**Criteria:** According to U.S. Department of Energy (DOE) regulations, no grant funds may be used to weatherize a dwelling that was previously weatherized after September 30, 1993 unless the dwelling unit was damaged by fire, flood, or act of God and repair of the damage to weatherization materials is not paid for by insurance. This language is included in the local agency grant agreements with DCED. None of the 30 client files contained documentation authorizing reweatherization services.

The OMB Circular A-133 Compliance Supplement for Single Audits, Part 4, related to LIHEAP (CFDA #93.568), Section III.A., specifies the following:

#### *Activities Allowed or Unallowed*

6. *LIHEAP funds may be used to provide low-cost residential weatherization and other cost-effective energy-related home repair (42 USC 8624(b)(1)).*
7. *LIHEAP grantees may use some or all of the rules applicable to the Department of Energy's Weatherization Assistance for Low-Income Persons program (CFDA 81.042) for their LIHEAP funds spent on weatherization (42 USC 8624(c)(1)(D)).*

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, in Section \_\_\_\_\_.510 states in part:

- (a) *Audit findings reported.* *The auditor shall report the following as audit findings in a schedule of findings and questioned costs:*
  - (3) *Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor...*

**Cause:** DCED has no system in place to ensure the two local agencies in Philadelphia are not providing services to the same dwellings. DCED management stated that Philadelphia is the only geographic area in the state where local agencies service areas overlap. Additionally, PHDC and ECA do not compare client data to identify dwellings previously serviced by the other local agency.

**Effect:** Both Philadelphia agencies wasted weatherization program funding resources on certain dwellings that were ineligible because they were previously serviced by the other local agency. As a result, both local agencies have limited the number of eligible clients served and potentially jeopardized the health and safety of eligible at-risk clients by lengthening the period they are waiting for services. Using the state's maximum average cost per dwelling of \$2,744, the \$94,081 wasted on reweatherizing ineligible dwellings could have been used to weatherize 34 additional dwellings in Philadelphia, and represents potential questioned costs (Federal Grant Nos: G-6B1PALIEA, G-05B1PALIEA, and G-04B1PALIEA). In addition, due to the lack of monitoring, the opportunity exists for fraud and abuse to occur.

**Recommendation:** DCED, with cooperation from the two Philadelphia agencies, should immediately create a system to ensure reweatherization services are not provided to ineligible dwellings so 1) more eligible clients will be served and the period they are waiting for services will be shortened and 2) the potential for fraud and abuse will be minimized.

**Agency Response:** DCED concurs with the findings. Philadelphia currently has two agencies that oversee Weatherization services in the same geographic area because advocates in the city stated that the legacy agency, PHDC, did not have the capacity to meet the needs of the population. ECA was added as the second Weatherization provider in 2001. PHDC, which is the larger of the two agencies, has a centralized intake system and a single point of entry for applicants, whereas ECA has many Neighborhood Energy Centers where potential applicants can walk in off the streets and apply for services. Such a process, although beneficial to the client, makes tracking applications for the city as a whole very difficult. To address this issue, we will require immediately that each agency share a list of dwellings weatherized as well as require that waiting lists and/or units in progress be shared on a quarterly basis. We will acquire a database system that will allow both the local agencies and the state to track weatherized units as well as work in progress.

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 54: (continued)**

**Auditors' Conclusion:** We acknowledge DCED's concurrence with the finding and are encouraged by the corrective actions noted in its response.

Based on DCED's response, the finding and recommendations remain as stated. We additionally recommend that DCED pursue appropriate settlement of any questioned costs with the federal government. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 55:**

#### **CFDA #93.568 – Low-Income Home Energy Assistance Program**

##### **DCED Does Not Adequately Review Weatherization Assistance Program Expenditures for Accuracy Prior to Approving Local Agency Grant Payments**

**Condition:** As part of our Single Audit of LIHEAP, we inquired about the existence of other internal or external audits of the program that could impact our Single Audit for SFYE June 30, 2006. We noted that the Pennsylvania Department of the Auditor General, acting separately, conducted a one-time independent audit of the LIHEAP program for SFYE June 30, 2006, and performed detailed compliance and internal control testing which was similar to the federally-required testing in our Single Audit. As a result, we obtained and reviewed the audit report for this separate audit, and noted the following finding related to LIHEAP:

During our review of DCED's procedures for monitoring weatherization program activity of the local agencies, we found that DCED approves grant payments based only on the amount of their weatherization program allocation to ensure grant payments do not exceed a local agency's allocation for that program year. However, local agencies are not required to submit documentation that supports their grant payment requests. Also, DCED management stated that it does not reconcile local agencies' weatherization program expenditures to grant payment requests because it relies on each local agency undergoing an annual independent financial audit. We disagree with DCED's exclusive reliance on local level financial audits. DCED is responsible under Commonwealth regulations to monitor subrecipients'/subgrantees' incurrence of costs relating to federal grants and contracts.

Because DCED does not adequately review weatherization program expenditures, we selected two weatherization projects at each of the four local agencies we visited to trace weatherization project costs to the respective local agencies' grant payment requests and found that none of the four local agencies could provide documentation that supported their grant payment requests. Each indicated that it has been using the same methodology for years to request payments and DCED never objected to it. When asked to illustrate with supporting documentation how the costs of a project rolled-up to the eventual grant payment request, the local agencies were unable to provide detailed supporting documentation.

We noted that local agencies submit quarterly reports to DCED showing cumulative weatherization program expenditures from July 1 through September 30 of the subsequent year. These reports also include the number of dwellings serviced by funding source. They also submit a listing of the individual projects and associated materials, operating, and health and safety costs for the quarter; however, DCED does not reconcile the individual projects and associated costs to the quarterly reports. Because DCED's monitoring of the weatherization program hinges on the data contained in the quarterly reports, it is important to verify the accuracy of this information. When we compared the data on these reports, we found numerous differences. DCED management stated that its three internal monitors review a sample of individual projects' expenditures for appropriateness as part of their client file review and site inspections during monitoring visits at the local agencies. However, these monitoring procedures are not documented; therefore, we could neither determine their adequacy nor confirm their results and conclusions contained in the monitors' reports.

When we questioned DCED on how its internal monitors compare weatherization project costs to grant payment requests, management stated that the monitors' reviews were limited to a reasonableness test of materials costs which we determined were properly supported in each client file. Operating costs, including wages, and health and safety costs were not adequately reviewed during DCED's monitors' visits and not adequately supported in the clients' file. In addition, the internal monitors do not review grant payment requests.

Total Weatherization program payments made by DCED during the fiscal year ended June 30, 2006, were \$19.9 million (or 11.8 percent) out of total federal LIHEAP expenditures of \$168.2 million on the June 30, 2006 SEFA under audit.

**Criteria:** DCED is required to ensure that adequate financial management controls at the local agency exists. Procedures to monitor local agency activity must be effective to ensure weatherization program expenditures are valid and to reduce the risk of fraud, waste and abuse. According to Management Directive 305.12 Amended, dated

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 55: (continued)**

January 25, 1999, Commonwealth agencies are required to monitor subrecipients'/grantees' incurrence of costs related to federal grants, contracts, and agreements. Also, prudent business practice dictates that a reconciliation of local agency grant payments to actual weatherization program expenditures be performed to prevent and/or detect any overbilling.

**Cause:** DCED is relying too heavily on 1) each local agency to ensure weatherization program expenditures are valid, accurate, and appropriate, 2) its three internal monitors who conduct on-site visits, and 3) independent financial audits that are required to be conducted on each local agency. DCED management stated that it lacks the resources to provide better financial guidance to the local agencies. In addition, DCED provides inadequate policy and procedures to local agencies addressing how operations should be functioning.

**Effect:** Without adequate DCED oversight of weatherization program expenditures and activities, local agencies may be overbilling DCED for invalid costs and receiving funds they are not entitled to receive. As a result, these funds are not available to eligible residents. During our audit, we found that the Energy Coordinating Agency of Philadelphia billed DCED twice for the same project. ECA management admitted that it owed the state \$3,092 for this overbilling which was attributed to inadequate controls at the local agency. Additionally, the lack of adequate controls of local agency expenditures and activities increases the risk of fraud, waste and abuse of weatherization program funds.

**Recommendation:** We recommend that DCED develop policies and procedures to ensure expenditures reported by the local agencies are valid and properly supported. We also recommend that DCED develop procedures that adequately instruct monitors on how to document and support the results of their reviews. Also, DCED should periodically reconcile local agency grant payments with reported expenditures to reduce the risk of local agencies overcharging DCED and reduce the risk of fraud, waste, and abuse of weatherization program funds.

**Agency Response:** DCED concurs with the findings. As a result, we will develop procedures to ensure expenditures reported by the local agencies are valid and properly supported, initially through revising our monitoring format to include documentation of expenditures. We will also create a monitoring procedures handbook for all program monitors. Last, we will implement procedures to reconcile agency grant payments with reported expenditures, which will be the responsibility of a new staff person. This person will fill an existing complement position that is being vacated through a retirement and restructured to focus on invoicing and payment procedures. We are expecting to post this position by the end of July 2007.

**Auditors' Conclusion:** We acknowledge DCED's concurrence with the finding and are encouraged by the corrective actions noted in its response.

Based on DCED's response, the finding and recommendations remain as stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 56:**

#### **CFDA #93.568 – Low-Income Home Energy Assistance Program**

##### **Weaknesses in Contracting for Services Exist at Local Agencies**

**Condition:** As part of our Single Audit of LIHEAP, we inquired about the existence of other internal or external audits of the program that could impact our Single Audit for SFYE June 30, 2006. We noted that the Pennsylvania Department of the Auditor General, acting separately, conducted a one-time independent audit of the LIHEAP program for SFYE June 30, 2006, and performed detailed compliance and internal control testing which was similar to the federally-required testing in our Single Audit. As a result, we obtained and reviewed the audit report for this separate audit, and noted the following finding related to LIHEAP:

Local agencies are not awarding contracts through proper bidding procedures. In addition, the local agencies were unable to provide documentation to substantiate their review and approval process in selecting subcontractors. Our review noted the following weaknesses:

- For the Lancaster agency, its employees do not work on furnaces but instead contract such work out to subcontractors. The agency considers furnace work a specialty beyond its normal weatherization work and uses seven or eight furnace contractors throughout the three counties (Lancaster, Lebanon, and Chester) it services. Total furnace work during the fiscal year ended June 30, 2006, amounted to more than \$150,000. Local agency management stated that, because no furnace work on a single project exceeds \$10,000, the agency is not required to contract this work under proper bidding procedures.
- For the Dauphin agency, its employees also do not perform furnace work but instead contract it out to subcontractors. Local agency management requested bids for contracting furnace services but only received one or two bids, none of which included the cost to service gas furnaces. The last time the Dauphin County agency solicited bids was approximately six years ago. Instead, the local agency uses the recommendations of its clients. However, if the local agency contacts the client's preferred subcontractor and the furnace repair cost differs significantly from past experience, the local agency will contact a second furnace repair shop, then select the lowest price estimate. When asked if it documents this process to include substantiating the lowest price, the local agency stated that the process is not documented.
- One Philadelphia agency followed written bidding procedures when it contracted with 15 companies for standard weatherization and furnace work for the fiscal year ended June 30, 2006. However, upon review of selected contracts, we noted that although material costs are specifically defined, labor costs are not defined anywhere in the contracts. When we asked the local agency how it determines labor costs, management stated that it applies approximately 200 percent markup to the materials' cost and was unaware of receiving any official written authorization from DCED or the federal government to use this percentage/methodology.

Total Weatherization program payments made by DCED during the fiscal year ended June 30, 2006, were \$19.9 million (or 11.8 percent) out of total federal LIHEAP expenditures of \$168.2 million on the June 30, 2006 SEFA under audit.

**Criteria:** The grant agreement between DCED and each of the 42 local agencies states that the type of procurement method selected should promote the best interest of the weatherization program. The advertising method is required when sealed bids and public bid openings exceed \$10,000. Awards must be made to the responsible bidder whose bid is most advantageous to the local agency.

Local agencies are required to adhere to procurement policy and procedures when awarding contracts. A strong system of internal control should ensure that contracts and related costs are properly justified and supported and adequately reviewed prior to the letting of the contract. Strong internal controls should also ensure that grantees only contract with responsible subcontractors.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 56: (continued)**

**Cause:** DCED does not adequately monitor the contracting procedures of the local agencies to ensure compliance with the grant agreements and that weatherization services provide the maximum benefit. Local agency management indicated that the methodology supporting the contract process is considered to be adequate. The Lancaster agency does not believe bidding is necessary because the individual project costs for furnace work is under \$10,000. We questioned the \$10,000 threshold being applied on a project basis rather than the total contract value. While individual projects may not exceed \$10,000, cumulatively these projects will exceed \$10,000 in value; therefore, this work should be let through proper bidding procedures. When asked if the Lancaster agency had prior approval from DCED to use this threshold, management replied that DCED instructed them to follow federal guidelines; however, management indicated that specific guidelines were not relevant to contracting procedures. The Dauphin County agency believes bidding to be impractical due to a lack of bids from subcontractors in the past. At one Philadelphia agency, management indicated that it had not included labor costs as criteria in the bidding process because the 200 percent markup methodology has been used for years. Good internal controls require management to maintain sufficient documentation to demonstrate that proper purchasing procedures were reasonably followed and contract awards and costs were properly accounted for. It is important that contractors or subcontractors are competent and responsible, and that the contracting process is free of fraud, waste, and abuse.

**Effect:** Local agencies may not be getting weatherization services performed for the best price, and the most responsible subcontractors may not be performing the work. Also, weatherization program dollars may not go as far and serve the most low-income residents possible because the local agencies may not be receiving the best price for services rendered. In addition, maintaining written procedures and proper documentation will minimize the risk of impropriety and abuse. We again note that the system of internal controls over the review and approval of contract terms is weak. Documentation supporting a proper review of contracts and bids by management is lacking.

**Recommendation:** We recommend that DCED adequately monitor local agency contracting procedures and provide guidance to ensure weatherization program dollars are efficiently utilized and weatherization services are maximized. We also recommend that the agency in Lancaster submit the furnace work out for competitive bidding. In addition, we recommend that the Dauphin agency document if bidding procedures are not feasible and document alternative procedures when obtaining two or more quotes from local furnace repair shops. The bidding criteria at the Philadelphia agency we visited should include labor costs to be evaluated for competitive bidding. Finally, all local agencies should immediately obtain written authorization and approval from DCED regarding respective contracting/procurement procedures.

**Agency Response:** DCED concurs with the findings. As part of the request for work plans/contracts issued each year, we will request a copy of procurement/bidding procedures to review and approve prior to the contract being issued. As work plans have already been issued for the 2007-2008 fiscal year, we will ask agencies to supplement the work plan with this information. Prior to that, we will issue directives for the agencies in preparing their contracting/procurement policies. We will also add a follow-up step via the monitoring tool to ensure compliance.

With respect to those agencies specifically noted in the audit we will: 1) require that Lancaster subject furnace work to competitive bidding; 2) require Dauphin to document all bidding procedures; and 3) require PHDC to include labor costs as a criterion in all bidding procedures. Any claims of superseding local laws will be submitted to DCED Legal Counsel for a legal opinion.

**Auditors' Conclusion:** We acknowledge DCED's concurrence with the finding and are encouraged by the corrective actions noted in its response.

Based on DCED's response, the finding and recommendations remain as stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 57:**

#### **CFDA #93.568 – Low-Income Home Energy Assistance Program**

##### **The Most Vulnerable and Needy Pennsylvanians Do Not Always Receive Priority and Are Waiting Up to Nine Years to Receive Weatherization Services**

**Condition:** As part of our Single Audit of LIHEAP, we inquired about the existence of other internal or external audits of the program that could impact our Single Audit for SFYE June 30, 2006. We noted that the Pennsylvania Department of the Auditor General, acting separately, conducted a one-time independent audit of the LIHEAP program for SFYE June 30, 2006, and performed detailed compliance and internal control testing which was similar to the federally-required testing in our Single Audit. As a result, we obtained and reviewed the audit report for this separate audit, and noted the following finding related to LIHEAP:

Our review of four local agencies' procedures for prioritizing applicants on their waiting lists found that the most vulnerable and needy do not always receive priority for weatherization services. They are low-income elderly or disabled citizens and considered to be the most at-risk from high energy costs and unhealthy or unsafe living environments. Additionally, DCED reported that 9,249 applicants were waiting for weatherization services at 41 of the 42 local agencies statewide as of June 30, 2006, including 1,100 applicants waiting for service in Fayette County. The waiting periods to receive services ranged from two months to nine years.

DCED management indicated that it currently requires local agencies to only give priority to households with elderly or disabled residents. In spite of this requirement, we found that the Lancaster and Philadelphia local agencies we visited did not give priority to applicant households with elderly or disabled residents. Management at both local agencies stated that applicants are served on a first come, first served basis once approved for weatherization services. At the Dauphin and York local agencies, management stated that they occasionally prioritize applicants. When they schedule applicants for service, they select some non-priority applicants before other priority applicants to ensure services are provided within a year of approval. However, this contradicts the weatherization program's emphasis on providing services to the most vulnerable citizens first.

This lack of prioritization was evident in a case we reviewed from York County. In this case, weatherization services began on September 26, 2005, only one month after the applicant was approved on August 26, 2005. Total weatherization cost of this project amounted to \$10,108. With the average waiting time for recipients in York County of four months and York County's inconsistent prioritization of applicants, we are skeptical that all priority applicants on the waiting list as of September 26, 2005 received services before this applicant, who was not classified on York's waiting list as a priority or crisis client. These circumstances indicate a weakness in York County's application process, which could permit manipulation of its waiting list order.

During our on-site visits, we found there are no standard procedures for maintaining waiting lists because neither DCED nor the local agencies have policies and procedures in place. Of the four local agencies tested, only York County had some resemblance of a waiting list. However, the list only captured information as of the date an application was approved and did not include the listing of applicants who requested but was not yet approved to receive services. The other three local agencies had to create a waiting list from individual client files maintained in file cabinets. Also, when we asked DCED for its weatherization waiting list as of June 30, 2006, it had to request this information from the 42 local agencies.

Total Weatherization program payments made by DCED during the fiscal year ended June 30, 2006, were \$19.9 million (or 11.8 percent) out of total federal LIHEAP expenditures of \$168.2 million on the June 30, 2006 SEFA under audit.

**Criteria:** Low-income citizens, especially those at-risk, need to receive weatherization assistance timely in order to improve their health and safety and lower energy costs, saving money to meet their other basic needs. According to federal regulations, DCED must ensure that local agencies have the capacity to provide weatherization services timely and effectively.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 57: (continued)**

**Cause:** DCED does not have policies and procedures in place to instruct local agencies on how to maintain weatherization service waiting lists, including prioritizing applicants. In addition, DCED weatherization monitors do not review waiting lists at local agencies to determine whether they are maintained and if the agencies prioritize service for at-risk citizens.

We were informed during our on-site visits at three of the four local agencies that if more money was available, waiting lists would be much shorter. However, DCED has never requested an increase in the percentage of LIHEAP funds transferred from DPW even though more than \$30 million of LIHEAP surplus existed at June 30, 2006. Management at the fourth site, located in Philadelphia, stated that additional funding would help to shorten its waiting list; however, management also stated that not having enough contractors to perform weatherization services also contributes to its waiting list.

**Effect:** By not ensuring that weatherization services are first provided to the most vulnerable and needy citizens at-risk, local agencies may be jeopardizing the health of one or more of these applicants. In addition, DCED and the local agencies are failing to achieve part of the objective of the weatherization program: to increase the energy efficiency of dwellings owned or occupied by low-income persons, especially those particularly vulnerable such as the elderly, persons with disabilities, families with children, high residential energy users, and households with high energy burden. These at-risk citizens could be saving money on heating their dwellings, therefore having more money available to meet their other basic needs.

**Recommendation:** DCED should monitor the local agencies to ensure that the most at-risk and needy Pennsylvanians are the first to receive weatherization program services. Because some agencies have longer waiting lists than others, DCED should take into consideration the length of an agency's waiting list when allocating the federal grant monies among the 42 local agencies. In addition, DCED should consider requesting additional LIHEAP funds from DPW. DCED should also develop policies and procedures to instruct local agencies on how to maintain and prioritize weatherization service waiting lists.

**Agency Response:** DCED concurs with the findings and is developing a point scoring system to prioritize homes for weatherization service, taking into consideration such factors as whether there are children present in the home, whether there are elderly and/or disabled in the household, and whether the household is a high energy user. A point value will be assigned to each of those factors, and households with the highest point totals would be placed at the top of the list to be weatherized. DCED will develop procedures to standardize the waiting list and will explore using waiting lists as part of the prioritization procedure.

Additionally, in order to address the issue of backlog/waiting lists, we will explore the feasibility of increasing the percentage of funds available through DPW/LIHEAP.

**Auditors' Conclusion:** We acknowledge DCED's concurrence with the finding and are encouraged by the corrective actions noted in its response.

Based on DCED's response, the finding and recommendations remain as stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 58:**

#### **CFDA #93.568 – Low-Income Home Energy Assistance Program**

##### **DCED Failed to Adequately Monitor Local Agencies**

**Condition:** As part of our Single Audit of LIHEAP, we inquired about the existence of other internal or external audits of the program that could impact our Single Audit for SFYE June 30, 2006. We noted that the Pennsylvania Department of the Auditor General, acting separately, conducted a one-time independent audit of the LIHEAP program for SFYE June 30, 2006, and performed detailed compliance and internal control testing which was similar to the federally-required testing in our Single Audit. As a result, we obtained and reviewed the audit report for this separate audit, and noted the following finding related to LIHEAP:

DCED has three individuals who monitor and review activities at the 42 local agencies. These monitors determine compliance with weatherization program regulations and grant agreement requirements. They review client files for required documents, inspect weatherization services performed at selected dwellings, assess the reasonableness of materials costs, identify local agency employees' training needs, and review inventory records. DCED presents a monitor's report to the local agencies, which includes any issues identified during the monitor's visit. However, DCED does not always verify if local agencies remedy these issues. According to a DCED monitor, he only verifies that local agencies correct significant deficiencies. From our review of four monitors' reports, we noted no significant deficiencies reported. When asked if DCED compiles a summary report of all monitors' reported deficiencies, management stated that a summary report is not compiled.

As part of our audit, we selected 20 weatherization program client files reviewed by DCED monitors from their last monitoring reports to determine whether they were adequately reviewed and monitoring activities were adequately performed. As a result of our review, we noted several monitoring deficiencies, including: DCED monitors do not review waiting lists to determine that weatherization services are being provided first to at-risk citizens and then on a first come, first served basis, "monitors do not review subcontractor invoices and related wages for accuracy and propriety," and documentation to support monitor reviews of client files was inadequate. We also noted that DCED monitors do not review promotional activities performed by local agencies. In addition to these deficiencies, we noted that DCED has no policies and procedures regarding monitoring activities, including a sampling methodology that ensures a representative number of client files are being reviewed.

Regarding missing documentation in client files, we found that 15 out of 20 client files reviewed by DCED monitors lacked evidence that a priority list of weatherization services was used to ensure the most cost-effective services were considered first, even though the monitors reported that the priority list was used. Additionally, we noted seven other required documents missing from six client files, including: five client energy education forms, one furnace test report, and one fuel release waiver. The monitor checked these items on his client file review form as existing and part of the client files.

Total Weatherization program payments made by DCED during the fiscal year ended June 30, 2006, were \$19.9 million (or 11.8 percent) out of total federal LIHEAP expenditures of \$168.2 million on the June 30, 2006 SEFA under audit.

**Criteria:** Although DCED delegates the responsibility of administering the weatherization program services to the local agencies, DCED still has a responsibility to ensure that the citizens of the Commonwealth are adequately and properly served by the weatherization program. According to federal regulations, DCED must monitor the activities of the local agencies to ensure the quality of work and the existence of adequate financial management control.

Promotional activities should be monitored to ensure that the Commonwealth's most at-risk residents are aware of the weatherization program so they can apply for assistance. Also, waiting lists should be reviewed for accuracy and reported to DCED so they are aware of the waiting times and the current status of the weatherization program. This would allow DCED to monitor waiting times to determine that weatherization services are provided first to at-risk citizens and then on a first come, first served basis.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 58: (continued)**

In addition, material, labor and overhead costs should be reviewed by the DCED monitors to ensure that all costs charged to the weatherization program are proper for both subcontractors and employees. Also, DCED monitors should ensure that all necessary documentation is present in the client files, and that a representative number of client files are selected for review.

**Cause:** DCED has no policies and procedures regarding monitoring activities and delegates responsibilities for administering the weatherization program to the local agencies.

**Effect:** Without adequately monitoring activities performed at the local agencies, DCED lacks assurance that weatherization program applications are processed properly and internal controls are adequate for preventing, detecting, and reporting fraud and abuse.

**Recommendation:** We recommend that DCED develop written policies and procedures to ensure local agencies are properly monitored and at-risk citizens and other applicants are receiving assistance in a timely manner. These policies and procedures should include, but not be limited to:

- assessing internal controls;
- developing a sampling methodology that ensures a representative number of client files are reviewed;
- ensuring application documentation in client files is complete and accurate; and
- compiling the monitors' results into a summary report of all local agencies.

**Agency Response:** DCED disagrees in part with the findings. During the five-year period of this review, 59,976 units were weatherized by the 42 local program providers. Of that number, 3,380 units were inspected by DCED's three monitors and 6,521 files were reviewed. DCED feels that these numbers represent an adequate sampling of the units completed. It has been our practice for many years to inspect five percent of completed units and 10% of client files, and that is incorporated into the State Plan submitted to, and accepted by, the US DOE. In selecting client files to review and units to inspect, the "random sample" is modified somewhat to ensure that a cross-section of housing stock, subcontractors, unit costs, and geographic area are reviewed and inspected.

The checklist used by the monitors is designed to ensure all relevant data is reviewed and contained in the files. However, DCED agrees the monitors do not have the expertise to adequately review an agency's internal controls. To remedy this, we are meeting with the Comptroller's Office on July 13, 2007 to discuss the extension of the MOU that will allow the Comptroller's Office to conduct fiscal reviews of program providers in addition to Community Action Agencies. Additionally, we will comply with the recommendation to compile the monitor's results into a summary report of all local agencies twice yearly, and we will develop a Monitors Guide/Manual for use by DCED monitors that will enhance and formalize procedures already in place, and add those recommended by this audit.

**Auditors' Conclusion:** We applaud DCED's commitment to implement most of our recommendations and to utilize Comptroller Office personnel to assist in fiscal reviews of the local agencies. Additionally, regardless of the number of units and client files reviewed by DCED's monitors, we found numerous discrepancies after reviewing selected client files and comparing our results with the DCED monitors' results. We identified several operations that DCED failed to adequately monitor, including verification of weatherization expenditures, waiting list procedures, subcontractor invoices, and promotional activities.

Based on DCED's response, the finding and recommendations remain as stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 59:

#### CFDA #93.569 – Community Services Block Grant

#### Weaknesses in Internal Controls Over Subgrantees Result in \$37,772 in Questioned Costs (A Similar Condition Was Noted in Prior Year Finding #05-33)

**Condition:** As part of our testing of DCED compliance with CSBG period of availability requirements, we reviewed all eleven subrecipient payments and one adjustment transaction totaling \$394,899 that were charged to the FFY 2004 CSBG grant (Grant No. G-04B1PACOSR for grant period 10/1/03 to 9/30/05) after the September 30, 2005 grant closeout. Our testing disclosed that for two of these payments totaling \$37,772 the invoice dates were after the period of availability as follows:

Document Number	Post Date	Subgrantee Invoice Date	Amount Charged To Grant	Subgrantee
1901340772	11/17/05	10/26/05	\$12,013	Community Action Partnership of Mercer County
1901340781	11/17/05	10/12/05	25,759	Community Action Southwest
			<u>\$37,772</u>	

DCED could not provide expenditure reports or any other documents from the subgrantees showing the payments were expended by the subgrantee (on behalf of the grantee) by September 30, 2005. Since DCED could not provide documentation to support that the \$37,772 of payments were expended within the period of availability, this entire amount is questioned.

In addition, we reviewed SAP payments to subrecipients to ensure they were limited to immediate cash needs in compliance with cash management regulations. We noted that for five of twenty-two payments tested, total payments to the subrecipients exceeded total subrecipient expenditures to date shown on the invoice submitted by the subrecipient by 25% or more of the yearly contract amount as follows:

SAP Document Number	SAP Post Date	Total Expenditures To Date	Total Payments Received	Receipts Exceeding Expenditures	2005-06 Contract Amount	Percentage of Contract Advanced	Subgrantee
1901381741	1/3/06	\$177,367	\$266,050	\$88,683	\$354,734	25%	Lycoming-Clinton Counties Commission for Community Action (05-06 year only)
1901284767	9/22/05	0	66,316	66,316	265,262	25%	Butler County Community Action & Development
1901279548	9/19/05	0	69,036	69,036	276,143	25%	Monroe County Commissioners
1901252846	8/22/05	2,296	71,403	69,107	71,403	97%	PA Hunger Action Center
1901326097	11/3/05	0	95,714	95,714	382,855	25%	Center for Community Services for Counties of Bedford, Fulton, and Huntingdon

Also, the CSBG standard request for payment form used by the subrecipients does not include actual service and/or cash disbursement dates, but only total expenditures plus “accrued costs.” It is unclear whether the cash for expenditures and accrued costs has actually been disbursed timely or whether all or a portion of these costs represent anticipated future cash disbursements. Based on this fact, there could be additional instances in the remaining 17 of 22 payments tested in which DCED advanced the subrecipients cash in excess of immediate needs.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 59: (continued)

**Criteria:** Regarding the expenditure of funds, 45 CFR, Part 96.14(b) states:

- (a) *Expenditure. No limitations exist on the time for expenditure of block grant funds, except those imposed by statute with respect to the community services, maternal and child health services, and social services block grants.*

The Terms and Conditions of the Community Services Block Grant Awards state:

*Payments to grantees from their allotment for any fiscal year shall be expended by the grantee in such fiscal year or in the succeeding fiscal year, Section 678(b) (42 U.S.C. 9907).*

*Grantees shall adhere to the provisions of 678D which addresses the grantees responsibilities for fiscal control, fund accounting and audit procedures.*

(Note: Auditors conclude that this same period of availability criteria applies to all subgrantees conducting programs on behalf of the grantee.)

US Treasury Regulations in 31 CFR, Part 205, Part B, provides the rules applicable to federal assistance programs not included in a Treasury-State Agreement as follows:

- (a) *A State must minimize the time between the drawdown of Federal funds from the federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs.....States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102.*
- (b) *Neither a State nor the Federal government will incur an interest liability under this part on the transfer of funds for a Federal assistance program subject to this subpart B.*

Regarding standards for financial management systems, 45 CFR, Part 96.20 states:

- (b) *The financial management systems of other grantees and subgrantees must meet the following standards:*

- (7) *Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.*

**Cause:** With regard to DCED not being able to provide documentation to support that the \$37,772 was expended within the period of availability, DCED personnel stated that they are confident that the expenditures occurred within the period of availability given the dates of the invoices and the fact that the subrecipients submit invoices quarterly. However, as stated in the condition, the invoices do not include applicable service or cash disbursement dates for expenditures and accrued costs, so it is not clear whether these cost totals include anticipated future costs.

In regard to advancing subrecipients large amounts of cash, DCED personnel stated that subrecipients are advanced funds based on anticipated quarterly expenditures submitted on their invoices. Per CSBG Directive 2004-07 (revised), the first invoice is submitted with the signed contract. All subsequent invoices are submitted during the last month of the previous quarter. A final invoice may be submitted at the end of the contract period when all expenditures are complete. No adjustments are made to this established payment process for potential excess cash at the subrecipient level.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 59: (continued)**

**Effect:** Since DCED could not provide documentation to support that the \$37,772 of subgrantee expenditures were incurred within the period of availability, the \$37,772 is questioned. In addition, advance payments to subrecipients were not limited to immediate cash needs in compliance with federal cash management regulations.

**Recommendation:** We recommend that DCED pursue appropriate settlement with HHS regarding the \$37,772 of questioned costs, and improve its monitoring documentation to support that all CSBG costs are expended within the period of availability. In addition, DCED should improve its invoicing and payment system to ensure that subrecipients are limited to immediate cash needs.

**Agency Response:** The payments in question were drawn from two grants, federal FYE 9/05 and 9/06. Based on the drawdowns from the grantees and their respective spending patterns, we are confident that the funds in question were spent within the grant period of availability for grant eligible activities and associated costs, i.e., within the first quarter of the state 2005-06 contract period. We will, however, revise our Request for Payment to include a Project Activity Date, as well as request documentation for the last quarter's payment requests. Such documentation may take the form of a list of all accounts payable/accrued costs that may be due after the contract has expired or the period of availability has terminated. Additionally, management has approved the hiring of a staff person for this office whose primary responsibility would be oversight of all federal payments/invoicing.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 60:

#### CFDA #93.569 – Community Services Block Grant

##### Weaknesses in Internal Controls Over DCED On-Site Monitoring of Subgrantees

**Condition:** DCED personnel indicated that they performed on-site monitoring for all 45 of its CSBG subgrantees during SFYE June 30, 2006. We tested DCED's monitoring documentation for 10 of these subgrantees. While monitoring reports were available for all ten subgrantees, the results of our testing disclosed that for four subgrantees, DCED could not provide the letter from DCED management to the respective subgrantee informing them of the results of the monitoring including any findings and recommendations. In addition, we noted that five of the ten subgrantee monitoring reports we reviewed included findings and recommendations. For one of these five reports, DCED could not provide documentation of the subgrantee's corrective action plan, and for all five subgrantees, DCED could not provide the approval letter from DCED management informing the subgrantee of acceptance of their corrective action. Without the letters, and the corrective action plan, noted above, there is no evidence of DCED's supervisory review and approval of the subgrantee monitoring results and the subgrantee corrective action.

**Criteria:** Regarding subgrantee monitoring, 42 USC 9914(a)(1) states:

(a) *In general*

*In order to determine whether eligible entities meet the performance goals, administrative standards, financial management requirements, and other requirements of a State, the State shall conduct the following reviews of eligible entities:*

(1) *A full on-site review of each such entity at least once during each three-year period.*

In addition 42 USC 9915(a) states:

(a) *Determination*

*If the State determines, on the basis of a final decision in a review pursuant to section 9914 of this title, that an eligible entity fails to comply with the terms of an agreement, or the State plan, to provide services under this chapter or to meet appropriate standards, goals, and other requirements established by the State (including performance objectives), the State shall –*

(1) *inform the entity of the deficiency to be corrected;*

(2) *require the entity to correct the deficiency;*

(3)(A) *offer training and technical assistance, if appropriate, to help correct the deficiency, and prepare and submit to the Secretary a report describing the training and technical assistance offered; or*

(B) *if the State determines that such training and technical assistance are not appropriate, prepare and submit to the Secretary a report stating the reasons for the determination;*

(4)(A) *at the discretion of the State (taking into account the seriousness of the deficiency and the time reasonably required to correct the deficiency), allow the entity to develop and implement, within 60 days after being informed of the deficiency, a quality improvement plan to correct such deficiency within a reasonable period of time, as determined by the State; and*

(B) *not later than 30 days after receiving from an eligible entity a proposed quality improvement plan pursuant to subparagraph (A), either approve such proposed plan or specify the reasons why the proposed plan cannot be approved; and*

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 60: (continued)**

*(5) after providing adequate notice and an opportunity for a hearing, initiate proceedings to terminate the designation of or reduce the funding under this chapter of the eligible entity unless the entity corrects the deficiency.*

**Cause:** DCED personnel indicated that due to staff limitations, the corrective action plan and the letters to notify subgrantees of monitoring results and to approve their corrective action were either misfiled or not prepared.

**Effect:** Without the letters informing subgrantees of monitoring results and approval of corrective action, DCED cannot be assured that monitoring was reviewed and approved by DCED management. In addition, subgrantees are not being informed of the results of the monitoring and do not know if they are performing acceptable corrective action to resolve their deficiencies. This makes the monitoring process less effective in ensuring that subgrantees are in compliance with federal regulations.

**Recommendation:** We recommend that DCED establish procedures to ensure that subgrantee monitoring and corrective action is reviewed and approved by DCED management, subgrantees are properly informed of the results, and reasonable documentation is retained as support.

**Agency Response:** We have had in the past a system that tracked all aspects of the monitoring, from receipt of the report to the final closeout letter. Due to changes in staffing as well as a lack of clerical staff to maintain the system, some of the procedures were not completed. However, we have reinstated the system, and it is maintained by the Center's secretary with oversight by the division chief. Updates are done bi-weekly, and reports will be given to the Center director each quarter.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 61:

#### CFDA #93.575 – Child Care and Development Block Grant

#### CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund

#### Internal Control Weaknesses and Inadequate Support for Federal Earmarking Requirements Result in Questioned Costs of \$3,135,166 (A Similar Condition Was Noted in Prior Year Finding #05-35)

**Condition:** Federal regulations applicable to the discretionary fund portion of the CCDF cluster established an earmark within each federal award requiring a minimum funding level to increase the supply of quality child care for infants and toddlers. The FFY 2004 (Federal Grant No. G-0401PACCDF) infant and toddler earmark applicable to Pennsylvania in our current audit period was \$3,135,166. In our prior-year audits, our test of expenditures charged and obligated to CCDF disclosed that DPW did not adequately track and could not provide adequate documentation to properly support the expenditures claimed for the infant and toddler earmark. Our current-year follow-up to these prior year findings disclosed that DPW did not implement corrective action and again did not adequately support this earmark for the current FFY 2004 CCDF grant.

As of June 30, 2006, DPW reported infant and toddler earmark expenditures of \$3,746,880 on the ACF-696 Report for the 2004 grant, which exceeded the required earmark disclosed above. These expenditures were reported on SAP as applicable to two subrecipient contracts. We were informed however, that these contracts were only used to report the transfer of expenditures to satisfy the federal earmarking requirement and neither contract had any line item budget detail for infant and toddler earmark expenditures. As actual support for the earmark amount, DPW had prepared schedules containing expenditures for the Child Care Information Services (CCIS) agencies. However, these amounts represented projections and not actual expenditures.

Also, the projection amounts were based on data contained in DPW's Child Care Management Information System. We have noted in our testing of this system that DPW's on-site monitoring of CCIS front-end child data entry is deficient in that monitoring visits by state officials are limited and activities performed by these officials are not well documented.

Finally, our review of DPW's CCIS Agency Audit Guidelines for Fiscal Year 2005-2006, which provides overall guidance to OMB Circular A-133 subrecipient auditors, does not require submission or auditor testing of detailed subrecipient reports to support infant and toddler earmark expenditures.

**Criteria:** The terms and conditions issued with the FFY 2004 Child Care and Development Fund grant award state:

#### **Discretionary Fund**

*Discretionary Funds must be obligated by September 30, 2005. States must liquidate obligations by September 30, 2006.*

#### **Earmarks associated with the Discretionary Fund**

*The Department of Labor, HHS, and Education Appropriations Act, 2003 earmarked specific amounts for these activities:*

- *Child Care Quality Improvement Activities*
- *Infant and Toddler Quality Improvement*
- *Child Care Resource and Referral and School Aged Child Care Activities*

*The amount of these earmarks **is included** as part of the Discretionary Fund in calculating the "not less than 4% quality expenditure requirement" of Section 658G of the CCDBG Act. However, the expenditures of these earmarked amounts are **not** counted toward meeting the 4% quality expenditure requirement.*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 61: (continued)**

In addition, HHS's Final Allocation for the FFY 2004 Final Allotments and Earmarked Funds established Pennsylvania's infant and toddler earmark as \$3,135,166.

Also, 45 CFR Part 98.60(d)(1) states:

- (1) *Discretionary Fund allotments shall be obligated in the fiscal year in which funds are awarded or in the succeeding fiscal year.*

Furthermore, 45 CFR Part 98.60(d)(7) states:

- (7) *Any funds not obligated during the obligation period specified in paragraph (d) of this section will revert to the Federal government.*

**Cause:** Since corrective action was not timely implemented by DPW in the current year to resolve our prior year finding, compliance with the infant and toddler earmark for our current year under audit was not properly documented, tracked, and monitored at the state or subrecipient levels by DPW.

**Effect:** DPW did not retain adequate documentation to support its compliance with federal earmarking regulations. Since the necessary documentation to support compliance with the earmark was not available, DPW cannot reasonably demonstrate that the required amount of FFY 2004 CCDF funds were spent on federally-mandated infant and toddler activities versus other CCDF activities. Because costs spent or obligated on other CCDF activities in lieu of the minimum required earmark would not be allowable, the entire amount of the \$3,135,166 minimum earmark is questioned.

In addition, although other CCDF earmarks were not deemed material to our CCDF audit as a whole and were, therefore, not detail tested in our current year audit, due to the lack of DPW program monitoring and documentation noted above, subgrantee expenditures supporting the two other CCDF earmarks listed above (Child Care Quality and Child Care Resource and Referral) may be in question as well.

**Recommendation:** We recommend that DPW pursue appropriate settlement with HHS regarding the \$3,135,166 of questioned costs. In addition, DPW should develop a system that will adequately document, track, and verify with subrecipients that infant and toddler earmarks are properly obligated, accurately recorded, and met within future CCDF grants. Also, DPW should ensure that subgrantee expenditures in support of all CCDF earmarks are properly monitored and supported by adequate documentation.

**Agency Response:** The Department of Public Welfare is currently assisting the Administration for Children and Families (ACF) with their FFY 2005 Child Care and Development Fund Discretionary Fund Infant/Toddler Earmark expenditure review. ACF is conducting onsite reviews to verify expenditures at two of the Regional Keys to Quality grantees locations. The DPW will comply with any recommendations offered by ACF.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 62:

**CFDA #93.575 – Child Care and Development Block Grant**

**CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund**

**CFDA #93.667 – Social Services Block Grant**

**Weaknesses in DPW Program Monitoring of Subgrantees (A Similar Condition Was Noted in Prior Year Finding #05-34)**

**Condition:** Our examination of DPW's procedures for monitoring SSBG and CCDBG/CCDF (Child Care Cluster) Mandatory and Matching subgrantees for compliance with federal regulations revealed that DPW does not adequately monitor these subgrantees for compliance with applicable federal regulations during the award since on-site visits by state officials are limited in number and lack supporting documentation.

Furthermore, for the compliance requirement related to cash management, we noted that DPW advances funds to CCDBG and CCDF subgrantees and to SSBG subgrantees in 6 of 11 SSBG program areas, representing approximately 92 percent and 68 percent of total CCDBG/CCDF Cluster and SSBG program expenditures, respectively. Our current year testwork noted that DPW monitors cash advances at the state level for CCDF and SSBG subrecipients participating in the Subsidized Child Day Care Program. However, this program had only limited on-site monitoring by state officials during the year, while other SSBG program areas had no on-site monitoring of subgrantee cash management during the year to ensure subgrantee cash is reasonable.

In particular, for the Emergency Shelter and Legal Services components of the SSBG program, DPW advanced funds to subgrantees on a monthly basis. For SSBG Mental Health, Mental Retardation, and Child Welfare, DPW advanced funds to subgrantees on a quarterly basis. Our inquiries with applicable DPW program administrators disclosed that DPW did not adequately monitor any of its SSBG subrecipients for compliance either at the time of payment or at any other time during the current state fiscal year.

While Circular A-133 audits of CCDF and SSBG subrecipients are conducted each year, this auditing activity does not compensate for the lack of on-site program monitoring since the timing, focus, and scope of A-133 auditing activities after year-end are clearly different than compliance monitoring by program officials during the year.

**Criteria:** The OMB Circular A-133 Compliance Supplement Part 3.,M. Subrecipient Monitoring, states:

*A pass-through entity is responsible for:*

*During-the-Award Monitoring – Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*

Cash advances by a state to secondary recipients shall conform substantially to the same standards of timing and amount which apply to the state.

45 CFR 92.37, Subgrants, states:

- (a) *States. States shall follow state law and procedures when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local and Indian tribal governments. States shall:*
  - (4) *Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 62: (continued)

In addition:

*In discussions with our office, federal agencies have stated that cash advance balances on hand at subrecipients are reasonable if they approximate the grantee's (state's) payment cycle to the subgrantee. In light of the (state agencies) administrative system of making (daily, weekly or monthly) payments by check to subrecipients, a (daily, weekly or up to one month) cash advance on hand monitored at least quarterly is reasonable.*

**Cause:** Except for the Subsidized Child Day Care and the Community Mental Retardation programs, DPW places reliance primarily on A-133 subgrantee audits to ensure its SSBG subgrantees administer their programs in compliance with federal regulations. Therefore, program monitoring does not occur on-site.

For child care cash payments under CCDBG/CCDF and SSBG, DPW implemented the Child Care Management Information System (CCMIS) in all CCIS agencies statewide as of July 1, 2005. CCMIS projects a payment for the upcoming month that is based on current service levels along with reconciliation of the prior month's payments to balance over- or under-payments to the CCIS agencies. While DPW is performing on-site monitoring to test the accuracy of entries into CCMIS by the CCISs, DPW noted SFY 2005-06 was a start-up year for implementation of the monitoring tool for the CCISs and that only four of the 59 CCIS agencies were monitored on-site while the remainder were monitored through a CCIS self-assessment process with an on-site visit by a subsidy coordinator to meet staff and review operations. However, we noted that neither the four on-site visits nor the on-site visits by the subsidy coordinators were supported by written documentation evidencing their review activities. We did note the CCIS self-assessment tool was signed by subsidy coordinators, but this document was not available for each CCIS. We were informed that the self-assessment review tool was used on an optional basis by DPW staff reviewing CCIS-provided results from self-assessments.

For SSBG payments under the Community Mental Retardation program, DPW staff are to perform annual monitoring visits of subrecipients using the on-line Home and Community Services Information System (HCSIS) monitoring tool. HCSIS is used to report monitoring results of individual subrecipients and on a statewide basis. We requested HCSIS reports for five subrecipients for both the 2005 and 2006 calendar year monitoring cycles. We noted that one subrecipient did not receive a formal monitoring visit for 2005. We also noted that sampling procedures were not followed by monitors prior to on-site visits. We were informed by DPW that samples of individual case files are to include MR waiver non-eligible (SSBG funded) individuals. However, for the five samples tested, only two had SSBG funded individuals. Inquiry of program office staff noted that there are no written procedures for establishing a minimum number of non-waiver or SSBG eligible individuals. Finally, we were unable to obtain any documented support for the information entered by the monitor on HCSIS. We were informed that all data is entered on-line by the monitor and that no written documentation or other evidential matter of the on-site visit existed.

Regarding the Emergency Shelter, Legal Services, Mental Health, Mental Retardation and Child Welfare components of SSBG, DPW personnel indicated that they provide subgrantees with advances in part to comply with Commonwealth law and also to ensure that adequate funds are available to provide services to participants on a timely basis. DPW officials believe that their in-house payment review procedures for the SSBG program are as efficient as is administratively feasible and that controls exist in each of the program areas for SSBG. With no on-site program monitoring visits by funding agency officials except as noted above, we consider DPW's limited in-house reviews of subgrantee status reports or other documents to be insufficient to detect potential subrecipient noncompliance, including excess cash violations. We also noted that DPW does not adjust payments to the subgrantees based on in-house reviews.

As stated in the prior year findings, DPW is waiting for HHS resolution of these issues. DPW contacted HHS in writing in March 2000, but still has not received a response from HHS. Also, as stated in the prior year finding, our last contact with HHS officials in the Division of Payment Management was during SFYE June 30, 1998. At that time, HHS officials stated that, in order to resolve some of the issues in this finding, DPW must either change their payments from advances to reimbursements or set up a system to at least quarterly monitor cash balances throughout the fiscal year.

**Effect:** DPW is not adequately performing during the award monitoring of subgrantees, including the monitoring of subgrantee cash on hand, to ensure subgrantee compliance with applicable federal regulations. As a result, DPW provides little assurance of subrecipient compliance with federal requirements, including cash management standards.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 62: (continued)**

**Recommendation:** DPW should perform on-site during the award monitoring procedures for all CCDF/CCDBG and SSBG subgrantees to ensure timely compliance with all applicable federal regulations. On-site monitoring visits by state officials should be supported by documentation supporting conclusions reached and performed in compliance with state regulations.

As recommended in previous Single Audits and supported by HHS, DPW should either consider changing their current subrecipient payment procedures from advancement basis to reimbursement basis or establish procedures to adequately monitor subrecipient cash on hand to ensure it is limited to immediate needs, but no longer than one month. The implementation and strengthening of these controls should provide DPW with reasonable assurance as to compliance with cash management requirements at the subgrantee level.

**Agency Response:** On-site monitoring of all grantees was not completed due to implementation of the Department's new regulations for the subsidized child program and corresponding systems developments. However, OCDEL concurs that on-site monitoring should occur during the year. Accordingly, on-site monitoring has occurred/is occurring for all 59 grantees for the current fiscal year during the fiscal year.

On-site monitoring during the year for management of the SSBG did occur. SSBG funds were used to provide payment for child care services used by eligible families; these payments were evaluated through completion of worksheets for the compliance portion of the review.

Documentation of dates that site visits occurred and records of review activities exist in the forms of:

- Letters to the grantee announcing the visit.
- Dates of completion of forms and review tools.
- Individual case review worksheets.
- Exit letters to the grantee concluding the monitoring.

Self-assessments were completed by grantees not participating through an actual site visit. OCDEL staff independently reviewed the contents of the self-certified information with the grantee during individual teleconferences. Supplemental completion of the self-assessment tool by OCDEL staff was done only for those grantees that were visited.

Regarding SSBG, the DPW Office of Mental Retardation (OMR) conducts on-site monitoring of county programs, although not specifically related to SSBG funding. The SSBG funds are treated and protected just like any other funds that are allocated to the counties. Counties as part of their normal contracting requirements with providers require the auditing of units of expenditures as they relate to the overall contract. SSBG monies are used in the Mental Retardation program to fund expenditures for clients who would be otherwise funded by base dollars. They are not specifically audited, but are reviewed in the overall sampling process utilized by the auditing entity. In accordance with the Single Audit guidelines, the county is responsible for ensuring that the provider of service adheres to the regulations and requirements of the program. If needed, the OMR may request that the Bureau of Financial Operations or Comptroller's Office audit a county program to ensure that all MR funding (including SSBG) is being used appropriately.

The auditor recommendation to either consider changing current subgrantee payment procedures from advancement to reimbursement or establish procedures to adequately monitor their cash on hand to ensure it is limited to immediate needs (but no more than one month) are not viable options (cost/benefit) as the amount of SSBG funding received by the Commonwealth continues to decrease. If the information provided above does not sufficiently address the compliance issue, the OMR would support changing the payment of SSBG funds from a quarterly to monthly basis if the Department also thought it appropriate to do so.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 62: (continued)**

**Auditors' Conclusion:** Based on the agency response, no new information was provided related to the weaknesses reported for our current year under audit; therefore, our finding and recommendation remain as previously stated. We will review any corrective action in our subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 63:

#### CFDA #93.658 – Foster Care – Title IV-E

##### Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (A Similar Condition Was Noted in Prior Year Finding #05-36)

**Condition:** During a prior year audit, we identified an internal control weakness in that when a county submits a supplemental invoice to DPW, nobody within OCYF or the PHHS Comptroller Office compared the supplemental invoice to the original quarterly invoice to ensure that services were not billed twice. Our current year audit procedures disclosed that this weakness has not been corrected and still exists. In addition, although routine during-the-award (i.e., on-site and other) monitoring of the Foster Care subrecipients was performed by DPW during our current audit period, no specific monitoring or review of subrecipient records is performed by state officials to ascertain the propriety (allowability, eligibility, etc.) of supplemental payments. Based on Foster Care claims submitted by subrecipients in prior year audits, especially Philadelphia County, we noted that these supplemental claims can be material to the program.

As a result of the aforementioned weakness, DPW cannot demonstrate adequate monitoring of these higher-risk supplemental charges to the program. While this weakness would apply to all supplemental invoices submitted to DPW for reimbursement, the potential for significant double billings or unsupported/unallowable billings on supplemental invoices is especially high in large counties where the supporting summary documents are often in excess of 1,000 pages.

**Criteria:** 45 CFR 92.40 (a) states:

*Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with application Federal requirements. . .*

In addition, good internal controls should include timely procedures to ensure that supplemental subgrantee invoices are properly reviewed and costs monitored to ensure that expenditures are not being claimed inappropriately for reimbursement.

**Cause:** As noted within the prior year finding, OCYF and PHHS Comptroller Office personnel indicated that they do not compare supplemental invoices with the original invoices due to the large number of children being served. This comparison would require the use of a computer program, especially for large counties in which the supporting Summary of Maintenance Forms are over 1,000 pages. In addition, the Office of Children, Youth and Families (OCYF) relies on three approaches to ensure that subrecipient's expenditures in the Foster Care Program are allowable, reasonable, and necessary in accordance with federal regulations. First, through the Department's normal audit resolution protocol, OCYF will review and follow up on Foster Care expenditures reported on supplemental invoices when the OMB A-133 Single Audit of the applicable county's child welfare program is completed. OCYF reviews the results to ensure proper follow up is performed on any audit findings or questioned costs identified and considers whether additional monitoring coverage of these costs is necessary.

Second, OCYF receives and reviews annual programmatic audits conducted by the Department of Auditor General (AG) of all county child welfare programs for prior fiscal years. These audits review allowability, reasonableness and necessity of costs claimed in prior years, and are acted on by OCYF in order to recover funds provided to subrecipient counties in violation of federal regulations, including duplicate billings.

Third, OCYF implements an extensive Quality Assurance Management program whereby on-site Title IV-E quality assurance reviews are conducted during the awards in all counties each year. These reviews verify that eligibility files contain appropriate documentation to substantiate that the child meets eligibility for age, income, etc. These reviews include checking the child's age, income, resources, ongoing agency custody/responsibility, permanency planning, court order language, and whether the child was placed in a fully approved/licensed home. In addition, the review includes

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 63: (continued)**

ensuring that the client remained eligible and reimbursable during the period invoiced by the county. Additionally, the Quality Assurance process requires that staff pull Title IV-E ineligible cases to ensure that ineligibility was correctly determined, and that these cases were not invoiced. Staff also pulls actual invoices to determine if claiming is correct, i.e., claims were eligible, allowable, and necessary.

However, none of these three approaches includes specifically testing supplemental invoices or comparing the expenditures claimed on supplemental invoices to the original invoices for potential duplicate billings.

**Effect:** OCYF and PHHS Comptroller Office officials do not timely or adequately review Foster Care claims submitted on supplemental invoices by the County Children and Youth Agencies. As a result of this internal control deficiency, additional DPW review and/or follow-up on the propriety of supplemental costs is necessary.

DPW's sole reliance on OMB A-133 or program audits of subrecipients in these situations is an internal control weakness since DPW's only on-site monitoring and assurance on these costs is not achieved in a timely manner. In addition, without adequate program monitoring of these costs during the year, potentially material subrecipient noncompliance would not be detected and corrected by DPW, including the prevention and/or collection of any potential questioned costs, in a reasonably timely manner.

**Recommendation:** OCYF and the PHHS Comptroller Office should implement procedures to specifically review Foster Care claims reported on subrecipient supplemental invoices, and strengthen monitoring procedures for these supplemental costs to ensure that these costs are not duplicates, and are allowable, reasonable, necessary, and for eligible participants in accordance with federal regulations. These enhanced review and monitoring procedures should be implemented for future supplemental Foster Care claims by subrecipients, as deemed appropriate by program management.

**Agency Response:** The Office of Children, Youth and Families (OCYF) will work with the Pennsylvania Health and Human Services (PHHS), Office of the Comptroller to assess the dollar amounts and the client volume of recent supplemental claims submitted by Pennsylvania counties to determine a reasonable dollar and/or volume risk level for supplemental foster care invoices. Counties that submit supplemental claims covered by the risk level will be required to submit electronic versions of the supplemental invoice along with an electronic version of the invoice for the original quarter to which the supplemental invoice applies. These electronic invoices will then be matched to identify any duplicate claims between the initial and supplemental invoices. Supplemental invoices showing duplicate claims will be returned to the county of origin for correction.

Counties will be given ample notice of this invoice submission process change to tentatively be implemented in the first quarter of 2008. This should provide counties with the opportunity to change their automated business practices as necessary in order to meet the dollar and volume risk levels identified by OCYF and PHHS Comptroller.

Once the dollar and/or volume risk levels are identified county children and youth agencies will be notified via an OCYF Bulletin.

The PHHS Comptroller Office recognizes the significance of the internal control issues noted within this finding and will continue to work with the Department of Public Welfare's Office of Children, Youth and Families as necessary to develop a plan to resolve these issues.

**Auditors' Conclusion:** Based on the agency response, our finding and recommendation remain as previously stated. We will review any corrective action in our subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 64:

#### CFDA #93.658 – Foster Care – Title IV-E

#### CFDA #93.659 – Adoption Assistance

#### DPW Office of Children, Youth and Families Documentation Supporting the Licensing of Foster Care and Adoption Assistance Agencies Is Incomplete (A Similar Condition Was Noted in Prior Year Finding #05-37)

**Condition:** Prior to the expiration of each license term, DPW performs an on-site inspection to support its reissuance of licenses for all 67 County Children and Youth Agencies to whom DPW subgrants funds to perform Foster Care and Adoption Assistance services. The on-site inspection is documented on a Licensing Approval/Registration Inspection Summary. To test the licensing of these agencies, we judgmentally selected a sample of 10 of the 67 County Agencies from DPW’s inspection lists. Our review of the DPW OCYF on-site inspections of these County Children and Youth agencies during the year under audit disclosed that for 2 of the 10 (20 percent) agencies, the on-site inspections were incomplete, as compliance with certain regulations was not completed as follows:

<u>Children and Youth Agency</u>	<u>Regulations Not Tested</u>
Allegheny County	55 PA Code, Chapters 3140 & 3170
Elk County	55 PA Code, Chapters 3140 & 3170

Chapter 3140, Subchapter B relates to Foster Care eligibility requirements and allowable costs. Subchapter C relates to Adoption Assistance eligibility requirements and allowable costs.

Chapter 3170 relates to the overall fiscal management of County Children and Youth Agencies, such as personnel and operating expenditure guidelines.

As a result, license renewals for these two county agencies were incomplete and an internal control weakness exists over DPW monitoring of Foster Care and Adoption Assistance subrecipients. In addition, even though these agencies were not monitored for the regulations listed above, DPW issued licenses to the agencies.

Further, while DPW provided Inspection Summaries for all ten Counties tested we could not determine if all key eligibility and allowable costs requirements were tested at all Counties because DPW did not provide adequate documentation to support all the detailed procedures used to monitor County Children and Youth Agencies.

**Criteria:** 42 U.S.C., Section 671(a)(7) pertaining to the state agency responsibilities states in part:

*... the State agency will monitor and conduct periodic evaluations of activities carried out under this part. . . .*

In addition, PA Code, Title 55 Chapter 20, Section 20.51 states:

*A certificate of compliance (License) will be issued to the legal entity by the Department if, after an inspection by an authorized agent of the Department, it is determined that requirements for a certificate of compliance are met.*

**Cause:** The Licensing/Approval/Registration Inspection Summaries for the two agencies listed above indicated that compliance with the applicable regulations cited would be reviewed and/or evaluated at a later date. However, DPW could not provide documentation that these agencies were subsequently reviewed as indicated. DPW personnel stated that with the onset of an outside contractor’s involvement with Title IV-E activities (i.e., MAXIMUS) the monitoring process was modified. County agency compliance with placement maintenance efforts under Chapter 3140 were reviewed by MAXIMUS in separate compliance reviews than the annual inspection. However, DPW did not provide adequate documentation to support that monitoring of compliance with Chapters 3140 and 3170 was performed for any County.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 64: (continued)**

**Effect:** Internal controls at DPW are weak and county agencies could be operating out of compliance with federal regulations.

**Recommendation:** DPW OCYF should establish procedures to ensure adequate monitoring of Foster Care and Adoption Assistance agencies to ensure that they are in compliance with all regulations prior to issuing of licenses.

**Agency Response:** Chapter 20 of PA Code, Title 55 does not require county children and youth agencies (CCYAs) to be in compliance with Chapters 3140 and 3170 as a condition of licensure (certification). Rather CCYAs are issued a certificate if they are in compliance with Chapter 3130 and applicable laws such as the Juvenile Act, the Child Protective Service Act and the Adoption Act. Compliance with Chapters 3140 and 3170 are not required for the Department's CCYA licensure/certification program.

42 U.S. Code, Section 671(a) – states that ...“in order for a State Agency to be eligible for payments under this part, it shall have a plan approved by the Secretary which... (7) provides that the State Agency will monitor and conduct periodic evaluations of activities carried out under this part.” The Foster Care Maintenance and Adoption Assistance eligibility requirements are outlined in Title 55, Public Welfare Code, §3140 Subchapters B and C, respectively.

Per the approved State Plan (State Plan for Foster Care and Adoption Assistance), OCYF monitors and conducts evaluations of activities carried out in the State's Title IV-E program. As a part of this requirement, the Bureau of Budget and Program Support staff/contractor monitor, and periodically conduct evaluations of all 67 counties for compliance with chapter 3140. Allegheny County was reviewed by the contractor in December 2004 and was found to be in compliance. This county will be reviewed again this year. Elk County was reviewed by the Bureau of Budget and Program Support staff in January 2006 and April 2007 and found to be in compliance.

The Bureau has conducted extensive quality assurance validation and case file reviews of the CCYA Title IV-E Random Moment Time Study (RMTS) administrative cost allocation process during all quarters of the 2006-2007 state fiscal year and conducted a Title IV-E MOCK audit of the CCYA placement maintenance eligibility program in February 2007 as part of OCYF's ongoing monitoring and evaluation activities under the State Plan. Both Allegheny and Elk Counties were included in these reviews. Findings led some CCYAs to implement corrective actions.

Additionally, Chapter 3170 (Allowable Costs and Procedures for County Children and Youth Social Service Programs) compliance reviews are completed annually on behalf of the Department for each CCYA by the Department of the Auditor General, Bureau of State-Aided Audits.

**Auditors' Conclusion:** In reviewing the agency response, we recognize and acknowledge that various ongoing monitoring procedures are in place for Title IV-E and Adoption Assistance programs at the subrecipient level. The response, however, does not resolve the weaknesses specifically noted in the finding which need correction to better ensure federal dollars are spent by subrecipients in compliance with federal regulations. Therefore, our finding and recommendation, with the above clarification, remain as previously stated, and we will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 65:

#### CFDA #93.658 – Foster Care – Title IV-E

#### Internal Control Weakness Over Expenditure Information Reported by PHHS Comptroller on the SEFA (A Similar Condition Was Noted in Prior Year Finding #05-6)

**Condition:** Our review of the footnotes to the Schedule of Expenditures of Federal Awards disclosed that the PHHS Comptroller Office reported \$29 million in costs on the SEFA under the Foster Care Program that were questioned (i.e., deferred) by HHS and disallowed, and are under appeal as of our audit fieldwork date. However, based on our testing of supporting documents, the actual amount of the disallowances was \$65 million resulting in an understatement of \$36 million in the SEFA Footnote and necessitating an adjustment proposed by the auditors.

**Criteria:** 45 CFR 92.20 provides the following standards for financial management:

*(b)(1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.*

*(b)(3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real property and personal property, and other assets.*

Additionally, OMB Circular A-133, Section 310 (b) regarding the Schedule of Expenditures of Federal Awards states in part that:

*(b) The auditee shall also prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements. At a minimum the schedule shall:*

*(3) provide total federal awards expended for each individual federal program.*

In addition, an adequate internal control system should ensure that federal awards expended are properly reported on the SEFA, with adequate and reasonable disclosure in the SEFA footnotes.

**Cause:** There is no written policy within OB on SEFA footnote disclosures for costs deferred or disallowed by federal awarding agencies, and a lack of adequate tracking of federal disallowances/deferrals for SEFA footnote disclosure.

**Effect:** Due to the \$36 million understatement of the SEFA footnote disclosure for the Foster Care disallowance, the SEFA lacked accurate disclosure on these reported expenditures, and required a proposed adjustment by the auditors.

**Recommendation:** We recommend that federal awarding agency deferrals and disallowances be accurately tracked and disclosed in the footnotes to the SEFA.

**Agency Response:** We agree with the finding and will take appropriate action to ensure that, in the future, federal awarding agency deferrals and disallowances are accurately tracked and disclosed in the footnotes to the SEFA.

**Auditors' Conclusion:** After issuance of this finding during June of 2007 PHHS Comptroller personnel provided us with documentation disclosing that on March 13, 2007 the Commonwealth and HHS entered into an agreement to settle all claims, disallowances, and appeals related to service periods from July 1, 2004 through December 31, 2006, the details of which are disclosed in the footnotes to the SEFA.

Based on the agency response, our finding and recommendation remain as previously stated with the above clarification. We will review any corrective action in our subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 66:**

#### **CFDA #93.667 – Social Services Block Grant**

##### **Lack of Documentation and Internal Control Weaknesses in DPW’s Youth Development Centers Result in Unknown Questioned Costs Up To \$10 Million**

**Condition:** Our examination of DPW’s Youth Development Services Program funding stream for SSBG noted that expenditures charged to DPW’s State-Owned Youth Development Centers (YDCs) were not supported by adequate documentation.

During SFYE 6/30/06, DPW began charging SSBG for more costs incurred at its five Youth Development Centers (YDC) to decrease state funded costs at these facilities. The federal YDC appropriation 70-160 recorded on SAP was \$10,000,000 in SFY 2005-06. We judgmentally selected a portion of these YDC costs for tracing to supporting documentation to verify their allowability under the SSBG program.

We obtained the SAP accounting documents from the PHHS Comptroller Office supporting the charges to the federal appropriation during the state fiscal year. A review of these documents noted that they represented four transfers of costs, each for \$2.5 million, with one on 9/22/05, two on 12/12/05, and one on 5/3/06 from the state YDC appropriation to the federal YDC appropriation for the yearly total \$10,000,000.

We requested supporting documentation for these transfers of costs from DPW’s Budget Office. DPW provided supporting Excel spreadsheets for YDC costs totaling \$13,986,532. DPW noted that these costs were incurred by the YDCs during the first three quarters of the state fiscal year and at that point totaled more than the SSBG appropriated amount. Any costs over the \$10,000,000 federal appropriation ended up as state funded since YDC costs were transferred throughout the fiscal year until the federal appropriation was fully expended.

Based on our review of the Excel spreadsheets, we selected the 3<sup>rd</sup> quarter charges for one of the five YDCs, the North Central Secure Treatment Unit (NCSTU), which included personnel costs of \$1,581,794 (\$1,116,219 in salaries and \$465,575 in fringe benefits), and purchased services costs of \$823,702. For the latter charge, we selected line item purchased services costs of \$814,036 and \$3,712 for detail review. The results of our testing were as follows:

- The SSBG employee benefit costs calculation was considered reasonable based on the 2007 Governor’s Annual Work Force Report for all state employees. However, we were unable to confirm the accuracy of the salary charge of \$1,116,219 on which the benefit calculation is based. Rather than using actual salary and benefits costs for the quarter, DPW estimated and allocated this amount to SSBG by multiplying the total payroll cost for NCSTU on the SAP Payroll Posting Detail Report for one bi-weekly pay period (pay date 3/24/06) by 6 (two pay periods per month in the quarter). We selected 10 NCSTU employees from the 3/24/06 SAP Payroll Posting Detail Report for tracing to timesheets to verify hours recorded on the report. We also requested authorized and approved job descriptions for these same 10 individuals to confirm duties were consistent with YDC operations.
  - For all 10 individuals tested, total hours on the timesheets did not agree to the payroll report, and in all cases timesheet hours were significantly less than hours charged to SSBG. One individual had no timesheet hours recorded but had 128 hours charged to SSBG on the payroll report. For another employee with 1,378 hours on the payroll report, we were informed that this amount was due to a grievance settlement for back-pay, but no documentation was provided to support the settlement, the number of hours worked, and whether they were worked within the proper time period for charging YDC costs (i.e., fiscal year) approved by HHS to be allowable under the annual SSBG state plan. For the remaining eight individuals tested, the hours charged to SSBG ranged from approximately 20 percent to over 100 percent more than recorded on applicable timesheets. Based on the 100 percent error rate and the significance of the differences noted in our detailed testwork, it appears that DPW did not actually use the timesheets provided to the auditors as the basis for these charges to SSBG, and no other documentation was provided to support the hours charged. We also noted that the timekeeper’s supervisory review/approval signature was missing on most of the timesheets provided, and one timekeeper was the same person as listed on the timesheet for hours worked with no supervisor review signature.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 66: (continued)

- For the 10 job descriptions requested, DPW indicated that two could not be provided due to employee transfer or separation, and one could not be provided due to a job description not in the file or on the system. In addition, six of the seven job descriptions that were provided did not contain the authorized signatures of the employee and/or approving supervisor.
- The purchased services charge for \$814,036 could not be verified or supported by DPW at all. The detail listing supporting the transfer indicated that the \$814,036 in costs were paid to a local hospital, with no other support for the charge to SSBG. When we requested proper support for the costs, such as a contract, any related amendments or other procurement documents, along with vendor invoices, DPW responded to us that the charge was an error and should not have been included in the billing to SSBG. No other documentation, information, or support was provided for this charge to SSBG or the reason for it.

Based on our testing above, NCSTU's 3<sup>rd</sup> quarter salary and benefit costs (\$1,581,794), and costs attributable to the services contract (\$814,036) are not properly supported and are unallowable under the SSBG program. In addition, because DPW's methodology for documenting, allocating, and charging these YDC costs to SSBG is flawed in violation of federal regulations, an additional unknown amount of these YDC quarterly transfers to SSBG is unallowable up to the \$10 million total charged to SSBG for the current year. Therefore, an unknown amount of YDC costs charged to SSBG up to \$10 million is questioned.

**Criteria:** 45 CFR 96.30, Subpart C – Financial Management, applicable to SSBG, states:

#### *Fiscal and administrative requirements.*

(a) *Fiscal control and accounting procedures...*

*Fiscal control and accounting procedures must be sufficient to...*

(b) *permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.*

45 CFR 95.505, Subpart E – Cost Allocation Plans, applicable to HHS programs, states:

#### *Definitions.*

*As used in this subpart:*

*Cost allocation plan means a narrative description of the procedures that the State agency will use in identifying, measuring, and allocating all State agency costs incurred in support of all programs administered or supervised by the State agency.*

45 CFR 95.507, Subpart E – Cost Allocation Plans, applicable to HHS programs, states:

#### *Plan requirements.*

(a) *The State shall submit a cost allocation plan for the State agency...The plan shall:*

(1) *Describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the State agency;...*

(b) *The cost allocation plan shall contain the following information:*

(4) *The procedures used to identify, measure, and allocate all costs to each benefiting program and activity...*

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 66: (continued)**

**Cause:** There appears to be a lack of effective management oversight in DPW and the PHHS Comptroller Office of the YDC funding stream for SSBG.

**Effect:** An unknown amount of YDC costs charged to SSBG, up to \$10 million, is questioned (\$2.5 million under federal grant number 0501PASOSR and \$7.5 million under federal grant number 0601PASOSR). In addition, there will continue to be unallowable YDC costs charged to SSBG in the future if the internal control weaknesses over supporting documentation at DPW and the YDCs are not corrected.

**Recommendation:** We recommend DPW pursue appropriate settlement with HHS regarding the unknown questioned costs, up to \$10 million. In addition, DPW and the PHHS Comptroller Office should develop a system that will adequately document, track, and verify all YDC charges to SSBG.

### **Agency Response:**

#### **OCYF Response:**

The Office of Children, Youth and Families (OCYF) will work with the Pennsylvania Health and Human Services (PHHS) Office of the Comptroller to ensure that all documentation required to support cost reimbursement is readily available in the future; however, it is OCYF's position that it can adequately support allowable costs charged to SSBG in State Fiscal Year (SFY) 2005-06.

OCYF has reviewed the information initially provided to the auditors and revised the third and fourth quarter reports for SFY 2005-2006 using the actual salary and benefit costs as per SAP Payroll Posting Detail Reports for those quarters (Attachments 1 and 2).

Timekeepers in the youth development center/youth forestry camp (YDC/YFC) system are currently expected to audit timesheets against the information included in the SAP Human Resource/Payroll module; however, in an effort to provide more efficiency and consistency in that area, OCYF's Bureau of Juvenile Justice Services (BJJS) is presently engaged in centralizing all timekeeping activities. This centralization under the BJJS Human Resources Department will allow for closer monitoring of facility timekeeping processes, including review/approval signatures and reconciliation of timesheets with payroll reports.

Despite the aforementioned centralization initiative, OCYF maintains that the SAP Posting Detail Reports, which show actual amounts paid to employees, are sufficient to permit the tracing of funds. With the inception of SAP/ESS, facility operations were no longer required to maintain manual timesheets. The YDC/YFC system has chosen to continue the past practice of having employees sign in and out as an additional method of internal control; however, an employee's actual pay is still determined by information input into SAP/ESS, and that is the data that is and should be used to support the costs charged to SSBG. There are many reasons that a timesheet (sign-in/out sheet) may not match the SAP Posting Detail Reports including instances in which an employee is serving in a temporary working out of class capacity; is out of work on leave; Act 534 or work related injury; or is entitled to shift differential or lap time. In Attachment 3, provided is a detailed accounting of the reasons the ten individual timesheets used in the audit did not match the SAP Payroll Posting Detail Report.

In regard to the requested position descriptions, BJJS Human Resources has been able to locate signed copies of position descriptions for nine of the ten individuals requested (Attachment 4). It should be noted that Children, Youth and Families Bulletin 99-92-02, effective July 1, 1992 related to invoicing procedures for Title XX funds specifically states that "if more than one employee is working in the same class, one job description for that class will be sufficient documentation." Currently, DPW position descriptions are maintained in an electronic format which does not allow for documents related to specific individuals to be retrieved after the employee has separated. Employee and supervisory signatures, although recommended, are not required according to the On-line Position Description Users Manual. In instances where position descriptions are not available, the Pennsylvania State Civil Service Commission class specifications, which define the duties of all job classes, should also be sufficient to support that funds have not been used in violation of the statute authorizing the block grant. The class specifications for which block grant funds are used are also attached (Attachment 5).

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 66: (continued)**

In regard to the unverified charge for \$814,036, further investigation indicates that this amount was a typographical error and should have read \$8,140.36. The original figure has been removed from the revised third quarter report (Attachment 1) and all contract amounts have been updated to reflect current SAP reporting for that time period. In total, the attached Title XX Reports for the third and fourth quarters for SFY 2005-06 support over \$17 million in eligible SSBG costs.

OCYF will also update the Children, Youth and Families Bulletin 99-92-02, effective July 1, 1992, that establishes invoicing procedures for Title XX funds to reflect current processes and requirements.

#### PHHS Response:

The Public Health and Human Services Comptroller Office will work with the Department of Public Welfare to develop adequate internal controls to ensure that Youth Development Center charges to the Social Services Block Grant program are allowable and adequately documented.

**Auditors' Conclusion:** As a result of our finding, the total claim for third quarter charges at NCSTU was revised from a total of \$2,405,496 down to \$1,374,053 or \$1,031,443 less than originally claimed by DPW. This represents a 43% decrease in costs claimed, which demonstrates that DPW's estimation and allocation methodologies for charging all these YDC costs to SSBG are likely causing unallowable overcharges to the program vs. actual costs incurred. Furthermore, our review of additional documentation submitted with the revised claim for the NCSTU third quarter charges disclosed additional discrepancies noted below.

For the \$814,036 originally claimed for costs paid to a local hospital, the DPW response states that it was a typographical error and should have been \$8,140.36, so the amount of this overbilling remains as an unallowable charge to SSBG. Furthermore, the revised documentation provided with the response disclosed only \$6,159.33 in costs actually paid to the hospital. We further noted that two of the claims paid were for an 18 year-old adult. The SSBG Plan documentation for protective services for children states that YDC funds will be spent only on children defined as individuals younger than age 18. All remaining claims did not contain a birth date so we could not determine if those charges were for children, and therefore, an allowable charge under the SSBG protective services for children.

Personnel charges of \$1,581,794 consisting of \$1,116,219 in salaries and \$465,575 in benefits were reduced to actual costs of \$1,349,737 consisting of \$921,008 in salaries and \$428,729 in benefits on the revised claim. DPW reduced the claim since only \$921,008 in salaries was posted to the SAP accounting system for NCSTU during the third quarter. Further, while DPW provided general explanations for differences in hours charged to SSBG vs. hours reported on timesheets, such as holiday pay, leave pay, and shift differential hours, no documentation was provided to support these explanations. Therefore, the significantly higher hours charged to SSBG vs. recorded in the accounting records for the 10 employees in the finding remain unresolved.

We also noted that many employees charged significantly more than the standard 80-hour biweekly pay period to SSBG in the third quarter as shown on the SAP report provided to support salaries claimed for NCSTU. These bi-weekly hours appear excessive since they are not supported. For example, one employee charged from 165.5 up to 206 hours per biweekly pay period to SSBG and many employees consistently charged 120 hours or more per biweekly pay period.

Lastly, to support \$12,750 in salaries claimed for one employee DPW provided a copy of a grievance settlement which awarded back pay to an employee who was terminated and subsequently rehired; however, the SAP reports provided show the employee did not have any hours worked during the QE March 31, 2006 to support the \$12,750 charged to SSBG.

While DPW was able to provide 8 of 10 job descriptions that were signed by the employee and the supervisor, as noted in our condition above most of the timesheets provided to support SSBG claims were not signed off by a supervisor and were not reconciled to the payroll claims made by DPW, and this was also true for the additional timesheets provided with the DPW response.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 66: (continued)**

As a result of our review of additional documentation provided by DPW for our original test items, our finding and recommendation remain as previously stated, and we additionally recommend that DPW provide this and any other additional documentation to HHS as part of its audit resolution process. We will review any corrective action in our subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 67:

#### CFDA #93.767 – State Children’s Insurance Program

##### Internal Control Weakness in PID Procedures to Ensure Actuarial Soundness of Monthly Premium Rates (A Similar Condition Was Noted in Prior Year Finding #05-39)

**Condition:** The Pennsylvania Department of Insurance (PID) contracts with seven insurance providers to operate children’s health insurance programs and to provide CHIP health care services throughout the Commonwealth. The standard contracts between PID and these seven insurance providers that were in effect from 2002 through 2005 indicated that the monthly premium rates paid to the insurance providers could change at the end of each year of the contract. Insurance providers submit rate adjustment proposals which are to be reviewed by PID. Since the monthly premium rates are based on actuarial projections, any adjustments to the premium rates must be reviewed and approved by PID’s actuary.

Our prior audit of the premium rate changes that were effective for the period September 1, 2004 through November 30, 2005, disclosed that PID’s actuary did not document approval of the rates, and PID could not provide reasonable documentation to evidence that the proposed rate adjustments were reviewed and approved for actuarial soundness prior to the rates taking effect on September 1, 2004. In our current audit update, we learned that this prior year internal control weakness also impacted the premium rates in CHIP contracts awarded in SFYE June 30, 2006, which became effective on December 1, 2005.

**Criteria:** Federal CHIP Procurement standards are specified in 42 CFR 457.940 (b):

(b) A state must –

(2) Use payment rates based on public or private payment rates for comparable services for comparable populations, consistent with principles of actuarial soundness as defined at §457.902.

42 CFR 457.902 states that:

*actuarially sound principles means generally accepted actuarial principles and practices that are applied to determine aggregate utilization patterns, are appropriate for the population and services to be covered, and have been certified by actuaries who meet the qualification standards established by the Actuarial Standards Board.*

In addition, good internal controls dictate that in order for controls to be effective, the review and approval of premium rate changes should be timely and properly documented.

**Cause:** For the current audit period, PID did not receive our prior year finding prior to the awarding of current year CHIP contracts effective December 1, 2005, so the same procedures were followed as in the prior year. PID proposed to implement corrective action with the use of an approval stamp and cover memorandum to document the actuary’s premium rate review prior to contracting, but this did not occur until the 2006-07 CHIP contracts awarded and effective after our current audit period ended June 30, 2006.

**Effect:** Without proper internal controls in place to demonstrate review and approval by the PID actuary of any rate changes prior to implementation of a rate change, it cannot be ensured that rate changes were proper and actuarially sound in compliance with federal CHIP regulations at the time the rates went into effect.

**Recommendation:** PID should ensure that monthly premium rates are properly reviewed and approved for actuarial soundness prior to the rates going into effect and we recommend that this review and approval be clearly documented in future audit periods.

**Agency Response:** The Pennsylvania Department of the Auditor General performed an audit of the Pennsylvania Children’s Health Insurance Program (“CHIP”) in June of 2006. The Auditor General issued a finding alleging that

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 67: (continued)**

there was some internal control weakness in Department procedures to ensure actuarial soundness of the monthly premium rates. However, as explained in response thereto, the Department amply demonstrated to the Auditor General's staff that appropriate actuarial standards are timely applied to the rate analyses that precede rate adjustments. The Department stands by that response. Nevertheless, the Department did offer a corrective action plan, and the federal government, by letter dated October 6, 2006, from the Department of Health & Human Services Centers for Medicare & Medicaid Services to the undersigned (hereafter the "federal resolution letter"), agreed with that plan.

The current audit identified the same issue, simply because the current audit covers the rates that took effect December 1, 2005 (in effect SFYE June 30, 2006), which is prior to the date the Department received the prior year finding from the Auditor General and prior to the date of the federal resolution letter therefore. While the Department formally adopts as response to this current audit the response it submitted to the June 2006 audit, the Department also notes that it implemented the use of an approval stamp and cover memorandum as per the federal resolution letter as soon as it was received, so the first rates for which this process was in place were those effective 1/1/07. Therefore, this finding is moot.

**Auditors' Conclusion:** While representations have been made by PID officials to us that the premium rates were actuarially analyzed and properly approved prior to implementation, no documentation has been provided as valid audit evidence to support PID's performance of this key internal control procedure.

As a result, our finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 68:

#### CFDA #93.767 – State Children’s Insurance Program

##### **PID Did Not Perform Adequate Monitoring of CHIP Subrecipient Insurance Providers (A Similar Condition Was Noted in Prior Year Finding #05-38)**

**Condition:** PA Insurance Department (PID) performed on-site monitoring visits to five of seven CHIP insurance providers during SFYE June 30, 2006, but these monitoring visits were not adequate to ensure subrecipient compliance with applicable federal regulations. Documentation provided by PID showed that the monitoring visits were limited to presentations on fraud and abuse detection, and/or observing eligibility and enrollment operations, application processing and general operations. The visits did not include actual testing and review of subrecipient files to verify compliance. Also, PID provided file notes for each monitoring visit comprised only of a one to two page memo for each visit and no other monitoring documentation or reports to substantiate reasonable verification of subrecipient compliance by PID.

Also, for 3 of 7 subrecipient insurance providers, PID implemented an automated monitoring tool for calendar year 2005 in which random samples are generated by computer and sent by PID to the insurance providers who then submit the applications to PID for review. PID did not begin this monitoring of applications and eligibility for these CHIP insurance providers until May of 2006, or 11 months into our current audit period. Furthermore, as of April 2007, this monitoring was still on-going and monitoring results have not been provided for our audit.

Furthermore, we reviewed the OMB Circular A-133 Single Audits of the seven insurance providers for calendar year 2005 in order to determine the extent of any outstanding noncompliance or internal control weaknesses reported. This review revealed that three of the seven insurance providers had significant audit findings in their reports, all of which related to improper eligibility determinations by subrecipients.

During the fiscal year ended June 30, 2006, PID reported CHIP payments to seven insurance providers totaling \$143.6 million, representing 96.3 percent of total program expenditures of \$149.1 million.

**Criteria:** Regarding subgrantee monitoring, 42 CFR 92.40 (a) states:

*Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.*

**Cause:** Responses from PID officials revealed that in July 2005 only one of two program monitors was assigned to monitor enrollment and eligibility issues for all seven insurance providers. That program monitor took a promotion and left this position in October 2005. In January 2006 a second program monitor was hired and PID had both program monitors work on the monitoring of enrollment and eligibility by dividing the insurance providers between the two program monitors. In October 2006, the second program monitor was promoted to another position and again PID is operating with only one monitor. The position is still vacant as of April 2007.

**Effect:** PID did not perform timely and appropriate monitoring of key federal CHIP requirements, including eligibility determinations, for its insurance providers during the SFYE June 30, 2006. Therefore, PID did not adequately ensure subgrantees were complying with federal regulations. In addition, A-133 audits of the insurance providers disclosed noncompliance and internal control weaknesses related to eligibility determinations at the subrecipient level.

**Recommendation:** We recommend that PID strengthen its procedures and perform timely and appropriate monitoring of all insurance providers of the CHIP program for compliance with federal regulations.

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 68: (continued)**

#### **Agency Response:**

##### **On-site and Internal Program Monitoring**

PID concedes that the monitoring of eligibility and enrollment applications for all CHIP contractors for this audit period has not been completed in its entirety due to ongoing staffing shortages. PID has been proactive in its attempt to fill the recurring vacant Health Insurance Program Monitor position. The position has been posted numerous times with little or temporary success.

PID acknowledges that the on-site monitoring visits were limited to presentations on fraud and abuse detection, and/or observing eligibility and enrollment operations, application processing and general operations. The staff also met with the key personnel in each of the divisions that were observed. The visits were not meant as a complete monitoring visit to determine subrecipient compliance with applicable federal regulations. In previous years, on-site monitoring was performed to view the physical facility, observe how eligibility and enrollment processes were implemented (or the work flow), to collect and review applications along with some specific claims, and to meet with key personnel directly and indirectly affiliated with the administration of CHIP.

Significantly, PID has several monitoring tools that obviate the need to have Program Monitors on-site. These tools are efficient and save travel costs, while providing effective monitoring of our subcontractors.

To monitor the eligibility, enrollment and member services areas more effectively, PID is developing a monitoring tool which is similar to the readiness review monitoring tool, minus certain types of documentation (such as handbooks, provider contracts, and subcontractor agreements, etc) . These types of documents are reviewed on an ongoing basis throughout the contract period when revisions are instituted and therefore they do not need to be a part of the overarching monitoring process. The monitoring tool is envisioned to have generic questions to be asked of each contractor, along with very specific questions that correspond to the Request for Proposal responses of each contractor. This tool will eliminate the need to collect and monitor the applications and/or claims on-site.

In determining more effective and efficient means of doing monitoring for subrecipient compliance with applicable federal regulations, PID also has developed other means and methods of obtaining information about the contractors and of using information that is already being collected.

PID has worked successfully with Deloitte to develop an electronic version of the former application monitoring tool called the “Notebook.” This program creates the random sample list of applications to be monitored, using time frames, categories of application status (initial, renewal terminations, transfer to and from MA), and by program (free or subsidized). The contractors are required to submit the selected applications to the PID office in Harrisburg. Once the monitor (conveniently located in the home office) has completed the review of each list of applications, the findings are sent to the contractor electronically through the “Notebook.” The contractor can review each finding and respond to PID electronically. Once this process has been completed, a final report is created to be included with the overall monitoring report.

PID has been using its in-house record of inquiries/complaints, submitted to PID by various sources, as a significant means of observing patterns of potential deficiencies, deficiencies or non-compliance amongst the contractors. If PID has a concern, a team is established to determine the action to be taken.. PID has worked effectively with several contractors to help them remain compliant with state and federal requirements.

PID has updated the process of using the Programmatic Change Forms as a means for the contractors to submit select information to PID for review and approval before implementing. This is another efficient means of reviewing information at the PID home office.

PID also developed a fraud and abuse monitoring tool that better allows PID to monitor the contractors’ monitoring of fraud and abuse activity. This report, with necessary documentation, is submitted to the PID’s home office for review. In addition, PID is working with Deloitte to have a field created in the Data Warehouse that will collect providers’ National

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 68: (continued)**

Provider Identifier (NPI) so that this number can be compared against the Office of Medical Assistance Programs (OMAP) and the Office of Inspector General (OIG) restricted provider lists. If a match is found, a duplicate provider cannot be enrolled in the CHIP program.

In all of these efforts, effective monitoring of our contractors is done from the PID office, saving travel expenses and affording the Program Monitors access to all necessary resources.

#### **Act 68, Complaints and Grievances Audits (Medical and Administrative)**

The Act 68 compliance reviews that took place previously are now being conducted by the Department of Health (DOH) which has jurisdiction over the Act 68 grievance process. While the DOH normally performs its audits on all HMOs annually, PID requested that it specifically focus on CHIP (and our adultBasic program), in addition to its regular review of company-wide subscribers. This review has been completed and is currently being compiled into a report by DOH.

#### **A-133 Single Audits**

While the A-133 single audits did in fact produce findings for the Contractors listed below, PID disputes that these findings were significant, except in the case of Unison.

- Aetna did have a significant issue with its own internal back-end processing system which resulted in their overpaying the Commonwealth. This occurred at the time the CAPS system was first being implemented. This is a situation that the PID monitors would have been unable to detect. Since Aetna discovered what was happening with its system, PID and Deloitte have been working with Aetna to resolve its systems processing issues. Aetna also failed to perform its quality control audits for ten (10) months, but has since reinstated that process. This audit process is performed at its Connecticut office. Aetna also had a finding that involved falsifying an Aetna's employee income in order to obtain free CHIP coverage, instead of subsidized coverage. Aetna has since implemented a formal policy for any CHIP applications submitted by an Aetna employee. As noted on the on-site visit report by PID, Aetna did present some concerns, but the monitors did not note anything as being out of compliance at the time of the visit.
- Highmark had a single finding for one instance of non-compliance from a sample size of 170 (valued at approximately \$800). Highmark did refund the money to PID. Highmark continues to do daily quality reviews to monitor data entry and eligibility.
- Unison was not performing a review of program applications by the enrollment coordinator nor were controls around income verification being consistently performed by the organization. Unison did submit a corrective action plan to PID. In addition, because of different issues observed by PID staff, a training session was held at Unison. Unison and PID have also participated in weekly, bi-weekly or monthly calls to monitor Unison's performance and to address specific concerns regarding provider networks.

**Auditors' Conclusion:** While we noted that PID was in the process of improving its monitoring of enrollment applications and eligibility determinations at the subrecipient level, as noted in the condition above, the improvements were not effective in our current year, and no results of PID's monitoring were provided for audit. Further, while we acknowledge that off-site monitoring of applications and eligibility may be an effective and efficient practice, we do not believe that it totally eliminates the need for periodic on-site monitoring of applications and eligibility especially for subrecipients whose A-133 Audits report significant findings.

As a result, our finding and recommendation remain as previously stated for our current year under audit. We will review any PID's ongoing corrective action in our subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 69:

#### CFDA #93.917 – HIV Formula Care Grants

##### DOH Did Not Perform On-Site Monitoring of HIV Subgrantees

**Condition:** DOH has a policy to perform annual on-site monitoring of the seven HIV program subgrantees who administer the AIDS program at the local level. However, during our current audit period, we noted that no on-site monitoring was performed on 3 of the 7 (43 percent) HIV subgrantees as follows:

<u>Subgrantee</u>	<u>Contract Period Not Covered</u>
Clarion University	7/1/05 – 6/30/06
North Central District AIDS Coalition	7/1/05 – 6/30/06
The Philadelphia AIDS Consortium	7/1/04 – 6/30/05

For the fiscal year ended June 30, 2006, 25 percent of HIV program costs represented DOH payments to subrecipients, with Philadelphia AIDS consortium being the largest subgrantee in the state.

**Criteria:** Regarding subgrantee monitoring, 42 CFR 92.40 (a) states:

*Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.*

**Cause:** Discussions with DOH officials revealed that the only person designated to perform the on-site visits discontinued employment at the DOH during the SFYE 6/30/06. As a result, there were no personnel to complete the on-site monitoring visits.

**Effect:** Since DOH did not perform on-site monitoring of all subgrantees, DOH did not adequately ensure subgrantees were complying with federal regulations.

**Recommendation:** We recommend that DOH strengthen its procedures and perform annual on-site monitoring of the seven subgrantees of the HIV Formula Care Grants Program. This would better ensure that the providers are complying with program requirements and that the DOH is in compliance with federal monitoring regulations.

**Agency Response:** The Department does not fully agree with the findings as outlined. We agree that some site visits were not conducted due to staff vacancies. However, five of the seven regions did receive on-site monitoring during State Fiscal Year ending June 30, 2006, which represents 71% completion and six of seven regions received on-site monitoring during SFY ending June 30, 2005, which represents 86% completion.

It should also be noted that all sub-grantees are monitored throughout the course of the grant year by their respective project officers. On-site monitoring is only a component of the overall monitoring process. We agree that onsite monitoring should occur in order to better ensure compliance with program requirements. However, given the changeover in staff situations that lead to visits not being performed, and because of all of the competing priorities that occur throughout the course of the year, there is no identified cost effective alternative plan to ensure that visits can be performed 100 percent of the time.

**Auditors' Conclusion:** While we acknowledge DOH's response, we believe an internal control weakness is present based on the results of our current-year testwork. Our finding and recommendation, therefore, remain as previously stated, and we will review any corrective action in our subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 70:**

#### **CFDA #93.917 – HIV Formula Care Grants**

#### **Weaknesses in Internal Controls Over Eligibility Determinations Result in an Undetermined Amount of Questioned Costs Up To \$27,118,545 (A Similar Condition Was Noted in Prior Year Finding #05-41)**

**Condition:** Within the HIV Care Formula Grants program, federal regulations established an AIDS Drug Assistance Program (ADAP) earmark, in which funds are to be used to provide therapeutics to treat HIV disease or prevent the deterioration of health arising from HIV disease in eligible individuals. The amount of the ADAP earmark is provided within the annual grant award. Each year the DOH, as lead agency for the program, enters into an interagency agreement with DPW to administer the ADAP portion of the grant. This administration is the responsibility of DPW's Special Pharmaceutical Benefits Program (SPBP).

Whenever a person applies for ADAP assistance, they are required to submit to the SPBP a completed application and supporting documentation which includes proof of PA residence, a copy of their social security card, verification of income and copies of their HIV-related and other prescriptions for SPBP reimbursable drugs. Starting in February of 2006, during our current audit period, applications were revised to include an Attestation Statement which must be signed and dated by a Licensed Physician that an HIV diagnosis is supported by an HIV-positive lab test. The SPBP reviews all of the documents to determine if the applicant is eligible to receive benefits. It should be noted that, although not required by SPBP until February of 2006, certain applicants voluntarily submit a doctor's certification showing documented proof of diagnosis with HIV. Our inquiries of SPBP personnel and testing of a sample of 45 payments totaling \$42,883 out of \$27,118,545 charged to HIV ADAP in our current year disclosed the following results:

As reported in our prior year finding, and updated for the sample of 45 payments selected for testing in the current year, documents needed to verify proof of income, health insurance coverage noting prescription co-pays or percentage of coverage, and a signed statement from a medical doctor indicating a medical diagnosis of HIV disease were not always included in the case files. In addition, for 21 of the 45 payments selected for testing in the current year, a case file could not be provided to support the payment, two of the 45 applications provided were dated/approved after the payment and after our audit period, and one of the 45 case files provided did not contain an application.

The SPBP did not have an annual re-certification process to support continued participant eligibility in effect during SFYE June 30, 2006. Specifically, during our review of case files, we found that most of the participants had originally applied for, and began to receive benefits several years ago, going back as far as 1989 without being re-certified as still eligible. Further, no procedures were in place to ensure that applicants or participants that are 65 years of age or older are enrolled in the state funded PACE or PACENET program as required if they are income eligible. Also, for old applications, prior to 1997, the form did not contain a statement by the participant that they were being treated for HIV/AIDS. As a result, DPW provided little documented assurance that these program participants remained eligible to receive benefits in the current year.

As in the prior year, we also noted a lack of documentation to clearly support the HIV diagnosis for program participants. Out of the 21 cases provided that contained applications approved/dated during our audit period and prior to payment, one case related to an application approved after February of 2006 and included the Licensed Physician Attestation Statement; however, we noted that this Attestation was signed by a Certified Registered Nurse Practitioner, not a Licensed Physician. Further, prior to the use of the new SPSB form during February 2006, DPW relied on a self-certification within the SPBP application that the individual applicant is currently being treated for HIV/AIDS and on the types of prescription drugs being claimed to verify at least one of the prescriptions specifically relates to HIV treatment. However, we noted many of the prescriptions were signed by a Certified Registered Nurse Practitioner, or in one case a Graduate Osteopathic Trainee. Poor documentation supporting diagnosis is significant considering the recent expansion in the number of HIV and non-HIV related drugs in this program. With all the different types of drugs allowed for this program, both HIV and non-HIV-related, DPW provided little documented assurance that program participants were properly diagnosed with HIV, and the diagnosis was properly reviewed and verified by DPW.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

### **Finding 06 – 70: (continued)**

We also noted a weakness in documenting other insurance coverage in 6 out of 45 sampled participant case files. We found that when other insurance coverage was documented on the application, documentation was not always placed in the case file to support what coverage existed, amounts of co-pays, or the amount that should be paid for through other insurance coverage and not the HIV program. As a result, we could not audit whether DPW was properly reducing HIV program costs for drugs where other insurance coverage was available.

Further, DPW uses a third party contractor to administer all pharmacy benefit claims for the HIV Formula Care grant. The primary oversight of the third party contractor is performed by the PA Department of Aging (PDA) since the same contractor administers the Pharmaceutical Assistance Contract for the Elderly (PACE) program, a state funded program at PDA. Additional oversight of pharmacies also occurs through the Governor's Office of Health Care Reform. As part of our inquiry of the controls in place over this third party contractor, we found the following additional weaknesses.

- While PDA obtained a GAGAS audit of the third party contractor, the opinion is rendered on the receipts and disbursements taken as a whole. Since the HIV Formula Care grant funds less than 10 percent of the receipts and disbursements processed by the third party contractor, DPW cannot rely on the audit for proper coverage of HIV program pharmacy benefit claims administration.
- The Office of Health Care Reform provided a listing of audits and copies of "Audit Error Reports" for approximately 50 different pharmacies which showed the pharmacy name, the date of each audit, and the prescriptions the pharmacies paid for in error. While it appears that pharmacy audits are now being conducted, no written audit policies or procedures, audit programs, audit workpapers, audit reports, or any other supporting documentation could be provided to support the audit procedures, scope, audit coverage, total number of items tested, error rates, conclusions, etc. noted for each pharmacy. Therefore, without improved documentation in this area, it is not possible for DPW or us to evaluate the adequacy of these pharmacy audits as an effective control in the HIV program.
- While the PHHS Comptroller Office performs audits of pharmacies' claims reimbursed with PACE funds, no audits are performed on pharmacy claims reimbursed with HIV Formula Care grant funds.

As a result of the above noted lack of audit coverage of HIV Formula Care grant pharmacy benefit claims, the propriety of reimbursements to the third party contractor, and in turn to the pharmacies, cannot be assured.

Because of the lack of documentation in the HIV participant case files supporting eligibility, and the lack of audit coverage of the third party contractor and the participating pharmacies in the HIV program, DPW is not adequately documenting the eligibility and allowability of the drug portion of the HIV program as a whole in accordance with OMB Circular A-87, and there is an undetermined amount of questioned costs up to the \$27,118,545 charged to HIV for the current year (\$101,134 for Federal Grant No. 6-X07-HA-00021-13, \$23,570,171 for Federal Grant No. 2-X07-HA-00021-14, and \$3,447,240 Grant No. 2-X07-HA-00021-15).

**Criteria:** Section 2616(a) and (b) of the Ryan White Comprehensive AIDS Resource Emergency Act of 1990 states:

*SEC. 2616. Provision of Treatments.*

- (a) *In General.* – A State may use amounts provided under a grant awarded under this part to establish a program under section 2612(a)(4) to provide treatments that have been determined to prolong life or prevent the serious deterioration of health arising from HIV disease in eligible individuals.
- (b) *Eligible Individual.* – To be eligible to receive assistance from a State under this section an individual shall—
  - (1) *Have a medical diagnosis of HIV disease; and*
  - (2) *Be a low-income individual, as defined by the State.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 70: (continued)

The Special Pharmaceutical Benefits application establishes the income limits for low-income individuals as follows:

*The financial component for Eligibility is determined by the following criteria:*

*Income Limits: Individuals - \$30,000 gross income per year  
Families - \$30,000 gross income per year, plus an allowance of \$2,480 for each additional family member. (Example: family of two \$32,480 combined gross; family of three \$34,960 combined gross; etc.)*

In addition, good internal controls dictate that all documentation supporting the participant's eligibility such as a physician's certification and insurance information, be maintained within the participant's case file.

In addition, Section 6.2 of DDS Program Policy Guidance No. 6, issued by HHS, regarding eligibility for the ADAP portion of the HIV Care Formula Grants program states:

#### 6.2 Eligibility

- (a) *The CARE Act indicates that ADAPs are to serve "low-income individuals," as defined by the States. The State's poverty criterion for ADAP eligibility should be based on Federal poverty guidelines.*
- (b) *All States should devise, implement, and rigorously monitor the use of consistent eligibility standards across all entities involved in certifying and re-certifying ADAP eligibility. Such certification is expected to include review and documentation of an applicant's income from all sources and any pharmaceutical benefits derived from private health insurance or other sources.*
- (c) *Every State should establish and implement procedures for ADAP client re-certification on a periodic basis, and for de-certifying individuals who qualify but have not utilized the program for a specific period of time (e.g., one year or longer). Re-certification procedures should include mechanisms to assure that individuals who have become eligible for Medicaid are transferred to the Medicaid program at the earliest possible date.*

**Cause:** SPBP personnel indicated that, to comply with Section 6.2(c) of HHS Policy Guidance No. 6 quoted above, they do a monthly comparison of Medical Assistance participants with DPW's CIS system to identify program participants who may have become eligible for drug coverage through MA. If any matches are found, SPBP officials stated that the participants are removed from the SPBP roles so that they don't duplicate services. However, no additional re-certification procedures were performed in prior years. In the current year, SPBP personnel indicated that, due to HHS resolution of our prior year Single Audit finding, they set up plans to implement a new SPBP application form in 2007 that requires an annual re-certification for all program participants.

With regard to not having documentation verifying that the participant was diagnosed with an HIV disease, and not having documentation identifying the participants' insurance coverage within the case file, SPBP personnel indicated that their procedures don't require the participants to submit this information with their applications. SPBP personnel indicated they determine if a person has HIV based on the participant prescriptions for drugs which are only used to treat HIV. SPBP personnel indicated they use the *Guidelines for the Use of Antiretroviral Agents in HIV-1 Infected Adults and Adolescents* as updated on the HHS website to determine what they will accept as an HIV drug to support a diagnosis of HIV. However, as required by HHS resolution of our prior year Single Audit finding, SPBP personnel included a physician attestation statement of a diagnosis of HIV in the new SPBP application effective February 2006.

SPBP personnel indicated that insurance and co-pays are part of the third party pharmacy benefits manager's responsibility; therefore, copies of the insurance information was not maintained within the participant's case files or routinely monitored by DPW.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 70: (continued)**

Regarding the audit of the pharmacy benefits manager and the lack of pharmacy audits, SPBP personnel indicated that they believed that either PDA or the PHHS Comptroller Office was addressing the audits and any questionable charges by pharmacies would be forwarded to them by PDA or the PHHS Comptroller Office.

**Effect:** Since SPBP did not perform annual re-certifications of the program participants, they are not in compliance with DSS Program Policy Guidance No 6. In addition, without performing a re-certification, DPW has little assurance that program participants receiving ADAP benefits remain eligible. Based on the number of participants receiving ADAP benefits (over 5,000) and the fact that there has never been a re-certification, we consider this to be a material weakness. In addition, since SPBP could not provide the case file for 23 of 45 sampled participants, and did not require and/or maintain documentation evidencing a medical diagnosis of HIV for 44 of the 45 participants in our sample, SPBP has limited assurance that the participants are eligible to receive ADAP benefits. Also, since SPBP did not require and maintain documentation regarding the participants insurance coverage and/or co-pay for 6 of 45 sampled participants that indicated health insurance coverage, SPBP provides limited assurance that insurance information is correct on the applications and HIV costs are being properly reduced for other insurance coverage available.

Also, based on the lack of audit or monitoring coverage of HIV Formula Care grant pharmacy benefit claims of the third party contractor, and the lack of audits or monitoring of pharmacies, DPW cannot provide assurance on the propriety of pharmacy claims being paid.

As a result of not adequately documenting the allowability and eligibility of the drug portion of the HIV program as a whole, there is an undetermined amount of questioned costs for the current year under audit, up to \$27,118,545.

**Recommendation:** SPBP should pursue appropriate settlement with HHS on the undetermined amount of current-year questioned costs, up to \$27,118,545. Also, we recommend that DPW's SPBP closely monitor the implementation of its new re-certification process to ensure that all program participants remain eligible to receive ADAP benefits. In addition, SPBP should strengthen procedures to verify and ensure that adequate documentation supporting the participants' eligibility (i.e., proof of income, HIV diagnosis, etc.) and insurance coverage is maintained within all participant case files. DPW should also ensure that proper auditing or monitoring is performed on the pharmacy benefits manager, and that an appropriate sample of HIV program claims are audited or tested at the benefits manager and at the pharmacies.

**Agency Response:** Response to third paragraph, first sentence: Possessing health insurance coverage is not required criteria for application to the SPBP. If the applicant does have health insurance that covers drugs, they are asked to enter the name of the carrier and the amount covered by the policy such as 50%, 70% of the cost of prescriptions. Additional documentation is not required. Some clients do not have health insurance coverage at the time of application and do not always advise the program office if and when they do have coverage. SPBP's claims processing contractor conducts matches with insurance companies and SPBP clients who are identified in electronic matches are sent letters telling them they must use their insurance first to pay for drugs, and the insurance information is populated electronically to the client's electronic file. SPBP will cover the amount not covered by the policy up to the MA ceiling for the drug.

Response to third paragraph, second sentence: SPBP can provide an **electronic** case file in lieu of a hard copy for the 21 sampled payments where a (hard copy) case file could not be found. NOTE: An electronic file is created, after hard copies and documentation supporting that the eligibility criteria is met for the SPBP are finalized. Regarding the two files that were dated/approved after payments were made are most likely, clients who lost eligibility and reapplied at some other point in time. Their new date would be the effective date, not their original date of application. It is also possible that there was a human error and the effective dates were not changed or corrected. The case with a missing application probably has two separate files. The hard copy the auditor reviewed is most likely the result of someone sending new address or income information. This would not require an application. Without looking at the files the auditors currently have in their possession, we cannot verify that that is the action that transpired. The SPBP staff would not jeopardize the integrity of the program or violate Federal Law and the Ryan White Care Act by approving applications or creating electronic files for applicants who do not have HIV/AIDS.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 70: (continued)**

Response to fourth paragraph: First sentence. It is our understanding that the SPBP is not mandated by the federal government to conduct an annual recertification. **HRSA recommends annual recertification in their guidance but it is not mandated. Guidance provides ADAP with the option of implementation.** The SPBP conducts a monthly recertification as mentioned later in this finding, to identify clients who have transitioned to drug coverage through the regular Medical Assistance Program. HRSA accepts this ongoing monthly match as an acceptable form of recertification. Once approved for benefits, clients remain in the program for as long as they need it unless they move out of state, transition to Medical Assistance, die, or are terminated because the SPBP can not locate them. We have clients who have been in the program since 1987.

SPBP clients and any Pennsylvanian 65 years of age and older are NOT required to enroll in the PACE/PACENET program, regardless of their age or income. We are requesting a citation from the Auditors that says every Pennsylvanian age 65 or older must be enrolled in PACE/PACENET. Attorneys for the PA Department of Aging and the PA Department of Public Welfare determined several years ago that the PACE/PACENET program is the payer of last resort. This legal decision would prohibit SPBP from moving age and income appropriate individuals into either PACE or PACENET.

Every application for the SPBP **since 1987** includes a statement that must be signed and dated by the participant. It reads: I hereby certify that all of the above information is true and correct and that I am a Pennsylvania resident currently being treated for HIV/AIDS. DPW's legal office supports this statement as legal and binding. Refer to DPW publication: MA366 for applicant and attestation, signature and date field. Copies of the original 1987 applications are available upon request.

NOTE: The SPBP is preparing to roll out an annual recertification during the third quarter of 2007. Implementation has been pending due to changes in the recertification document that were requested by consumers, advocates and the PA Health Law Project. We have also been waiting for a decision that will increase the income ceiling for financial eligibility for HIV/AIDS applicants.

Response to fifth paragraph: First sentence. We disagree with this finding. Every application must include copies of prescriptions for **HIV specific medications** and applications with a publication date of 2/06 have a physician's attestation to verify diagnosis of HIV/AIDS. The program office provided full color charts with each client file, clearly illustrating the brand and generic names of HIV exclusive/specific medications. Licensed Physicians may give their staff including CRNPs and Physician's Assistants, authority to sign off on documents on their behalf. The SPBP accepts these optional signatures. We advised the auditors prior to the audit that not all files will contain the new revised SPBP applications published in February 2006. Applications published prior to that date will not include the field #10, Physicians Attestation but are still acceptable with other proof of a diagnosis of HIV/AIDS. The Federal Health Resource and Services Administration (HRSA) supports our medical criteria as proof of medical need for HIV/AIDS as valid and in keeping with the Ryan White Care Act. Applicants are NOT required to submit copies of **non HIV** prescriptions.

Response to sixth paragraph: There is no written policy that requires internal controls to maintain copies of documentation for other insurance coverage. If applicable, applicants are asked to submit the information on the application but further documentation is not required or asked for. Insurance information, when present on the application is included in the electronic file to ensure providers will know they must bill third party insurance first when it's available. The finding is incorrect.

Response: As stated previously, the SPBP keeps electronic files (an optional form of document retention) and does not agree that there is a lack of documentation. The electronic files support that hard copies of appropriate application information, diagnosis of HIV/AIDS, income information, etc were submitted and documents to validate and support application to the SPBP did exist. SPBP staff could not make up the information in client's electronic files nor would program staff willfully violate the Ryan White Care Act. The program office does acknowledge that some of our 20,000 (plus) client files have been misplaced or lost. Some documents may be in files that were lost during several physical moves of the program office; therefore, we strongly recommend that the auditors consider electronic documents as appropriate options to hard copy files. The SPBP is moving to a system that will maintain all paper forms electronically.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 70: (continued)**

We refute any finding that implies or suggests that SPBP is in violation of the intent of the funding it receives through the Ryan White Emergency Care Act or the Ryan White HIV/AIDS Treatment Modernization Act of 2006 that was recently reauthorized by Congress.

The Public Health and Human Services Comptroller Office will contact the Department of Public Welfare in the near future and offer its services to the Special Pharmaceutical Benefits Program to develop and implement a plan to audit or test, on an on-going basis, HIV Formula Care grant pharmacy benefit claims, for the purpose of determining whether such claims were properly paid.

**Auditors' Conclusion:** We would first point out that our Single Audit finding does not state that DPW's SPBP staff knowingly committed fraud or potential fraud, or willfully violated federal laws or regulations. Nor is the finding meant to imply or suggest that SPBP is in violation of the intent of the federal funds it receives. Our audit of HIV has been conducted in accordance with the federal Single Audit Act and OMB Circular A-133 and the related OMB A-133 Compliance Supplement, and includes testing to ascertain compliance with applicable federal regulations, including the adequacy of documentation to support federal program costs. Our conclusion based on our current-year Single Audit is that documentation to support HIV program costs is inadequate. Our conclusions on the specific points made in the agency response are as follows:

Regarding other health insurance coverage, we do not contend that possessing other health insurance coverage is required criteria for application to the SPBP, nor do we conclude that the finding is incorrect. As reported in our prior-year finding and to clarify our update in the current-year finding above, DPW is not properly documenting whether an applicant has other insurance coverage and is not properly documenting its follow up in the case files when the application indicates that other coverage is available. In addition, DPW has inadequate procedures for following up and documenting updates on other insurance coverage after a participant is determined to be eligible and is receiving benefits. No change to our finding on this issue.

Regarding the electronic case files mentioned in the agency response, these are not the original or scanned copies of the original source documents needed, nor are they copies of the original source documents, to support the allowability and eligibility of HIV benefit payments. Hard copy case files with supporting documents completed and certified by DPW SPBP staff, program participants, licensed medical professionals, employers, other insurance carriers, etc. are the original source documents to support benefit payments. While DPW could provide hard copy case files for 24 sampled items, they cannot provide them for 21 cases in our sample, so our finding and recommendation do not change. Also, DPW provided no supporting documentation for its explanations on the two files dated after payments were made and the file with no application, all of which were communicated and discussed with DPW audit resolution personnel in the Bureau of Financial Operations (BFO).

Regarding recertification of eligibility, the federal awarding agency (HHS) indicated in its December 13, 2006 resolution letter on the prior-year finding that DPW "must complete its implementation of an annual recertification of all eligible Ryan White clients. . ." Therefore, our finding and recommendation does not change in this regard.

Regarding PACE/PACENET eligibility, we cited Section 6.2 of HHS's DDS Program Policy Guidance No. 6, part (b), as quoted in the Criteria Section above, which requires consideration of benefits from private health insurance "or other sources". We believe PACE/PACENET would constitute one of the other sources that DPW needs to consider and document in determining eligibility for HIV program benefits. Further, while management contends in the response that PACE/PACENET is the "payer at last resort", we noted that two HHS resolution letters dated September 6, 2006 and December 13, 2006 on the prior-audit finding both state that the HIV program should be the ". . . payer of last resort" for HIV drugs. If management disagrees with our position on this matter, we recommend that management pursue appropriate settlement with HHS.

Regarding the lack of documentation to support HIV diagnosis, the HHS audit resolution letter on our prior-audit finding dated September 6, 2006 stated that DPW "should document a patient's medical diagnosis of HIV disease via a clinician's attestation that is supported by a HIV-positive lab test." While DPW stated that they began documenting this beginning in February of 2006, our current-year finding stands since DPW was not documenting HIV diagnosis for more

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 70: (continued)**

than half of our current audit period. Furthermore, DPW is only implementing this new case file documentation prospectively for new cases going forward. DPW has no plans, to our knowledge, to retroactively obtain this documentation as part of its new eligibility recertification process for participants enrolled before February 2006, who will continue to receive HIV drug benefits into the future. In addition, DPW provided no evidence of federal approval of its plans to only obtain the documentation prospectively.

As a result, our finding and recommendations, with the above clarifications, remain as previously stated. We will review any corrective action in our subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 71:**

#### **CFDA #97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)**

##### **Internal Control Weaknesses in PEMA’s Systems of Cash Management and Federal Reporting (A Similar Condition Was Noted in Prior Year Finding #05-19)**

**Condition:** The amount and timing of the payment of federal funds for public assistance grants is dependent on whether the project is small or large. For small projects, (< \$55,500 for the period July 1, 2005 through September 2005 and < \$57,500 for the period October 1, 2005 through June 30, 2006), FEMA requires the full federal share of the eligible costs to be paid to the subrecipient/applicant as soon as possible following approval of the Project Worksheet (PW) by FEMA and PEMA and obligation of the federal share by FEMA. If the actual cost for small projects is less than the estimated cost on the approved PW, FEMA generally will not ask for a refund. For large projects, (greater than the above thresholds), FEMA requires the federal share to be paid to the subrecipient/applicant on the basis of actual costs incurred as the work is completed and the applicant submits requests for reimbursement to PEMA.

During our testing of PEMA’s subrecipient payments for expenditures incurred under the Hurricane Ivan Disaster (#1557), and the April 2005 Storms Disaster (#1587), we noted that payments to subrecipients for large projects were not supported by the FEMA-required request for reimbursement from the subrecipient. Further, we noted that the payment represented the full federal share of the total eligible costs on the approved PW rather than actual costs incurred to date. Through inquiry of PEMA personnel, we were informed that a decision was made to advance the entire federal share to subrecipients for large projects under these disasters upon approval of the PW by FEMA and PEMA, and obligation of the federal share by FEMA. As a result, the subrecipients were not required to submit requests for reimbursement to PEMA as costs were incurred.

We noted, in conjunction with our testing of subrecipient monitoring, that PEMA has procedures in place to review supporting documentation for actual project costs at project closeout for all large projects under these disasters. However, PEMA has no procedures in place to monitor these subrecipients for excess cash on hand during the project, which is in violation of federal cash management standards.

We also noted that PEMA paid, via interagency transfers, the full federal share to other state agencies for large projects under these disasters upon approval of the PWs by FEMA and PEMA. PEMA then drew down the funds from FEMA to cover these interagency transfers. However, there were no procedures in place to coordinate and minimize the time between the drawdown of federal funds by PEMA and the disbursement for the project costs by other state agencies, which is also in violation of federal cash management standards. For example, PEMA advanced federal funds to one state agency, DCNR, during the current year for large projects under these disasters totaling \$19,422,928. However, DCNR only incurred \$881,336 in expenditures on the Schedule of Expenditures of Federal Awards (SEFA) for such large projects during the year under audit, so excess cash clearly exists at DCNR for the current year.

In addition to the excess cash at other state agencies, PEMA’s interagency transfers result in the misreporting of program outlays by PEMA to FEMA on the quarterly FEMA FF20-10 Financial Status Report. Since these interagency transfers are not actually program outlays, but only represent cash transferred from one state agency to another state agency with no costs actually incurred yet for program purposes, program outlays reported to FEMA on this federal report are materially misstated.

A total of \$37,703,653 in federal expenditures was reported on the SEFA under CFDA #97.036 for the year ended June 30, 2006. A total of \$25,946,935 and \$8,909,601 of these expenditures was reported under grant #1557 for the Hurricane Ivan Disaster and grant #1587 for the April 2005 Storms Disaster, respectively.

**Criteria:** US Treasury Regulations in 31 CFR, Part 205, Part B, provides the rules applicable to federal assistance programs not included in a Treasury-State Agreement as follows:

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 71: (continued)

- (a) *A State must minimize the time between the drawdown of Federal funds from the federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs.....States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102.*
- (b) *Neither a State nor the Federal government will incur an interest liability under this part on the transfer of funds for a Federal assistance program subject to this subpart B.*

In addition, 44 CFR 13.37 regarding subgrants states:

- (a) *States shall follow state law and procedures when awarding and administering subgrants of financial assistance to local and Indian tribal governments. States shall:*
- (4) *Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies.*

Reporting Procedures, for CFDA #97.036 Disaster Grants, state:

*A separate Financial Status Report (FF20-10) is required for each declared disaster showing the financial outlays, obligations, authorizations and fund balance of each Disaster Grant Program (i.e., PA, IFG) approved under the Disaster.*

In addition, the Federal Common Rule mandates that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

**Cause:** PEMA indicated that a directive was issued in the prior year to PEMA from the Governor's Office to advance the full federal share to all applicants for large projects under the Ivan disaster as soon as the funding became available in order to expedite the recovery work. PEMA stated that this was done without obtaining FEMA approval. Further, PEMA indicated that this practice of advancing the full federal share to all applicants continued during the year under audit for all large projects under the Ivan and April 2005 Storms disasters.

**Effect:** PEMA did not adequately monitor advances made to subrecipients and other state agencies for large projects to limit excess cash on hand. As a result, there is limited assurance that these agencies and subrecipients complied with federal cash management regulations. Further, the Commonwealth violated cash management standards since draws were not based on the program's immediate needs. However, since PAG is not included in the CMIA Treasury-State Agreement, there is no CMIA interest liability with respect to these draws. In addition, program outlays on the FF20-10 Report submitted to FEMA are materially misstated where they only represent cash transfers from PEMA to another state agency, with no program costs actually incurred yet.

**Recommendation:** We understand that effective for the June 2006 disaster, PEMA is no longer advancing any federal funds to applicants for large projects. Accordingly, we recommend that PEMA ensure that all payments of federal funds for large projects under this disaster and all future disasters are based on actual costs incurred as the work is completed and are supported by the documentation required by federal regulations. We also recommend that, unless FEMA instructs PEMA otherwise, program outlays on the FF20-10 Report to FEMA do not include interagency cash transfers from PEMA to other state agencies, without program costs incurred to date.

**Agency Response:** As indicated in the finding, starting with the June 2006, disaster, the Comptroller's Office is now requiring a DAP-9 Form, Request for Reimbursement, for all large projects. For Hurricane Ivan (disaster 1557) and the 2005 April Storms (disaster 1587), funds for large projects were disbursed to other state agencies based on invoices submitted by PEMA before the agencies actually incurred expenditures.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 71: (continued)**

This office is reporting these payments as expenditures on the quarterly Financial Status Reports to FEMA. We currently are working with the Department of Conservation and Natural Resources to identify additional costs for these disasters. These expenditures will be transferred to the appropriate federal appropriations.

We will continue to report the payments as expenditures until we receive direction from the Federal Emergency Management Agency.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

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### Finding 06 – 72:

**CFDA #10.561 – Food Stamps Admin**

**CFDA #93.568 – Low-Income Home Energy Assistance**

**CFDA #93.778 – Medicaid Cluster**

**CFDA #93.658 – Foster Care – Title IV-E**

**CFDA #93.659 – Adoption Assistance**

**CFDA #93.667 – Social Services Block Grant**

**CFDA #93.575 – Child Care and Development Block Grant**

**CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund**

**CFDA #93.558 – Temporary Assistance for Needy Families**

**CFDA #93.563 – Child Support Enforcement**

**CFDA #93.917 – HIV Care Formula Grants**

### **Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (A Similar Condition Was Noted in Prior Year Finding #05-45)**

**Condition:** As part of our current-year follow-up on prior year Finding #05-45, we updated DPW's procedures for reviewing and reconciling SEFA amounts in its OMB Circular A-133 subrecipient Single Audit reports to state payment records, and following up on and correcting noted discrepancies. We found that these procedures are not adequate since they are not being performed consistently or in a timely manner. We noted that DPW does not centrally perform its subrecipient SEFA verification procedures, but requires each of the various funding offices within the agency to perform this task for its individual federal programs. Further, there are no centralized controls in place to ensure the SEFA reconciliations are properly and timely completed by all the funding offices, and discrepancies properly followed up on and corrected.

In the prior year, we made auditor inquiries concerning several sampled large-dollar subrecipient audits which contained uncorrected SEFA errors, and we concluded that DPW's overall SEFA reconciliation, follow-up, and resolution procedures were untimely and inadequate to ensure its subrecipient funds are being properly subject to Single Audit under OMB A-133 every year as required. In our current-year update, we learned that there were no significant changes made by DPW to correct the prior year finding.

**Criteria:** OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, Subpart D, Section \_\_\_\_400, states:

(d) *Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:*

- (2) *Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.*
- (3) *Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*
- (4) *Ensure that subrecipients expending \$300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.*
- (6) *Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 72: (continued)**

In order to carry out these responsibilities properly, good internal control dictates that state pass-through agencies ensure A-133 subrecipient SEFA's are properly and timely reconciled to state payment records each year, and reconciling items properly resolved.

**Cause:** DPW's Audit Resolution Section distributes subrecipient A-133 audit reports to the various offices within the department since the individual offices possess the needed state payment information to reconcile their program amounts on the SEFAs. The offices do not appear to be adequately monitored for timelines or consistency in performing the SEFA reconciliations, and staffing and workload issues make it difficult to complete the reconciling of all SEFA amounts. In its response to our prior year finding, DPW management in the Audit Resolution Section stated that it is necessary to work with the Office of the Budget, Bureau of Audits in an endeavor to identify or develop an automated process utilizing SAP data to timely and efficiently perform the task, but this has not yet been implemented. DPW audit resolution personnel stated that they have attempted to get access to certain SAP information (i.e., screens) but they do not have this access to help them perform the reconciliations properly. Also, audit resolution personnel stated that they centrally perform a preliminary review of the SEFAs to ensure that all DPW's federal programs are included. However, no reconciliations of the SEFA amounts are being centrally performed in the Audit Resolution Section.

**Effect:** There are inadequate controls over DPW's A-133 subrecipient SEFA reconciliations to state payment records, and an increased risk that DPW's payments to subrecipients in its major federal awards are not being properly audited each year in accordance with the Single Audit Act. In addition, there is an increased risk that subrecipients could be mis-spending and/or inappropriately tracking and reporting federal funds over multiple-year periods, and these discrepancies may not be properly monitored, detected, and corrected by DPW as required.

**Recommendation:** We recommend that DPW strengthen its controls over its A-133 subrecipient SEFA reconciliation process in the agency to ensure all subrecipient SEFA amounts are timely reconciled to state payment records each year, and discrepancies are properly followed up on and corrected as soon as possible. This process should be more effectively monitored within the agency to enforce better timeliness and consistency each year in ensuring subrecipients properly spend and account for federal funds. DPW should also complete, as soon as possible, the reconciliations that have not yet been done.

**Agency Response:** The DPW believes that to perform the reconciliation of SEFA amounts to state payment records effectively and timely, an automated process utilizing SAP data is essential.

The DPW will continue to request the Office of Budget, Bureau of Audits assistance in identifying or developing an automated reconciliation process necessary to perform the task. In the interim, this agency's Bureau of Financial Operations, Audit Resolution Section will continue to review the SEFA to ensure that all major programs are listed.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 73:**

- CFDA #10.550 – Food Donation**
- CFDA #10.557 – Special Supplemental Nutrition Program for WIC**
- CFDA #10.558 – Child and Adult Care Food Program**
- CFDA #14.228 – Community Development Block Grants/State’s Program**
- CFDA #14.239 – HOME Investment Partnerships Program**
- CFDA #15.252 – Abandoned Mine Land Reclamation Program**
- CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds**
- CFDA #66.468 – Capitalization Grants for Drinking Water State Revolving Funds**
- CFDA #84.010 – Title I Grants to Local Educational Agencies**
- CFDA #84.048 – Vocational Education – Basic Grants to States**
- CFDA #84.287 – Twenty-First Century Community Learning Centers**
- CFDA #84.357 – Reading First State Grants**
- CFDA #84.367 – Improving Teacher Quality State Grants**
- CFDA #93.283 – Centers for Disease Control & Prevention - Investigations**
- CFDA #93.558 – Temporary Assistance for Needy Families**
- CFDA #93.563 – Child Support Enforcement**
- CFDA #93.568 – Low-Income Home Energy Assistance**
- CFDA #93.569 – Community Services Block Grant**
- CFDA #93.658 – Foster Care – Title IV-E**
- CFDA #93.659 – Adoption Assistance**
- CFDA #93.667 – Social Service Block Grant**
- CFDA #93.767 – State Children’s Insurance Program**
- CFDA #93.917 – HIV Care Formula Grants**
- CFDA #97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)**
- CFDA #Various – Homeland Security Cluster**
- CFDA #Various – Child Nutrition Cluster**
- CFDA #Various – WIA Cluster**
- CFDA #Various – CCDF Cluster**
- CFDA #Various – Medicaid Cluster**
- CFDA #Various – Highway Planning and Construction Cluster**

### **Noncompliance and Internal Control Weaknesses Exist in the Commonwealth’s Subrecipient Audit Resolution Process (A Similar Condition Was Noted in Prior Year Findings #05-43 and #05-44)**

**Condition:** Under the Commonwealth's implementation of the Single Audit Act, review and resolution of OMB Circular A-133 subrecipient audit reports is split into two stages. The Commonwealth receives all A-133 subrecipient audit reports through OB-BOA which ensures the reports meet technical standards through a centralized desk review process. Once they are deemed acceptable by BOA, the reports are transmitted to the various funding agencies in the Commonwealth and each agency in the Commonwealth's resolution system must make a management decision on each finding within six months of receipt by the Commonwealth to ensure corrective action is taken by the subrecipient. The agency is also responsible for reviewing financial information in each audit report (e.g., SEFA) to determine whether the audit included all pass-through funding provided by the agency and to adjust Commonwealth records, if necessary. Our testing of this two-stage process disclosed the following:

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

### **Finding 06 – 73: (continued)**

- OB-BOA is not completing its centralized desk review process and forwarding subrecipient audit reports to the various funding agencies in a reasonably timely manner. Out of a sample of 20 subrecipient audit reports we detail tested, we noted the average time BOA took to forward the desk reviewed reports to the funding agencies for further resolution was 4.2 months, which represents 70 percent of the federal requirement to resolve subrecipient findings within six months after receipt. Also, six of the 20 reports took longer than six months for BOA to review and forward. Based on our sampling and based on further overall review of BOA's listings of forwarded reports, we concluded that OB-BOA's desk review process is not reasonably timely.
- The various funding agencies are not processing subrecipient audit reports in a reasonably timely fashion to ensure management decisions are issued timely on audit findings and subrecipients take timely corrective action. Based on detailed testing of 32 reports with findings at four different funding agencies (DOH, DPW, L&I, and PENNVEST), we noted 13 (or 41 percent) with findings that were resolved between approximately 10 months to 2 years after originally received by BOA for processing. In addition, an overall review of other agency listings that we did not sample and detail test showed a similar lack of timeliness in resolving subrecipient findings. Based on sampling and overall review of agency listings, we concluded that agency finding resolution is not reasonably timely.

**Criteria:** The Single Audit Act of 1984 and the Single Audit Act Amendments of 1996 require state and local governments to adhere to provisions of OMB Circular A -133.

OMB Circular A-133, Section 400, states the following:

*(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:*

- (4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.*
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.*
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.*

**Cause:** The common reason provided by Commonwealth personnel for untimely audit resolution was a lack of adequate staff to process A-133 subrecipient audit reports more timely.

**Effect:** Since the Commonwealth did not make the required management decisions within six months of receipt to ensure appropriate corrective action was taken on audits received from subrecipients, the Commonwealth did not comply with federal regulations, and subrecipients were not made aware of acceptance or rejection of corrective action plans in a timely manner. Furthermore, noncompliance may recur in future periods if internal control weaknesses are not corrected.

**Recommendation:** We recommend that the above weaknesses that cause untimely OMB A-133 audit resolution be corrected to ensure compliance with federal audit resolution requirements and to better ensure more timely subrecipient compliance with program requirements.

**Agency Response:** BOA agrees that an average of 4.2 months to process and transmit reports to funding agencies for review and resolution of findings is too long. However, BOA strongly disagrees that the 4.2 months "...represents 70% of the federal requirement to resolve subrecipient findings within six months after receipt." The Commonwealth's position has always been that the six-month time frame for management decision on findings begins with transmittal of an acceptable report to the pass-through agency. This has also been the auditor's position in the past, as evidenced in prior audit findings 05-43 and 05-44. Now, with the current year finding, the auditors have changed the criteria to indicate the six-month time frame begins with receipt of the audit report in BOA.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 73: (continued)**

As stated in the finding, the Commonwealth's subrecipient audit review process is split into two stages. BOA, functioning as clearing house for the Commonwealth, receives all subrecipient audit reports and performs the technical review to ensure the audit reports meet the standards and contain all the essential elements of the single audit report package. Once the reports are deemed acceptable, they are transmitted to the pass-through funding agencies for resolution of findings and review of the SEFA. Management Directive 325.9, *Processing Audits of Federal Pass-Through Funds*, which has been in place for over 12 years, states that the pass-through agency "will make management decisions, within six months after receipt of report submission from BOA, relative to audit disclosures affecting the agency."

In addition, prior findings on delays in the resolution process by pass-through agencies as far back as 1994 have referred to the six-month time frame beginning with receipt of report by the pass-through agency. This policy had been confirmed by the Commonwealth's former cognizant agency.

BOA has continually strived to make the desk review process more efficient. Currently, BOA has only two full-time employees to review approximately 1,500 subrecipient audit reports a year. Ideally, BOA would like to be able to process all reports within 30-60 days. However, there are numerous factors that impact the time it takes to complete reviews, including but not limited to:

- 1) Audit reports are received on an irregular or cyclical basis, with the majority of the reports received between October and March.
- 2) Audit reports with findings are given priority resulting in delays in reviewing reports without findings.
- 3) Audit report packages do not always include all the essential elements, requiring follow-up with the entity and/or auditor to obtain the additional elements or revisions. The following deficiencies can sometimes add weeks to the processing time:
  - Missing or incomplete corrective action plans
  - SEFA does not include all the pass-through funding
  - Improper application of the risk-based approach (e.g., failure to test all the major programs)
  - Failure to submit the data collection form to the federal clearinghouse.

Because of noted problems in the application of the risk-based audit approach, BOA has had to expand its testing in this area, resulting in additional time to complete the desk review process, as well as additional time for subrecipients or their auditors to resolve any report deficiencies.

Of the 20 subrecipient audit reports referred to in the finding, only 10 had findings involving Commonwealth pass-through funding. Two of the reports were rejected because the auditors had not tested all of the major programs. Both of those reports were transmitted to the pass-through agencies within two weeks of receipt of an acceptable revised report.

To ensure more timely transmittal of reports and more timely resolution of audit findings, BOA will take the following action:

- Attempt to further streamline the desk review process.
- Continue to place priority on reviewing subrecipient reports with findings involving commonwealth pass-through funding.
- Pursue the possibility of obtaining approval to add another full-time position to the audit review process in BOA.
- Continue to advise the pass-through agencies of the importance of addressing reports with findings on a priority basis.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 73: (continued)**

**Auditors' Conclusion:** Based on the corrective actions indicated in the agency response above, we will review these corrective actions in our subsequent audits and our finding remains as previously stated. In past years, we concluded that the federal six-month timeframe could begin with agency receipt of an audit report from BOA as long as BOA's transmission of audit reports to agencies was reasonably timely on an overall basis. Based on current-year testing results, we concluded that this is no longer the case and there is an internal control weakness in the overall system causing untimely resolution of subrecipient audits vs. federal requirements.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2006*

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### **Finding 06 – 74:**

**CFDA #10.555 – National School Lunch Program for Children**  
**CFDA #10.561 – State Administrative Matching Grants for Food Stamps Program**  
**CFDA #17.260 – WIA Dislocated Workers**  
**CFDA #20.205 – Highway Planning and Construction**  
**CFDA #23.003 – Appalachian Development Highway System**  
**CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds**  
**CFDA #84.010 – Title I Grants to Local Educational Agencies**  
**CFDA #84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States**  
**CFDA #84.367 – Improving Teacher Quality State Grants**  
**CFDA #93.558 – Temporary Assistance for Needy Families**  
**CFDA #93.563 – Child Support Enforcement**  
**CFDA #93.568 – Low-Income Home Energy Assistance**  
**CFDA #93.575 – Child Care and Development Block Grant**  
**CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund**  
**CFDA #93.658 – Foster Care – Title IV-E**  
**CFDA #93.659 – Adoption Assistance**  
**CFDA #93.667 – Social Services Block Grant**  
**CFDA #93.767 – State Children’s Insurance Program**  
**CFDA #93.778 – Medical Assistance Program**  
**CFDA #96.001 – Social Security – Disability Insurance**

### **Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$1.76 Million Known Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding #05-46)**

**Condition:** The Commonwealth of Pennsylvania has entered into an agreement with the U.S. Treasury Department in order to comply with the provisions of the Cash Management Improvement Act of 1990 (CMIA). In order to fulfill the requirements contained in the Treasury-State Agreement, the Commonwealth has developed policies and procedures contained in Comptroller Operations Directive #540.1 and has developed the CMIA Drawdown System (CDS) which calculates and provides recommended drawdown amounts using the Average Daily Clearance (ADC) method.

As provided by the Treasury-State Agreement, all checks associated with all voucher transmittals (VTs) for CMIA-covered programs were utilized for the period of February 1, 1999 through May 31, 1999 to determine the ADC check clearance pattern implemented on April 13, 2000. The clearance time of each check in the study was dollar-weighted to produce the dollar-weighted average day of clearance from the time the VT was posted to ICS (the Commonwealth's general ledger at the time) until the checks associated with the VT cleared the state bank account. We tested the propriety of the Commonwealth's check clearance patterns during the prior Single Audit for SFYE June 30, 2000, and disclosed the following deficiencies with the Commonwealth's check clearance studies which remain unresolved for the SFYE June 30, 2006:

- The Commonwealth did not reconcile expenditure totals from the check clearance study (BFM Report 833) to the ICS general ledger in 1999 to ensure the accuracy and completeness of data used in the ADC study.

Further, as noted in previous Single Audits, each VT can only be captured in the study under one appropriation, regardless of how many appropriations are present on the VT. Since some appropriations are used for more than one program, but are assigned to only one program for the ADC study, some programs could have significantly less or significantly more expenditures in the study than were actually incurred.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

### **Finding 06 – 74: (continued)**

- The ICS posting dates per the February 1, 1999 through May 31, 1999 clearance study did not always agree to the actual ICS general ledger posting dates.

As a result, the prior-year material weakness regarding incorrect posting dates for the study caused material noncompliance with CMIA during SFYE June 30, 2006 since the Commonwealth is still using ADC patterns established from the February 1, 1999 through May 31, 1999 clearance study.

- A disproportionate amount of payroll cost was included in the clearance study for CFDA #20.205, Highway Planning and Construction (HPC). We believe this occurred due to the fact that appropriations other than HPC related appropriations were included on the payroll VTs included in the HPC study.

Further, starting on July 1, 2002, the Commonwealth began decommissioning ICS with a phased implementation of an Enterprise Resource Planning (ERP) software known as SAP that impacted all Commonwealth business functions, including the payment process. However, the Commonwealth has yet to perform a new check clearance study for SAP to ensure the accuracy of the delay of draw for federal programs, all of which are now using SAP.

Also, the interest liability on the CMIA Annual Report for SFYE June 30, 2005 which was submitted to the U.S. Treasury during our current audit period SFYE June 30, 2006, was misstated by a minimum of \$1.76 million as follows:

- We noted that revenue transmittal #98929005 selected for testing within the Improving Teacher Quality State Grants program, CFDA #84.367, during SFYE June 30, 2005 was a drawdown of federal funds in the amount of \$17,408,945 that was received on February 16, 2005 instead of February 18, 2005 because the draw delay within CDS was 14 days instead of 16 days as required by the CMIA State-Treasury Agreement. As a result, the Commonwealth would owe interest on these funds for 2 days. However, we noted that the Commonwealth did not pay any interest to the federal government for the period that these funds were on hand; therefore, the Commonwealth's interest liability was understated by \$2,176. Also, an undetermined amount of interest is owed for all other draws of federal funds received two days early due to use of the wrong draw delay on CDS within Improving Teacher Quality State Grants program for the entire SFYE June 30, 2005.
- We noted that expenditure adjustment #EA7800809421 selected for testing within the CCDF program, CFDA #93.596, during SFYE June 30, 2005 transferred \$19 million of federal expenditures to a state appropriation. This transaction resulted in \$19 million of federal funds being on hand for 6 days, from March 9, 2005, the date the EA posted on the SAP system, until the funds were returned to HHS on March 15, 2005. Since the Commonwealth did not pay any interest to the federal government for the period that these funds were on hand, the Commonwealth's interest liability was understated by \$7,125.
- We noted that invoice #ZI2201325435 selected for testing during SFYE June 30, 2005 posted \$485,673 of payments to a subgrantee on SAP. As a result, federal funds of \$435,818 were received under the CCDF program, CFDA #93.596, on January 5, 2005, and \$50,855 were received under the SSBG program, CFDA #93.667, on January 6, 2005; however, the PA Treasury Department rejected the invoice and the funds were not returned to HHS until February 4, 2005 and February 7, 2005, respectively. Since the Commonwealth did not pay any interest to the federal government for the period that these funds were on hand, 30 days for the CCDF program and 32 days for the SSBG program the Commonwealth's interest liability was understated by \$817 and \$102, respectively.
- Within the Medical Assistance program, DPW's PROMISE system processes a file of medical claims on a weekly basis. Included within these claims are expenditures made by school districts for school based medical services. For all school based medical expenditures DPW submits a check to PDE, who administers the school based medical program. PDE then in turn reimburses the school districts for the medical services provided. Once DPW pays the money to PDE, the funds are subsequently drawn from the federal government. However, our review of the account used by PDE to reimburse the school districts disclosed that PDE is not reimbursing the school districts in a timely manner as this account had a balance of \$97,590,660 at June 30, 2005, with a carry-forward balance from the prior fiscal year of \$55,902,318. Our review of the CDS-301 Report disclosed that the Commonwealth did not pay any

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 74: (continued)

interest on the balance maintained within this account, even though it represents federal funds drawn down in excess of amounts paid to school districts. As a result, assuming the average balance in the account was approximately \$76.75 million during the June 30, 2005 fiscal year, the state's interest liability was understated by an estimated \$1.75 million for the Medical Assistance program, CFDA #93.778. We also found that the excess cash in this account was \$96.66 million as of June 30, 2006, so additional CMIA interest is owed for SFYE June 30, 2006 to be remitted during SFYE June 30, 2007.

In addition, the following weaknesses, the interest effect of which we could not determine, were noted in prior years and remain unresolved pertaining to the CMIA interest calculation:

- Excess cash on hand can result due to the rejection of payment invoices by the PA Department of Treasury if timely adjustments are not made and interest due to the federal government for such transactions is not recorded by CDS. While the Commonwealth has improved its system by modifying CDS to record adjustments immediately and not subject them to a draw delay, not posting adjustments to the Commonwealth accounting system on a timely basis will result in unrecognized interest liabilities.
- Funds posted to Federal Revenue Collected in Advance (RCIA) accounts are not included in the CMIA interest calculation because CDS does not recognize these federal revenues in excess of federal expenditures on SAP as interest generating transactions. Therefore, an interest liability is not assessed by CDS, and the Commonwealth interest liability appears to be understated as a result. Although our review of revenues drawn and posted to major program accounts on SAP did not disclose any current year revenue collected in advance, our review of federal revenue collected in advance accounts at year-end in the Public Welfare disclosed undocumented excess federal funds collected in advance for both covered and non-covered programs. While interest is not due for federal cash on hand in non-covered programs, this appears to be a violation of federal cash management regulations. In addition, with regard to revenue collected in advance at DPW, the year-end balance of this account (which is net of Medicare Services not considered federal financial assistance) has rapidly grown over the prior three years, and then decreased to zero as follows:

As of	Balance
June 30, 2003	\$153,274,939
June 30, 2004	\$183,644,890
June 30, 2005	\$606,423,402
June 30, 2006	\$0

A further breakout of total balances by DPW federal program at June 30, 2005 is as follows:

Program	June 30, 2005
MA	\$319,130,003
TANF	187,096,746
Food Stamps	56,975,784
CCDF	11,737,611
CSE	11,185,298
SSBG	1,699,706
LIHEAP	164,510
Cash Grants (MA, TANF, Food Stamps)	14,766,653
Other	3,667,091
Total	<u>\$606,423,402</u>

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 74: (continued)

All the above programs, except the “other” category, are covered programs under the Treasury-State Agreement and, thereby, appear to owe interest to the U.S. Treasury. Our analysis of the two largest program balances disclosed that revenue documents #AM95640988 and #AM96540989 moved \$319,130,003 and \$187,096,746 from RCIA into MA and TANF revenue codes on August 24, 2005. The only explanation documented for these adjustments was: “to roll current year receivables per request of Federal Accounting”. Other various transactions during August of 2005 adjusted the RCIA balance to zero as of August 31, 2005 at DPW. The only reason given for the total liquidation of the RCIA balance at DPW was a policy change that Comptrollers were no longer required to transfer federal revenues in excess of federal expenditures to RCIA. Based on the year-end balances listed above at the current CMIA interest rate, the estimated amount of interest owed to the U.S. Treasury could potentially range from almost \$4.2 million to over \$13.8 million for SFYE June 30, 2005. For SFYE June 30, 2006 interest owed to the U.S. Treasury under the Medical Assistance program, CFDA #93.778, and Temporary Assistance for Needy Families, CFDA #93.558, could be approximately \$2 million and \$1.2 million, respectively, related to \$319,130,003 and \$187,096,746 from RCIA. Further, since DPW does not perform any analysis of the transactions posted into and out of its collected-in-advance account for CMIA interest impact, DPW cannot adequately support the source of this excess revenue on the SAP system and the interest owed on this excess revenue at year-end cannot be fully determined in our audit.

**Criteria:** 31 CFR 205.20 provides the following regarding clearance patterns:

*States use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. A State must ensure that clearance patterns meet the following standards:*

- a. *A clearance pattern must be auditable.*
- b. *A clearance pattern must accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied.*
- c. *A clearance pattern must include seasonal or other periodic variations in clearance activity.*

Also, 31 CFR 205.22 (a) on the accuracy of clearance patterns states:

*If a State has knowledge, at any time, that a clearance pattern no longer reflects a Federal assistance program’s actual clearance activity, or if a Federal assistance program undergoes operational changes that may affect clearance activity, the State must notify us, develop a new clearance pattern, and certify that the new pattern corresponds to the Federal assistance program’s clearance activity.*

31 CFR 205.14(a)(2), pertaining to federal interest liabilities, states:

- (2) *If a State pays out its own funds for Federal assistance program purposes without obligational authority, the Federal Program Agency will incur an interest liability if obligational authority subsequently is established. However, if the lack of obligational authority subsequently is established. However, if the lack of obligational authority is the result of the failure of the State to comply with a Federal Program Agency requirement established by statute, regulation, or agreement, interest liability may be denied. A Federal interest liability will accrue from the day a State pays out its own funds for Federal assistance program purposes to the day Federal funds are credited to a State bank account.*

31 CFR 205.15 states the following pertaining to state interest liabilities:

- (a) *General rule. State interest liability may accrue if Federal funds are received by a State prior to the day the State pays out the funds for Federal assistance program purposes. State interest liability accrues from the day Federal funds are credited to a State account to the day the State pays out the Federal funds for Federal assistance program purposes.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2006

### Finding 06 – 74: (continued)

(b) *Refunds. (1) A State incurs interest liability on refunds of Federal funds from the day the refund is credited to a State account to the day the refund is either paid out for Federal assistance program purposes or credited to the Federal government.*

31 CFR 205.29(d) states the following regarding compliance and oversight:

(d) *If a State repeatedly or deliberately fails to request funds in accordance with the procedures established for its funding techniques, as set forth in §205.11, §205.12, or a Treasury-State agreement, we may deny the State payment or credit for the resulting Federal interest liability, notwithstanding any other provision of this part.*

Further, 31 CFR 205.26(a) related to the Annual Report states:

(a) *A State must submit to us an Annual Report accounting for State and Federal interest liabilities of the State's most recently completed fiscal year. Adjustments to the Annual Report must be limited to the two State fiscal years prior to the State fiscal year covered by the report. The authorized State official must certify the accuracy of a State's Annual Report. A signed original of the Annual Report must be received by December 31 of the year in which the State's fiscal year ends. We will provide copies of Annual Reports to Federal agencies. We will prescribe the format of the Annual Report, and may prescribe the format of the Annual Report, and may prescribe that the Annual Report be submitted by electronic means.*

The Commonwealth's CMIA Agreement with the U.S. Treasury Department Section 6.1.6 states:

*With several programs subject to the Act, the primary Commonwealth agency administering a program will subgrant portions of the program to secondary state agencies. As costs in support of the program are incurred, the secondary agency charges the primary agency, which in turn draws down Federal funds.*

*In all such cases, the secondary agency shall charge the primary agency no earlier than the day transactions post to the accounts of the secondary agency. The procedures governing the request for funds from the primary agency, and the payment of such requests, shall be in accordance with the agreement between the primary and secondary agencies.*

**Cause:** Regarding the accuracy and completeness of the data used in the ADC study, BFM personnel stated that the current system in place to calculate the ADC can only sort expenditures by appropriation. Therefore, each voucher transmittal can only be included in the study under one appropriation, regardless of how many appropriations are included on the voucher. Since some appropriations are used for more than one program, in these instances, the appropriation must be assigned to one program for ADC purposes.

For the differences noted between the actual ICS post date and the post date per the ADC study in 1999, we found that the date used for the ADC study was the date on which magnetic tapes were forwarded to Treasury for payment, not the date the expenditures were actually posted to ICS. As in prior years, the Commonwealth had no controls in place to make sure the correct ICS post date is included on these magnetic tapes and incorporated into the check clearance study.

With respect to the payroll costs for the HPC program included in the clearance study, BFM stated no changes were made from prior years to change the study to ensure the appropriate amount of payroll was included in the study.

For CFDA #84.367, BFM personnel indicated the current-year change from 14 days to 16 days was inadvertently excluded when CDS was updated.

Regarding the posting of adjustments causing unrecognized interest liabilities, BFM personnel have indicated that this issue is not significant. Also, the issue of Treasury rejecting payments is outside the control of BFM and is an inherent limitation within the CDS system because the draw delay is based on general ledger postings and not check issuance. Therefore, when Treasury rejects paying an invoice, excess cash can result under the current system. While BFM has continue to state that number of invoices rejected by the State Treasury is minimal no proof of this assertion has ever been provided.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 74: (continued)**

For the revenue collected in advance at DPW, PHS Comptroller officials indicated that the large increase in SFYE 6/30/05 was due to posting errors since they used the wrong SAP accounting reports during closeout. PHS Comptroller officials subsequently reversed these entries out of the revenue collected in advance after June 30, 2005, and indicated that they will be using the correct accounting reports for closeout during subsequent periods. However, since PHS officials could not provide the SAP reports to support the postings to the revenue collected in advance account, we cannot determine the extent of the error.

For other items addressed in the condition relating to weaknesses in the CMIA interest calculation, Commonwealth personnel indicated they either did not agree that the transactions created an interest liability or the transactions arose outside of CDS and were not considered when preparing the Annual Report of CMIA interest liabilities.

**Effect:** As a result of the weaknesses noted, the Commonwealth is not in compliance with the CMIA regulations and procedures for clearance pattern requirements and for the interest calculation in the CMIA Annual Report as stated in 31 CFR 205.

The state and federal interest liability amounts reported on the CMIA Annual Report for SFYE June 30, 2005 are not accurate. Our testing disclosed a minimum of \$1.76 million in understatements in the state interest liability to the federal government. Further testing of DPW's federal revenue collected in advance accounts at year-end disclosed additional potential interest owed the federal government that could not be determined in our audit, but could range from over \$13.8 million for SFYE June 30, 2005 to over \$3.8 million for SFYE June 30, 2006.

In addition, the Commonwealth is receiving federal funds earlier than they should for the HPC program at PADOT. Because of the overall pervasiveness of the check clearance discrepancies involving incorrect posting dates, we cannot determine the overall impact of these weaknesses on major program check clearance patterns.

Also, various transactions that create interest liabilities, such as adjustment transactions, cancelled payments, and revenue collected in advance are not recognized by CDS as interest-generating transactions. Since manual adjustments are not made to compensate for this system weakness, the Commonwealth's CMIA interest calculation is further understated by an undetermined amount.

**Recommendation:** We recommend that BFM pursue appropriate settlement with the federal government regarding the \$1.76 million in additional interest owed the feds.

For future audit periods, we recommend BFM personnel implement a system to ensure that the clearance patterns developed and utilized on CDS accurately represent the flow of federal funds as required by 31 CFR 205.20.

In addition, BFM personnel should determine the additional amount of June 30, 2006 CMIA interest due to the federal government as a result of all of the above noted discrepancies for CMIA-covered programs, including RCIA, and report and remit this additional interest liability to the U.S. Treasury.

Also, we recommend that BFM modify the CDS system or have Comptroller personnel review possible interest generating transactions occurring outside of CDS (e.g., RCIA) so that all transactions that generate CMIA interest are accurately included in the CMIA interest calculation.

Further, we recommend that BFM calculate any additional June 30, 2005 CMIA interest due to the U. S. Treasury as a result of the system weaknesses disclosed above and repay the amount calculated or pursue additional settlement with U.S. Treasury.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 74: (continued)**

#### **Agency Response:**

#### **Check Clearance Study:**

- At the time the check clearance study was performed, the CFDA numbers were not on VTs or checks, therefore we identified the VTs paid from appropriations that were linked to a CFDA number. The Treasury Department could link only one appropriation to one VT because the checks cleared were not identified to an appropriation.

Treasury must assign the entire VT to the first appropriation that matched to our appropriation/CFDA list. This process of assigning a VT to only one appropriation when other appropriations on the same VT are posted to the general ledger removes the link between BFM Report 833 and the general ledger, thus making the reconciliation between the two reports unrealistic.

CMIA regulations require that we perform a check clearance study for only three consecutive months. Our February 1, 1999 to May 31, 1999 study involved four consecutive months, which exceeds CMIA requirements. Based on these facts and the system restrictions noted above, a detailed reconciliation to the general ledger does not appear to be justified.

A new check clearance study is underway and will identify all VTs and SAP payments for a specific CFDA. This should alleviate the concerns identified in this portion of the finding.

- We have noted the differences between the clearance study posting dates and the actual ICS posting dates. This will not occur under the new check clearance study.
- For payroll in CFDA No. 20.205, the Commonwealth historically selected appropriations that contained payments to CFDA No. 20.205. The new check clearance study is underway and will identify all VTs and payments for CFDA No. 20.205. A separate check clearance pattern is not required for payroll; the check clearance study is based on all expenditures for a program. For this reason, it is appropriate that we continue to include payroll costs in our study.

#### **Delay of Draw**

- The Commonwealth agrees that the draw delay of 14 days was incorrect in CDS for CFDA #84.367. The discrepancy was corrected immediately upon notification of the error, and procedures have been put into place to ensure that an error of this type does not recur. The Commonwealth will adjust the next CMIA Annual Report to pay the interest liability of \$2,176 to the US Treasury.
- The timing of the expenditure adjustment transaction #EA7800809421 resulted in a negative Letter-of-Credit (LOC) situation. The system structures of the Pennsylvania Treasury Department and the Federal Government do not support a negative LOC situation. The EA was posted on March 9, 2005 and showed on the CDS draw screens on March 10, 2005 for acceptance. When the comptroller's office reviewed the draw screens on March 10, 2005 there were dollar amounts rejected that resulted in the total LOC being a negative. On Friday, March 11, 2005, there were sufficient expenditures showing to accept the negative \$19 million transaction and process a request in CDS. On Monday, March 14, 2005, the SMARTLINK request was processed, requesting the funds for Tuesday, March 15, 2005. The transaction was handled correctly in accordance with the parameters of the computer systems in place at both Treasury and the Federal Government. The \$19 million was returned as soon as the system in place would allow. The \$7,125 amount stated as interest being owed on \$19 million may be correct based on days between activities; however, consideration should be given to the parameters of the systems in use to process these transactions.
- Regarding invoice number listed in the finding as "2201225435," the original invoice that was processed was rejected by Treasury for an incorrect address. Funds for the original payment request were drawn on the stated dates (January 5th and 6th). The comptroller's office reprocessed the payment request after notification from Treasury.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 74: (continued)**

#### **Medical Access Program:**

In 1988, Congress enacted the Medicare Catastrophic Coverage Act (PL 100-360). This law provides that federal Medicaid funds must be available to reimburse expenditures for health-related services included in each child's individualized education program (IEP), individualized service plan (ISP), or individualized family service plan (IFSP) for all children who are also Medicaid eligible.

The Pennsylvania Department of Education (PDE) developed the ACCESS Program in response to this legislation. ACCESS is a means for gaining medical assistance (MA) reimbursements for the cost of the health-related services currently being provided to MA eligible students. Billable services include speech therapy, occupational therapy, physical therapy, psychological services, etc. Local education agencies (LEAs) must enroll as medical assistance providers in order to submit their invoices to MA for the billable services they are providing to the eligible students.

Based on the claims submitted for valid MA eligible expenditures incurred by the LEAs, DPW pays PDE on behalf of the LEAs and draws down the funds in accordance with the Treasury State Agreement and MA program guidelines. The funds received from MA are reported as expenditures on the Single Audit and are maintained in LEA specific accounts managed by PDE and may accumulate over several state fiscal years. Each LEA controls its own draw down of reimbursements through the filing of ACCESS Requests with PDE. ACCESS funds must be used by LEAs to enhance or expand special education services and programs for students with disabilities.

As in prior years, the Commonwealth again maintains that the medical access funds were drawn for program purposes in accordance with the Treasury State Agreement. Therefore, the Commonwealth continues to disagree that CMIA interest is due.

#### **Various Weaknesses:**

- The number of VTs rejected by the State Treasury is minimal and the effect is further reduced by the State Treasury only rejecting incorrect line item entries. In addition, CDS processes Correction Vouchers (CVs) and Expenditure Adjustments (EAs) immediately, thus alleviating this problem.
- The comptroller's office records any revenue collected in advance from the Federal government in the appropriate liability account and calculates interest due as appropriate. The RCIA account referenced in this finding is an SAP revenue account. Any dollars reflected in this account represent federal revenue for which we have already incurred the related expenditures. In previous years there were numerous postings to this account that were the result of budgetary considerations; however, there was no effect on the incurrence of the initial expenditure and drawdown of federal revenue. No interest-owed situation ever existed. As of June 30, 2006, both the SAP revenue RCIA account and the SAP liability RCIA account have zero balances. Consequently, we do not believe there is an interest related issue to report as an audit finding.

The finding indicates that adjustment transactions and revenue collected in advance are not recognized by CDS as interest-generating transactions. This statement is not accurate. All adjustment transactions are passed to CDS and may result in interest generating transactions. In addition, if refund transactions and adjustments cause a balance in federal revenue collected in advance, those same transactions are passed to CDS and result in interest calculations.

Overall, we believe that our current check clearance study has accurately represented the flow of federal funds and exceeded the standards set forth by 31 CFR 205.20. However, with the Commonwealth-wide implementation of the Enterprise Resource Planning software, a new check clearance study is now underway. This new study will again exceed the three-month requirement of CMIA regulations, as it will involve one year of data and will utilize statistical sampling. The results of the new study will be amended to our Treasury-State Agreement upon completion.

**Auditors' Conclusion:** Based on our review of the Office of the Budget's response, we believe OB should place a priority on performing and completing a new check clearance study since the last one was performed in 1999, or eight years ago.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2006***

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### **Finding 06 – 74: (continued)**

Regarding the excess Medicaid cash on hand at PDE, no new relevant information was provided in the agency response and we do not agree that no CMIA interest is due. The federal funds were drawn by the state in advance of the payments made to LEAs; therefore, we believe CMIA interest should be paid until the federal funds are disbursed to the LEA. The Commonwealth should resolve this issue with U.S. Treasury.

Regarding rejected VTs, since BFM did not track and provided no support on the number and dollar amount of the VTs rejected by the State Treasury Department relating to CMIA covered programs, the unreported interest liability related to this issue cannot be determined, but on a statewide basis may be significant.

We disagree with the response on the Federal Revenue Collected in Advance (RCIA) balances recorded on the state's accounting system. Although the agency response may be correct in that federal drawdowns are not directly posted to RCIA, the amounts in these accounts represent federal revenues in excess of federal expenditures on the accounting system, which, according to the Treasury-State Agreement, should be the source of all CMIA interest calculations. Although the agency response provides detailed reasons for the adjustments and/or excess federal funds recorded on the SAP accounting system (i.e., inadequate spending authority, budgetary or FY closing considerations, quarterly federal payments), they do not adequately explain why noncompliance with CMIA does not exist or why CMIA interest is not due the fed for these RCIA balances.

Further, the Commonwealth's Manual of Accounting M310.3, Part Twelve, Accounting for Revenues and Receipts, Section III, 6. d. states: "Federal Revenue Collected in Advance is credited with the amount of federal revenue received in the current fiscal year that is applicable to the succeeding fiscal year (deferred revenue)." Since this is the only written guidance related to federal RCIA, there is little assurance that postings in this account are not federal revenue collected in advance of payments, and management has not taken any corrective action on its use of the RCIA account to resolve our prior year findings or to provide that assurance. If budgetary or other postings are occurring each year on the accounting system, but are not being properly reversed out, management should either correct its accounting system or follow our recommendations to comply with CMIA.

BFM has not developed any written procedures regarding RCIA, nor has BFM updated the Commonwealth's Manual of Accounting since 1996 even as the Commonwealth implemented its new enterprise-wide accounting system, SAP. As in our prior Single Audits, we recommend that BFM develop and implement policies and procedures to properly address the CMIA interest impact of federal RCIA on the state's accounting system.

Based on the agency response, since no new or additional information or documentation was provided, our finding and recommendations, with the above clarifications, remain as previously stated.

**The corrective action plan for this finding, if any, has not been reviewed by the auditors. See Corrective Action Plans located elsewhere in this Report.**

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# Summary Schedule of Prior Audit Findings



Commonwealth of Pennsylvania

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2006

STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b><u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2001:</u></b>		
<b>OFFICE OF BUDGET (OB)</b>		
Finding 01-9 PEMA Did Not Properly Report Federal Expenditures on the SEFA	FEMA	Unresolved – The necessary adjustments to correct the SEFA have been made. OB/PPR has implemented procedures to review all grant CFDA numbers for accuracy. OB/PPR is awaiting final resolution from FEMA.
<b>DEPARTMENT OF LABOR AND INDUSTRY (L&amp;I)</b>		
Finding 01-6 Overpayment of TRA Benefits Resulted in Questioned Costs of \$264 (Prior Year Finding #00-4)	DOL	Closed – Finding closed per OMB Circular A-133, Section 315 (b) (4). More than two years have passed since the finding was issued, and DOL is not currently following up on the finding.
Finding 01-7 Weakness in L&I's Controls Over Preparation and Submission of the Trade Act Participant Report	DOL	Resolved – This finding was repeated in the next four subsequent years, finally being resolved by USDOL resolution letters dated May 11, 2006 for the 2004 Single Audit and November 9, 2006 for the 2005 Single Audit.
Finding 01-10 Weakness in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #00-8)	USDE	Closed – Finding closed per OMB Circular A-133, Section 315 (b) (4). More than two years have passed since the finding was issued, and USDE is not currently following up on the finding.
Finding 01-12 Weaknesses in L&I's Monitoring of RSBS Subgrantees (Prior Year Finding #00-9)	USDE	Closed – Finding closed per OMB Circular A-133, Section 315 (b) (4). More than two years have passed since the finding was issued, and USDE is not currently following up on the finding.
Finding 01-19 Weaknesses in L&I's Internal Controls Over Subrecipients	DOL	Closed – Finding closed per OMB Circular A-133, Section 315 (b) (4). More than two years have passed since the finding was issued, and DOL is not currently following up on the finding.
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>		
Finding 01-14 Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #00-11)	HHS	Unresolved – Per ACF correspondence of January 10, 2007, ACF will perform a review of documentation related to recipient participation data contained in the ACF-199 to determine the status of compliance. ACF will examine DPW documentation for a sample of 100 cases, and then will make a decision to rescind, reduce, or impose the \$26.7 million penalty in full. DPW submitted the required documentation on March 7, 2007. Awaiting ACF final decision action.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2006

STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS	
<b><u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2002:</u></b>			
<b>DEPARTMENT OF LABOR AND INDUSTRY (L&amp;I)</b>			
Finding 02-9	Incomplete Reporting on the ETA 563 Report	DOL	Resolved – This finding was repeated in the next four subsequent years, finally being resolved by USDOL resolution letters dated May 11, 2006 for the 2004 Single Audit and November 9, 2006 for the 2005 Single Audit.
Finding 02-10	Weakness in L&I's Controls Over Preparation and Submission of the Trade Act Participant Report to USDOL (Prior Year Finding #01-7)	DOL	Resolved – This finding was repeated in the next four subsequent years, finally being resolved by USDOL resolution letters dated May 11, 2006 for the 2004 Single Audit and November 9, 2006 for the 2005 Single Audit.
Finding 02-18	Weakness in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #01-10)	USDE	Closed – Finding closed per OMB Circular A-133, Section 315 (b) (4). More than two years have passed since the finding was issued, and USDE is not currently following up on this finding.
Finding 02-20	Noncompliance and Weaknesses in Internal Controls Over Charging of Personnel Costs Result in Questioned Costs of \$11,969 (Prior Year Finding #01-11)	USDE	Closed – Finding closed per OMB Circular A-133, Section 315 (b) (4). More than two years have passed since the finding was issued, and USDE is not currently following up on this finding. Questioned costs have been repaid.
Finding 02-21	Internal Control Weakness Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA	USDE	Closed – Finding closed per OMB Circular A-133, Section 315 (b) (4). More than two years have passed since the finding was issued, and USDE is not currently following up on this finding.
Finding 02-22	Weaknesses in L&I's Monitoring of RSBS Subgrantees (Prior Year Finding #01-12)	USDE	Closed – Finding closed per OMB Circular A-133, Section 315 (b) (4). More than two years have passed since the finding was issued, and USDE is not currently following up on this finding.
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>			
Finding 02-23	Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (Prior Year Finding #01-13)	HHS	Unresolved – By correspondence dated March 30, 2006, ACF requested a report within 90 days advising of the success of implementing corrective action. DPW submitted the report by letter dated July 6, 2006, and ACF action will be taken based upon the results of the report. Awaiting federal audit resolution action.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2006

STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
Finding 02-24 Inaccurate Reporting on the TANF ACF-199 Report (Prior Year Finding #01-14)	HHS	Unresolved – Per ACF correspondence of January 10, 2007, ACF will perform a review of documentation related to recipient participation data contained in the ACF-199 to determine the status of compliance. ACF will examine DPW documentation for a sample of 100 cases, and then will make a decision to rescind, reduce, or impose the \$26.7 million penalty in full. DPW submitted the required documentation on March 7, 2007. Awaiting ACF final decision action.

### **FINDINGS FOR THE YEAR ENDED JUNE 30, 2003:**

#### **OFFICE OF BUDGET (OB)**

Finding 03-16 \$886,728 in Excess Funds Were Drawn Down from USDE in Violation of Federal Cash Management Regulations (Prior Year Finding #02-19)	USDE	Closed – An additional interest calculation was completed and submitted to BFM on October 4, 2004. This finding is closed per OMB Circular A-133, section 315 (b)(4). More than two years have passed since the finding was issued. USDE is not currently following up on this finding and a management decision was never issued.
Finding 03-29 The Commonwealth's Statewide Cash Management System Needs Improvement (Prior Year Finding #02-36)	HHS	Closed – Corrective action has been taken. Additional information was provided to HHS in a letter dated March 1, 2005. OB considers this finding closed per OMB Circular A-133, section 315 (b) (4). No further action is warranted because two years have passed since the report was submitted to the federal clearinghouse. HHS/DPM is not currently following up on the finding, and no management decision was issued.
Finding 03-30 The CMIA Interest Liability Was Understated by at least \$1,218,014 (Prior Year Finding #02-37)	HHS	Closed – Corrective action has been taken. Additional information was provided to HHS in a letter dated March 1, 2005. OB considers this finding closed per OMB Circular A-133, section 315 (b) (4). No further action is warranted because two years have passed since the report was submitted to the federal clearinghouse. HHS/DPM is not currently following up on the finding, and no management decision was issued.

#### **DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)**

Finding 03-5 DCED Did Not Perform Adequate Monitoring of Community Housing Development Organization Operating Grants (Prior Year Finding #02-7)	HUD	Unresolved – DCED implemented new procedures to monitor subrecipients in January 2002. The new procedures were reviewed and approved by HUD in May 2003. DCED is awaiting final resolution from HUD.
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# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2006

STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
Finding 03-26 An Internal Control Weakness Exists in DCED's Subrecipient Audit Resolution Process	HUD	Unresolved – DCED implemented new procedures to ensure that all single audit reports with audit findings are reviewed within six months after receipt of the audit report. DCED is awaiting final resolution from HUD.
<b>DEPARTMENT OF HEALTH (DOH)</b>		
Finding 03-4 Noncompliance in DOH Preparation of the WIC Financial Management and Participation FNS-798 Report Results in \$4,490,772 in Questioned Costs	USDA	Unresolved – DOH is working with USDA to resolve the questioned costs associated with this finding. FFYs 2002 through 2004 were reviewed and adjustments were posted in SAP between March and June 2006. Revised draft copy FNS-798 reports were completed and forwarded to USDA on July 7, 2006. The USDA Regional and Washington Offices reviewed and accepted the drafts for final submission on August 17, 2006. However, subsequent to submission to USDA, small changes posted to the SAP system related to indirect cost and a financial review finding on a local agency resulted in a refund of expenditure. This required additional changes to the reports. A revised draft was e-mailed to USDA on March 1, 2007. Per a telephone conversation with USDA on May 29, 2007, USDA approved and entered the FNS-798s for FFY 2003 and FFY 2004 in their system. USDA will review report postings and letter of credits for all years, then do the finding closings.
<b>DEPARTMENT OF LABOR &amp; INDUSTRY (L&amp;I)</b>		
Finding 03-7 Inaccurate Data and Weaknesses in L&I's Controls Over Preparation and Submission of the Trade Act Participant Report to USDOL (Prior Year Finding #02-10)	DOL	Resolved – This finding was repeated in subsequent years, finally being resolved by USDOL resolution letters dated May 11, 2006 for the 2004 Single Audit and November 9, 2006 for the 2005 Single Audit.
Finding 03-9 Incomplete Reporting on the ETA 563 Report (Prior Year Finding #02-9)	DOL	Resolved – This finding was repeated in subsequent years, finally being resolved by USDOL resolution letters dated May 11, 2006 for the 2004 Single Audit and November 9, 2006 for the 2005 Single Audit.
Finding 03-10 Errors and Inadequate Controls in the WIA Annual Performance Report (Prior Year Finding #02-13)	DOL	Closed – Finding closed per OMB Circular A-133, Section 315 (b) (4). More than two years have passed since the finding was issued, and DOL is not currently following up on the finding.
Finding 03-17 A Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #02-18)	USDE	Closed – Finding closed per OMB Circular A-133, Section 315 (b) (4). More than two years have passed since the finding was issued, and USDE is not currently following up on this finding.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2006

STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
Finding 03-18 Noncompliance and Weaknesses in Internal Controls Over Charging of Personnel Costs (Prior Year Finding #02-20)	USDE	Closed – Finding closed per OMB Circular A-133, Section 315 (b) (4). More than two years have passed since the finding was issued, and USDE is not currently following up on this finding.
Finding 03-19 Internal Control Weakness Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA (Prior Year Finding #02-21)	USDE	Closed – Finding closed per OMB Circular A-133, Section 315 (b) (4). More than two years have passed since the finding was issued, and USDE is not currently following up on this finding.
Finding 03-28 Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements (Prior Year Finding #02-34)	HHS/ACF	Closed – Finding closed per OMB Circular A-133, Section 315 (b) (4). More than two years have passed since the finding was issued, and HHS is not currently following up on this finding.
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>		
Finding 03-20 Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (Prior Year Finding #02-23)	HHS/ACF	Unresolved – By correspondence dated March 30, 2006, ACF requested a report within 90 days, advising of the success of implementing corrective action. DPW submitted the report by letter dated July 6, 2006, and ACF action will be taken based upon the results of the report. Awaiting federal audit resolution action.
Finding 03-21 Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #02-24)	HHS/ACF	Unresolved – Per ACF correspondence of January 10, 2007, ACF will perform a review of documentation related to recipient participation data contained in the ACF-199 to determine the status of compliance. ACF will examine DPW documentation for a sample of 100 cases, and then will make a decision to rescind, reduce, or impose the \$26.7 million penalty in full. DPW submitted the required documentation on March 7, 2007. Awaiting ACF final decision action.
Finding 03-23 Internal Control Weaknesses and Noncompliance With Federal Earmarking Requirements Result in Questioned Costs of \$3,224,570 (Prior Year Finding #02-27)	HHS/ACF	Unresolved – Per ACF correspondence of April 11, 2007, ACF plans to review the allowability and allocability of CCDF Discretionary Fund Infant/Toddler Earmark expenditures for the federal fiscal year 2005 on May 21-23, 2007. Results of the review will ultimately determine the extent of questioned costs, if any.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2006

STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
Finding 03-24 Weakness in DPW Monitoring Procedures Results in Over \$7 Million in Excess Subgrantee Federal Cash at June 30, 2003 (Prior Year Finding #02-26)	HHS/ DPM	Closed – DPW provided additional information to HHS on June 14, 2002. DPW sent a letter dated November 18, 2003 to HHS encouraging resolution of this long-standing issue. Finding closed per OMB Circular A-133, section 315(b)(4). More than two years have passed since the report was issued, HHS is not currently following up on this finding, and a management decision has not been issued.

### **FINDINGS FOR THE YEAR ENDED JUNE 30, 2004:**

#### **OFFICE OF THE BUDGET (OB)**

Finding 04-7 Noncompliance and Internal Control Weaknesses in the LECS Comptroller Office System of Cash Management (Prior Year Finding #03-6)	DOL	Resolved – Closed per USDOL Final Determination Letter dated August 16, 2006.
Finding 04-14 Weaknesses in PPR Comptroller Office Internal Controls Over Federal Reporting	FEMA (DHS)	Unresolved – Corrective action has been taken to ensure amounts on the financial status reports agree to the accounting records. FEMA (DHS) has not yet contacted PPR to resolve the finding.
Finding 04-15 Internal Control Weakness Over the Reconciliation of USDE's Grant Administration and Payment System (EDGAPS) to Revenue on SAP System	USDE	Unresolved – USDE has not yet contacted LECS concerning this finding.
Finding 04-26 LECS Comptroller Office Did Not Submit Required Federal Reports Within the CSBG Program	HHS	Unresolved – HHS has not yet contacted LECS concerning this finding.
Finding 04-37 Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least \$624,042 Understatement of the CMIA Interest Liability (Prior Year Findings #03-29 and #03-30)	HHS	Unresolved – Additional information provided to HHS in a letter dated March 21, 2006. OB/BFM is awaiting action from HHS.

#### **DEPARTMENT OF AGRICULTURE (AGRI)**

Finding 04-1 Internal Control Weakness and Noncompliance in BFD's Subrecipient Monitoring	USDA	Resolved – Closed per USDA letter of April 2006.
Finding 04-2 Internal Control Weaknesses and Noncompliance with Processor Record-keeping and Reporting Requirements Result in Inaccurate SEFA Reporting and Questioned Costs of \$52,917 (Prior Year Finding #03-1)	USDA	Resolved – Closed per USDA letter of April 2006. Questioned costs were waived.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2006

STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)</b>		
Finding 04-6	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #03-5)	HUD Unresolved – DCED has hired replacement staff and increased its complement by two positions to improve the process. DCED is awaiting HUD acceptance and clearance of the finding.
Finding 04-27	Weaknesses in Internal Controls Over Subgrantees Result in \$47,722 in Questioned Costs	HHS Resolved – Closed per HHS/ACF letter of July 11, 2006. Questioned costs were waived.
<b>DEPARTMENT OF EDUCATION (PDE)</b>		
Finding 04-16	Internal Control Weakness in Monitoring Subrecipient Compliance With Maintenance of Effort Requirements	USDE Unresolved – Corrective action has been taken. PDE provided additional documentation as requested in the Program Determination Letter dated September 21, 2006 from USDE and is awaiting a final determination.
Finding 04-17	Inadequate Controls in PDE's On-Site Monitoring of Subrecipients	USDE Unresolved – Corrective action has been taken. PDE provided additional documentation as requested in the Program Determination Letter dated September 21, 2006 from USDE and is awaiting a final determination.
Finding 04-18	Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card	USDE Unresolved – Corrective action has been taken. PDE provided additional documentation as requested in the Program Determination Letter dated September 21, 2006 from USDE and is awaiting a final determination.
Finding 04-19	Errors and Internal Control Weaknesses in PDE's VOC-ED Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (Prior Year Finding #03-15)	USDE Unresolved – Corrective action has been taken. PDE has provided additional documentation as requested in a letter dated October 3, 2005 from USDE and is awaiting a Program Determination Letter.
Finding 04-20	PDE Allocated VOC-ED Funds to Subrecipients Based on Outdated Statistical Data	USDE Unresolved – Corrective action has been taken. PDE has provided additional documentation as requested in a letter dated October 3, 2005 from USDE and is awaiting a Program Determination Letter.
<b>DEPARTMENT OF HEALTH (DOH)</b>		
Finding 04-4	Noncompliance and Internal Control Weaknesses in DOH Systems Result in \$26,719 in Questioned Costs (Prior Year Finding #03-3)	USDA Resolved – Closed per USDA/FNS letter of May 17, 2006. Questioned costs were waived.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2006

STATE AGENCY / FINDING		FEDERAL AGENCY	COMMENTS
Finding 04-5	Noncompliance in DOH Submission of WIC Financial Management and Participation FNS-798 Report Results in \$774,331 in Questioned Costs (Prior Year Finding #03-4)	USDA	Unresolved – See comments for Finding 03-4 for details.
Finding 04-34	DOH Did Not Meet Maintenance of Effort Requirements for State Expenditures Resulting in Questioned Costs of \$230,000	HHS	Resolved – Closed per HHS-SAMHSA letter of July 21, 2006. Questioned costs were waived.
<b>DEPARTMENT OF LABOR &amp; INDUSTRY (L&amp;I)</b>			
Finding 04-8	Weaknesses Exist in the FARS and SAP FARS Replacement Systems Resulting in an Undetermined Amount of Questioned Costs up to \$4,484,751	DOL	Unresolved – This finding was addressed in the August 16, 2006 USDOL Final Determination Letter as unresolved pending completion of the 2006 audit review. However, USDOL indicated that the questioned costs of \$4,484,751 are allowed.
Finding 04-11	Unallowable Training and Benefit Payments Result in Questioned Costs of \$4,318 (Prior Year Finding #03-8)	DOL	Resolved – Closed per USDOL Final Determination Letter of August 16, 2006. Repayment of the questioned costs of \$4,318 was made to USDOL on October 2, 2006.
Finding 04-21	A Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #03-17)	USDE	Unresolved – L&I is still in disagreement with this finding. A comprehensive document will be presented to the USDE for further review.
Finding 04-22	Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs (Prior Year Finding #03-18)	USDE	Unresolved – OVR had initiated the necessary procedures in accordance with OMB Circular A-87 but not within the time period of this audit. It should be noted that this finding has not been reissued in the 2005 Single Audit. L&I will also present this information to USDE for further review.
Finding 04-35	Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs	SSA	Resolved – The Social Security Administration agrees that the Bureau of Disability Determination's current procedures satisfy all documentation requirements under OMB Circular A-87, as indicated in their September 1, 2006 Resolution Letter.
<b>PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY (PENNVEST)</b>			
Finding 04-13	Internal Control Improvements Needed in Subrecipient Loan Monitoring System	EPA	Resolved – Closed per EPA e-mail of June 26, 2006.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2006

STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS	
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>			
Finding 04-23	Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (Prior Year Finding #03-20)	HHS	Unresolved – By correspondence dated March 30, 2006, ACF requested a report within 90 days advising of the success of implementing corrective action. DPW submitted the report by letter dated July 6, 2006, and ACF action will be taken based upon the results of the report. Awaiting federal audit resolution action.
Finding 04-24	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #03-21)	HHS	Unresolved – Per correspondence of January 10, 2007, ACF will perform a review of documentation related to recipient participation data contained in the ACF-199 to determine the status of compliance. ACF will examine DPW documentation for a sample of 100 cases, and then will make a decision to rescind, reduce, or impose the \$26.7 million penalty in full. DPW submitted the required documentation on March 7, 2007. Awaiting ACF final decision.
Finding 04-25	Noncompliance and Internal Control Weakness Over the Processing and Reporting of Interstate Cases (Prior Year Finding #03-22)	HHS	Resolved – Additional comments and information provided to HHS on December 14, 2005. Per ACF correspondence of March 30, 2006, the results of the June 30, 2005 single audit will be used to confirm the success of corrective actions taken by DPW. The June 30, 2005 single audit report contained no finding specific to this situation.
Finding 04-28	Internal Control Weaknesses and Inadequate Support for Federal Earmarking Requirements Result in Questioned Costs of \$3,220,142 (Prior Year Finding #03-23)	HHS	Unresolved – Per ACF correspondence of April 11, 2007, ACF plans to review the allowability and allocability of CCDF Discretionary Fund Infant/Toddler Earmark expenditures for the federal fiscal year 2005 on May 21-23, 2007. Results of the review will ultimately determine the extent of questioned costs, if any.
Finding 04-29	Weaknesses in DPW Monitoring of Subgrantees Results in \$4.8 Million in Excess Subgrantee Federal Cash at June 30, 2004 (Prior Year Finding #03-24)	HHS	Unresolved – Additional comments and information provided to HHS Resolution Official on September 21, 2006. Awaiting federal audit resolution action.
Finding 04-30	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients	HHS	Unresolved – Additional information provided to HHS Resolution Official on December 14, 2005. By ACF correspondence dated March 30, 2006, the results of OCYF's review must be provided within 30 days of the letter date. DPW review provided by letter dated May 8, 2006, and any additional corrective action will be assessed in the subsequent year audit. Awaiting federal audit resolution action.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2006

STATE AGENCY / FINDING		FEDERAL AGENCY	COMMENTS
Finding 04-32	Internal Control Weaknesses in the Administration of the MA Program	HHS	Unresolved – By correspondence dated January 20, 2006, HHS-CMS requested assurance that access to the PROMISe System is adequately restricted, and that computer system hardware, software, and data are adequately safeguarded. DPW provided assurance by correspondence dated March 28, 2006. Awaiting federal audit resolution action.
<b><u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2005:</u></b>			
<b>OFFICE OF THE BUDGET (OB)</b>			
Finding 05-3	Internal Control Weakness Over Submission of SF-269 Financial Status Report to USDA	USDA	Unresolved – USDA has not yet contacted LECS concerning this finding.
Finding 05-6	Internal Control Weakness Over Expenditure Information Reported by PHHS Comptroller on the SEFA and Statewide Subrecipient Payment Records	USDA	Unresolved – General Ledger (GL) eliminations - PHHS Federal Accounting staff reviewed this GL account (6600500) when preparing the 6/30/06 SEFA. PHHS Federal Accounting staff found expenditures posted to this GL account in the year ended June 30, 2006 and made the necessary SEFA adjustments to include the figures in the report. Staff are now reviewing this GL account monthly to ensure that the accounting records are properly reflected. Deferrals and disallowances disclosure - PHHS Federal Accounting staff included a footnote to the 6/30/06 SEFA for the activity that occurred during that year.
Finding 05-10	Internal Control Weakness in Reporting Expenditure Information on the SEFA	DHS	Unresolved – DHS has not yet contacted PPR regarding resolution of this finding.
Finding 05-18	Weaknesses in PPR Comptroller Office Internal Controls Over Federal Reporting (Prior Year Finding #04-14)	DHS	Unresolved – DHS has not yet contacted PPR regarding resolution of this finding.
Finding 05-32	LECS Comptroller Office Did Not Submit Required Federal Reports Within the CSBG Program (Prior Year Finding #04-26)	HHS	Resolved – Closed per HHS/ACF letter of December 4, 2006.
Finding 05-46	Weaknesses in Cash Management System Cause Noncompliance With CMIA and at Least a \$560,548 Known Understatement of the CMIA Interest Liability (Prior Year Finding #04-37)	HHS	Unresolved – Additional information provided to HHS in a letter dated October 3, 2006. OB/BFM is awaiting action from HHS.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2006

STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF AGRICULTURE (AGRI)</b>		
Finding 05-1	Internal Control Weaknesses and Noncompliance With Processor Recordkeeping and Reporting Requirements Result in Inaccurate SEFA Reporting and Questioned Costs of \$3,651 (Prior Year Finding #04-2)	USDA Unresolved – Awaiting resolution action from USDA.
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)</b>		
Finding 05-7	Performance/Evaluation Report Submitted to HUD Was Inaccurate	HUD Unresolved – DCED implemented supervisory review of this report and, effective with FFY 2006, the Performance/Evaluation Report will be replaced totally by IDIS.
Finding 05-8	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #04-6)	HUD Unresolved – DCED has hired replacement staff and increased its complement by two positions to improve the process. DCED is awaiting HUD acceptance and clearance of the finding.
Finding 05-33	Weaknesses in Internal Controls Over Subgrantees Result in \$420,182 in Questioned Costs (Prior Year Finding #04-27)	HHS Resolved – Closed per HHS/ACF letter of December 4, 2006. Questioned costs were waived.
<b>DEPARTMENT OF EDUCATION (PDE)</b>		
Finding 05-20	PDE Does Not Properly Monitor LEAs for Compliance With Title I Comparability Requirements	USDE Unresolved – Corrective action has been taken. PDE provided a response as requested in a letter dated August 23, 2006 from USDE and is awaiting a Program Determination Letter.
Finding 05-21	Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #04-18)	USDE Unresolved – Corrective action has been taken. PDE provided a response as requested in a letter dated August 23, 2006 from USDE and is awaiting a Program Determination Letter.
Finding 05-22	Errors and Internal Control Weaknesses in PDE's VOC ED Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (Prior Year Finding #04-19)	USDE Unresolved – Corrective action has been taken. PDE has provided additional documentation to USDE and is awaiting a Program Determination Letter.
Finding 05-23	PDE Allocated VOC ED Funds to Subrecipients Based on Outdated Statistical Data (Prior Year Finding #04-20)	USDE Unresolved – Corrective action has been taken. PDE has provided additional documentation to USDE and is awaiting a Program Determination Letter.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2006

STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
Finding 05-24 Unallowable Use of Subgrantee Equipment and Uncollected Questioned Costs of \$62,941	USDE	Unresolved – Corrective action has been taken. Questioned costs in the amount of \$62,941 were received by the PDE in December 2006. PDE has provided additional documentation to USDE and is awaiting a Program Determination Letter.
<b>DEPARTMENT OF ENVIRONMENTAL PROTECTION (DEP)</b>		
Finding 05-9 Noncompliance With OMB Circular A-133 Pass-Through Entity Requirements	DOI	Unresolved – DOI has not yet contacted DEP for resolution of this finding. DEP has contacted DOI's regional office in Pittsburgh and has provided information for review in order to expedite the resolution process once they are contacted by DOI/OSM.
<b>DEPARTMENT OF HEALTH (DOH)</b>		
Finding 05-4 Noncompliance in DOH Submission of the WIC Financial Management and Participation FNS-798 Report Results in \$325,137 in Questioned Costs (Prior Year Finding #04-5)	USDA	Unresolved – See comments for Finding 03-4 for details.
Finding 05-5 Noncompliance and Internal Control Weaknesses in DOH Systems Result in \$27,598 in Questioned Costs (Prior Year Finding #04-4)	USDA	Resolved – Closed per HHS-CDC letter of May 10, 2007. FNS will not pursue billing of the \$27,598 of questioned costs.
Finding 05-26 Noncompliance and Internal Control Weaknesses Result in \$73,982 in Questioned Personnel Costs	HHS	Resolved – Closed per HHS-CDC letter of January 23, 2007. Questioned costs were waived.
Finding 05-27 Weaknesses in DOH Program Monitoring of CDC Subgrantees	HHS	Resolved – Closed per HHS-CDC letter of January 23, 2007.
Finding 05-43 An Internal Control Weakness Exists in DOH's Subrecipient Audit Resolution Process	HHS	Unresolved – As of January 26, 2007, DOH had one unresolved subrecipient single audit report. This report has questioned costs requiring resolution from two DOH program offices. Both program offices have been in continuous contact with the subrecipient to resolve the questioned costs. One of the program offices expects to resolve its portion of the questioned costs with the subrecipient by June 30, 2007. The other DOH program office anticipates resolving its portion of the questioned costs with the subrecipient by September 30, 2007.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2006

STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS	
<b>DEPARTMENT OF LABOR AND INDUSTRY (L&amp;I)</b>			
Finding 05-12	Weaknesses Exist in the SAP FARS Replacement System Resulting in an Undetermined Amount of Questioned Costs up to \$17,731,902 (Prior Year Finding #04-8)	DOL	Unresolved – This finding was addressed in the March 27, 2007 USDOL Final Determination Letter as unresolved pending completion of the 2006 audit review. However, USDOL indicated that the questioned costs are allowed.
Finding 05-13	Incorrect Quarterly Financial Report Submitted to USDOL	DOL	Resolved – This finding has been resolved by the USDOL as indicated in their Final Determination Letter of March 27, 2007.
Finding 05-14	Inaccurate Data and Weaknesses in L&I's Controls Over Preparation and Submission of the Trade Act Participant Report to USDOL (Prior Finding #04-9)	DOL	Resolved – This finding has been resolved by the USDOL as indicated in their Initial Determination Letter of November 9, 2006 and Final Determination Letter of March 27, 2007.
Finding 05-15	Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (Prior Year Finding #04-10)	DOL	Resolved – This finding has been resolved by the USDOL as indicated in their Initial Determination Letter of November 9, 2006 and Final Determination Letter of March 27, 2007.
Finding 05-16	Unallowable Benefit Payments Result in Questioned Costs of \$17,041 (Prior Year Finding #04-11)	DOL	Resolved – Closed per USDOL Final Determination Letter of March 27, 2007. Questioned costs were reduced from \$17,041 to \$4,059, which was repaid to USDOL on May 1, 2007.
Finding 05-25	A Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #04-21)	USDE	Unresolved – L&I is still in disagreement with this finding. A comprehensive document will be forwarded to USDE for review.
Finding 05-42	Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs (Prior Year Finding #04-35)	SSA	Resolved – Closed per SSA's September 1, 2006 resolution letter which indicated satisfaction of BDD's procedures within OMB Circular A-87.
Finding 05-44	An Internal Control Weakness Exists in L&I's Subrecipient Audit Resolution Process	HHS/OAR	Unresolved – Additional documentation to support defense of the finding is currently being reviewed by HHS.
<b>PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)</b>			
Finding 05-11	Unallowable Equipment Purchases Result in Questioned Costs of \$2,625 and Internal Control Weaknesses and Noncompliance in PEMA's Subrecipient Monitoring	DHS	Unresolved – PEMA has not yet received a response from DHS on this finding.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2006

STATE AGENCY / FINDING		FEDERAL AGENCY	COMMENTS
Finding 05-19	Internal Control Weaknesses in PEMA's System of Cash Management	DHS	Unresolved – PEMA has not yet received a response from DHS on this finding.
<b>PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY (PENNVEST)</b>			
Finding 05-17	Internal Control Improvements Needed in Subrecipient Loan Monitoring System (Prior Year Finding #04-13)	EPA	Unresolved – EPA is currently reviewing this finding. PENNVEST is awaiting resolution action.
<b>PENNSYLVANIA INSURANCE DEPARTMENT (PID)</b>			
Finding 05-38	PID Did Not Perform Adequate Monitoring of CHIP Subrecipient Insurance Providers	HHS	Resolved – Closed per HHS/CMS letter of October 6, 2006.
Finding 05-39	Internal Control Weaknesses in PID Procedures to Ensure Actuarial Soundness of Monthly Premium Rates	HHS	Resolved – Closed per HHS/CMS letter of October 6, 2006.
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>			
Finding 05-2	Internal Control Weaknesses at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #04-3)	HHS	Unresolved – Additional comments/information provided to HHS Resolution Official on September 21, 2006 and September 25, 2006. Awaiting federal audit resolution action.
Finding 05-28	Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (Prior Year Finding #04-23)	HHS	Unresolved – By correspondence dated March 30, 2006, ACF requested a report within 90 days advising of the success of implementing corrective action DPW submitted the report by letter dated July 6, 2006, and ACF action will be taken based upon the results of the report. Awaiting federal audit resolution action.
Finding 05-29	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #04-24)	HHS	Unresolved – Per ACF correspondence of January 10, 2007, ACF will perform a review of documentation related to recipient participation data contained in the ACF-199 to determine the status of compliance. ACF will examine DPW documentation for a sample of 100 cases, and then will make a decision to rescind, reduce, or impose the \$26.7 million penalty in full. DPW submitted the required documentation on March 7, 2007. Awaiting ACF final decision action.
Finding 05-30	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Questioned Costs of \$271,758	HHS	Unresolved – By correspondence dated February 6, 2007, ACF informs of plans to review the DPW's procedures for monitoring performance of subrecipients for the TANF and CCDF Program.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2006

STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
		DPW's monitoring policies and procedures were forwarded to ACF on April 12, 2007. Upon review, ACF will schedule on-site reviews in order to determine compliance with federal requirements.
Finding 05-31 Internal Control Weaknesses in the Administration of Child Support Enforcement Program Collections	HHS	Unresolved – Additional information provided to HHS Resolution Official on September 21, 2006 and September 25, 2006. Awaiting federal audit resolution action.
Finding 05-34 Weaknesses in DPW Program Monitoring of Subgrantees (Prior Year Finding #04-29)	HHS	Unresolved – Additional information provided to HHS Resolution Official on September 21, 2006 and September 25, 2006. Awaiting federal audit resolution action.
Finding 05-35 Internal Control Weaknesses and Inadequate Support for Federal Earmarking Requirements Result in Questioned Costs of \$3,221,990 (Prior Year Finding #04-28)	HHS	Unresolved – Per ACF correspondence of April 11, 2007, ACF plans to review the allowability and allocability of CCDF Discretionary Fund Infant/Toddler Earmark expenditures for the federal fiscal year 2005 on May 21-23, 2007. Results of the review will ultimately determine the extent of questioned costs, if any.
Finding 05-36 Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #04-30)	HHS	Unresolved – Additional information provided to HHS Resolution Official on September 21, 2006 and September 25, 2006. Awaiting federal audit resolution action.
Finding 05-37 DPW Office of Children, Youth and Families Documentation Supporting the Licensing of Foster Care and Adoption Assistance Agencies is Incomplete	HHS	Unresolved – Additional information provided to HHS Resolution Official on September 21, 2006 and September 25, 2006. Awaiting federal audit resolution action.
Finding 05-40 Internal Control Weaknesses in the Administration of the MA Program (Prior Year Finding #04-32)	HHS	Unresolved – Additional information provided to HHS Resolution Official on September 21, 2006 and September 25, 2006. Awaiting federal audit resolution action.
Finding 05-41 Weaknesses in Internal Controls Over Eligibility Determinations Result in an Undetermined Amount of Questioned Costs Up To \$24,574,951 (Prior Year Finding #04-33)	HHS	Resolved – Closed per HHS/HRSA letter of December 13, 2006. Questioned costs have been waived.
Finding 05-45 Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports	HHS	Unresolved – Additional information provided to HHS Resolution Official on September 21, 2006 and September 25, 2006. Awaiting federal audit resolution action.

# Corrective Action Plans



Commonwealth of Pennsylvania

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Financial Statement Findings - June 30, 2006

Finding	State Agency	Finding Title/Corrective Action
06-1	OB/CS	<p><b>Internal Control Weaknesses Over Financial Reporting for the Lottery Fund (Prior Year Comment #05-3)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
06-2	TSIB OB/LECS	<p><b>Tobacco Settlement Investment Account Balances Were Not Properly Reviewed and Reconciled (Prior Year Comment #05-7)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
06-3	OB/LECS	<p><b>Internal Control Weakness Over Financial Reporting in the Unemployment Compensation Fund (Prior Year Comment #05-14)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
06-4	DOR	<p><b>Internal Control Weaknesses Identified in Processing PTRR Claim Forms</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
06-5	OB/OA	<p><b>Lack of Documentation to Support Contracting and Procurement (Prior Year Comment #05-13)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
06-6	OB/BFM DGS DCNR	<p><b>Internal Control Weaknesses Over Accounting for Assets Under Construction (Prior Year Comment #05-20)</b></p> <p>Beginning in August 2007, an annuitant retired from the Office of the Budget, Central Services Comptroller's Office, plans to begin specific, concentrated assistance to the Department of General Services, Public Works Fiscal Unit to greatly improve the timely, accurate and complete settlement of projects reported as Assets Under Construction as well as the timely, accurate and complete reporting of finished (depreciable) capital assets. On May 23, 2007, BFM again provided detailed instruction to the Department of Conservation of Natural Resources staff responsible for similar activities.</p>
06-7	TREAS OB/BFM	<p><b>Internal Control Weakness Over Escheat Liability Estimation Methodology</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
06-8	DOH	<p><b>Internal Control Weaknesses Over Tobacco Settlement Fund Commonwealth Universal Research Enhancement Grants (Prior Year Comment #05-11)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
06-9	DOH	<p><b>Weaknesses in DOH Controls Over Annual Contractor and Service Provider Audit Requirements for the Tobacco Settlement Fund (Prior Year Comment #05-10)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Financial Statement Findings - June 30, 2006

Finding	State Agency	Finding Title/Corrective Action
06-10	DPW	<b>Internal Control Weaknesses Result in Improper Payments in the Tobacco Settlement Fund (Prior Year Comment #05-9)</b>  DPW strongly <u>disagrees</u> with this Basic Financial Statement Finding. No CAP is warranted. See <b>Agency Response</b> in the body of the finding.
06-11	OB/BFM TREAS	<b>Internal Control Weakness Over GASB Statement #40 Note Disclosures in Basic Financial Statements (Prior Year Comment #05-21)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
06-12	OB/BFM	<b>Errors and Internal Control Weakness in Reporting Securities Lending Amounts in the BFS (Prior Year Comment #05-18)</b>  To address the errors in securities lending last fiscal year, the Bureau of Financial Management has agreed to extend the deadline for submission of the disclosure by Treasury. This will allow Treasury more time to prepare and review and submit one final report. The Bureau of Financial Management has requested, in advance, the value of securities on loan for the State Workers Insurance Fund and the State Employees Retirement Fund. These values will be received in a separate report to avoid the error last year of reporting the June 30, 2006 value of securities on loan. The combined effects of additional time and knowledge should correct weaknesses attributable directly to the aforementioned errors.
06-13	OB/BFM	<b>Internal Control Weakness in the Financial Accounting Records (Prior Year Comment #05-17)</b>  Comptroller Operations and other staff are continuing to work on clearing myriad items within Open Item Managed accounts in SAP. Both absolute and relative numbers of uncleared items are shrinking over time. Also, over time, Comptroller Operations and other staff are learning more about SAP processing and functionality. This knowledge is aiding research, review and analysis efforts within comptroller offices and BFM. The number of transactions containing errors has shrunk considerably over the past five fiscal years. BFM staff is continuing its training efforts concerning the preparation of CAFR templates. Within comptroller offices, posted data is being reviewed more closely.
06-14	OB/BFM	<b>Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System (Prior Year Comment #05-24)</b>  To address the internal control weaknesses related to One-Time Vendor payments Management Directive 310.28 was issued June 16, 2006. In addition, system edits were put in place that require all one-time payments to be blocked and approved by supervisors. The Bureau of Financial Management also implemented period review and analysis of the One-Time Vendor records. The combined effects of Management Directive 310.28 being issued and the periodic review and analysis by the Bureau of Financial Management should decrease instances in which the One-Time Vendor record was being used inappropriately.
06-15	DGS/BRIM ATTY GEN	<b>Liability for Self-Insurance Was Misstated in the Preparation of the BFS</b>  Agency actions, as provided in <b>Agency Response</b> in the body of the finding, are currently being taken.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Corrective Action Plans - Financial Statement Findings - June 30, 2006***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>06-16</b>	<b>OB/BFM</b>	<b>Statewide Weaknesses Within the SAP Accounting System Controls (Prior Year Comment #05-22)</b>

No additional information provided. See **Agency Response** in the body of the finding.

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2006

Finding	State Agency	Finding Title/Corrective Action
06-17	AGRI	<p><b>Internal Control Weaknesses and Noncompliance With Processor Recordkeeping and Reporting Requirements Result in Inaccurate SEFA Reporting and Questioned Costs of \$1,145 (Prior Year Finding #05-1)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
06-18	DPW	<p><b>Internal Control Weaknesses at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #05-2)</b></p> <p>The DPW has taken measures to improve accuracy, training, system access controls, and supervision since the prior year repeat finding.</p> <p>DPW has ensured that the caseworkers receive additional training by utilizing e-learning modules offered through the Staff Development program. Since the audit, DPW has increased the frequency of e-learning and established standards for successful completion of each e-learning module. These improvements are part of DPW's Effective Management Program established in calendar year 2007. As further corrective action, a monthly TSR has recently been developed to strengthen the supervision of eligibility determinations. Additionally, management will reinforce to staff the importance of following established DPW policies and procedures regarding eligibility determination and redeterminations.</p> <p>OIM has ensured that caseworkers review the policy related to recipient compliance with reporting requirement relative to maintaining eligibility. On September 4, 2006, shortly after the audit period, DPW implemented the TANF Work Support Component (WSC) Program to more quickly assist those who are employable. However, if a client fails to report to the WSC contractor, their TANF case is closed. The WSC Program will greatly improve DPW's ability to adjust benefits when the recipient is no longer attending their required programs. Also, an educational DVD giving detailed eligibility requirements is being developed to educate clients who visit our CAO reception areas. Lastly, TSRs have been automated and are mandated monthly. TSRs will replace CSRs for an undefined period to focus on problematic areas.</p> <p>Participants in the Welfare-to-Work programs, if employed at the CAO, are not granted access to CIS. Operations Memorandum 050705, dated July 7, 2005, to Executive Directors provides a process for each CAO to review internal procedures. The Security Process Overview is a self-assessment tool to be used by CAO management staff. Statewide security standards for the CAOs were issued in 2005. An e-mail was sent to all Area Managers on May 25, 2007 reiterating the Security Process Overview tool, and Area Managers were charged with insuring proper completion of the tool by the CAOs.</p> <p>OIM uses the Income Eligibility Verification System (IEVS) that allows for the exchange of information with local courts and other authorities. IEVS Exchange 10 screens have been revised which has made it easier for the caseworker to interpret the information on the screens. Policy clarifications and a desk guide have also been issued to staff to strengthen compliance in this area. Also, CAOs have collaborative arrangements with courts to exchange information to address inquiries and updates. It is the OIMs policy to review criminal history at application and reapplication or if new information is received between reapplication, the CAO then acts on the information received.</p> <p>DPW recently developed an Automated TSR system that focuses on problematic areas identified through audit reviews, internal data reviews and effective management strategies. The specialized TSR serves as a major component of the set of performance metrics for the</p>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2006

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>06-18 (continued)</b>		Effective Management Program. TSRs will replace CSRs for an undefined period until program accuracy is accomplished. It should be noted that, in addition to the TSR corrective action plan, DPW has significantly improved its CSR/TSR completion rate. In the prior year finding (#05-02), the completion rate was 76.9%, while this year's finding shows a completion rate of 90%.
<b>06-19</b>	<b>DOH</b>	<b>Noncompliance and Weakness in Internal Controls Over DOH's Program Monitoring of WIC Local Agencies</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>06-20</b>	<b>DMVA</b>	<b>Noncompliance and Weakness in Internal Control Over Charging of Personnel Costs</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>06-21</b>	<b>DCED</b>	<b>DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #05-8)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>06-22</b>	<b>PEMA</b>	<b>Internal Control Weaknesses and Noncompliance in PEMA's Subrecipient Monitoring (Prior Year Finding #05-11)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>06-23</b>	<b>L&amp;I LECS</b>	<b>Weaknesses Exist in the SAP FARS Replacement System Resulting in Questioned Costs of \$1,023,100 (Prior Year Finding #05-12)</b>  The Department's Corrective Action Plan is contained within the finding response.
<b>06-24</b>	<b>L&amp;I</b>	<b>Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (Prior Year Finding #05-15)</b>  The Department's Corrective Action Plan is contained within the finding response.
<b>06-25</b>	<b>L&amp;I</b>	<b>Unallowable Benefit Payments Result in Questioned Costs of \$638 (Prior Year Finding #05-16)</b>  The Department's Corrective Action Plan is contained within the finding response.
<b>06-26</b>	<b>TRANS</b>	<b>Internal Control Weakness Over Expenditure Information Reported on the SEFA</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>06-27</b>	<b>PADOT TRANS</b>	<b>Duplicate Vendor Payment Results in Questioned Costs of \$176,617</b>  Finding resolved. No corrective action necessary.
<b>06-28</b>	<b>PADOT</b>	<b>Noncompliance With OMB Circular A-87 Cost Principles Results in \$392,536 in Questioned Costs</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2006

Finding	State Agency	Finding Title/Corrective Action
06-29	PDE	<p><b>Internal Control Weaknesses in PDE Scheduling of On-Site Monitoring Visits to LEAs</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> The Consolidated Program Monitoring manager has redesigned the monitoring schedule to list all LEAs with an indication of the assigned year in the three-year cycle for each LEA's visit. This will serve as the master schedule list. From this master schedule list, all monitoring assignments and visits will be made to ensure that all LEAs are monitored within the cycle.</p> <p><b>Description of Monitoring:</b> The Consolidated Monitoring Manager will establish the master schedule list and utilize it to schedule all future visits. The visits will be monitored throughout the year to ensure that all LEAs are monitored within the cycle. If rescheduling is necessary, the LEA will be scheduled within the cycle or moved to the next cycle.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Consolidated Monitoring Manager, Division Chief</p> <p><b>Anticipated Completion Date for Corrective Action:</b> Corrective actions have already begun and will carry through until the completion of the Consolidated Monitoring process.</p>
06-30	PDE	<p><b>Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #05-21)</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> Written procedures will be developed that will document the activities involved in the collection, verification and reporting of data for the Consolidated State Report and the State Report Card. The check-offs have already been developed and will be part of the 2006 reports. All verification analysis will be maintained by the Bureau of Assessment and Accountability.</p> <p><b>Description of Monitoring:</b> The procedures will be reviewed annually and updated when needed.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Director, Bureau of Assessment and Accountability</p> <p><b>Anticipated Completion Date for Corrective Action:</b> March 2008</p>
06-31	PDE	<p><b>Inadequate Controls Over Ensuring LEA Compliance With MOE Requirements</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> The Bureau of Teaching and Learning Support, Division of Federal Programs has assigned a staff person for the specific responsibility of the MOE. Each year, the Division staff will work with the Bureau of Information Systems staff to produce the MOE reports that compare prior year expenditures and indicate increases and decreases. The Division staff will identify those LEAs that are outside of the 10% window and inform the Regional Coordinators of any inconsistencies within the LEAs.</p> <p>Regional Coordinators will contact LEAs to determine whether there were any reporting errors and assist the LEAs with any needed corrections.</p> <p>The Division staff will rerun the MOE reports after the corrections are completed and make a final determination of those LEAs not in compliance with the MOE requirements. Letters will be mailed to those LEAs informing them of a reduction in federal funds, as applicable.</p>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2006

Finding	State Agency	Finding Title/Corrective Action
06-31 (continued)		<p><b>Description of Monitoring:</b> The Division staff will monitor the MOE issues and ensure that either corrections are completed or a reduction in funds is made to bring the LEAs into compliance. The Division Chief will require a report each year to show that all LEAs have been handled appropriately.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Division Staff, Division Chief</p> <p><b>Anticipated Completion Date for Corrective Action:</b> Actions have already begun and will carry through until the completion of the MOE process.</p>
06-32	PDE	<p><b>PDE Allocated VOC ED Funds to Subrecipients Based on Outdated Statistical Data (Prior Year Finding #05-23)</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> Division of Data Services collected 2005-06 Pell data on-line via Pennsylvania Adult &amp; Postsecondary Student Attainment System (PAAPSA) and will continue collecting up-dated Pell data annually via this system. The current 2005-06 Pell data was used in the funding distribution formula for post-secondary and adult education programs for 2007-2008 fiscal years.</p> <p>PDE is using updated 2004 Census data as required under section USC 2351(b). The 2004 Census data has been loaded into the funding distribution formula for secondary programs for 2007-2008 fiscal year. The requirement for the use of updated Census data will be followed annually.</p> <p><b>Description of Monitoring:</b> The Perkins allocation runs completed by PDE's Bureau of Information Systems (BIS) will be reviewed on an annual basis to insure the inclusion of updated Pell Data for post-secondary allocations and current federal Census Data for secondary allocations.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Manager, Data Analysis, Assessment &amp; Contracts Division - PDE/BCTE.</p> <p><b>Anticipated Completion Date for Corrective Action:</b> Completed March 30, 2006 and updated annually.</p>
06-33	PDE	<p><b>Errors and Internal Control Weaknesses in PDE's VOC ED Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (Prior Year Finding #05-22)</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> The Department continues to address the issues with data collection and data verification. As the Department continues to update and confer with USDE the definitions of the CAR sub-indicators, the data collection methods change and the review process changes to ensure that valid, reliable and accurate data are collected. The PDE consistently reviews its internal control procedures and includes a means effectively documenting improvements to the system.</p> <p>The Bureau management team will discuss the specific audit findings and revise the Checklist for Accuracy, Reliability and Reasonableness of CAR Data. Quarterly meetings will be scheduled. The meetings will include staff from Bureaus responsible for gathering data in the preparation of the CAR.</p>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2006

Finding	State Agency	Finding Title/Corrective Action
06-33 (continued)		<p><b>Description of Monitoring:</b> Management will maintain current versions of the FAUPL definitions to guarantee an accurate alignment with data collection systems.</p> <p>Management staff will ensure that data is collected and received in a timely manner to allow for a complete review and analysis.</p> <p>Management staff will review each of the specific steps along with the timeline identified to ensure completion.</p> <p>Management staff will review the implementation of the verification process to ensure that all CAR sub-indicators are verified, including documentation.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Research Associate, Data Analysis, Assessment and Contracts</p> <p><b>Anticipated Completion Date for Corrective Action:</b> January 2008</p>
06-34	L&I	<p><b>A Weakness Exists in L&amp;I's Procurement System Related to Debarment and Suspension (Prior Year Finding #05-25)</b></p> <p>The Department's Corrective Action Plan is contained within the finding response.</p>
06-35	L&I	<p><b>Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs</b></p> <p>The Department's Corrective Action Plan is contained within the finding response.</p>
06-36	L&I	<p><b>Internal Control Weakness Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA Results in \$64,177 in Unsupported Program Income</b></p> <p>The Department's Corrective Action Plan is contained within the finding response.</p>
06-37	PDE LECS	<p><b>Internal Control Weaknesses in the OMB Circular A-133 Subrecipient Audit Monitoring System</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> The Pennsylvania Department of Education will comply with the Audit Recommendation by July 31, 2007. Also, beginning with the next round of 21<sup>st</sup> Century contracts (expected to be awarded Summer of 2007), a thorough review will be completed to ensure that the correct GL number is assigned to all subrecipients. PDE staff will be in contact with LECS Federal Accounting Division staff by August 1, 2007, to discuss the future assignment of GL numbers.</p> <p><b>Description of Monitoring:</b> Upon completion of peer review and grant award process, Administrative Assistant will review each subrecipient and determine the correct GL number as determined in consultation with LECS Federal Accounting Division staff.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Administrative Assistant, Division Chief</p> <p><b>Anticipated Completion Date for Corrective Action:</b> Fall of 2007</p>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2006

Finding	State Agency	Finding Title/Corrective Action
06-38	PDE	<p><b>Internal Control Weakness in PDE's Monitoring of Federal Earmarking Requirements</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> By July 31, 2007, the Bureau of Community and Student Services will establish an account earmarking the state administrative costs (2%) and the state activities costs (3%) to monitor these funds separately, in accordance with Federal Regulation, Title 20, Section 7172.</p> <p><b>Description of Monitoring:</b> By fall 2007, PDE will establish procedures to track and account for state administrative costs separately from state activity costs. This action will assure that PDE is in compliance with the Federal earmarking requirements of the 21<sup>st</sup> CCLC grant program.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Administrative Assistant, Division Chief</p> <p><b>Anticipated Completion Date for Corrective Action:</b> Fall of 2007</p>
06-39	PDE	<p><b>Noncompliance Noted in PDE's Allocations of Reading First Subgrant Awards to LEAs</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> If, in the future, Reading First funds are awarded to LEAs not previously receiving funding through Reading First, the Division of Federal Programs will apply the approved formula to award those funds. LEAs will be required to submit numbers of K-3 teachers and students prior to awards being made and will then receive \$2,000 per teacher and \$400 per student. For existing Reading First LEAs, no corrections will be made to the allocations. Resolution to the Harrisburg City SD additional award will be sought from USDE.</p> <p><b>Description of Monitoring:</b> Staff responsible for the processing of the Reading First applications will ensure that the requested amount of funds match the awarded amounts. For new awardees, the Reading First Director will collect teacher and student data, calculate allocations based on that data, maintain data to support the allocation and award funding to LEAs accordingly. The Division Chief will review information regarding the awarding of funds prior to the release of the information to ensure accuracy.</p> <p><b>Titles of Officials Responsible for Corrective Action:</b> Reading First Director and Division Chief</p> <p><b>Anticipated Completion Date for Corrective Action:</b> Ongoing funding and new funding, if any, will be completed in July of 2007. Application submission will take place between July 2007 and November 2007. By December 31, 2007, all allocations, applications and checks will have been completed.</p>
06-40	LECS	<p><b>Noncompliance and Internal Control Weakness in the LECS Comptroller Office System of Cash Management</b></p> <p>In order to help prevent disbursements of cash in excess to the RF subrecipients, the initial payment for newly executed projects will not include the standard back payments. The initial payment will be limited to one monthly payment. The RF subrecipient will be required to submit <i>the Reconciliation of Cash on Hand – Quarterly Report</i> when it becomes due. At the time, the cash status will be evaluated to determine if the recipients are accumulating excess funds. This new procedure will go into effect beginning July 1, 2007,</p>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2006

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
06-40 (continued)		with the new 2007-08 RF projects. Late starting projects will not receive back payments, only the initial one monthly payment.
06-41	PDE	<p><b>Internal Control Weaknesses and Noncompliance With Earmarking Requirements Result in Questioned Costs of \$1,669,416</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> The Bureau of Teaching and Learning Support, Division of Federal Programs has taken steps to review prior year's expenditures and document which were administrative, professional development and technical assistance for Reading First. These efforts will support the PDE's initial response that all funds were spent appropriately and in line with legislative requirements.</p> <p>The 2007-08 accounting structure for Reading First has already been established, providing 80% of funds for Reading First LEAs and 20% for state level activities. The 20% for state-level activities has been apportioned as follows: 65% Professional Development, 25% Technical Assistance and 10% Administration.</p> <p><b>Description of Monitoring:</b> The Reading First State Director and the Division Chief will monitor expenditures and ensure that expenditures are charged to the appropriate accounts.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Reading First Director, Division Chief</p> <p><b>Anticipated Completion Date for Corrective Action:</b> September 30, 2007</p>
06-42	DOS	<p><b>DOS Did Not Perform Adequate Monitoring of Subrecipients</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
06-43	DOH	<p><b>Noncompliance and Internal Control Weakness Regarding Semi-Annual Certifications for Personnel Costs (Prior Year Finding #05-26)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
06-44	DOH	<p><b>Weaknesses in DOH Program Monitoring of CDC Subgrantees (Prior Year Finding #05-27)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
06-45	DPW	<p><b>DPW Did Not Specify CFDA Number and Other Required Award Information in Subrecipient Award Documents, Resulting in Noncompliance with OMB Circular A-133</b></p> <p>The Bureau of Financial Operations, Audit Resolution Section staff has alerted Program Office contact staff of this specific audit finding, and has recommended appropriate corrective action to rectify the noncompliance issues presented in the finding.</p>
06-46	DPW	<p><b>Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (Prior Year Finding #05-28)</b></p> <p>Since the implementation of the contracted assessment in January 2005 and the subsequent integration of assessment into the first activity in March 2006, as well as a revised Medical Assessment Form, DPW has determined the PA 1680 is only necessary in certain instances as outlined in the Cash Assistance Handbook, Chapter <a href="#">135.11</a>. This section of the handbook</p>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2006

Finding	State Agency	Finding Title/Corrective Action
06-46 (continued)		<p>was updated subsequent to the current audit period and serves as a solid corrective action in so far as it clarifies when a PA 1680 needs to be filed.</p> <p>Hence, according to the updated language in the Cash Assistance Handbook, a completed and filed PA 1680 is no longer necessary in a significant number of cases. Therefore, the PA 1680 being required in the file is more the exception than the rule. The DPW feels that this policy clarification effectively serves the client, is in line with federal regulations, and provides corrective action for the audit finding.</p>
06-47	DPW	<p><b>Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #05-29)</b></p> <p>The DPW <u>disagrees</u> with this Finding. No CAP is warranted. See <b>Agency Response</b> in the body of the finding.</p>
06-48	DPW PHHS	<p><b>Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs of at Least \$28,252 (Prior Year Finding #05-30)</b></p> <p>The DPW does have plans to restore Quality Control sampling and review of special allowances as recommended by the audit finding. Reviews will begin for the month of June 2007. The DPW expects that this internal audit work will improve internal controls over issuance of special allowances.</p> <p>The PHHS Comptroller will follow-up with DPW's Division of Quality Control in the Office of Income Maintenance to ensure that, in the future, special allowances are included in the Division's review and testing of TANF and CCDF.</p>
06-49	DPW	<p><b>Systemic Weaknesses Exists in LIHEAP That Resulted in Potential Fraud and Abuse and Questioned Costs</b></p> <p>The DPW is always looking for opportunities to improve its fraud and abuse systems and believes that several of the recommendations offered by the Auditor General's Office merit strong consideration and several are already being implemented. The DPW had already begun or scheduled several future enhancements to the computer systems that are used to process LIHEAP applications, even prior to the initiation of the audit by the Auditor General's Office. For example, the DPW will begin long-planned work on changes to its LIHEAP data system that will be complete in time for the next LIHEAP season in November 2007 including the automatic generation of a unique identification number for each case and automatic electronic verification of social security numbers with the Social Security Administration. Changes such as these should eliminate a significant number of the "false positives" that were identified by the data mining software utilized by the Auditor General's Office from future identification.</p>
06-50	DPW	<p><b>Control Weaknesses Found in Administering LIHEAP Cash Benefits Result in Questioned Costs</b></p> <p>The DPW will review each recommendation in the Finding and make the appropriate change in its program training and documentation provided to field staff.</p> <p>The DPW would also like to provide the following corrective actions related to the exceptions noted in this audit finding:</p>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2006

Finding	State Agency	Finding Title/Corrective Action
06-50 (continued)		<ul style="list-style-type: none"><li>• <u>Lack of Approval Signature</u>: In the future, the DPW will revise its training curriculum for this program to help ensure that supervisors are aware of this responsibility and all supervisory and program staff responsibilities are delineated as clearly as possible.</li><li>• <u>Lack of Policy or Procedure Manuals</u>: Rather than indicating that the DPW does not have policies and procedures for LIHEAP, we believe this finding indicates that the DPW needs to do a better job making these policies and procedures more readily available to field staff. As a result, the DPW will place all relevant policies and procedures on its intranet website and publicize the availability of these documents internally to every county assistance office in the commonwealth.</li><li>• <u>Applications Not Found</u>: The DPW agrees that not being able to locate seven applications of the 102 sampled is a weakness in our system that needs to be corrected through better filing practices.</li><li>• <u>Other Audit Exceptions</u>: While the DPW will take steps to prevent similar errors from occurring in the future, we would like to note that our review of these cases has found that correcting the errors would not have affected the eligibility of the applicant nor the benefit amount disbursed to that individual's energy company.</li></ul>
06-51	DPW	<p><b>Control Weaknesses Found in Administering LIHEAP Crisis Benefits Result in Questioned Costs</b></p> <p>The DPW believes that many of the recommendations included in the audit report have merit and will make changes to our existing policies and procedures where appropriate.</p> <p>The DPW would also like to provide the following comments related to the exceptions noted in this audit finding:</p> <ul style="list-style-type: none"><li>• <u>Crisis Applications Not Resolved Within 48 Hours</u>: In five of the seven audit exceptions noted in the audit report, the oil delivery was made and the crisis was resolved within the 48 hour period. In these cases, the discrepancy noted in the audit report was the result of final data entry not being made until the vendor delivered a receipt. The other cases are still under review.</li><li>• <u>User IDs and Passwords Not Properly Secured and Crisis Contractors in York and Lancaster Counties Do Not Have LIS System Access</u>: The DPW will make changes to its curriculum for crisis contractors to reemphasize the importance of securing user identification and passwords not only as a potential weakness related to fraud but also as a matter of protecting client privacy.</li><li>• <u>Certifier/Worker Signatures Missing on Crisis Applications</u>: The DPW will take steps to reinforce the importance of ensuring the completeness of all applications including signatures.</li></ul> <p><u>Data Entry Errors</u>: The DPW will make changes to its training curriculum to help ensure that clerical staff understands the correct procedure.</p>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2006

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>06-52</b>	<b>DPW</b>	<b>DPW Failed to Adequately Monitor the Processing of LIHEAP Applications</b>  The DPW does believe that many of the recommendations offered in this audit finding could help improve our monitoring processes in the future. As a result, the DPW is making the following changes to its monitoring policies for LIHEAP: <ul style="list-style-type: none"><li>• Selecting cases for monitoring through a random sample;</li><li>• Creating a multi-year schedule to ensure that every county assistance office is reviewed at least every three years and that Philadelphia and Allegheny (which represent more than 30 percent of the caseload) are reviewed each year;</li><li>• Increasing the focus on items noted in the audit report such as the accuracy of information entered into our data system and the completeness of sample case files; and</li><li>• Codifying these changes in a new formal protocol that ensures that the results of the monitoring review are provided to the executive director of the CAO during a formal exit conference. The DPW will also issue a final written report to the CAO leadership including a corrective action plan for any changes that are required.</li></ul>
<b>06-53</b>	<b>DCED</b>	<b>Control Weaknesses and Potential Abuse Found in Administering the Weatherization Assistance Program Result in Potential Questioned Costs</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>06-54</b>	<b>DCED</b>	<b>Two Local Agencies Wasted \$94,081 Providing Weatherization Services to the Same Dwellings in Philadelphia and Result in Questioned Costs</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>06-55</b>	<b>DCED</b>	<b>DCED Does Not Adequately Review Weatherization Assistance Program Expenditures for Accuracy Prior to Approving Local Agency Grant Payments</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>06-56</b>	<b>DCED</b>	<b>Weaknesses in Contracting for Services Exist at Local Agencies</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>06-57</b>	<b>DCED</b>	<b>The Most Vulnerable and Needy Pennsylvanians Do Not Always Receive Priority and are Waiting up to Nine Years to Receive Weatherization Services</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>06-58</b>	<b>DCED</b>	<b>DCED Failed to Adequately Monitor Local Agencies</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>06-59</b>	<b>DCED</b>	<b>Weaknesses in Internal Controls Over Subgrantees Result in \$37,772 in Questioned Costs (Prior Year Finding #05-33)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2006

Finding	State Agency	Finding Title/Corrective Action
06-60	DCED	<b>Weaknesses in Internal Controls Over DCED On-Site Monitoring of Subgrantees</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
06-61	DPW	<b>Internal Control Weaknesses and Inadequate Support for Federal Earmarking Requirements Result in Questioned Costs of \$3,135,166 (Prior Year Finding #05-35)</b>  The Administration for Children and Families (ACF) is currently conducting a FFY 2005 review of Child Care and Development Fund Discretionary Fund Infant/Toddler Earmark expenditures. The DPW will comply with any recommendations offered by ACF.
06-62	DPW	<b>Weaknesses in DPW Program Monitoring of Subgrantees (Prior Year Finding #05-34)</b>  The DPW <u>disagrees</u> with this Finding. No CAP is warranted. See <b>Agency Response</b> in the body of the finding.
06-63	DPW PHHS	<b>Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #05-36)</b>  The Office of Children, Youth and Families (OCYF) will work with the Pennsylvania Health and Human Services (PHHS), Office of the Comptroller to assess the dollar amounts and the client volume of recent supplemental claims submitted by Pennsylvania counties to determine a reasonable dollar and/or volume risk level for supplemental foster care invoices. Counties that submit supplemental claims covered by the risk level will be required to submit electronic versions of the supplemental invoice along with an electronic version of the invoice for the original quarter to which the supplemental invoice applies. These electronic invoices will then be matched to identify any duplicate claims between the initial and supplemental invoices.  Supplemental invoices showing duplicate claims will be returned to the county of origin for correction. Counties will be given ample notice of this invoice submission process change to tentatively be implemented in the first quarter of 2008. This should provide counties with the opportunity to change their automated business practices as necessary in order to meet the dollar and volume risk levels identified by OCYF and PHHS Comptroller. Once the dollar and/or volume risk levels are identified county children and youth agencies will be notified via an OCYF Bulletin.
06-64	DPW	<b>DPW Office of Children, Youth and Families Documentation Supporting the Licensing of Foster Care and Adoption Assistance Agencies is Incomplete (Prior Year Finding #05-37)</b>  The DPW <u>disagrees</u> with this Finding. No CAP is warranted. See <b>Agency Response</b> in the body of the Finding.
06-65	PHHS	<b>Internal Control Weakness Over Expenditure Information Reported by PHHS Comptroller on the SEFA (Prior Year Finding #05-6)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2006

Finding	State Agency	Finding Title/Corrective Action
06-66	DPW PHHS	<p><b>Lack of Documentation and Internal Control Weaknesses in DPW's Youth Development Centers Result in Unknown Questioned Costs Up To \$10 Million</b></p> <p>The Office of Children, Youth and Families (OCYF) will work with the Pennsylvania Health and Human Services (PHHS) Office of the Comptroller to ensure that all documentation required to support cost reimbursement is readily available in the future.</p> <p>In an effort to provide more efficiency and consistency, the OCYF's Bureau of Juvenile Justice Services (BJJS) is presently engaged in centralizing all timekeeping activities. This centralization under the BJJS Human Resources Department will allow for closer monitoring of facility timekeeping processes, including review/approval signatures and reconciliation of timesheets with payroll reports.</p> <p>Also, the OCYF will update the Children, Youth and Families Bulletin 99-92-02, effective July 1, 1992, that establishes invoicing procedures for Title XX funds to reflect current processes and requirements.</p>
06-67	PID	<p><b>Internal Control Weakness in PID Procedures to Ensure Actuarial Soundness of Monthly Premium Rates (Prior Year Finding #05-39)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
06-68	PID	<p><b>PID Did Not Perform Adequate Monitoring of CHIP Subrecipient Insurance Providers (Prior Year Finding #05-38)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
06-69	DOH	<p><b>DOH Did Not Perform On-Site Monitoring of HIV Subgrantees</b></p> <p>DOH offers the following information in addition to that which has already been provided in the Agency Response in the body of the finding:</p> <ol style="list-style-type: none"><li>1. DOH's Division of HIV/AIDS (DOH program office) filled all vacant positions by December 2006 and is now at full staff.</li><li>2. All sites have been or will be monitored on-site by the DOH program office by July 31, 2007.</li><li>3. The Philadelphia AIDS Coalition (TPAC) contract was terminated December 31, 2006. The duties were assumed by the Philadelphia Department of Health (PDH) on January 1, 2007. DOH's program office has scheduled a site visit to the PDH for the week of July 9-13, 2007.</li></ol>
06-70	DPW PHHS	<p><b>Weaknesses in Internal Controls Over Eligibility Determinations Result in an Undetermined Amount of Questioned Costs Up To \$27,118,545 (Prior Year Finding #05-41)</b></p> <p>This is in reference to a statement in the Finding that DPW's Special Pharmaceutical Benefits Program (SPBP) did not have an annual recertification process to support continued participant eligibility in effect during SFYE June 30, 2006.</p>

# COMMONWEALTH OF PENNSYLVANIA

## Corrective Action Plans - Federal Award Findings - June 30, 2006

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>06-70</b> <b>(continued)</b>		Corrective action conducted by SPBP is the preparation to roll out an annual recertification during the third quarter of 2007. Implementation has been pending due to changes in the recertification document that were requested by consumers, advocates, and the PA Health Law Project. SPBP has also been waiting for a decision that will increase the income ceiling for financial eligibility for HIV/AIDS applicants.
<b>06-71</b>	<b>PEMA PPR</b>	<b>Internal Control Weaknesses in PEMA's System of Cash Management and Federal Reporting (Prior Year Finding #05-19)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>06-72</b>	<b>DPW</b>	<b>Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (Prior Year Finding #05-45)</b>  The DPW believes that corrective action must be achieved through a cooperative joint initiative between the Bureau of Financial Operations, Audit Resolution Section staff, and the Bureau of Audits staff, in an effort to develop a plan to resolve this issue. The plan's goal would be to identify or develop an automated process utilizing SAP data in order to perform effective and timely SEFA reconciliations. Upon achieving this goal and followed by sufficient training, the Audit Resolution Section staff would prepare a SEFA reconciliation instruction publication for agency-wide implementation.
<b>06-73</b>	<b>OB/BOA</b>	<b>Noncompliance and Internal Control Weaknesses Exist in Commonwealth's Subrecipient Audit Resolution Process (Prior Year Findings #05-43 and #05-44)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>06-74</b>	<b>OB/BFM</b>	<b>Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$1.76 Million Known Understatement of the CMIA Interest Liability (Prior Year Finding #05-46)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.

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# Appendix



Commonwealth of Pennsylvania

# COMMONWEALTH OF PENNSYLVANIA

## APPENDIX - Legend of Abbreviations - June 30, 2006

The following legend presents descriptions of abbreviations that appear throughout the report:

<u>ABBREVIATION</u>	<u>DESCRIPTION</u>
21 <sup>ST</sup> CCLC	Twenty-First Century Community Learning Centers
ACF	Administration for Children and Families
ADC	Average Daily Clearance
AMLR	Abandoned Mine Land Reclamation
BFD	Bureau of Food Donation
BFM	Bureau of Financial Management
BFS	Basic Financial Statements
BOA	Bureau of Audits
CACFP	Child and Adult Care Food Program
CAFR	Comprehensive Annual Financial Report
CAO	County Assistance Office
CAP	Corrective Action Plan
CCDBG	Child Care and Development Block Grant
CCDF	Child Care and Development Fund
CDBG	Community Development Block Grant
CDC	Center for Disease Control
CDS	Central Drawdown System
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CHDO	Community Housing Development Organization
CHIP	State Children's Insurance Program
CMIA	Cash Management Improvement Act of 1990
CobIT	Control Objective for Information Technology
CRP	Contractor Responsibility Program
CS	Central Services Comptroller's Office
CSBG	Community Services Block Grant
CSE	Child Support Enforcement
CSR	Comprehensive Supervisory Review
CWSRF	Clean Water State Revolving Fund
DCED	Department of Community and Economic Development
DEP	Department of Environmental Protection
DMVA	Department of Military and Veterans Affairs
DOH	Department of Health
DOI	United States Department of Interior
DOL	United States Department of Labor
DOR	Department of Revenue
DOS	Department of State
DOT	United States Department of Transportation
DPW	Department of Public Welfare
DWSRF	Drinking Water State Revolving Fund
EBT	Electronic Benefits Transfer
EO	Executive Order
EPA	Environmental Protection Agency
ERP	Enterprise Resource Planning
ES	Employment Services
FD	Food Donation Program
FEMA	Federal Emergency Management Agency
FFY	Federal Fiscal Year
FHWA	Federal Highway Administration
FNS	Food and Nutrition Service
FYE	Fiscal Year Ended
GAAP	Generally Accepted Accounting Principles

# COMMONWEALTH OF PENNSYLVANIA

## Legend of Abbreviations - June 30, 2006

<u>ABBREVIATION</u>	<u>DESCRIPTION</u>
HAVA	Help America Vote Act
HHS	United States Department of Health and Human Services
HOME	Home Investment Partnerships
HS	Homeland Security
HUD	United States Department of Housing and Urban Development
ICS	Integrated Central System
IDIS	Integrated Disbursement and Information System
IES	Integrated Enterprise System
IT	Information Technology
L&I	Pennsylvania Department of Labor and Industry
LEA	Local Educational Agency
LECS	Labor, Education & Community Services Comptroller's Office
LIHEAP	Low Income Home Energy Assistance Program
LIS	LIHEAP Information System
MA	Medical Assistance Program
MD	Management Directive
MLF	Motor License Fund
MOE	Maintenance of Effort
NGMO	National Guard Military Operations and Maintenance Projects
NSLP	National School Lunch Program
OA	Office of Administration
OB	Office of the Budget
OCYF	Office of Children, Youth and Families
ODP	Office of Domestic Preparedness
OIG	Office of Inspector General
OIM	Office of Income Maintenance
OMB	Office of Management and Budget
OVR	Office of Vocational Rehabilitation
PADOT	Pennsylvania Department of Transportation
PAG	Public Assistance Grants
PDA	Pennsylvania Department of Aging
PDE	Pennsylvania Department of Education
PEMA	Pennsylvania Emergency Management Agency
PENNVEST	Pennsylvania Infrastructure Investment Authority
PHHS	Public Health and Human Services Comptroller's Office
PID	Pennsylvania Insurance Department
PLCB	Pennsylvania Liquor Control Board
PPR	Public Protection and Recreation Comptroller's Office
PTRR	Property Tax/Rent Rebate
RCIA	Revenue Collected in Advance
RESET	Road to Economic Self-Sufficiency through Employment and Training
RF	Reading First
RSBS	Rehabilitation Services - Vocational Rehabilitation Grants to States
SEFA	Schedule of Expenditures of Federal Awards
SFYE	State Fiscal Year Ended
SSA	Social Security Administration
SSBG	Social Services Block Grant
SWIF	State Workers' Insurance Fund
TAA	Trade Adjustment Assistance - Workers
TANF	Temporary Assistance for Needy Families
TRA	Trade Readjustment Assistance
TRANS	Transportation Comptroller's Office
TSF	Tobacco Settlement Fund
TSR	Targeted Supervisory Review

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Legend of Abbreviations - June 30, 2006***

<b><u>ABBREVIATION</u></b>	<b><u>DESCRIPTION</u></b>
UC	Unemployment Compensation
UI	Unemployment Insurance
USDA	United States Department of Agriculture
USDE	United States Department of Education
VOC ED	Vocational Education
WIA	Workforce Investment Act
WIC	Women, Infants, and Children