

# **SINGLE AUDIT REPORT**

**For the Fiscal Year Ended June 30, 2007**



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

**Prepared By:**

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

**Comptroller Operations**  
*Anna Maria Kiehl, Chief Accounting Officer*

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**Commonwealth of Pennsylvania  
Single Audit Report  
For the Fiscal Year Ended June 30, 2007**

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COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG

MICHEAEL J. MASCH  
SECRETARY  
OFFICE OF THE BUDGET

June 27, 2008

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, 2007. 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, 2007 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 \$19.4 billion of federal expenditures by the Commonwealth during the fiscal year ended June 30, 2007. Most of the \$19.4 billion in federal expenditures occurred in nine state agencies, as follows:

<u>AGENCY NAME</u>	<u>FEDERAL EXPENDITURES (in thousands)</u>
Public Welfare	11,714,424
Labor & Industry	2,994,725
Education	1,753,496
Transportation	1,447,818
Health	348,299
Insurance	172,398
Community & Economic Development	168,698
Pennsylvania Emergency Management Agency	132,410
Aging	117,919
Subtotal	<u>\$18,850,187</u>
Other Agencies (18)	<u>565,924</u>
Grand Total	<u><u>\$19,416,111</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 \$19.4 billion expended, 93.8 percent, or \$18.2 billion, represents expenditures under federal programs audited as major programs. The Summary of Auditors' Results lists the Commonwealth's 39 major federal programs for the fiscal year ended June 30, 2007.

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

The accompanying report for the fiscal year ended June 30, 2007 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 101 findings remain unresolved from single audits for the years ended June 30, 2001 through June 30, 2006.

## **INDEPENDENT AUDIT**

The Commonwealth's June 30, 2007 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.

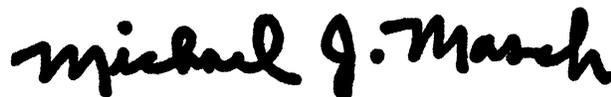
## **REPORTS OF OTHER INDEPENDENT AUDITORS**

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**

■ Two Commerce Square  
Suite 4000  
2001 Market Street  
Philadelphia, Pennsylvania  
19103-7096

## **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, 2007, 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 Tobacco Settlement Fund, a major Special Revenue Fund, the Tuition Payment Fund, a major Enterprise Fund, and 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 2 percent of expenditures of the General Fund and 1 percent of expenses of Governmental Activities. We also 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) and Private Purpose Trust Funds. This comprises 91 percent of total assets, 96 percent of total net assets and 87 percent of total revenues of the aggregate remaining fund information. The financial statements of the Tobacco Settlement Fund, Tuition Payment Fund, and these component units, agencies, and Pension (and Other Employee Benefit) and Private Purpose 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 Tobacco Settlement Fund, Tuition Payment Fund, and those component units, agencies, and the Pension (and Other Employee Benefit) and Private Purpose 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, 16 percent of total assets, 28 percent of total net assets and 16 percent of total operating revenues of the discretely presented component units, as well as 2 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, 2007, 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.

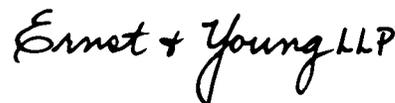
In accordance with *Government Auditing Standards*, we have also issued our report as of and for the year ended June 30, 2007, dated December 11, 2007 on our consideration of the Commonwealth of Pennsylvania's internal control over financial reporting and our tests of its compliance with certain provisions 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.

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 and component unit 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.



December 11, 2007



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

**ERNST & YOUNG LLP**

■ Two Commerce Square  
Suite 4000  
2001 Market Street  
Philadelphia, Pennsylvania  
19103-7096

**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, 2007, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated December 11, 2007.

We did not jointly audit the financial statements of the Tobacco Settlement Fund, a major Special Revenue Fund, the Tuition Payment Fund, a major Enterprise Fund, and 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 2 percent of expenditures of the General Fund and 1 percent of expenses of Governmental Activities. We also 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) and Private Purpose Trust Funds. This comprises 91 percent of total assets, 96 percent of total net assets and 87 percent of total revenues of the aggregate remaining fund information. The financial statements of the Tobacco Settlement Fund, Tuition Payment Fund, and these component units, agencies, and Pension (and Other Employee Benefit) and Private Purpose 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 Tobacco Settlement Fund, Tuition Payment Fund, and those component units, agencies, and the Pension (and Other Employee Benefit) and Private Purpose 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, 16 percent of total assets, 28 percent of total net assets and 16 percent of total operating revenues of the discretely presented component units, as well as 2 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than

inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described in Findings 07-1 through 07-21.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 07-1 through 07-3, 07-5, 07-7, 07-8, 07-10 through 07-12, 07-14, 07-16, 07-17, and 07-19 through 07-21 to be material weaknesses.

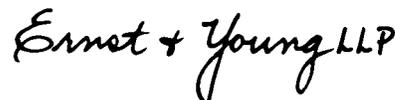
#### Compliance and Other Matters

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 07-1.

The Commonwealth's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Commonwealth's responses and accordingly, we express no opinion on them.

We noted certain matters that we reported to the management of the Commonwealth of Pennsylvania in a separate letter dated December 11, 2007.

This report is intended solely for the information and use of management, others within the entity, 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 11, 2007



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

**ERNST & YOUNG LLP**

■ Two Commerce Square  
Suite 4000  
2001 Market Street  
Philadelphia, Pennsylvania  
19103-7096

**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, 2007. 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, 2007. 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 07-11 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 07-11, 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 subrecipient monitoring requirements as reported in Finding 07-72.
- The Food Stamp Cluster (CFDA #10.551 and #10.561) did not comply with eligibility and allowable costs requirements as reported in Finding 07-22 and did not comply with CMIA-90 cash management regulations as reported in Finding 07-75.
- 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 07-72 and did not comply with CMIA-90 cash management requirements as reported in Finding 07-75.
- The Special Supplemental Nutrition Program for WIC (CFDA #10.557) did not comply with allowable costs requirements and special tests and provisions related to compliance investigations of WIC vendors as reported in Finding 07-24, and did not comply with subrecipient monitoring requirements as reported in Finding 07-72.

- The Child and Adult Care Food Program (CFDA #10.558) did not comply with subrecipient monitoring requirements as reported in Finding 07-72.
- 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 07-25.
- The Community Development Block Grants/State's Program (CFDA #14.228) did not comply with federal reporting requirements as reported in Finding 07-26, and did not comply with subrecipient monitoring requirements as reported in Finding 07-27 and Finding 07-72.
- The Abandoned Mine Land Reclamation Program (CFDA #15.252) did not comply with subrecipient monitoring requirements as reported in Finding 07-72.
- The Homeland Security Cluster (CFDA #16.007, #97.004, and #97.067) did not comply with allowable costs requirements, equipment management requirements, and subrecipient monitoring requirements as reported in Finding 07-28, and did not comply with subrecipient monitoring requirements as reported in Finding 07-72 and Finding 07-73.
- The Trade Adjustment Assistance Program (CFDA #17.245) did not comply with federal reporting requirements as reported in Finding 07-30.
- The WIA Cluster (CFDA #17.258, #17.259, and #17.260) did not comply with subrecipient monitoring requirements as reported in Finding 07-72.
- The Highway Planning and Construction Cluster (CFDA #20.205 and #23.003) did not comply with subrecipient monitoring requirements as reported in Finding 07-72 and did not comply with CMIA-90 cash management regulations as reported in Finding 07-75.
- The Capitalization Grants for Clean Water State Revolving Funds Program (CFDA #66.458) did not comply with subrecipient monitoring requirements as reported in Finding 07-72 and did not comply with CMIA-90 cash management regulations as reported in Finding 07-75.
- The Capitalization Grants for Drinking Water State Revolving Funds Program (CFDA #66.468) did not comply with subrecipient monitoring requirements as reported in Finding 07-72.
- The Title I Grants to Local Educational Agencies Program (CFDA #84.010) did not comply with special tests and provisions related to identifying schools and LEAs needing improvement as reported in Finding 07-34, did not comply with subrecipient monitoring requirements as reported in Finding 07-72, and did not comply with CMIA-90 cash management regulations as reported in Finding 07-75.
- The Vocational Education – Basic Grants to States Program (CFDA #84.048) did not comply with federal reporting requirements as reported in Finding 07-35, and did not comply with subrecipient monitoring requirements as reported in Finding 07-72.
- 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 07-39 and did not comply with CMIA-90 cash management regulations as reported in Finding 07-75.
- The Twenty-First Century Community Learning Centers Program (CFDA #84.287) did not comply with subrecipient monitoring requirements as reported in Finding 07-72.

- The Reading First State Grants Program (CFDA #84.357) did not comply with cash management and subrecipient monitoring requirements as reported in Finding 07-41, did not comply with earmarking and allowable costs requirements as reported in Finding 07-42, did not comply with subrecipient eligibility requirements as reported in Finding 07-43, and did not comply with subrecipient monitoring requirements as reported in Finding 07-72.
- The Improving Teacher Quality State Grants Program (CFDA #84.367) did not comply with subrecipient monitoring requirements as reported in Finding 07-72 and did not comply with CMIA-90 cash management regulations as reported in Finding 07-75.
- The Help America Vote Act (CFDA #90.401) did not comply with equipment management requirements and subrecipient monitoring requirements as reported in Finding 07-44, and did not comply with subrecipient monitoring requirements as reported in Finding 07-72.
- The Aging Cluster (CFDA #93.044, #93.045, and #93.053) did not comply with subrecipient monitoring requirements as reported in Finding 07-72.
- 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 07-45, did not comply with cash management requirements and subrecipient monitoring requirements as reported in Finding 07-46, and did not comply with subrecipient monitoring requirements as reported in Finding 07-72.
- The Temporary Assistance for Needy Families Program (CFDA #93.558) did not comply with eligibility and allowable costs requirements as reported in Finding 07-22, did not comply with federal reporting requirements as reported in Finding 07-48, did not comply with allowable costs/cost principles requirements as reported in Finding 07-49, did not comply with subrecipient monitoring requirements as reported in Finding 07-71 and Finding 07-72, and did not comply with CMIA-90 cash management regulations as reported in Finding 07-75.
- The Child Support Enforcement Program (CFDA #93.563) did not comply with subrecipient monitoring requirements as reported in Finding 07-71, Finding 07-72, and Finding 07-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 07-75.
- The Low-Income Home Energy Assistance Program (CFDA #93.568) did not comply with eligibility, allowable costs, and subrecipient monitoring requirements as reported in Finding 07-50, did not comply with eligibility and allowable costs requirements as reported in Finding 07-53, did not comply with subrecipient monitoring requirements as reported in Finding 07-71 and Finding 07-72, and did not comply with CMIA-90 cash management regulations as reported in Finding 07-75.
- The CCDF Cluster (CFDA #93.575 and #93.596) did not comply with eligibility and allowable costs requirements as reported in Finding 07-22, did not comply with allowable costs/cost principles requirements as reported in Finding 07-49, did not comply with subrecipient monitoring requirements as reported in Findings 07-47, 07-55, 07-71, and 07-72, and did not comply with CMIA-90 cash management regulations as reported in Finding 07-75.
- The Foster Care Program (CFDA #93.658) did not comply with subrecipient monitoring requirements as reported in Findings 07-47, 07-71, and 07-72, and did not comply with CMIA-90 cash management regulations as reported in Finding 07-75.
- The Adoption Assistance Program (CFDA #93.659) did not comply with subrecipient monitoring requirements as reported in Findings 07-47, 07-71, and 07-72, and did not comply with CMIA-90 cash management regulations as reported in Finding 07-75.

- The Social Services Block Grant Program (CFDA #93.667) did not comply with subrecipient monitoring and cash management requirements as reported in Finding 07-60, did not comply with subrecipient monitoring requirements as reported in Finding 07-71 and Finding 07-72, and did not comply with CMIA-90 cash management regulations as reported in Finding 07-75.
- The State Children's Insurance Program (CFDA #93.767) did not comply with procurement requirements as reported in Finding 07-61, did not comply with subrecipient monitoring requirements as reported in Finding 07-62 and Finding 07-72, and did not comply with CMIA-90 cash management regulations as reported in Finding 07-75.
- The Medicaid Cluster (CFDA #93.775, #93.777, and #93.778) did not comply with eligibility and allowable costs requirements as reported in Finding 07-22, did not comply with subrecipient monitoring requirements as reported in Findings 07-71 and Finding 07-72, and did not comply with CMIA-90 cash management regulations as reported in Finding 07-75.
- The Block Grants for the Prevention and Treatment of Substance Abuse Program (CFDA #93.959) did not comply with subrecipient monitoring requirements as reported in Finding 07-72 and Finding 07-73, and did not comply with CMIA-90 cash management requirements as reported in Finding 07-75.
- The Maternal and Child Health Services Block Grant to the States Program (CFDA #93.994) did not comply with allowable costs and subrecipient monitoring requirements as reported in Finding 07-64, did not comply with allowable costs/cost principles requirements as reported in Finding 07-66 and Finding 07-68, did not comply with federal reporting requirements as reported in Finding 07-67, and did not comply with subrecipient monitoring requirements as reported in Finding 07-65 and Finding 07-72.
- The Social Security - Disability Insurance Program (CFDA #96.001) did not comply with CMIA-90 cash management regulations as reported in Finding 07-75.
- 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 07-69 and did not comply with subrecipient monitoring requirements as reported in Finding 07-72.

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, 2007. 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 07-29, 07-37, 07-54, 07-56, 07-63, and 07-74.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control over compliance.

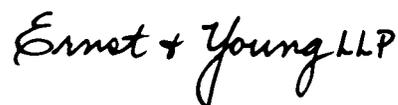
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 07-22 through 07-36, 07-38 through 07-60, and 07-62 through 07-75 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider Findings 07-22, 07-24 through 07-31, 07-34, 07-35, 07-39, 07-41 through 07-55, 07-57 through 07-60, and 07-62 through 07-75 to be material weaknesses.

The Commonwealth's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Commonwealth's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, 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 24, 2008

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# Schedule of Expenditures of Federal Awards



Commonwealth of Pennsylvania

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2007***

<b>CFDA #</b>	<b>CFDA Program Name</b>		<b>Federal Expenditures (000's)</b>
10.551	Food Stamps	1,236,216	
10.561	State Admin Matching Grants for Food Stamp Program	142,764	
	Total Food Stamp Cluster		1,378,980
10.553	School Breakfast Program	52,999	
10.555	National School Lunch Program	232,280	
10.556	Special Milk Program for Children	628	
10.559	Summer Food Service Program for Children	11,693	
	Total Child Nutrition Cluster		297,600
10.568	Emergency Food Assistance Program (Admin Costs)	2,231	
10.569	Emergency Food Assistance Program (Food Commodities)	6,154	
	Total Emergency Food Assistance Cluster		8,385
10.025	Plant and Animal Disease, Pest Control, and Animal Care		2,709
10.069	Conservation Reserve Program		44
10.156	Federal-State Marketing Improvement Program		17
10.162	Inspection Grading and Standardization		121
10.304	Homeland Security - Agricultural		73
10.353	National Rural Development Partnership		23
10.450	Crop Insurance		384
10.458	Crop Insurance Education in Targeted States		393
10.550	Food Donation		34,869
10.557	Special Supplemental Nutrition Program for WIC		142,082
10.558	Child and Adult Care Food Program		62,153
10.560	State Administrative Expenses for Child Nutrition		3,542
10.565	Commodity Supplemental Food Program		868
10.572	WIC Farmers' Market Nutrition Program (FMNP)		3,251
10.574	Team Nutrition Grants		250
10.579	Child Nutrition Discretionary Grants Limited Availability		1
10.582	Fresh Fruit and Vegetable Program		1,095
10.664	Cooperative Forestry Assistance		2,124
10.665	Schools and Roads - Grants To States		6,492
10.675	Urban and Community Forestry Program		20
10.678	Forest Stewardship Program		125
10.680	Forest Health Protection		116
10.902	Soil And Water Conservation		651
	<b>Total - U.S. Department of Agriculture</b>		<b>\$1,946,368</b>
11.307	Economic Adjustment Assistance		1,605
11.407	Interjurisdictional Fisheries Act of 1986		64
11.419	Coastal Zone Management Administration Awards		2,058
11.457	Chesapeake Bay Studies		31
11.474	Atlantic Coastal Fisheries Cooperative Management Act		108
	<b>Total - U.S. Department of Commerce</b>		<b>\$3,866</b>
12.112	Payments to States in Lieu of Real Estate Taxes		227
12.400	Military Construction - National Guard		46
12.401	National Guard Military Operations & Maintenance Projects		44,366
	<b>Total - U.S. Department of Defense</b>		<b>\$44,639</b>

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2007***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
14.228	Community Development Block Grants/State's Program	58,940
14.231	Emergency Shelter Grants Program	3,327
14.235	Supportive Housing Program	93
14.239	HOME Investment Partnerships Program	17,983
14.241	Housing Opportunities for Persons with AIDS	1,510
14.401	Fair Housing Assistance Program - State & Local	1,014
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	1,170
<b>Total - U.S. Department of Housing and Urban Development</b>		<b>\$84,037</b>
15.605	Sport Fish Restoration	8,379
15.611	Wildlife Restoration	9,367
	Total Fish and Wildlife Cluster	17,746
15.250	Regulation of Surface Coal Mining	11,832
15.252	Abandoned Mine Land Reclamation (AMLR) Program	37,041
15.612	Endangered Species Conservation	57
15.622	Sportfishing and Boating Safety Act	96
15.625	Wildlife Conservation and Restoration	55
15.633	Landowner Incentive	10
15.634	State Wildlife Grants	1,762
15.808	U.S. Geological Survey -Research and Data Collection	22
15.810	National Cooperative Geologic Mapping Program	26
15.904	Historic Preservation Fund Grants-In-Aid	961
15.916	Outdoor Recreation - Acquisition, Development & Planning	1,418
15.929	Save America's Treasures	72
<b>Total - U.S. Department of the Interior</b>		<b>\$71,098</b>
16.004	Law Enforcement Asst - Narcotics & Dangerous Drugs Training	1,179
16.011	Urban Areas Security Initiative	3,404
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	374
16.523	Juvenile Accountability Incentive Block Grants	3,079
16.540	Juvenile Justice & Delinquency Prevention - Alloc to States	2,248
16.548	Title V - Delinquency Prevention Program	478
16.550	State Justice Statistics Prgm for Statistic Analysis Centers	82
16.554	National Criminal History Improvement Program (NCHIP)	837
16.560	Natl Inst of Justice Research, Eval & Devel Project Grants	1,759
16.572	State Criminal Alien Assistance Program	211
16.574	Byrne Evaluation Partnership Program	9,773
16.575	Crime Victim Assistance	15,278
16.576	Crime Victim Compensation	2,073
16.579	Edward Byrne Memorial Formula Grant Program	12,577
16.582	Crime Victim Assistance/Discretionary Grants	28
16.586	Violent Offender Incarceration & Truth in Sent Incent Grants	44,779
16.588	Violence Against Women Formula Grants	4,203
16.590	Grants for Arrest Policies and Protection Order Enforcement	80
16.592	Local Law Enforcement Block Grant Program	(3)
16.593	Residential Substance Abuse Treatment for State Prisoners	561
16.607	Bulletproof Vest Partnership Program	204
16.609	Community Prosecution and Project Safe Neighborhoods	691
16.727	Enforcing Underage Drinking Laws Program	680

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2007***

<b>CFDA #</b>	<b>CFDA Program Name</b>		<b>Federal Expenditures (000's)</b>
16.735	Protecting Inmates & Safeguarding Communities Grant Prgm		91
16.738	Edward Byrne Memorial Justice Assistance Program		838
16.740	Statewide Automated Victim Info Notification (SAVIN) Prgm		496
16.999	Miscellaneous		4,033
<b>Total - U.S. Department of Justice</b>			<b>\$110,033</b>
17.207	Employment Service/Wagner-Peyser Funded Activities	57,970	
17.801	Disabled Veterans' Outreach Program (DVOP)	2,884	
17.804	Local Veterans' Employment Representative Program	3,278	
	Total Employment Service Cluster		64,132
17.258	WIA Adult Program	36,291	
17.259	WIA Youth Activities	36,017	
17.260	WIA Dislocated Workers	52,263	
	Total WIA Cluster		124,571
17.002	Labor Force Statistics		3,038
17.005	Compensation and Working Conditions		47
17.203	Labor Certification for Alien Workers		431
17.225	Unemployment Insurance		2,426,796
17.235	Senior Community Service Employment Program		4,568
17.245	Trade Adjustment Assistance		48,650
17.261	WIA Pilots, Demonstrations, and Research Projects		1,528
17.267	Incentive Grants - WIA Section 503		612
17.268	H-1 B High Growth Job Training Grants		932
17.600	Mine Health and Safety Grants		418
17.601	Mine Health and Safety Counseling & Technical Assistance		121
17.802	Veterans' Employment Program		63
<b>Total - U.S. Department of Labor</b>			<b>\$2,675,907</b>
20.205	Highway Planning and Construction	1,301,390	
23.003	Appalachian Development Highway System	101,236	
	Total Highway Planning and Construction Cluster		1,402,626
20.500	Federal Transit - Capital Investment Grants	3,335	
20.507	Federal Transit - Formula Grants	5,298	
	Total Federal Transit Cluster		8,633
20.600	State and Community Highway Safety	8,633	
20.601	Alcohol Traffic Safety & Drunk Driving Prevention Grants	2,042	
20.602	Occupant Protection	1,545	
20.603	Federal Highway Safety Data Improvements Incentive Grants	18	
20.604	Safety Incentive Grants for Use of Seatbelts	801	
20.605	Incentives to Prevent Operation by Intoxicated Persons	1,148	
20.610	State Traffic Safety Information System Improvement Grants	15	
	Total Highway Safety Cluster		14,202
20.005	Boating Safety Financial Assistance		2,291
20.106	Airport Improvement Program		16,182
20.217	Motor Carrier Safety		85
20.218	National Motor Carrier Safety		6,987
20.219	Recreational Trails Program		872
20.505	Federal Transit - Metropolitan Planning Grants		3,490
20.509	Formula Grants for Other Than Urbanized Areas		18,052

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2007***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
20.513	Capital Assistance Program for Elderly & Disabled Persons	5,739
20.514	Public Transportation Research	82
20.700	Pipeline Safety	384
20.703	Interagency Hazardous Materials Training & Planning Grants	399
<b>Total - U.S. Department of Transportation</b>		<b>\$1,480,024</b>
23.002	Appalachian Area Development	211
23.008	Appalachian Local Access Roads	200
23.009	Appalachian Local Development District Assistance	250
23.011	Appalachian Research, Technical Assistance & Demo Projects	159
<b>Total - Appalachian Regional Commission</b>		<b>\$820</b>
30.002	Employment Discrimination - State & Local Agency Contracts	1,920
<b>Total - Equal Employment Opportunity Commission</b>		<b>\$1,920</b>
39.003	Donation of Federal Surplus Personal Property	6,864
39.011	Election Reform Payments	11,120
<b>Total - General Services Administration</b>		<b>\$17,984</b>
45.024	Promotion of the Arts - Grants to Organizations & Individuals	25
45.025	Promotion of the Arts - Partnership Agreements	702
45.310	Grants to States	5,793
<b>Total - National Foundation on the Arts and Humanities</b>		<b>\$6,520</b>
64.005	Grants to States for Construction of State Home Facilities	3,328
64.010	Veterans Nursing Home Care	441
64.014	Veterans State Domiciliary Care	3,640
64.015	Veterans State Nursing Home Care	23,370
64.111	Veterans Education Assistance	1,030
<b>Total - U.S. Department of Veterans Affairs</b>		<b>\$31,809</b>
66.032	State Indoor Radon Grants	508
66.432	State Public Water System Supervision	4,645
66.436	Clean Water Act Surveys, Studies, Investigations & Demos	150
66.438	Construction Management Assistance	378
66.454	Water Quality Management Planning	656
66.458	Capitalization Grants for Clean Water State Revolving Funds	67,575
66.460	Nonpoint Source Implementation Grants	6,332
66.461	Regional Wetland Program Development Costs	52
66.463	Water Quality Cooperative Agreements	299
66.466	Chesapeake Bay Program	2,021
66.467	Wastewater Operator Training Grant Program (Technical Asst)	34
66.468	Capitalization Grants for Drinking Water State Revolving Funds	30,315
66.469	Great Lakes Program	1
66.471	State Grants to Reimburse Operators of Small Water Systems	156

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2007***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
66.474	Water Protection Grants to the States	120
66.479	Wetland Program Grants - Environmental Outcome Demo Prgm	2
66.500	Environmental Protection - Consolidated Research	63
66.511	Office of Research and Development Consolidated Research	149
66.605	Performance Partnership Grants	10,766
66.606	Surveys, Studies, Investigations and Special Purpose Grants	804
66.608	Environmental Information Exchange Network Grant Program	490
66.609	Protection of Children from Environmental Health Risks	15
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	741
66.707	TSCA Title IV State Lead Grants Certification	182
66.708	Pollution Prevention Grants Program	44
66.714	Pesticide Environmental Stewardship Regional Grants	7
66.716	Surveys, Studies, Investigations, Demos & Educ Outreach	25
66.801	Hazardous Waste Management State Program Support	5,017
66.802	Superfund State Site - Specific Cooperative Agreements	44
66.804	State and Tribal Underground Storage Tanks Program	292
66.805	Leaking Underground Storage Tank Trust Fund Program	2,105
66.808	Solid Waste Management Assistance Grants	20
<b>Total - Environmental Protection Agency</b>		<b>\$134,008</b>
81.039	National Energy Information Center	14
81.041	State Energy Program	661
81.042	Weatherization Assistance for Low-Income Persons	14,856
81.117	Energy Efficiency and Renewable Energy Info Dissemination	39
81.119	State Energy Program Special Projects	461
81.999	Miscellaneous	202
<b>Total - U.S. Department of Energy</b>		<b>\$16,233</b>
83.105	Community Assistance Prgm - State Support Services Element	131
83.544	Public Assistance Grants	140
83.550	National Dam Safety Program	18
<b>Total - Federal Emergency Management Agency</b>		<b>\$289</b>
84.027	Special Education - Grants to States	404,629
84.173	Special Education - Preschool Grants	14,300
Total Special Education Cluster (IDEA)		418,929
84.002	Adult Education - State Grant Program	23,244
84.010	Title I Grants to Local Educational Agencies	473,969
84.011	Migrant Education - State Grant Program	6,416
84.013	Title I Program for Neglected and Delinquent Children	985
84.048	Vocational Education - Basic Grants to States	46,232
84.126	Rehabilitation Services - Vocational Rehab Grants to States	115,166
84.144	Migrant Education - Coordination Program	38
84.169	Independent Living - State Grants	586
84.177	Rehab Serv - Indep Living Services for Older Blind Individuals	921
84.181	Special Educ - Grants for Infants & Families with Disabilities	14,829
84.184	Safe & Drug-Free Schools & Communities - National Programs	568
84.185	Byrd Honors Scholarships	1,586

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2007***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
84.186	Safe and Drug-Free Schools and Communities - State Grants	14,384
84.187	Supported Employment Serv for Indiv with Severe Disabilities	1,008
84.196	Education for Homeless Children and Youth	2,033
84.213	Even Start - State Educational Agencies	4,387
84.215	Fund for the Improvement of Education	16,565
84.243	Tech-Prep Education	4,146
84.255	Literacy Programs for Prisoners	78
84.265	Rehab Training - State Voc Rehab Unit In-Service Training	206
84.282	Charter Schools	2,283
84.287	Twenty-First Century Community Learning Centers	30,353
84.293	Foreign Language Assistance	68
84.298	State Grants for Innovative Programs	4,710
84.318	Education Technology State Grants	6,443
84.323	Special Education - State Personnel Development	2,089
84.330	Advanced Placement Program	150
84.331	Grants to States for Incarcerated Youth Offenders	711
84.332	Comprehensive School Reform Demonstration	6,731
84.336	Teacher Quality Enhancement Grants	2,486
84.346	Voc Ed - Occupational & Employment Info State Grants	(18)
84.348	Title I Accountability Grants	(3)
84.357	Reading First State Grants	34,080
84.358	Rural Education	450
84.365	English Language Acquisition Grants	9,935
84.366	Mathematics and Science Partnerships	4,351
84.367	Improving Teacher Quality State Grants	116,416
84.369	Grants for State Assessments and Related Activities	23,626
84.372	Statewide Data Systems	95
84.373	Special Educ - Technical Asst on State Data Collection	112
84.938	Hurricane Education Recovery	1,865
<b>Total - U.S. Department of Education</b>		<b><u>\$1,393,209</u></b>
89.003	National Historical Publications and Records Grants	13
<b>Total - National Archives and Records Administration</b>		<b><u>\$13</u></b>
90.401	Help America Vote Act Requirements Payments	27,189
<b>Total - Elections Assistance Commission</b>		<b><u>\$27,189</u></b>
93.044	Special Programs for the Aging - Title III, Part B	23,372
93.045	Special Programs for the Aging - Title III, Part C	24,626
93.053	Nutrition Services Incentive Program	5,852
	Total Aging Cluster	<u>53,850</u>
93.575	Child Care and Development Block Grant	220,645
93.596	Child Care Mandatory and Matching Funds of the CCDF	120,288
	Total CCDF Cluster	<u>340,933</u>
93.775	State Medicaid Fraud Control Units	3,590
93.777	State Survey & Cert of Health Care Providers & Suppliers	14,741
93.778	Medical Assistance Program	9,038,288
	Total Medicaid Cluster	<u>9,056,619</u>

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2007***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
93.041	Special Programs for the Aging - Title VII, Chapter 3	197
93.042	Special Programs for the Aging - Title VII, Chapter 2	1,200
93.043	Special Programs for the Aging - Title III, Part D	1,130
93.048	Special Programs for the Aging - Title IV and Title II	205
93.052	National Family Caregiver Support	8,842
93.103	Food and Drug Administration - Research	43
93.110	Maternal and Child Health Federal Consolidated Programs	75
93.116	Project Grants & Coop Agreements for Tuberculosis Control	891
93.127	Emergency Medical Services for Children	228
93.130	Primary Care Services Resource Coordination & Development	221
93.136	Injury Prevention and Control Research	713
93.150	Projects for Asst in Transition from Homelessness (PATH)	2,051
93.162	National Health Service Corps Loan Repayment Program	82
93.165	Grants to States for Loan Repayment Program	104
93.197	Childhood Lead Poisoning Prevention Projects	887
93.230	Consolidated Knowledge Development & Application Program	1,506
93.234	Traumatic Brain Injury State Demonstration Grant Program	169
93.235	Abstinence Education Program	15
93.240	State Capacity Building	455
93.241	State Rural Hospital Flexibility Program	305
93.243	Substance Abuse and Mental Health Services - Projects	3,662
93.251	Universal Newborn Hearing Screening	140
93.256	State Planning Grants Health Care Access for the Uninsured	320
93.259	Rural Access to Emergency Devices Grant	39
93.268	Immunization Grants	8,291
93.283	Centers for Disease Control & Prevention - Investigations	44,014
93.556	Promoting Safe and Stable Families	15,202
93.558	Temporary Assistance for Needy Families	442,327
93.563	Child Support Enforcement	120,564
93.566	Refugee & Entrant Assistance - State Administered Programs	8,241
93.568	Low-Income Home Energy Assistance	172,131
93.569	Community Services Block Grant	28,555
93.571	Community Services Block Grant Discretionary Awards - Food	40
93.576	Refugee and Entrant Assistance - Discretionary Grants	560
93.584	Refugee and Entrant Assistance - Targeted Assistance	682
93.585	Empowerment Zones Program	9,846
93.590	Community-Based Child Abuse Prevention Grants	1,160
93.597	Grants to States for Access and Visitation Programs	356
93.599	Chafee Education and Training Vouchers Program (ETV)	(266)
93.600	Head Start	235
93.602	Assets for Independence Demonstration Program	224
93.603	Adoption Incentive Payments	344
93.617	Voting Access for Individuals with Disabilities - Gov Grants	106
93.630	Developmental Disabilities Basic Support & Advocacy Grants	2,881
93.645	Child Welfare Services - State Grants	12,950
93.658	Foster Care - Title IV-E	273,087
93.659	Adoption Assistance	66,733
93.667	Social Services Block Grant	102,571
93.670	Child Abuse and Neglect Discretionary Activities	269
93.671	Family Violence Prevention and Services	3,000
93.674	Chafee Foster Care Independence Program	5,627

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2007***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
93.767	State Children's Insurance Program	172,398
93.768	Medicaid Infrastructure Grants to Support Competitive Employ	217
93.779	CMS Research, Demonstrations and Evaluations	2,983
93.786	State Pharmaceutical Assistance Programs	2,698
93.889	National Bioterrorism Hospital Preparedness Program	18,960
93.917	HIV Care Formula Grants	22,587
93.919	Coop Agreements for State-Based Cancer Early Detection Prgms	3
93.938	Coop Agreements to Support School Health Programs	155
93.943	Epidemiologic Research Studies of AIDS and HIV	4,764
93.944	HIV/AIDS Surveillance	845
93.946	Coop Agreements to Support Safe Motherhood & Infant Health	56
93.952	Trauma Care Systems Planning and Development	49
93.958	Block Grants for Community Mental Health Services	15,324
93.959	Block Grants for Prevention & Treatment of Substance Abuse	64,210
93.977	Preventive Health Serv - Sexually Trans Diseases Control Grant	2,049
93.982	Mental Health Disaster Asst and Emergency Mental Health	714
93.988	Coop Agreements for State-Based Diabetes Control Programs	604
93.991	Preventive Health and Health Services Block Grant	4,685
93.994	Maternal and Child Health Services Block Grant to the States	30,789
93.999	Miscellaneous	1,654
<b>Total - U.S. Department of Health &amp; Human Services</b>		<b>\$11,140,356</b>
94.003	State Commissions	257
94.004	Learn & Serve America - School & Community Based Programs	695
94.006	AmeriCorps	6,978
94.007	Planning and Program Development Grants	43
94.009	Training and Technical Assistance	101
<b>Total - Corporation for National and Community Service</b>		<b>\$8,074</b>
96.001	Social Security - Disability Insurance	78,644
<b>Total - Social Security Administration</b>		<b>\$78,644</b>
16.007	State Domestic Preparedness Equipment Support Program	7,499
97.004	State Domestic Preparedness Equipment Support Program	20,651
97.067	Homeland Security Grant Program	27,114
Total Homeland Security Cluster		55,264
97.008	Urban Areas Security Initiative	17,549
97.013	State Access to the Oil Spill Liability Trust Fund	69
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	(53)
97.029	Flood Mitigation Assistance	453
97.032	Crisis Counseling	70
97.034	Disaster Unemployment Assistance	210
97.036	Disaster Grants - Public Assistance (Presidentially Declared)	46,773
97.039	Hazard Mitigation Grant	10,975
97.041	National Dam Safety Program	2
97.042	Emergency Management Performance Grants	5,994
97.050	Presidentially Declared Dis Assist to Households - Other Needs	2,271
97.070	Map Modernization Management Support	31

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2007***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
97.075	Rail and Transit Security Grant Program	656
97.078	Buffer Zone Protection Plan (BZPP)	1,854
97.091	Homeland Security Biowatch Program	187
	<b>Total U.S. Department of Homeland Security</b>	<b><u>\$142,305</u></b>
99.999	Miscellaneous	766
	<b>Total Miscellaneous</b>	<b><u>\$766</u></b>
	<b>GRAND TOTAL</b>	<b><u>\$19,416,111</u></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, 2007***

### **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 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 15, 2005.

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, 2007.

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.

Expenditures for CFDA #16.586, Violent Offender Incarceration and Truth in Sentencing Incentive Grants, are presented on the basis that expenditures are reported to the U.S. Department of Justice. Accordingly, certain expenditures are recorded when paid directly by the Pennsylvania Department of Corrections to vendors, contractors, etc., and certain other expenditures are recorded when the Pennsylvania Department of General Services is reimbursed for contracted costs related to the grant.

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.

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.

On March 13, 2007, the Commonwealth and the U.S. Department of Health and Human Services (HHS) entered into an agreement to settle all claims, disallowances, and appeals related to service periods prior to January 1, 2007 under CFDA #93.658, Foster Care Title IV-E. The total amount of HHS reimbursement to DPW from the settlement was \$97.1 million. For the years ended June 30, 2005, 2006, and 2007, expenditures included on the Schedule of Expenditures of Federal Awards under CFDA #93.658, which were disallowed and later settled as part of this agreement, were \$109.4 million, \$64.6 million, and \$3.2 million, respectively.

Expenditures reported under CFDA #93.778, Medical Assistance Program, include \$50.9 million of costs that were disallowed by the U.S. Department of Health and Human Services' Centers for Medicare & Medicaid Services (CMS). This disallowance is currently being disputed by the Commonwealth and is pending resolution.

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

# COMMONWEALTH OF PENNSYLVANIA

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## Notes to the Schedule of Expenditures of Federal Awards - June 30, 2007

### Note B: Basis of Accounting (continued)

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.

### 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, 2007. 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 \$707,000 under CFDA #93.568, Low-Income Home Energy Assistance, and \$201,567 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, 2007, the Commonwealth had unexpended oil overcharge funds including interest of approximately \$676,000.

### 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, 2007, the Authority had gross outstanding federal loans of \$617.0 million for CFDA #66.458 and \$123.4 million for CFDA #66.468. No losses were incurred by the Authority on these loans during the fiscal year ended June 30, 2007.

### 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	\$2,181,821
Federal UC Benefits	56,152
Federal Admin.	188,823
Total Expenditures	<u>\$2,426,796</u>

# Schedule of Findings and Questioned Costs



Commonwealth of Pennsylvania

# COMMONWEALTH OF PENNSYLVANIA

## Summary of Auditors' Results - June 30, 2007

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### Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  X  yes   no

Significant deficiencies identified not considered to be material weaknesses?  X  yes   no

Noncompliance material to financial statements noted?  X  yes   no

### Federal Awards

Internal control over major programs:

Material weakness(es) identified?  X  yes   no

Significant deficiencies 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)  
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)  
Improving Teacher Quality State Grants (CFDA #84.367)  
Help America Vote Act Requirements Payments (CFDA #90.401)  
Aging Cluster (CFDA #93.044, #93.045, and #93.053)

# COMMONWEALTH OF PENNSYLVANIA

## Summary of Auditors' Results - June 30, 2007

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)  
 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)  
 Block Grants for the Prevention and Treatment of Substance Abuse (CFDA #93.959)  
 Maternal and Child Health Services Block Grant to the States (CFDA #93.994)  
 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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Federal Expenditures (000s)</u>
10.550	Food Donation	\$ 34,869
10.551 and 10.561	Food Stamp Cluster	1,378,980
10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster	297,600
10.557	Special Supplemental Nutrition Program for WIC	142,082
10.558	Child and Adult Care Food Program	62,153
12.401	National Guard Military Operations and Maintenance Projects	44,366
14.228	Community Development Block Grants/State's Program	58,940
15.252	Abandoned Mine Land Reclamation Program	37,041
16.007, 97.004 and 97.067	Homeland Security Cluster	55,264
16.586	Violent Offender Incarceration & Truth in Sentencing Incentive Grants	44,779
17.207, 17.801, and 17.804	Employment Service Cluster	64,132
17.225	Unemployment Insurance	2,426,796
17.245	Trade Adjustment Assistance	48,650
17.258, 17.259 and 17.260	WIA Cluster	124,571
20.205 and 23.003	Highway Planning and Construction Cluster	1,402,626
66.458	Capitalization Grants for Clean Water State Revolving Funds	67,575
66.468	Capitalization Grants for Drinking Water State Revolving Funds	30,315
84.010	Title I Grants to Local Educational Agencies	473,969
84.048	Vocational Education – Basic Grants to States	46,232

# COMMONWEALTH OF PENNSYLVANIA

## Summary of Auditors' Results - June 30, 2007

84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	115,166
84.287	Twenty-First Century Community Learning Centers	30,353
84.357	Reading First State Grants	34,080
84.367	Improving Teacher Quality State Grants	116,416
90.401	Help America Vote Act Requirements Payments	27,189
93.044, 93.045 and 93.053	Aging Cluster	53,850
93.283	Centers for Disease Control and Prevention – Investigations	44,014
93.558	Temporary Assistance for Needy Families	442,327
93.563	Child Support Enforcement	120,564
93.568	Low-Income Home Energy Assistance	172,131
93.575 and 93.596	CCDF Cluster	340,933
93.658	Foster Care – Title IV-E	273,087
93.659	Adoption Assistance	66,733
93.667	Social Services Block Grant	102,571
93.767	State Children's Insurance Program	172,398
93.775, 93.777 and 93.778	Medicaid Cluster	9,056,619
93.959	Block Grants for Prevention and Treatment of Substance Abuse	64,210
93.994	Maternal and Child Health Services Block Grant to the States	30,789
96.001	Social Security – Disability Insurance	78,644
97.036	Disaster Grants – Public Assistance (Presidentially Declared)	46,773
	Total Federal Expenditures – Major Programs	<u>\$18,229,787</u>

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

\$30,000,000

Auditee qualified as low-risk auditee?

\_\_\_yes      Xno

# COMMONWEALTH OF PENNSYLVANIA

## Index to Basic Financial Statement Findings - June 30, 2007

Finding No.	Finding Title	Impacted State Agency	Finding Page	CAP Page
07-1**	Noncompliance With Statutory Limits for Equity Investments	L&I/SWIF	39	266
07-2**	Internal Control Weakness Over Financial Reporting in the Unemployment Compensation Fund (Prior Year Finding #06-3)	LECS	41	266
07-3**	Inaccurate Financial Reporting of DPW Other Reserves in the Fund Financial Statements	PHHS	42	266
07-4*	Lack of Procedures to Monitor, Assess, and Report the Impact of Highway and Bridge Infrastructure Replacement Activity in the BFS	OB/BFM TRANS PADOT	44	266
07-5**	Internal Control Deficiency Over Lottery Fund Transportation Programs	PADOT	46	266
07-6*	Internal Control Weaknesses Over Financial Reporting for the Lottery Fund (Prior Year Finding #06-1)	TRANS CS	48	266
07-7**	Internal Control Weakness Over GAAP Entries to Account for Payroll Benefit Transfers	OB/BFM	49	267
07-8**	Weakness in Internal Controls in COPA Fund Reconciliations of SAP Balances to Treasury	OB/BFM	50	267
07-9*	Taxes Payable and Receivable Adjustments Are Not Properly Reviewed	CS	51	267
07-10**	Internal Control Weaknesses Identified in Processing Gaming Tax Revenue	DOR	52	267
07-11**	Lack of Documentation to Support Contracting and Procurement (Prior Year Finding #06-5)	OB OA	54	268
07-12**	Internal Control Weakness in the Financial Accounting Records (Prior Year Finding #06-13)	OB/BFM	56	268
07-13*	Weakness in BFS Reporting of DCED Encumbrances by LECS Comptroller Office	LECS	58	268
07-14**	Material Weakness Over Escheat Liability Estimation Methodology (Prior Year Finding #06-7)	TREAS	59	268
07-15*	For the Third Year, Internal Control Weaknesses Exist Over Accounting for Assets Under Construction (Prior Year Finding #06-6)	EO DGS	61	269

\* - Significant Deficiency

\*\* - Material Weakness

CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Basic Financial Statement Findings - June 30, 2007

<b>Finding No.</b>	<b>Finding Title</b>	<b>Impacted State Agency</b>	<b>Finding Page</b>	<b>CAP Page</b>
07-16**	Errors and Internal Control Weakness in Reporting Securities Lending Amounts (Prior Year Finding #06-12)	TREAS	63	269
07-17**	Internal Control Weaknesses Over Financial Reporting in the Department of Public Welfare GAAP Template	PHHS	65	269
07-18*	Internal Control Weaknesses Over Financial Reporting in the Labor and Industry GAAP Template	LECS	66	269
07-19**	Internal Control Weaknesses Over Financial Reporting in DCNR's General Fund GAAP Template	PPR	67	269
07-20**	Internal Control Weakness in Reporting Self-Insurance Liability in the BFS (Prior Year Finding #06-15)	DGS/ BRIM	68	269
07-21**	Statewide Weaknesses Within the SAP Accounting System Related to Segregation of Duties Conflicts (Prior Year Finding #06-16)	OA/IES OB/BFM	71	269

- \* - Significant Deficiency
- \*\* - Material Weakness
- CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2007

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### Finding 07 – 1:

#### Department of Labor and Industry State Workers' Insurance Fund

##### Noncompliance With Statutory Limits for Equity Investments

**Condition:** In accordance with State Law (Subarticle D of Act 41 of 2005), SWIF is limited in the amount of equity securities it may own. As indicated in the criteria section below, SWIF's investment in equity securities is limited by law to the lesser of twenty percent of the book value of its assets or one hundred percent of its statutory surplus.

During the current year audit we noted that SWIF's equity investments exceeded the legal limit by \$57,693,000 as of December 31, 2006. As of December 31, 2006, SWIF's book value of its assets was \$1,914,797,000 and the statutory surplus totaled \$175,798,000. Using the lesser of these limitations noted, SWIF was statutorily limited to \$175,798,000 in equity securities at year end. However, as of December 31, 2006, SWIF held a total of \$233,491,000 in equity securities (actual cost of long-term investments of \$227,350,000 in SWIF's separate long-term investment pool plus \$6,141,000 in Treasury's short term investment pool). Therefore, SWIF's equity investments exceeded the legal limit by approximately \$57,693,000 at December 31, 2006.

In addition, during the audit period ended December 31, 2006, SWIF had no formal process in place to document their compliance with these investment limitations.

**Criteria:** Pennsylvania Act 41 of 2005, Subarticle D, Section 1731-A, provides the following regarding SWIF's investments:

*...the power of the State Workers' Insurance Board to invest money shall include the power to hold, purchase, sell, assign, transfer and dispose of securities, including common stock with the following restrictions:*

(1) *Investments in equities may not exceed the lesser of:*

- (i) *20% of the State Workers' Insurance Fund's assets; or*
- (ii) *The State Workers' Insurance Fund's statutory surplus after discount.*

(2) *The State Workers' Insurance Board shall establish a policy for investments and shall meet at least annually to develop a schedule for rebalancing its investments in securities to meet the restriction of paragraph (1).*

Strong internal controls should ensure that statutory requirements are monitored throughout the year and any non-compliance with these requirements is corrected in a timely manner.

**Cause:** SWIF personnel indicated that they were aware of the limitation on equity investments. However, SWIF personnel have not provided any explanation for the apparent lack of monitoring and the noncompliance with these investment limitations. In addition, SWIF increased the limitations on equity investments by ensuring the passage of Act 41 of 2005, but SWIF still was not able to comply with these higher limitations on equity investments.

**Effect:** SWIF is in violation of PA Act 41 of 2005, which may create a greater risk to investment principal since it over-invested more in equity securities than the law allows at December 31, 2006 and throughout the year under audit. In addition, since SWIF did not provide evidence of adequate procedures in place to monitor compliance with these requirements, there is limited assurance that SWIF will be in compliance with the investment limitations in Act 41 of 2005 in future periods.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2007***

### **Finding 07 – 1: (continued)**

**Recommendation:** We recommend that internal controls be strengthened in SWIF's monitoring of investments to ensure compliance with the equity limits in applicable State laws. In addition, SWIF should take the appropriate action to rectify the non-compliance as of December 31, 2006 noted above.

**Agency Response:** Management intends to use SWIF's investment manager to monitor and control investments in equities for compliance with the restrictions of Act 41 of 2005. SWIF's Board of Directors recognizes the need to be in compliance with Act 41 of 2005. After consultation with the investment consultant, the Board will realign the investment portfolio in a manner that ensures that SWIF does not incur a material loss of investment income.

**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, 2007

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### Finding 07 – 2:

#### 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 Finding #06-3)

**Condition:** For the third year in a row, the Commonwealth’s Basic Financial Statements (BFS) contained significant misstatements in the Unemployment Compensation (UC) Fund that required adjusting entries by the auditors. One audit adjustment was necessary to offset the effect of a misclassification that caused both the Due from Other Governments, and the Due from Political Subdivisions accounts to be misreported by \$7 million. Another proposed audit adjustment in the amount of \$5.1 million related to an accrual for a statutory transfer from the Special Administration Fund (021) in accordance with State Law (Act 5 of 2005).

In addition, during the current year under audit, we noted that interest and penalties due on accounts receivable balances at fiscal year-end were not being properly estimated and included in the receivable. These were the accrued interest and penalties affecting the unemployment assessments receivable calculation (i.e. past due employer assessment accounts under Fund 063), which were estimated to be about \$5.9 million.

**Criteria:** Strong internal controls should 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. Regarding the interest and penalty amounts on the past due employer assessment accounts, L&I and LECS personnel indicated that these amounts could not be calculated due to limitations within the current accounting system.

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

**Recommendation:** L&I and LECS Comptroller should evaluate the methodologies and internal review procedures for preparing the UC Fund GAAP template and ensure accruals are accurate. With respect to the interest and penalty amounts on past due employer assessment accounts, L&I personnel should consider this in conjunction with their ongoing computer upgrade known as the Unemployment Compensation Modernization System (UCMS) and make any computer system upgrades as necessary.

**Agency Response:** The LECS Comptroller Office has reviewed its internal procedures for template preparation and made notes for the misclassification and statutory transfer adjustments to facilitate correct reporting in the future.

With regard to the interest and penalty amounts, LECS agrees and is in contact with the Unemployment Compensation Modernization System (UCMS) team to ensure that the new system will have the capability to calculate. Until the new system is in production, we will estimate the amount.

**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, 2007

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### Finding 07 – 3:

#### Office of the Budget – Public Health and Human Services Comptroller Office

##### Inaccurate Financial Reporting of DPW Other Reserves in the Fund Financial Statements

**Condition:** The auditors found that the PHHS Comptroller Office failed to appropriately report \$217 million of Medical Assistance reserves in the General Fund balance sheet. Based on fiscal activity of the Intergovernmental Transfer (IGT) Agreement between DPW and the County Commissioners Association of Pennsylvania, DPW receives federal matching Medical Assistance funds. These state and federal funds are required to be used by the Commonwealth solely for Medical Assistance purposes. We found that these funds were inaccurately reported on the balance sheet as unreserved/undesignated, which asserts that the funds are available for general appropriation in the subsequent fiscal year. An auditor adjustment was necessary to correct the balance sheet.

**Criteria:** Funds that are legally restricted by parties outside of the Commonwealth are required by GAAP to be reported as a reservation of fund balance.

**Cause:** This error was caused in part by the Commonwealth using a current state appropriation, rather than a restricted revenue ledger account, to account for the fiscal activity. The Commonwealth's accounting system is configured to report the available balance in a restricted revenue account as a reservation on the balance sheet. The improper balance sheet reporting occurred because the funds were accounted for in a current state appropriation, and the financial statement preparers in PHHS did not consider the need to post a GAAP adjustment to reserve the funds. We consider this to be an internal control weakness over financial reporting.

**Effect:** The General Fund equity section of the balance sheet was misstated. Unreserved/Undesignated was overstated by \$217 million and Other Reserves was understated by \$217 million. As a result, the auditors proposed a correcting entry to ensure the funding is properly reported on the balance sheet. Errors will continue to occur in the future if the internal control weakness is not corrected.

**Recommendation:** We recommend that the Commonwealth consider using a restricted revenue ledger to account for the IGT funding. We also recommend that the Commonwealth detail review fund balance accounts more thoroughly to ensure reserves in the accounts are properly reported on the balance sheet.

**Agency Response:** We agree with the change in accounting treatment of IGT funds from reporting as unreserved/undesignated to reporting the June 30, 2007 balance of \$217 million as a funds reservation on the Commonwealth's year end financial statement balance sheet. We will continue application of this accounting treatment through the final year of IGT activity. The IGT funding stream expires after the Commonwealth's 2008-09 fiscal year.

It should be noted that the "Condition" section of this finding inappropriately implies that IGT funds are available for appropriation in the subsequent fiscal year under the accounting treatment we have applied. The PHHS accounting staff made a year end state-basis adjustment to transfer the fiscal year 2006-07 IGT balance out of the state long term care appropriation and record the funds in a special revenue code within the revenue-collected-in-advance balance sheet account. This ledger account is not associated with a current state appropriation. The \$217 million IGT balance residing in the revenue-collected-in-advance account represents the cumulative remaining IGT fund balance. The effect of this adjustment removes the possibility of IGT funds being available for general appropriation in the subsequent fiscal year. The adjustment described above has been done consistently in this manner since execution of the initial IGT agreement in 1992.

Finally, we evaluated the feasibility of using a restricted revenue ledger to account for IGT funding as recommended in this finding. Because IGT funding is expiring after fiscal year 2008-09, we believe a fiscal year end GAAP accounting adjustment designating the IGT reserve is the most efficient methodology of implementing the recommendation for the remaining IGT years. PHHS will incorporate this adjustment as a step in their GAAP preparation process.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2007***

### **Finding 07 – 3: (continued)**

**Auditors' Conclusion:** The auditor adjustment to re-post these funds from unreserved/undesignated to other reserves was proposed because we agree that IGT funds are not available for appropriation in the subsequent year, so the condition does not assert or imply that the funds are available for such appropriation. 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, 2007

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### Finding 07 – 4:

#### Office of the Budget – Bureau of Financial Management Department of Transportation Comptroller Office Pennsylvania Department of Transportation

#### Lack of Procedures to Monitor, Assess, and Report the Impact of Highway and Bridge Infrastructure Replacement Activity in the BFS

**Condition:** The GASB Statement No. 34 Implementation Guide, “Guide to Implementation of GASB Statement 34 on Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments” requires removed and replaced highway and bridge infrastructure assets to be subtracted from infrastructure balances in the BFS. We noted during our audit period that there were no established agency-wide procedures at PADOT to properly monitor highway and bridge replacement activity and its impact on infrastructure amounts in the BFS.

**Criteria:** The GASB Statement No. 34 Implementation Guide, “Guide to Implementation of GASB Statement 34 on Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments” (Question 41) requires capitalization of projects that extend the useful life and serviceability of a capital asset such as infrastructure. In these cases, the cost of a replaced highway or bridge asset and its associated depreciation should be removed from the infrastructure balances in the BFS.

**Cause:** GASB Statement No. 34 required the retroactive capitalization of infrastructure assets back to 1980. In year one of the Commonwealth’s GASB 34 implementation (SFYE June 30, 2002), PADOT Comptroller Office and BFM made the determination that given the replacement cycle of highways and bridges in Pennsylvania, the impact of replacements would be insignificant to the BFS and decided not to implement procedures to review infrastructure assets that were removed and replaced. We consider this lack of procedures an internal control weakness over financial reporting.

**Effect:** Highway and bridge infrastructure balances and accumulated depreciation will be misstated in the future if monitoring procedures to assess and report the impact of replacements are not implemented.

**Recommendation:** We recommend that a system to monitor and assess the impact of highway and bridge replacement activity be developed and implemented by BFM and PADOT to ensure the proper reporting of infrastructure assets in the BFS.

**Agency Response:** We dispute what GASB Statement No. 34 itself requires. In the established GAAP hierarchy, the GASB 34 Implementation Guide (along with all other such Guides) is Level 4, which is three levels lower than Level 1, where GASB Statement No. 34 itself resides. We urge that the finding be eliminated based on the low level of the Implementation Guide within the established GAAP hierarchy.

Further, Question 41, within this Implementation Guide, asks a capitalization question, not a retirement question. In its answer, GASB staff gives guidance about which costs ought to be capitalized and depreciated. Only the last sentence of the answer mentions ‘removed.’ In the context of both the question and the answer, PADOT has stated that, beginning in 2000, the incidence of removing or replacing *reported* (post-June 30, 1980) highway or bridge infrastructure, as in the originating question, is rare. And, the Commonwealth’s longstanding methodology used for capitalization purposes provides that capitalization of additions to existing assets occurs only when the ‘service utility’ of an asset is increased. Under that convention resurfacing of highways is not capitalizable. ‘Removal’ of original construction costs should only occur when *reported* assets are destroyed to make way for a replacement. Again, PADOT indicates that such occurrences are very rare. So, the risk of overstating reported highway or bridge infrastructure balances in the basic financial statements is very low.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2007***

### **Finding 07 – 4: (continued)**

**Auditors' Conclusion:** We do not agree with management on this issue because PADOT has no established procedures and has provided no documentation to reasonably support the claim that removal or replacement activity cannot become significant to BFS reporting in the future. We also conclude that the Implementation Guide is very clear on this reporting issue and is applicable to the BFS under audit regardless of its level in the established GAAP hierarchy. Therefore, our 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**

## ***Basic Financial Statement Findings - June 30, 2007***

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### **Finding 07 – 5:**

#### **Department of Transportation**

##### **Internal Control Deficiency Over Lottery Fund Transportation Programs**

**Condition:** The Department of Transportation is not performing on-site monitoring of ridership data and supporting records at the two largest transit authority participants of the Lottery Fund’s Free Transit and Shared Ride programs.

The two largest transit authorities are the Southeastern Pennsylvania Transit Authority (SEPTA) and Port Authority of Allegheny County (PAAC). SEPTA and PAAC were awarded \$50.4 million and 10.2 million, respectively, out of total Free Transit program awards of \$69.2 million for FYE June 30, 2007. SEPTA and PAAC were awarded \$15.7 million and \$12.0 million, respectively, out of total Shared Ride program awards of \$66.9 million for FYE June 30, 2007. On a monthly basis, transit authorities are required to submit detailed ridership data for each program to the Department of Transportation. Ridership data is used to determine the amounts of funding due from the Lottery Fund to the transit authorities.

**Criteria:** Effective internal controls are necessary to ensure the Department of Transportation is correctly calculating the amount of eligible funding to each transit authority. These controls should include a proper verification process of ridership data submitted by the authorities.

**Cause:** According to Department management, ridership data at SEPTA and PAAC was not reviewed because the manager of the Free Transit program was new and he focused his efforts on the smaller transit authorities. Also, the manager of the Shared Ride program had no staff and that manager’s focus was on another Department of Transportation program.

Additionally, there were staff vacancies which were not filled until after our audit period in July, 2007. Most of the existing staff’s focus was to support the Transportation Funding and Reform Commission and to review and re-engineer existing Department of Transportation grant management.

**Effect:** Without proper verification of ridership data at the largest transit authorities, Lottery Transportation funding to these authorities could be materially incorrect.

**Recommendation:** The auditors recommend that the Department of Transportation review and enhance their internal control procedures to confirm ridership data submitted by the transit authorities via proper on-site monitoring.

**Agency Response:** PADOT agrees that periodic on-site monitoring is critical to ensuring fiscal reliability and program compliance and will enhance its efforts in this area. PADOT has initiated activities to re-engineer Public Transportation grant administration processes and organizational structure to enhance both technical assistance to grantees and the number of field reviews of grantee operations and administrative procedures. However, there are existing procedures both for the Shared-Ride Program and the Free Transit Program to verify the information used to calculate grants.

For the Shared-Ride Program, recordkeeping and reporting requirements with regard to individual trips are the responsibility of the transit systems and those detailed records are maintained at the transit system offices. The annual application process requires participating transit systems to describe, document and provide examples of their audit trails which must trace trips from reservation, to scheduling, to provision of the trip and to billing. Review of each system’s audit trail and consistency with the application are standard elements of Shared-Ride Program field reviews. In addition, when Comptroller’s Office auditors conduct an audit of a transit system participating in the Shared-Ride Program, we

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2007***

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### **Finding 07 – 5: (continued)**

understand that they review and reconcile shared-ride trips with billings. There have been few cases of inaccurate billings of any consequence. When inaccuracies have been identified through field reviews, the Bureau of Public Transportation requests that the Comptroller Office conduct an audit. The Bureau then uses that documentation to reconcile payments.

With regard to the Free Transit Program, again detailed records are maintained at the offices of participating transit systems. The annual application requires each transit system to document the methods they use to collect and tabulate the number of senior citizen free trips reported monthly for the grant calculation. The field review of a Free Transit participating provider includes the review of their records on the number of free trips recorded for senior citizens to ensure consistency with the methods described in the application and consistency with information reported to the Free Transit Program.

Last year, the auditors recommended that PADOT take stronger measures, including on-site monitoring visits, to ensure that the number of riders reported by vendors and the amount of the fares being invoiced to the Commonwealth by the transportation vendors were accurate. Since that time, the Bureau increased the level of activities associated with oversight of the Free Transit and Shared-Ride Programs. Free Transit field reviews were conducted at Mt. Carmel, Chester County TMA, Monroe County Transportation Authority, Schuylkill County Transportation, and Hilltop Bus in Monessen, PA. Shared-Ride field reviews included Cumberland County, Adams County, Schuylkill County Transportation, and Berks Area Reading Transportation Authority. In addition, we have hired three Mass Transit Trainees who will participate in field review activities at the appropriate phase in their training schedule, enabling us to conduct additional on-site reviews.

This year's finding points out that we have not conducted on-site monitoring of our two largest agencies, Southeastern Pennsylvania Transit Authority (SEPTA) and Port Authority of Allegheny County (PAAC). The Bureau recognizes the critical need to monitor ridership and reimbursement requests from grantees in the Shared-Ride and Free Transit Programs, particularly SEPTA and PAAC. We appreciate the finding as it supports our initiatives. To this end, the PADOT is in the process of seeking outside, independent assistance to conduct site visits which include procedures to confirm the accuracy of submitted ridership data. Our goal is to conduct site visits at SEPTA and PAAC by the end of calendar year 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

## Basic Financial Statement Findings - June 30, 2007

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### Finding 07 – 6:

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

#### Internal Control Weaknesses Over Financial Reporting for the Lottery Fund (A Similar Condition Was Noted in Prior Year Finding #06-1)

**Condition:** For the tenth year in a row, the Central Services Comptroller Office prepared the Lottery Fund’s GAAP template with misstatements as a result of accounting errors made during the GAAP template preparation process. Collectively, the errors had the following impact on financial statement accounts:

Liabilities – understated by \$12.6 million  
Revenue – overstated by \$12.6 million  
Accounts Receivable – understated by \$4.8 million  
Expenditures – overstated by \$4.8 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 oversights and errors in the preparation and review of the GAAP template for the Lottery Fund by the Central Services and PADOT Comptroller Offices.

**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, in conjunction with PADOT’s 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:** We agree that Central Services Comptroller Office should work directly with PADOT’s Comptroller Office to obtain information relative to PADOT’s activity within the Lottery Fund. Although Central Services did contact agency staff directly for information, accurate information was not provided. We believe that working directly with PADOT Comptroller staff will strengthen procedures for the Lottery Fund GAAP template preparation and ensure that the proper data will be provided for financial reporting purposes.

**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, 2007***

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### **Finding 07 – 7:**

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

##### **Internal Control Weakness Over GAAP Entries to Account for Payroll Benefit Transfers**

**Condition:** We found that BFM had a weakness in internal controls to ensure GAAP entries for state paid payroll benefit transfers for Group Life Insurance, SWIF, Annuitant Medical Hospitalization, Regular Employees Medical Hospitalization, State Police Medical Hospitalization and Retired State Police Medical Hospitalization were reported accurately in the BFS. BFM failed to properly account for \$148.7 million of these payroll benefits posted as internal activity within the SAP Accounting System. As a result, General Fund revenues were overstated by \$148.7 million, expenditures were overstated by \$113.2 million and accounts payable were understated by \$35.5 million.

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

**Cause:** BFM made GAAP adjusting entries to account for the state paid payroll benefit expenses, but failed to include the amounts identified above in the adjustments.

**Effect:** The BFS contained accounts that were misstated in the General Fund and an auditor adjustment was needed to correct the accounts.

**Recommendation:** We recommend BFM review and implement stronger internal controls to ensure all payroll accounts in the BFS are correctly stated.

**Agency Response:** This was the result of a BFM and Auditor agreed-upon change to the reporting of the revenue and expenditures in the payroll benefit transfer (restricted receipt) funds for the fiscal year ended June 30, 2007. This agreed-upon change will also be applied in future years.

**Auditors' Conclusion:** The BFS errors noted above were solely the result of an internal control weakness at BFM, and were not the result of an auditor agree-upon change in reporting these accounts in the BFS. 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, 2007***

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### **Finding 07 – 8:**

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

##### **Weakness in Internal Controls in COPA Fund Reconciliations of SAP Balances to Treasury**

**Condition:** On a monthly basis, BFM has internal controls established to reconcile each COPA fund's cash and short-term investment balances with Treasury's records. We found that the internal controls over the reconciliations did not detect COPA funds inadvertently overlooked in the reconciliation process. Three COPA funds, Property Tax Relief (Fund 170), Compulsive and Problem Gambling Treatment (Fund 169) and Uninsured Employers Guaranty (Fund 184) were not reconciled after April, 2007, and BFM was unaware that the funds remained unreconciled until the auditors detected it. The cash and short-term investments balances for these three COPA funds totaled \$230 million as of June 30, 2007, and were properly reconciled by BFM to Treasury as of June 30, 2007 after auditors informed BFM of the discrepancy.

**Criteria:** Effective internal controls are necessary to ensure the Commonwealth's accounting system is properly reconciled with Treasury's accounting system. Complete and proper reconciliations are necessary to ensure balances on the BFS are properly presented accordance with GAAP.

**Cause:** The three COPA funds omitted in BFM's reconciliation procedures are new funds recently created and had fiscal activity for the first time during the fiscal year ended June 30, 2007.

**Effect:** Without complete and proper COPA Fund reconciliations being performed, the BFS could be materially misstated in future fiscal years without proper detection by BFM.

**Recommendation:** BFM should review the internal control procedures to ensure COPA funds are fully and completely reconciled with Treasury each month.

**Agency Response:** COPA fund reconciliation is a routine process that rarely results in material adjustments to the accounting system. BFM agrees that an oversight occurred with respect to reconciling the fund types in question; it is unlikely that the oversight would have continued for an extended period of time. The likelihood that failing to compare several new funds to Treasury balances for a few months would produce a significant adjustment to the accounts is remote. BFM has implemented steps that will preclude such omissions in the future.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. The reconciliation is an important process to ensure the SAP accounting system is in agreement with Treasury's independent accounting system. 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, 2007***

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### **Finding 07 – 9:**

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

##### **Taxes Payable and Receivable Adjustments Are Not Properly Reviewed**

**Condition:** The Central Services Comptroller Office (CSCO) records the taxes receivable and taxes payable accruals in the BFS using estimated amounts. Subsequently, a lookback procedure is performed to adjust the estimate closer to actual. In the lookback, the CSCO obtains files from the Department of Revenue for testing. Based on their test results, CSCO decides whether or not an adjustment to the original estimated accrual is necessary.

In our testing of CSCO's test schedules, we found numerous recording and calculation errors. Although our current year testing of the accruals reported in the BFS disclosed no material errors, we found that the CSCO personnel did not perform adequate supervisory review of test schedules to ensure that schedules accurately reflected CSCO test results.

**Criteria:** An effective system of internal controls over financial reporting should contain a process whereby BFS adjustments are subject to a proper supervisory review.

**Cause:** No documented procedures are in place in CSCO to review test schedules to ensure that tax accounts are accurately adjusted and reported. CSCO stated these errors resulted from limited time and personnel to perform this review.

**Effect:** Since adequate internal control over accruals is not being maintained, the potential exists for the posting of inaccurate adjustments to the BFS.

**Recommendation:** CSCO should implement and document procedures to review CSCO test schedules to ensure that tax accruals are accurately adjusted and reported.

**Agency Response:** The small number of errors that were presented to Central Services Comptroller Office (CSCO) staff members by Auditor General staff members during the course of the audit were immaterial and had no effect on the accrual figures presented in the financial statements. CSCO does have a process in place to review certain test schedules related to the taxes receivable and taxes payable accruals. However, CSCO personnel are in complete agreement that the current review process should be expanded and that the process should be well documented. The expanded procedures will be documented before June 30, 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

## Basic Financial Statement Findings - June 30, 2007

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### Finding 07 – 10:

#### Department of Revenue

##### Internal Control Weaknesses Identified in Processing Gaming Tax Revenue

**Condition:** The Department of Revenue (DOR) submits daily invoices to casinos throughout the Commonwealth for payment of taxes related to gaming revenue. On a daily basis, DOR receives reports from a central computer system operated by their gaming service vendor (G-Tech Corporation) detailing casino activity and including gross terminal revenue relative to all active casinos. This information is used by DOR to calculate the amount of tax owed by each casino.

Based on conversations with DOR personnel, we determined that during fiscal year-ended June 30, 2007, the Department relied on its outside vendor G-Tech to determine gross terminal revenue for each active casino without reconciling this information to an independent source on a regular basis. Also, DOR established a policy to conduct on-site visits at each casino once every six months to audit and verify that casinos are reporting and submitting accurate gaming tax revenue. Although five casinos were open and operating by our year end of June 30, 2007, only one casino audit was conducted by DOR in June of 2007.

In addition, the Independent Service Auditor's Report for G-Tech for the period November 1, 2006 to June 30, 2007, included a significant qualification on G-Tech's central computer system controls as follows:

Software support personnel with development responsibilities have access to the production environment to troubleshoot problems in emergency situations. Detective controls are not in place to determine if unauthorized changes are made to the production environment while emergency access is granted to developers. This deficiency results in the control not being suitably designed to provide reasonable assurance that new systems and changes to existing systems are authorized, tested, approved and implemented in a controlled environment.

**Criteria:** Effective internal controls are necessary to ensure the DOR is properly calculating the amount of taxes owed to the Commonwealth and to ensure that casinos are reporting accurate and complete gaming data.

**Cause:** The Commonwealth's gaming operations are new in the current year and DOR had no procedures in place to ensure G-Tech's gross terminal revenue figures agreed to an independent source. In addition, DOR's procedures to conduct regular on-site visits to audit the casinos' amounts were just getting started in our current audit period. The Independent Service Auditor's Report is for the first year under G-Tech and DOR was not aware of the control weakness at G-Tech.

**Effect:** As a result of the internal control weaknesses mentioned above, future tax amounts could be materially overstated or understated. Also, in the case of an understatement of gross tax revenue, casinos could potentially be collecting gaming tax revenues that are not billed and received by the Commonwealth in accordance with regulations.

**Recommendation:** DOR should implement stronger internal control procedures, especially reconciliations and routine on-site audits, to ensure that gross terminal revenue amounts are accurately reflected on vendor reports and that the correct amount of tax owed is being billed to each casino. In addition, DOR should ensure proper follow up on the Independent Service Auditor's Report to provide reasonable assurance that new systems and changes to existing systems at G-Tech are properly authorized, tested, approved, and implemented in a controlled environment.

**Agency Response:** DOR's procedures manual supplied to all venues prior to opening requires each venue to submit reports from their in-house system. "The licensed gaming entities will be required to submit, as an attachment to electronic mail, daily receipt and payout information by game from their accounting systems."

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2007***

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### **Finding 07 – 10: (continued)**

The first casino opened sent reports beginning November 14, 2006. After numerous attempts, the second venue began sending reports April 1, 2007. DOR personnel reviewed and compared the venue reports to the G-Tech reports. The DOR, after multiple requests from the remaining venues, contacted the Gaming Control Board and with its assistance all venues began supplying daily reports beginning July 1, 2007. DOR personnel review these reports and compare them to the G-Tech system on a routine basis. The reports are reviewed on a machine-by-machine basis and any major discrepancies are resolved.

The DOR's policy is to audit a venue six months after opening. The first four audits were begun within eight months of the venue beginning operations. Four audits were started by October 2007. They are scheduled to close in the next few weeks.

Regarding the G-Tech qualification, this finding was addressed by G-Tech with the implementation of the Checksum Verification Process and the PA Video Remote Access procedure. The Checksum process is used to verify the system file structure and to ensure no changes have been made to the environment without proper approval. Once a scheduled release is performed, new target checksum and reference checksum files are created as the base for the verification. The verify checksum script will run and compare the reference checksum to the current checksum. As long as no changes have been made, the checksums will match. This process will be performed after each system release, after developers have been granted access to the system and on a monthly basis. The verification is performed on each system (primary, backup and off-site) separately. The PA Video Remote Access procedure was created to ensure that all users accessing the PA Video Environment are aware of the operating procedures necessary to guarantee that only authorized personnel can access the environment.

All changes to the system must also have DOR approval before the changes are made.

**Auditors' Conclusion:** Based on the agency response, our finding and recommendation remain as previously stated. While reconciliation and auditing procedures were begun by the department during the current year under audit, we concluded that there were weaknesses in these control procedures which were not timely or routinely put into place and which need to be strengthened in future periods. We will review any corrective action by the department 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, 2007

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### Finding 07 – 11:

#### Office of the Budget Office of Administration

#### Lack of Documentation to Support Contracting and Procurement (A Similar Condition Was Noted in Prior Year Finding #06-5)

**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, 2000 to June 30, 2006, (for seven fiscal years in a row), 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 weaknesses in the Commonwealth's internal controls over documentation supporting procurement of these contracts in those prior years. It should be noted that these prior-year findings also included contract awards, other than for statewide technology, which involved specific agencies and funds.

Our current year follow up for the fiscal year ended June 30, 2007, disclosed that, as in the prior years, 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, 2007

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### Finding 07 – 11: (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 “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 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 alter 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 recommendation. On February 14, 2008, Governor Rendell signed the Right To Know Law. We are currently analyzing that law and will meet with the auditors to explore potential solutions in accordance with the provisions of that law.

**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, 2007***

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### **Finding 07 – 12:**

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

##### **Internal Control Weakness in the Financial Accounting Records (A Similar Condition was Noted in Prior Year Finding #06-13)**

**Condition:** In performing our review of the Commonwealth’s internal control procedures with respect to the GAAP financial reporting system, we noted that, for the fourth straight year, 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 closing process. Finally, monthly and prior to GAAP closing, 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 written. However, significant progress has been made in moving more and significant balance sheet accounts to being "Open Item Managed" and we continue to work on this initiative. For instance, two accounts with high transaction volume, Cash in Transit and Invoices Payable - Non-SAP, have been analyzed, cleared, and are now open item managed. We would appreciate more specificity in the finding through the auditor's identification of specific, material balance sheet accounts which were not reconciled/analyzed at the end of the fiscal year so that we could properly focus on those accounts of concern.

**COMMONWEALTH OF PENNSYLVANIA**

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***Basic Financial Statement Findings - June 30, 2007***

**Finding 07 – 12: (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**

## **Basic Financial Statement Findings - June 30, 2007**

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### **Finding 07 – 13:**

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

##### **Weakness in BFS Reporting of DCED Encumbrances by LECS Comptroller Office**

**Condition:** We found that the LECS Comptroller Office understated GAAP basis encumbrances by \$24.3 million due to an error and a control weakness in the preparation of the Department of Community and Economic Development General Fund GAAP template. The LECS Comptroller Office made GAAP adjusting entries to properly eliminate budgetary basis encumbrances that were originally reported as such in DCED’s GAAP template, but needed to be re-booked as liabilities from the prior-year ledgers through August 31, 2007. However, when LECS subsequently estimated and re-booked encumbrances to liabilities for activity after August, they incorrectly used both the current and prior ledger estimates in this process when only the prior ledger estimates should have been used, and the encumbrance elimination adjustment was too high. Therefore, encumbrances were understated and Unreserved/Undesignated was overstated in the General Fund for the FYE June 30, 2007, and an adjustment was posted to correct the BFS.

**Criteria:** Encumbrances reported on the balance sheet represent legal commitments that will be fulfilled in the subsequent fiscal year. Budgetary basis encumbrances that are reserved for goods or services actually received before year end should be liquidated and re-booked as liabilities for GAAP reporting purposes. Good internal control dictates that budgetary-basis encumbrance balances be properly recorded and reviewed, and accurately reported in the BFS.

**Cause:** The LECS GAAP template preparer for DCED mistakenly eliminated encumbrances for all liabilities to be paid after August, not just the portion of encumbrances payable from the prior ledgers which was the amount actually reported in the BFS. The supervisory reviewer did not detect the error.

**Effect:** As a result of the error on reporting encumbrances, the General Fund balance sheet encumbrances were understated and Unreserved/Undesignated was overstated by \$24.3 million, and necessitated an auditor adjustment. Without strengthened internal controls, encumbrances will continue to be misstated in the future.

**Recommendation:** We recommend that LECS strengthen controls to ensure that DCED GAAP template preparer entries are accurate and the template reviewer ensures that encumbrance balances reported in the template are accurate.

**Agency Response:** The LECS Comptroller Office has reviewed its internal procedures for template preparation and made notes to ensure that only the prior ledger encumbrance estimates are classified as liabilities for activity after August 31, 20XX. This process will be used to ensure that encumbrances are reported correctly and Unreserved/Undesignated is not under/overstated. We will also strengthen our internal review as the template reviewer will ensure that the template preparer entries are accurate as well as the balances reported in the template.

**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, 2007***

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### **Finding 07 – 14:**

#### **Department of Treasury**

##### **Material Weakness Over Escheat Liability Estimation Methodology (A Similar Condition Was Noted in Prior Year Finding #06-7)**

**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 a percentage between property received and claims paid, which was to be applied to total outstanding property so that a liability could be determined. However, this percentage was instead applied to total property received (property previously claimed was not subtracted). This resulted in a \$100 million overstatement in the escheat liability and related understatement of revenue in the BFS, necessitating a BFS adjustment by the auditors for the second year in a row. It is also noted that environmental factors and other trends are not considered in the liability calculation.

**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 calculate the percentage between property received and claims paid and apply this to outstanding property. They should also consider any current environmental factors and trends which could impact the accuracy of the calculation, and document these considerations.

**Cause:** It appears that this misstatement was caused by errors in routine accounting functions and oversight and errors in the preparation and review of the financial statements.

**Effect:** If not corrected, the above-mentioned flow in the Treasury Comptroller Office's escheat estimation methodology will result in overstatement of the liability and understatement of revenue in future years.

**Recommendation:** We recommend that the Treasury Comptroller's Office review and revise its accounting controls used to record escheat activity during the normal course of business and during the year end closing process. In addition, it is recommended that anticipated changes in trends, environmental factors, etc. be taken into consideration during the calculation of the escheat liability, and this consideration be formally documented.

**Agency Response:** The Treasury Comptroller's Office agrees with the auditors that the methodology used to compute the liability for abandoned and unclaimed property as of June 30, 2007 overstated 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 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, 2007 is that Treasury has paid claims of approximately 20 percent of receipts. Receipts from this period represent 93 percent of the total property available to be claimed.

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Basic Financial Statement Findings - June 30, 2007***

### **Finding 07 – 14: (continued)**

The Comptroller's Office inadvertently used the total property received rather than the property available to claim in the computation of the reported liability.

**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, 2007

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### Finding 07 – 15:

#### Executive Offices

#### Department of General Services

#### For the Third Year, Internal Control Weaknesses Exist Over Accounting for Assets Under Construction (A Similar Condition Was Noted in Prior Year Finding #06-6)

**Condition:** The Asset 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 in 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 agency was 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 agency was 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 settlement greatly increases the risk of AUC, General Capital Assets, Accumulated Depreciation and Depreciation Expense misstatements since the agency personnel are the ones who should be 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 five 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 prior year, so lack of adequate staffing may be a contributing factor to this deficiency.

**Effect:** AUC, General Capital Assets, Accumulated Depreciation and Depreciation expense will continue to 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 be developed that provide proper instruction for agency personnel to ensure proper AUC reporting be reviewed for adequacy. We further recommend that agency personnel participate in extensive training so that they do 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:** As of February 5, 2008, the Fiscal Division's complement is fully staffed. Now that there is staff to perform the fixed asset accounting responsibilities, a meeting has been scheduled for February 13, 2008 to begin the training and transition of moving fixed asset accounting back to the Department of General Services, Public Works, Bureau of Professional and Administrative, Fiscal Division.

It is the Department's goal to complete this transition by April 1, 2008. Also, procedures will be developed and documented as the training occurs, to provide proper instruction to fiscal staff. In addition, fiscal management will monitor the transition and implementation of the fixed asset accounting process closely.

**COMMONWEALTH OF PENNSYLVANIA**

***Basic Financial Statement Findings - June 30, 2007***

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**Finding 07 – 15: (continued)**

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective 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, 2007

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### Finding 07 – 16:

#### Department of Treasury

#### Errors and Internal Control Weakness in Reporting Securities Lending Amounts (A Similar Condition Was Noted in Prior Year Finding #06-12)

**Condition:** Securities lending assets and the related liabilities are calculated and allocated to each fund by Treasury Comptroller's Office based on reports provided by Mellon Bank and fund shares in one or more pools and investment accounts. In our testing of securities lending assets and liabilities, we noted several errors that resulted in incorrect assets and liabilities being reported in all funds, and resulted in auditor adjustments to the BFS. The errors were material in four major funds. Securities lending assets, which are reported as Temporary Investments in the BFS, and Securities Lending Obligations were overstated by \$205.4 million in the General Fund; \$69.8 million in the Motor License Fund; \$29.9 million in the State Lottery Fund and \$237.9 million in the State Workers Insurance Fund (SWIF). This is the third year in a row with Securities Lending errors in the BFS necessitating auditor adjustment. The current-year errors were the result of the following:

- Collateral received as U.S. dollar-denominated cash is pooled and invested by Mellon. Collateral received in Eurodollars is invested in a separate GSL pool by Mellon. Collateral received in the form of Eurodollars is subtracted from the total of all cash collateral received prior to allocating the fair value of the reinvested U.S. dollar-denominated cash collateral pool. Treasury incorrectly deducted all cash collateral (US dollar-denominated cash and Euro-denominated cash) received for foreign investments on loan from the total cash collateral received prior to allocating the reinvested U.S. dollar-denominated cash collateral. Because most of the foreign investments on loan belonged to one separately audited pension fund, the effect was an increase in the ownership percentages of the reinvested U.S. dollar denominated cash collateral for all other funds. This error was made both for the June 30 collateral calculations and the December 31 collateral calculations.
- Additionally, in calculating the collateral to be reported by SWIF, which has a December 31 year-end, Treasury under reported collateral for Pool 124, in which SWIF participates, by \$30 million. Pool 98 collateral was incorrectly allocated on the basis of the average cost of pool shares, rather than the number of pool shares at December 31.

**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." GASB 28, paragraph 9 states that when a pool participates in securities lending, the assets and liabilities should be reported by the funds that have the risk of loss, involving "a pro rata allocation to the various funds based on their equity in the pools." Strong internal controls should ensure that securities lending assets and the related liabilities are reported accurately and in accordance with the applicable governmental reporting standards

**Cause:** Based on our discussions with Treasury, it appears that the errors resulted from new, inexperienced staff performing the calculations and allocations for securities lending. Internal controls at Treasury failed to detect the errors.

**Effect:** Temporary investment balances and securities lending collateral were misstated for all funds and materially misstated for four major funds in the BFS requiring auditor adjustments.

**Recommendation:** Treasury should standardize and document the methods of calculating and allocating securities lending assets and obligations to reduce the potential for errors in year-end reporting. In addition to a detailed review, internal controls should include an overall review for reasonableness of amounts being reported and consistent methodology.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2007***

### **Finding 07 – 16: (continued)**

**Agency Response:** The Treasury Comptroller's Office agrees with the auditors that the errors were made to the Securities Lending related to the GSL Euro pool allocation, which necessitated the auditor adjustments for both June 30 and December 31 collateral calculations. We also agree with the SWIF auditor adjustment necessitated by the allocation of Pool 98 based on the average cost of shares.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review any correction 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, 2007***

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### **Finding 07 – 17:**

#### **Office of the Budget – Public Health and Human Services Comptroller’s Office**

##### **Internal Control Weaknesses Over Financial Reporting in the Department of Public Welfare GAAP Template**

**Condition:** The Public Health and Human Services Comptroller’s office prepared the Department of Public Welfare’s GAAP template which contained overstated liability accruals and related federal receivables causing several BFS adjustments by the auditors amounting to \$182 million. There was also an additional \$126 million error in accounting for accrued refunds which caused an overstatement in recording the federal receivable. This also necessitated an auditor adjustment.

**Criteria:** Strong internal controls would ensure accurate GAAP template preparation which is imperative to accurate reporting in the BFS in accordance with GAAP.

**Cause:** The PHHS Comptroller’s office relies on the program offices to estimate the outstanding accruals for the various programs. We were informed that the program offices estimate accruals with budgetary-based amounts and sometimes overestimate to ensure funding is available. Not reducing the federal portion of the accounts receivable for accrued refunds was an oversight. The PHHS Comptroller’s office internal review procedures were not thorough enough to detect and correct the errors in the DPW GAAP template.

**Effect:** Account balances were materially misstated and required auditor adjustment. Additional misstatements in the future could result from the weaknesses in the preparation and review procedures.

**Recommendation:** The PHHS Comptroller’s office should detail review GAAP templates prior to submitting them for inclusion in the Commonwealth’s basic financial statements. We recommend the Comptroller’s office require the program offices to provide estimates with a reviewable estimation methodology. The Comptroller’s office should then properly validate the estimates.

**Agency Response:** The PHHS Comptroller’s Office concurs with this finding. PHHS will modify its GAAP template preparation process to ensure that, in the future, accrued refunds are properly accounted for in the GAAP templates. Regarding program office estimates, we will continue to request that the agencies provide estimates using reasonable and measurable estimation methodologies. PHHS will perform validation of estimates before finalizing GAAP entries.

**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, 2007

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### Finding 07 – 18:

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

##### Internal Control Weaknesses Over Financial Reporting in the Labor and Industry GAAP Template

**Condition:** The LECS Comptroller’s office was responsible for the preparation of accounting information which ultimately was posted to and reflected in the L&I GAAP template. As a result of audit procedures performed, we discovered several errors made during the GAAP template preparation process. The support used to calculate the template preparation adjustments contained clerical errors. On one schedule, the amounts when added together did not equal the totals. On another schedule, the formulas were incorrect. The totals did not include some supporting amounts on another schedule.

**Criteria:** An effective system of internal controls over financial accounting and reporting should ensure accounting transactions are reported accurately and are appropriately reviewed and approved by management.

**Cause:** There were clerical preparation errors made in the generation of accounting data, and the review process of the LECS Comptroller’s Office did not discover the errors.

**Effect:** There were differences between what was posted to the accounting records, and what should have been posted. As part of a subsequent, post-closing lookback validation procedure performed by the Comptroller office, the correct amount was subsequently recorded in the accounting records and no auditor adjustment was required. Although the correct numbers were eventually recorded, resulting in no auditor adjustment to or errors in the Commonwealth’s basic financial statements, the noted weakness in preparation and internal review procedures could result in future errors and misstatements.

**Recommendation:** We recommend that the LECS Comptroller’s office personnel re-check work at a level necessary to detect and correct errors as noted above, and the detail review process be evaluated for modification to ensure significant errors are corrected through this control procedure.

**Agency Response:** LECS actually did post the entry we intended to post. The spreadsheet LECS provided did not properly support the entry. We recreated the spreadsheet with the percentages used and provided that to the auditors. The lookback entry was part of the normal template preparation process. This was not a “correcting” entry.

The LECS Comptroller’s Office has reviewed its internal procedures for template preparation and in order to prevent future instances of not saving the correct spreadsheets and providing incorrect documentation to the auditors we plan to create a shared folder that will be used by the template preparers and reviewer for all needed spreadsheets. Spreadsheets will only be saved to individual H-Drives once the template is complete and audited. Additionally, we will add math checks to spreadsheets to confirm all formulas are correct.

**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, 2007***

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### **Finding 07 – 19:**

#### **Office of the Budget – Public, Protection and Recreation Comptroller Office**

##### **Internal Control Weaknesses Over Financial Reporting in DCNR’s General Fund GAAP Template**

**Condition:** PEMA drew funds for several federal public assistance grants in advance, and the advanced funds were transferred interagency from PEMA to DCNR. When the \$21 million in funds were transferred, they were included in DCNR’s Revenue Collected in Advance account which in this case was incorrectly coded as a revenue account on the SAP system and reported as revenue in the BFS. These funds were not included in the deferred revenue account in the DCNR GAAP template as required, so that General Fund revenue was overstated and deferred revenue was understated. An auditor adjustment of \$21 million was required to correctly report this revenue as deferred revenue in the BFS in accordance with GAAP.

**Criteria:** Good internal control over accounting and accurate GAAP template preparation is imperative to accurate reporting on the Commonwealth’s BFS in accordance with GAAP.

**Cause:** When the funds were transferred, they were not properly recorded on SAP as deferred revenue for DCNR. Also, there was inadequate review of the transfer transactions and the DCNR GAAP template by the PPR Comptroller’s Office to ensure the deferred revenue was properly reported in the BFS.

**Effect:** The deferred revenue was understated and revenue was overstated in the General Fund causing an auditor adjustment to the BFS. Without improved internal control, misstatements will continue into the future.

**Recommendation:** We recommend that PPR Comptroller’s Office improve its procedures to detail review the DCNR GAAP template, including a proper examination of the deferred revenue account, prior to inclusion in the Commonwealth’s basic financial statements.

**Agency Response:** This adjustment was the result of a clerical error. Disaster Assistance revenue transferred from the PEMA to the DCNR was deposited to an incorrect revenue code. The funds were deposited to the collected-in-advance revenue code 001841-038000-101 instead of the liability (Federal) collected-in-advance revenue code, 001840-038000-101.

As indicated in the finding, an audit adjustment was made for this item. An adjustment memorandum has been processed to transfer the revenue to the proper revenue code. In addition, we have implemented procedures to review all revenue deposited to collected-in-advance for PPR agencies to ensure that it is properly classified for the GAAP templates.

**Auditors’ Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review the 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, 2007

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### Finding 07 – 20:

#### Department of General Services Bureau of Risk and Insurance Management

#### Internal Control Weakness in Reporting Self-Insurance Liability in the BFS (A Similar Condition Was Noted in Prior Year Finding #06-15)

**Condition:** For the second consecutive year, we noted errors and control weaknesses in our audit of the self-insurance tort liability reported in the government-wide BFS as follows:

- As the result of our confirmation of reserves with the Office of Attorney General (OAG) and our review of the case reserves, we found that there were undetected duplications and overstatements on the reserve reports used by Bureau of Risk and Insurance Management (BRIM) to report the liability for self-insurance in the BFS.
- Our testing of BRIM's Incurred But Not Reported (IBNR) calculations disclosed inconsistencies in methodology and mathematical errors in the calculation of the IBNR that had the potential to over- or understate the liability for tort claims.

In response to our inquiries about these errors, BRIM indicated that neither the reserves nor the IBNR had been reviewed for accuracy or propriety prior to calculating the liability amounts for the Bureau of Financial Management for BFS reporting purposes.

**Criteria:** GASB Statement No. 10 requires insurance-type liabilities to be reported in the government-wide BFS 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 are based is as accurate as possible.

**Cause:** BRIM used a preliminary report from the OAG, which had been provided for use in updating BRIM's claim management system, to report the reserves. On the basis of our testing and inquiry, we determined that OAG was not aware that their reserve report would be used for year-end reporting and therefore they did not review it for accuracy or duplicates. In addition, reserves provided by agency attorneys were included in the total reported liability. BRIM indicated that they did not review either the OAG or agency reserves for potential duplication or reasonableness prior to reporting them. The inconsistencies noted in the IBNR calculations relate to incorrect claim counts used to calculate average reserves for prior year claims, the use of litigation and prelitigation claim counts (rather than prelitigation claim counts only) for estimating the prelitigation portion of the IBNR, and inaccurate calculations for the total number of claims incurred in year one in the IBNR calculations.

**Effect:** The self-insurance tort liability was based on the reserves recorded in the Office of Attorney General's database, reserves reported by agency attorneys, prelitigation reserves from BRIM's claims management system, and the calculated IBNR. The OAG report and agency reserves included actual and potential duplicates and inaccurate reserve amounts. Although the current-year errors were not material and no adjustment was needed to the current year BFS, when case reserves are not accurate, there is the potential for material over/understatement of the liability in future years. The IBNR calculations also depend on the accuracy of case status and case reserve data in the reserve reports. 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 result in material differences in reporting the total liability in the future.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2007

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### Finding 07 – 20: (continued)

**Recommendation:** We recommend that BRIM perform a thorough review of cases in the claims and case management systems to determine whether there are duplicate cases or unrealistic reserves that should be investigated and corrected prior to reporting the year-end liability in the BFS. Additionally, we recommend that a knowledgeable individual review the IBNR calculations to ensure they are reasonably accurate.

**Agency Response:** The Department of General Services, Bureau of Risk and Insurance Management (BRIM), and the Office of Attorney General, Bureaus of Tort Litigation and Civil Law acknowledge the weaknesses in the current system, methodologies and IBNR calculations, and will continue to implement previously identified and new procedures to ensure the accuracy of open tort claims and the current liability associated with each claim.

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

1. Pre-litigation adjusters will review and confirm all their open claims.
2. BRIM will close all pre-litigation claims over two years old that do not have a docket number.
3. BRIM will obtain a report from OAG Tort Litigation and Civil Law Units of all open litigation cases within OAG ICMS. BRIM will also request a report of civil right type cases from Administrative Office of the Courts, the Legislature and the Turnpike.
  - The reports will be reconciled against BRIM's RiskMaster database and the OAG matter number, docket number and/or case name will entered on the corresponding RiskMaster data file. Any and all discrepancies between the two databases will be investigated and rectified.
  - OAG reports will also be checked for duplicate by sorting the list by Docket No. and Case Name.
4. In addition to individual notifications when a litigation case is closed, the Office of Attorney General will continue to provide a weekly or monthly list of cases closed during the respective period.
5. Claims over two years old not involving the Courts, the Legislature or the Turnpike that could not be matched to OAG lists will be investigated and closed.
6. Prior to the close of each fiscal year, the Office of Attorney General will review all open cases and provide a report to BRIM indicating their assessment of the current liability for each case.
7. Prior to the close of each fiscal year, BRIM will reconcile the OAG-ICMS database list of open cases with their RiskMaster system.
  - All claims not identified on both systems will be investigated.
  - A copy of the initial complaint will be requested for cases on the OAG list which could not be matched to existing claim on BRIM's RiskMaster database.
  - The same procedure will be duplicated for the Courts, the Legislature and the Turnpike. Missing OAG, Courts, Legislature and Turnpike cases will be added. All non-matching reserves will be investigated and rectified.
8. BRIM will prepare a report by agency of all open litigation cases. The list will be sent to the General Council's Office for distribution to the agencies' Chief Counsel's Office asking each to confirm the status of the case and the open reserve amount. Separate lists will probably have to be sent to the independent agencies outside of General Council's jurisdiction. The RiskMaster database will be updated based on agency responses.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2007***

### **Finding 07 – 20: (continued)**

9. The Commonwealth's Risk and Insurance Manager has spoken with the Deputy Insurance Commissioner and has arranged to consult with the Insurance Department's Senior Actuary to develop an actuarially acceptable methodology for calculating IBNR for each self insurance fund.

We are confident that 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, 2007

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### Finding 07 – 21:

#### Office of Administration – Integrated Enterprise System Office of the Budget – Bureau of Financial Management

#### Statewide Weaknesses Within the SAP Accounting System Related to Segregation of Duties Conflicts (A Similar Condition Was Noted in Prior Year Finding #06-16)

**Condition:** As noted in similar findings in the past four fiscal years since SAP was implemented, our review and testing of the Commonwealth's internal controls over transactions posted to the SAP accounting system again noted internal control weaknesses regarding segregation of duties in the SAP environment. Overall, we noted that SAP segregation of duties conflicts were reduced from 693 user conflicts last year to 227 user conflicts this year, but as a result, further segregation of duties control enhancements are needed. These weaknesses related to expenditures/expenses posted directly to the Commonwealth's Goods Receipt/Invoice Receipt (GR/IR) and accounts payable accounts, and vendor master records. In particular, it was noted numerous accounts having segregation of duties conflicts in relation to posting expenditures on the SAP system and an absence of procedures to monitor user role assignment and user activity. The Commonwealth has identified controls to mitigate portions of the segregation of duties identified but does not have a process in place to determine that these control are working effectively.

**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 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 requisite revocation and refinement of roles has occurred since the bulk of the implementations occurred during prior audit periods. Also it was noted that additional potential conflicts were created after the SAP implementation for various business reasons.

**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:** We recommend that the segregation of duties issues noted above be investigated and excessive access detected within SAP be revoked as deemed necessary by management. If specific business justification exists (i.e., administrators, short term needs, etc.), a minimal number of staff should be assigned administrative roles, rather than granting an excessive number of profiles/authorizations, which would provide the same administrative access. SAP roles in expenditure posting should be closely monitored, and potential segregation of duties conflicts on the SAP System should be appropriately justified in writing on an as needed basis.

We also recommend a periodic review of the system security settings and any available security logs 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.

Overall, we recommend that the Commonwealth revisit the requirements and assignments surrounding SAP security as outlined by SAP Security Procedures Document Section 2.2.4 "Audit Services" and by Management Directive 205.37 to determine if modification is needed to fulfill the overall objective of an effective control environment. Enhancements or compensating controls identified should be documented and evaluated in compliance with the requirements of this directive.

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Basic Financial Statement Findings - June 30, 2007***

### **Finding 07 – 21: (continued)**

**Agency Response:** We accept this finding as written and will continue our efforts to strengthen internal controls in SAP.

**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, 2007

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
07-22**	10.551 93.558 93.575 93.596 93.778	Food Stamps Temporary Assistance for Needy Families Child Care and Development Block Grant Child Care Mandatory & Matching Funds Medical Assistance	Internal Control Deficiencies at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #06-18)		DPW	80	270
07-23*	10.551 93.558 93.575 93.596	Food Stamps Temporary Assistance for Needy Families Child Care and Development Block Grant Child Care Mandatory & Matching Funds	Internal Control Weaknesses at DPW Related to Returned EBT Cards		DPW	88	270
07-24**	10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Noncompliance and Internal Control Weaknesses Related to Compliance Investigations at WIC Vendors, Food Instrument Redemption and Follow-Up Results in Likely Questioned Costs Over \$10,000	\$4	DOH	90	270
73 07-25**	12.401	National Guard Military Operations and Maintenance Projects	Noncompliance and Deficiencies in Internal Control Over Charging of Personnel Costs (Prior Year Finding #06-20)		DMVA	93	270
07-26**	14.228	Community Development Block Grants/ State's Program	Noncompliance and Internal Control Deficiencies Over Federal Reporting		DCED	97	270
07-27**	14.228 14.239	Community Development Block Grants/ State's Program HOME Investment Partnerships Program	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #06-21)		DCED	100	270
07-28**	16.007 97.004 97.067	Homeland Security Cluster	Unallowable Equipment Purchases and Cash Payments Result in Questioned Costs of \$9,678 and Internal Control Deficiencies and Noncompliance in PEMA's Subrecipient Monitoring (Prior Year Finding #06-22)	\$9,678	PEMA	103	271

\* - Significant Deficiency  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2007

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
07-29**	16.007 97.004 97.067	Homeland Security Cluster	Noncompliance and Internal Control Deficiency Over Period of Availability Requirements Results in Questioned Costs of \$1,632,447	\$1,632,447	PEMA	108	271
07-30**	17.245	Trade Adjustment Assistance	Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (Prior Year Finding #06-24)		L&I	110	271
07-31**	66.458 66.468	Capitalization Grants for Clean Water State Revolving Fund Capitalization Grants for Drinking Water State Revolving Fund	Weaknesses in the Calculation of CWSRF and DWSRF Outstanding Federal Loans Receivable Balances Reported in the Footnotes to the SEFA		PPR	115	271
07-32*	66.468	Capitalization Grants for Drinking Water State Revolving Fund	Internal Control Weakness in State Matching Procedures at DEP for DWSRF		DEP	117	271
07-33*	84.010 84.367	Title I Grants to Local Educational Agencies Improving Teacher Quality State Grants	Inadequate Controls Over Ensuring LEA Compliance With MOE Requirements (Prior Year Finding #06-31)		PDE	118	271
07-34**	84.010	Title I Grants to Local Educational Agencies	Inadequate Controls Over PDE's Consolidated State Performance Report (Prior Year Finding #06-30)		PDE	120	272
07-35**	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 #06-33)		PDE	123	272
07-36*	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 #06-34)		L&I	127	273
07-37	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Unallowable Payment to a Vendor Results in Questioned Costs of \$146 and Likely Questioned Costs Over \$10,000	\$146	L&I	130	274

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\* - Significant Deficiency  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2007

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
07-38*	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 \$22,268 in Unsupported Program Income (Prior Year Finding #06-36)		L&I	132	274
07-39**	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs (Prior Year Finding #06-35)		L&I	134	274
07-40*	84.287	Twenty-First Century Community Learning Centers	Internal Control Weakness in PDE’s Monitoring of Federal Earmarking Requirements (Prior Year Finding #06-38)		PDE	136	274
07-41**	84.357	Reading First State Grants	Noncompliance and Internal Control Weakness in the LECS Comptroller Office System of Cash Management (Prior Year Finding #06-40)		LECS	138	274
07-42**	84.357	Reading First State Grants	Internal Control Weaknesses and Noncompliance With Earmarking Requirements Result in Questioned Costs of \$213,734 (Prior Year Finding #06-41)	\$213,734	PDE	140	274
07-43**	84.357	Reading First State Grants	Noncompliance Noted in PDE’s Allocations of Reading First Subgrant Awards to LEAs (Prior Year Finding #06-39)		PDE	143	275
07-44**	90.401	Help America Vote Act Requirements Payments	DOS Did Not Perform Adequate Monitoring of Subrecipients (Prior Year Finding #06-42)		DOS	145	275
07-45**	93.283	Centers for Disease Control and Prevention – Investigations	Noncompliance and Internal Control Weaknesses in Charging Personnel Costs (Prior Year Finding #06-43)		DOH	147	275
07-46**	93.283	Centers for Disease Control and Prevention – Investigations	Weaknesses in DOH Program Monitoring of CDC Subgrantees (Prior Year Finding #06-44)		DOH	149	275

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\* - Significant Deficiency  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2007

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
07-47**	93.558 93.575 93.596 93.658 93.659 93.667 93.778	Temporary Assistance for Needy Families Child Care & Development Block Grant Child Care Mandatory & 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 (Prior Year Finding #06-45)		DPW	152	275
07-48**	93.558	Temporary Assistance for Needy Families	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #06-47)		DPW	154	275
07-49**	93.558 93.575 93.596	Temporary Assistance for Needy Families Child Care & Development Block Grant Child Care Mandatory & Matching Funds	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs of at Least \$20,617 (Prior Year Finding #06-48)	\$20,617	DPW	158	275
76 07-50**	93.568	Low-Income Home Energy Assistance	Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of LIHEAP Weatherization Subrecipients (Prior Year Findings #06-53 through #06-58)		DCED	162	275
07-51**	93.568	Low-Income Home Energy Assistance	Internal Control Deficiencies in DPW's Administration of LIHEAP Cash and Crisis Benefits (Prior Year Findings #06-50 and #06-51)		DPW	168	276
07-52**	93.568	Low-Income Home Energy Assistance	DPW Failed to Adequately Monitor the Processing of LIHEAP Applications (Prior Year Finding #06-52)		DPW	172	276
07-53**	93.568	Low-Income Home Energy Assistance	Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$7,101 in LIHEAP (Prior Year Finding #06-49)	\$7,101	DPW	175	276
07-54**	93.569	Community Services Block Grant	Noncompliance and Internal Control Deficiencies at DCED Over Subgrantee Payments (Prior Year Finding #06-59)		DCED	179	276

\* - Significant Deficiency

\*\* - Material Weakness

CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2007

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
07-55**	93.575 93.596	Child Care & Development Block Grant Child Care Mandatory & Matching Funds	Weaknesses in DPW Program Monitoring of Child Care Cluster Subgrantees (Prior Year Finding #06-62)		DPW	181	276
07-56*	93.575 93.596	Child Care & Development Block Grant Child Care Mandatory & Matching Funds	Internal Control Weaknesses Result in Noncompliance With Federal Earmarking Requirements and Questioned Costs of at Least \$912,853 (Prior Year Finding #06-61)	\$912,853	DPW	183	276
07-57**	93.658	Foster Care – Title IV-E	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #06-63)		DPW PHHS	186	276
07-58**	93.658	Foster Care – Title IV-E	Internal Control Weakness Over Expenditure Information Reported on the SEFA (Prior Year Finding #06-65)		OB/BFM PHHS	188	276
07-59**	93.658 93.659	Foster Care – Title IV-E Adoption Assistance	DPW Office of Children, Youth and Families Documentation Supporting the Licensing and Monitoring of Foster Care and Adoption Assistance Agencies is Incomplete (Prior Year Finding #06-64)		DPW	190	276
07-60**	93.667	Social Services Block Grant	Weaknesses in DPW Program Monitoring of SSBG Subgrantees (Prior Year Finding #06-62)		DPW	192	276
07-61	93.767	State Children’s Insurance Program	Noncompliance With Procurement Standards Related to Ensuring Actuarial Soundness of Monthly Premium Rates (Prior Year Finding #06-67)		PID	196	277
07-62**	93.767	State Children’s Insurance Program	PID Did Not Perform Adequate During-the-Award Monitoring of CHIP Subrecipient Insurance Providers (Prior Year Finding #06-68)		PID	198	277

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\* - Significant Deficiency  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2007

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
07-63**	93.917	HIV Care Formula Grants	Weaknesses in Internal Controls Over Eligibility Determinations Result in an Undetermined Amount of Questioned Costs Up To \$13,275,656 (Prior Year Finding #06-70)	\$13,275,656	DPW PHHS	201	277
07-64**	93.994 14.900 93.197	Maternal and Child Health Services Block Grant to the States Lead-Based Paint Hazard Control in Privately-Owned Housing Childhood Lead Poisoning Prevention Projects	Internal Control Deficiencies Result in Questioned Costs of \$27,231 and Improper Reporting on the SEFA	\$27,231	DOH PHHS	206	277
07-65**	93.994	Maternal and Child Health Services Block Grant to the States	Weaknesses in DOH Program Monitoring of MCH Subgrantees		DOH	210	277
07-66**	93.994	Maternal and Child Health Services Block Grant to the States	Noncompliance and Internal Control Weaknesses Result in \$194,610 in Questioned Personnel Costs	\$194,610	DOH	211	277
07-67**	93.994	Maternal and Child Health Services Block Grant to the States	DOH Could Not Support Information Submitted to HHS on its Annual Statistical Report		DOH	213	277
07-68**	93.994	Maternal and Child Health Services Block Grant to the States	Internal Control Deficiencies Result in Questioned Costs of \$36,912	\$36,912	DOH	215	277
07-69**	97.036	Disaster Grants – Public Assistance (Presidentially Declared)	Internal Control Deficiencies in Systems of Cash Management and Federal Reporting for PAG Program (Prior Year Finding #06-71)		PEMA DCNR PPR	217	277
07-70**	97.036	Disaster Grants – Public Assistance (Presidentially Declared)	Internal Control Deficiency Over Expenditure Information Reported on the SEFA by PPR Comptroller and PADOT Comptroller		PPR TRANS	221	278

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\* - Significant Deficiency  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2007

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
07-71**	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 #06-72)		DPW	223	278
07-72**	Various	Various	Noncompliance and Internal Control Weaknesses Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Findings #06-73)		OB/BOA	225	278
07-73**	Various	Various	Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements		DPW	230	278
07-74**	Various	Various	Unallowable Payments for Unused Employee Leave Result in at Least \$10,436,574 in Questioned Costs	\$10,436,574	OB/BFM	233	278
07-75**	Various	Various – All Major Programs Covered by CMIA	Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$7.5 Million Known Understatement of the CMIA Interest Liability (Prior Year Finding #06-74)		OB/BFM	237	278
Total Questioned Costs				<u>\$26,767,563</u>			

\* - Significant Deficiency  
 \*\* - Material Weakness  
 CAP - Corrective Action Plan

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 22:**

**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 Program**

### **Internal Control Deficiencies at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (A Similar Condition Was Noted in Prior Year Finding #06-18)**

**Condition:** In connection with our audit of the TANF, MA and FS Programs for SFYE June 30, 2007, 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 Pennsylvania 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, MA 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 audit periods up through June 30, 2007), we noted, for the sixth year in a row, that the other auditors identified internal control deficiencies 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 and discussions with the other auditors indicated the following:

- The CAO caseworkers failed to obtain and/or document the information to determine recipient eligibility and failed to make the proper eligibility determinations. Specifically, the case records and/or the CIS data system lacked detailed documentation of client and CAO actions. CIS screens were not updated with legally responsible relatives (LRRs) information and income and/or resources were not properly entered into CIS. Agreements of Mutual Responsibility (AMRs), Authorization for Information, Employability Assessment Forms, Temporary Disability Reassessment Forms and Common Application Forms (PA 600) were missing or incomplete. Additionally, social security numbers of recipients and/or LRRs were missing or incorrect or were known to the CAOs but were not entered into the Income Eligibility and Verification System (IEVS). Also, the citizenship, age limitation requirements, disabilities, family relationship requirements and identity of recipients were not verified during the application and renewal process.
- The CAO caseworkers do not have adequate procedures in place to identify instances where recipients fail to provide proper eligibility information. Specifically, instances were noted where recipients failed to properly report income and changes in household composition, did not disclose criminal history and failed to maintain compliance with court ordered payment plans. Further, the CAOs did not always have proper procedures in place to ensure that recipients are reporting updated information required to maintain their eligibility.
- 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. Additionally, the CAO caseworkers are not following the procedures relative to investigating suspected overpayments, controlling and documenting investigations, and referring overpayments timely.
- As required by federal regulations, the State has 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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 22: (continued)**

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. Further, DPW's policy does not require a review by the CAO of all changes in income, including income from ongoing employment, when the information becomes available on IEVS. The policy only requires that this information be reviewed during a recipient's annual and semi-annual review.

- CAO caseworkers failed to properly enroll recipients in training or employment activities (RESET program) because the caseworkers did not properly utilize the Agreement of Mutual Responsibility as a tool in documenting and reviewing the recipient's training or work requirements.
- The CAO caseworkers are not reviewing the Support Pass-Through (SPT) income in CIS to determine the impact on the Food Stamps benefit. An SPT is an increase in a recipient's 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.
- CAO personnel are sending case records to the closed case file without proper review resulting in deficiencies. When a case is closed due to a recipient's income exceeding the limit for assistance, the CAO is required to verify the income that caused the case closure and document in a case narrative the reasons for the case closure and whether or not income was reviewed and reconciled at the time of closing. The CAOs are not verifying this income information and are not completing the narratives when the cases are closed. Additionally, the CAOs do not have adequate procedures in place for closing the case when the recipient can not be located.

The other auditors' reports also cited a deficiency in DPW's MEDA System. This system, which was recently implemented by DPW, was designed to automatically determine the level of Medicaid coverage based on demographic, resource and income information entered by the CAO caseworker. The deficiency cited disclosed that family relationship information on the MEDA inquiry screen did not match the family relationship on the MEDA action screen. The family relationship information is entered into CIS through the action screens and can later be accessed through the inquiry screens. If CAO personnel were to utilize the inquiry screen to gather family relationship information, improper eligibility determinations could result.

In analyzing the above results, we noted that the internal control deficiencies relative to the DPW special allowances for child care costs would impact the allowability and eligibility of payments in the Child Care Cluster. Furthermore, these deficiencies noted above result in regular monthly payments going to managed care providers on behalf of ineligible Medical Assistance recipients.

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,

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

### Finding 07 – 22: (continued)

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 deficiency is present. As of June 30, 2007 DPW has not implemented corrective action for this deficiency.

In addition to the internal control deficiencies 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 three CSRs or TSRs that were required to be completed by the CAO for the month. Our testing disclosed that of the 75 CSRs and TSRs that were selected for the 25 CAOs, a total of 10 or 13.33%, in four CAOs were not completed as follows:

CAO	Month Selected	Number of CSRs or TSRs Not Completed
Clarion	September 2006	3
Forest	October 2006	3
Jefferson	November 2006	1
Mifflin	January 2007	3
	TOTAL	10

We noted this to be an internal control deficiency 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.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

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### Finding 07 – 22: (continued)

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.*

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:

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## Federal Award Findings and Questioned Costs - June 30, 2007

### Finding 07 – 22: (continued)

*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.*

The Medicaid Eligibility Handbook regarding verification states in part:

*Chapter 378.31 At Application-The CAO will require verification of conditions of eligibility at application.*

*Chapter 378.32 At Renewal-When processing a complete renewal, the CAO will verify:*

- *Identity*
- *Family composition*
- *Gross, nonexempt income, including deemed income*
- *Income expense deductions*
- *Resources*
- *Third party resources*

The Medicaid Eligibility Handbook regarding redetermination states in part:

*376.2 Complete Renewal-A complete renewal is a comprehensive review of all eligibility factors which are subject to change. The CAO will use the review to determine continued eligibility and correctness of the category of each applicant/recipient group member.*

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 deficiency until they called for the Pennsylvania OIG investigation in a prior year.

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## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 22: (continued)**

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.

Regarding the MEDA system, DPW indicated that the discrepancies between the inquiry screens and the action screens may have been caused by a system logic problem with the CIS and MEDA systems.

With respect to the CSRs and TSRs that were not completed for the four CAOs above, we were informed that the supervisors did not have time to complete the required number of reviews. Further, DPW did not enforce the requirement for these forms to be completed.

**Effect:** Due to the control deficiencies 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. Further, the inconsistencies between the family relationship information on the MEDA action and inquiry screens could further affect the CAOs ability to make the proper eligibility determinations.

**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. Also, we recommend that DPW revise its policy to require a review of all changes to income, including ongoing employment, when it becomes available. 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.

Additionally, 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.

Finally, we recommend that DPW investigate the inconsistencies in family relationship information between the action screens and inquiry screens in MEDA, including the possible problems in system logic. Additionally, the CAOS should consider the need to refer to paper case records when household changes are reported until these inconsistencies are resolved.

**Agency Response:** Five of the seven recommendations given by the auditors in this year's findings are repeats from the prior year. The Department of Public Welfare (DPW) has taken measures to improve accuracy, training, systems access controls and supervision since the prior year finding. Below are the recommendations from this year's finding followed by descriptions of the progress made on the six repeated recommendations since the prior year and a response to the new recommendations (number 2 and number 7).

1. 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.
2. Revise policy to require a review of all changes to income, including ongoing employment, when it becomes available.
3. Evaluate existing procedures in place to ensure recipients are complying with reporting requirements relative to maintaining welfare eligibility.
4. Strengthen systems access controls for Welfare-to-Work participants employed at the CAOs.

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 22: (continued)**

5. Establish procedures to ensure DPW's compliance with Act 1996-35 and ensure recipient compliance with court-ordered payment plans.
6. Comply with the Requirement mandating that all CAOs perform Comprehensive Supervisory Reviews (CSRs) or Targeted Supervisory Reviews (TSRs) on a monthly basis.
7. Investigate the inconsistencies in family relationship information between the action screens and inquiry screens in MEDA, including the possible problems in system logic, the CAOs should consider the need to refer to paper case records when household changes are reported until these inconsistencies are resolved.

In response to recommendation #1 (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 the standards for successful completion of each e-learning module. These improvements are part of DPW's Effective Management Program established in calendar year 2008. Management will reinforce to staff the importance of following established DPW policies and procedures regarding eligibility determinations and re-determinations. As a further corrective action, supervisors are continuing to complete TSRs and are now completing Rushmore reviews. The Rushmore Case Review Database is a food stamp corrective action tool which assists supervisors in identifying trends and helps counties determine where training is needed as well as identifies procedural deficiencies.

In response to recommendation #2 (new finding), DPW's policies include several measures to help ensure that DPW is not authorizing benefits for those whose income makes them ineligible for medical coverage:

- Income information is reviewed during the semi-annual and annual review periods for Medicaid recipients.
- Caseworkers are alerted to changes in income on a quarterly basis – whether it is new or ongoing – through DPW's IEVS system and are required to act on the information provided in that system.
- Increases are also required to be reported by recipients on their Semi-Annual Reporting (SAR) form and applicants/recipients are advised of their responsibility to report interim changes within ten days following the month the change occurred.
- DPW's policy does not require a review, under certain circumstances including a change in income under \$100 and for certain children and adults who are living with disabilities. Analysis determined that changes less than \$100 result in negligible changes to the benefit amount. Additionally, reporting income less than \$100 may produce a barrier to self-sufficiency when employed recipients are asked to work a small amount of extra hours, but are discouraged to do so because of this reporting requirement.

Please note that DPW is also in the midst of several steps which may have an impact on these policies:

- DPW is updating the IEVS internal system logic. The new system logic will require that changes in income must be reviewed and cleared by caseworkers for clients that remain at the same employer. This will address the issue of system cleared alerts in these circumstances. While this may result in some duplication of work for the caseworker, the decision will further ensure that changes in income are identified and acted upon as quickly as is feasible.
- DPW secured the services of a forensic accounting firm to review its eligibility processes, including those regarding income determination. Should the review find any deficiencies in DPW's policy, DPW will make the appropriate changes in its policy.

In response to recommendation #3 (repeat finding), DPW has ensured that caseworkers review the policy related to the recipient compliance with reporting requirement relative to maintaining eligibility. On September 4, 2006, shortly after the previous 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 closes. The WSC Program has greatly improved DPW's ability to adjust benefits when the recipients are no longer attending their required programs.

In response to recommendation #4 (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

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## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 22: (continued)**

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 ensuring proper completion of the tool by the CAOs. Additionally, DPW is convening a workgroup of CAOs and DAP to review the issue and take necessary security precautions. Currently there are three Welfare-to-Work clients statewide performing duties at the CAOs. None have access to CIS. The procedures in place are working to ensure system security. This finding has been repeatedly recorded verbatim over the past several years with no consideration of the safeguards in place and while there is no support that a security breach has occurred. DPW contends this finding is unfounded.

In response to recommendation #5 (repeat finding), DPW 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 DPW's 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 recommendation #6 (repeat finding), DPW continues to use the automated TSR that focuses on problematic areas identified through audit reviews, internal data reviews and effective management strategies. The TSR serves as a major component of the set of performance metrics for the Effective Management Program. A memorandum was issued on April 24, 2008 instructing all CAOs to complete CSRs and TSRs in the Rushmore system on a monthly basis.

In response to recommendation #7 (new finding), DPW identified the system logic deficiencies and have implemented software updates to correct existing cases as well as closed cases effective March 4, 2008.

**Auditors' Conclusion:** With respect to the Welfare-to-Work recommendation, the Operations Memorandum (OM) 050705 referred to in the agency response was first noted in DPW's agency response to our June 30, 2005 finding. Our review of this OM in conjunction with the June 30, 2005 audit disclosed that this OM includes general procedures to address security issues at the CAOs but did not contain any procedures that were specific to Welfare to Work clients being granted access to CIS. 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.**

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## Federal Award Findings and Questioned Costs - June 30, 2007

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### Finding 07 – 23:

**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**

### Internal Control Weaknesses at DPW Related to Returned EBT Cards

**Condition:** As part of our audit of the Commonwealth's EBT system that processes payments for the FS, TANF and CCDF Programs for SFYE June 30, 2007, we inquired about and obtained procedures for EBT cards that are returned as undeliverable by the US Postal Service. We learned that beginning in October 2006 during our current audit period, these procedures changed and returned EBT cards were no longer sent to the outside EBT contractor, but were returned directly to DPW's central office in Harrisburg, PA. We noted that DPW's written procedures for handling returned EBT cards in its central office were not adequate to prevent unauthorized use since these procedures do not require: 1) that more than one employee be present when retrieving, logging, and opening the US Postal Service returned mail, 2) that all returns be logged in immediately upon the initiation of processing the returns, 3) that all returned envelopes be retained, since some are destroyed, 4) that more than one employee be present when destroying EBT cards, and 5) that the disposition of all returns be documented in the log.

**Criteria:** Federal Regulations 7 CFR 274.12 related to EBT systems provides:

*(f) Functional requirements. The State agency shall ensure that the EBT system is capable of performing the following functional requirements prior to implementation:*

*(1) Authorizing household benefits.*

*(i) Issuing and replacing EBT cards to eligible households; ...*

*(x) Inventorying and securing accountable documents;*

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:** DPW management believed that procedures related to EBT cards returned to DPW as undeliverable by the US Postal Service were adequate.

**Effect:** Due to the control weaknesses identified at DPW with EBT cards that are returned to DPW as undeliverable by the US Postal Service, there is limited assurance that such cards are not subject to unauthorized use.

**Recommendation:** We recommend that DPW strengthen its procedures to correct the deficiencies noted above for EBT cards that are returned to DPW as undeliverable by the US Postal Service.

**Agency Response:** The processing of returned, undeliverable EBT cards issued centrally encompasses two specific functions: the destruction of the cards and aiding the CAO in determining the correct delivery addresses. Based on the audit concerns relative to the timing of the logging and destruction of the returned cards, the procedures for processing the returned cards have been revised. Cards will immediately be logged and then destroyed, and all envelopes and card carriers will be immediately forwarded to the appropriate CAO for retention purposes. Central Commonwealth staff responsible for processing the returned cards have already initiated compliance with the new procedures.

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 23: (continued)**

The recommendation that two staff personnel be present for retrieving and opening all returned U.S. postage mail along with the logging and destruction of the returned EBT cards creates an unnecessary redundancy. The returned cards are inactive and can only be activated by the intended recipient by providing specific, detailed personal information.

**Auditors' Conclusion:** We agree with the DPW response except for the part regarding the rejection of our recommendation that more than one employee be present when retrieving, logging, and opening the US Postal Service returned mail and destroying EBT cards. If only one employee is performing those tasks, DPW cannot have reasonable assurance that all returned EBT cards are properly retrieved, logged and destroyed. 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.**

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## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 24:**

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

#### **Noncompliance and Internal Control Weaknesses Related to Compliance Investigations at WIC Vendors, Food Instrument Redemption and Follow-Up Results in Likely Questioned Costs Over \$10,000**

**Condition:** Our review and testing of WIC food instruments (FIs) redeemed and voided disclosed internal control weaknesses in DOH’s WIC database system and DOH’s procedures for reviewing voided FIs as follows:

- **Food Instrument Redemption.** As part of our review of FI redemptions, we selected a sample of 51 redeemed FIs totaling \$1,426.64 out of a population of \$165,151,296.50 redeemed FIs during SFYE June 30, 2007. Our testing disclosed that one FI was redeemed for \$99.96, \$4.00 above the maximum allowable amount of \$95.96. DOH did not establish a claim against the vendor and, therefore the unallowable amount of \$4.00 was not recovered by DOH. DOH stated that no claim was brought against this vendor due to an error in DOH’s system which caused the price in DOH’s system for that particular item on the FI to increase during the month of December 2006. DOH’s system showed a maximum allowable amount of \$120.00, therefore the FI did not appear to be over the maximum amount allowable in the WIC system.
- **Voided Food Instruments.** As part of our review of erroneous or questionable FIs, we selected a sample of five FIs from the DOH’s October 2006 “10 Percent Random Sample of Voided FI’s with Void Code Other than ‘R’ Monthly Report.” Our testing revealed that FIs were properly redeemed and allowable; however, for three out of the five FIs tested, we found that DOH’s explanations for the errors were vague and we could not determine if DOH’s follow-up disposition was adequate. As a result of further inquiry, DOH provided additional explanations of their follow-up. Adequate DOH follow-up in these cases occurred only after auditor inquiry, and well beyond the required 120-day timeframe. In addition, one of the three FIs mentioned above was found to have been voided by another local agency, other than the local agency that issued the FI. DOH indicated that there is an edit check in their system that precludes a user from one local agency to view another local agency’s FIs. However, it appears as though this edit check was either not in place or was not functioning properly at the time this FI was issued.
- **Compliance Investigations.** As part of our review of DOH WIC compliance investigations, we found that DOH did not perform compliance investigations for the required 5 percent of WIC authorized vendors. The number of high risk WIC vendors in Pennsylvania is below the minimum 5 percent of all authorized WIC vendors. Therefore, the DOH must perform compliance investigations of all high risk vendors and of randomly selected additional WIC vendors to reach the 5 percent minimum requirement. However, DOH only completed compliance investigations of 3.44 percent, or 51 of the 1,481 WIC authorized vendors.

**Criteria:** Regarding Food delivery systems, 7 CFR 246.12(a) states:

(1) *Management. The State agency is responsible for the fiscal management of, and accountability for, food delivery systems under its jurisdiction.*

In addition, 7 CFR 246.12 states:

(k) *Retail food delivery systems: Vendor claims. (1) System to review food instruments. The State agency must design and implement a system to review food instruments submitted by vendors for redemption to ensure compliance with the applicable price limitations and to detect questionable food instruments, suspected vendor overcharges, and other errors. ... The State agency must take follow-up action within 120 days of detecting any questionable food instruments, suspected vendor overcharges, and other errors and must implement procedures to reduce the number of errors when possible.*

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## Federal Award Findings and Questioned Costs - June 30, 2007

### Finding 07 – 24: (continued)

Further, 7 CFR 246.12(j) (4) states the following pertaining to WIC compliance investigations:

- (i) *High-risk vendors. The State agency must conduct compliance investigations of a minimum of five percent of the number of vendors authorized by the State agency as of October 1 of each fiscal year. The State agency must conduct compliance investigations on all high-risk vendors up to the five percent minimum. ....A compliance investigation of a high-risk vendor may be considered complete when the State agency determines that a sufficient number of compliance buys have been conducted to provide evidence of program noncompliance, when two compliance buys have been conducted in which no program violations are found, or when an inventory audit has been completed.*
- (ii) *Randomly selected vendors. If fewer than five percent of the State agency's authorized vendors are identified as high-risk, the State agency must randomly select additional vendors on which to conduct compliance investigations sufficient to meet the five-percent requirement.*

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. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). 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.*

**Cause:** In regard to FI redemption, DOH personnel stated that a pricing error occurred in their WIC system during the month of December 2006 in which the system inadvertently increased the maximum pricing for one food item from \$95.96 to \$120.00. DOH stated that the pricing glitch was subsequently found and corrected by DOH staff. However, the DOH WIC system is designed to establish monthly claims against vendors for overcharges based on the maximum allowable amounts in their system. Therefore, in this instance, any overcharges between the actual maximum of \$95.96 and the incorrect maximum of \$120.00 would not have been identified and claimed on the monthly report.

In regard to voided food instruments, DOH stated that procedures for handling local agencies that failed to complete voided FI monthly reports in a timely manner were not developed until August 2006. In addition, DOH personnel stated that inadequate staffing problems at both the state and local levels created a lapse in correspondence related to the reports we tested for the month of October 2006.

In regard to DOH WIC compliance investigations, DOH personnel stated that the requirement would have been met if they had been able to complete all of the compliance investigations that were scheduled. However, 11 of the investigations were not completed due to investigator reporting errors and 10 investigations were requested but never conducted by investigators. However, if these investigations would have been properly completed, DOH's total investigations would have been 72, which is still below the 5 percent minimum requirement of 75 investigations given there were 1,481 WIC authorized vendors.

**Effect:** Due to the pricing error in the DOH WIC system, the \$4 overcharge is unallowable for WIC and likely questioned costs are over \$10,000. In addition, without adequate controls related to the WIC system and DOH review, investigation and follow-up on food instruments, DOH is not in compliance with WIC regulations and inappropriate redemption could occur without the DOH's knowledge which could lead to unallowable costs being charged to the federal WIC grants in the future. Also, since DOH did not properly complete the minimum number of compliance investigations, DOH is not in compliance with WIC regulations and improper FI redemptions at vendors could go undetected.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 24: (continued)**

**Recommendation:** DOH should pursue appropriate settlement of the known and likely questioned costs with FNS, and review its WIC system for additional questioned costs due to the discrepancies noted above. We also recommend that WIC fully implement sufficient controls over the FI redemption and disposition process. DOH should ensure that problems encountered with their WIC system are identified, timely followed up on, and properly corrected. DOH should also implement adequate controls to ensure that the minimum number of compliance investigations of WIC vendors are properly scheduled and completed each year.

**Agency Response:** In order to correct the issue of FI redemption, the Pennsylvania WIC Program is scheduling a system of alerts. The problem with the maximum allowable prices was not a system problem, but was an instance of human error. All maximum allowable prices are input effective January 1, April 1, July 1, and October 1. In order to avoid or detect any human error, an alert is being programmed into the system where if any person changes a price after it is set, or if any person makes a price effective on a day other than the four days specified in the previous sentence, an email will be sent to four individuals in the DOH to notify them of this event so they are able to determine if an error occurred.

Secondly, in regard to the voided food instruments, the DOH created a new auditing table that will add a record every time the void date is updated by a WIC user. This audit table will store the FI that was updated, the user who initiated the update, the date it was voided and the void reason code, as well as the database server time when the update took place. This will provide more accurate results for the 10 percent voided and redeemed report. The current report uses the user id when the last update to a check record took place. This is not necessarily the person who voided the check. Future reports will use this audit table.

The last issue dealt with an inadequate number of compliance buys conducted during the audit period. The DOH contracts with an outside investigation to conduct compliance buys. During this audit period, the contracted compliance buy contractor discontinued their contract performance and the DOH was forced to develop and issue an RFP to replace the contractor. A new contractor has been selected and a contract negotiated and put in place. This contractor is currently conducting compliance buys and the DOH will insure the required number of compliance buys are completed.

**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, 2007***

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### **Finding 07 – 25:**

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

##### **Noncompliance and Deficiencies in Internal Control Over Charging of Personnel Costs (A Similar Condition Was Noted in Prior Year Finding #06-20)**

**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, 2007, we selected a sample of 17 employees charging costs to the NGMO program, which included ten employees whose personnel costs were subject to reallocation through the WO system. During the year ended June 30, 2007, DMVA incurred personnel costs of \$15,948,466 consisting of \$10,087,605 in salaries and wages and \$5,860,861 in fringe benefits. While our testing showed that the personnel costs were necessary and reasonable, we noted the following control deficiencies 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 deficiency 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 12 of the 14 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 12 employees appeared to be authorized under the applicable appendix.
- In addition to the deficiencies noted above, the following deficiencies were noted that are specific to the WO system used to redistribute the personnel costs for maintenance and repair employees at Fort Indiantown 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 one of the ten 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 timesheet.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 25: (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.
- The WO system payroll adjustment amounts are calculated using a WO pay rate for each employee whose payroll costs are being reallocated. The WO pay rate is calculated as the employee's hourly pay rate plus a benefit additive. The WO system sends a query to SAP each night to check for changes to pay rates for employees in the system. However, for two of the ten employees included in our sample, the WO pay rate was not calculated using the hourly pay rate in effect on the dates being tested. The WO pay rate was calculated using the employees' previous hourly pay rate, which in both instances was lower than the hourly pay rate in effect on the dates tested. For one employee, the WO system updated the pay rate 26 days after the date it was updated in the Commonwealth's payroll system; for the other employee the rate was updated 19 days after the date the change was entered in the Commonwealth's payroll system. Although we determined that the effect of the change in hourly pay rates was not significant, and while such changes in rates have the potential to result in understatements as well as overstatements of federal program costs, there are no automated or manual controls in place to ensure that changes in employee pay rates are being updated on a timely basis in the WO system and that the query is operating as intended.
- For three of the ten employees included in our sample, there was a delay of three to four weeks before their time was entered into the WO system. Although the time was not entered timely for these three employees, we determined that this delay was limited to a two-month period in December and January. Such delays were not found at year-end. For five of the ten employees included in our sample, whose costs were subject to reallocation through the WO system, we noted a significant time lag 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 lag for these five employees was two months. Although the monthly adjustments were not made on a timely basis for the five 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 2007 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 \$20,426 which is not material to the NGMO program.
- Several deficiencies 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 deficiencies noted above would also affect the material costs charged to the NGMO program through the WO which totaled \$738,489 during the year ended June 30, 2007.

**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.*

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 25: (continued)**

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 deficiencies 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 percent to the NGMO program during the period of our audit. 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. With respect to the updating of pay rates in the WO system, DMVA indicated that SAP is queried for changes in pay rates when a personnel screen is loaded into the WO system. Based on our testing, however, it appears that this process is not providing updated pay rate information on a timely basis. Regarding the time lags in entering the employee time into the WO system and 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.

**Recommendations:** DMVA should establish procedures to develop the federally-required semi-annual certification for all employees being charged 100 percent 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 “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, that the information is input timely, and that the monthly WO adjustments are posted to SAP in a timely manner. With respect to the updating of pay rates, we recommend that DMVA evaluate the process by which new pay rates are imported into the WO system in order to improve the timeliness of updating the system when pay rates change.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 25: (continued)**

With respect to the deficiencies 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.

**Agency Response:** Regarding semi-annual certifications, DMVA is discussing a change in procedure with the Pennsylvania United States Property and Fiscal Officer as well as the Governor’s Office. Due to the complexity of the National Guard Bureau Master Cooperative Agreement and multiple appendices, this change will require additional positions as well as implementation of a labor distribution system.

In September of 2007, DMVA immediately began filing a copy of the DMVA-AS-MCA Form 1 in the employee’s personnel file upon the hiring of the position. Form 1’s that were unable to be located during this audit period were for employees hired prior to implementation of this corrective action.

Policy Information Memorandum Number B-07-005, entitled “SMR Work Order Adjustment Procedure,” was issued on August 28, 2007. This policy instructs payroll staff to ensure that labor and equipment sheets are signed by the supervisor. Supervisors must ensure that they review and validate their employee “labor and equipment sheets” prior to signing them.

Policy Information Memorandum Number B-07-005, entitled “SMR Work Order Adjustment Procedure,” was issued on August 28, 2007. This policy requires sampling of time entry documents performed by staff other than the person who performed the data entry.

The IT “automatic routine to check and update rates” has been move to an area in the program that updates every time the system is loaded, rather than periodically. This corrective action took place in May 2008. Currently, as soon as the data streams from the payroll system, every two weeks, the updates will process.

Policy Information Memorandum Number B-07-005, entitled “SMR Work Order Adjustment Procedure,” was issued on August 28, 2007. This policy instructs staff to enter all timesheets into the work order program by the Friday following the week the timesheet covers.

As recommended in the prior audit finding, in January 2008 DMVA implemented Information Technology controls to the Work Order System. Changes are now requested via an IT Service Request so they are documented, DMVA established a development server so that changes can be worked on and tested in a development environment prior to moving to production and various levels/roles of security have been assigned based on functions being performed.

**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, 2007

### Finding 07 – 26:

#### CFDA #14.228 – Community Development Block Grants/State's Program

##### Noncompliance and Internal Control Deficiencies Over Federal Reporting

**Condition:** DCED is required to file a Performance/Evaluation Report (PER) with HUD for each grant that is open during the year. The report must be submitted to HUD by March 30 of the following year. For the calendar year 2006, DCED was required to submit a total of 6 Performance/Evaluation Reports by March 30, 2007 which covered the grant years 2001-2006.

We haphazardly selected the PER for the 2006 grant year that covered the period from January 1, 2006 to December 31, 2006 to determine if the financial data presented on the PER was complete and accurate. Our testing of the PER revealed the following:

- The “Amount Obligated to Recipients” for DCED projects is required to be reported by DCED in Section 1, Line B of the PER. DCED is then required to report the use of the obligated amount by National Objective in Section 2, Lines B (1) through B (5). DCED was unable to provide any support for the amount reported in Section 1, Line B or the detail reported in Section 2, Lines B (1) through B (5).
- The total reported by DCED in Section 1, Line C, “Amount Drawn Down” was \$5,279,303. However, the total amount drawn down from HUD’s Integrated Disbursement and Information System (IDIS), which is the source for the drawdown information, was \$1,410,368, resulting in an overstatement of the amount reported in Section 1, Line C of \$3,868,935.

We also noted that DCED did not follow established procedures during the year under audit for the supervisory review and approval of the PER submitted to HUD to ensure the report was complete and accurate and included supporting documentation for amounts reported.

In addition to the Annual PER, DCED is also required to submit a performance report titled “HUD 60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons” (Section 3 Summary Report). This report is required for each grant over \$200,000 that involves housing rehabilitation, housing construction, or the public construction and must be submitted with the Annual PER. However, DCED did not submit this performance report to HUD during our audit period in violation of federal regulations.

**Criteria:** 24 CFR 91.520 regarding the PER states, in part:

- General. Each jurisdiction that has an approved consolidated plan shall annually review and report, in a form prescribed by HUD, on the progress it has made in carrying out its strategic plan and its action plan. The performance report must include a description of the resources made available, the investment of available resources . . .*
- Affordable housing. The report shall include an evaluation of the jurisdiction's progress in meeting its specific objective of providing affordable housing . . .*
- CDBG. For CDBG recipients, the report shall include a description of the use of CDBG funds during the program year and an assessment by the jurisdiction of the relationship of that use to the priorities and specific objectives identified in the plan . . .*

Further, HUD's adoption of the Common Rule, 24 CFR 85.20(b)(1), provides:

*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.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

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### Finding 07 – 26: (continued)

In addition, the requirements for the Section 3 Summary Report are included in 24 CFR 135.3 and 135.90 and state in part:

#### 135.3 Applicability

(a) *Section 3 covered assistance. Section 3 applies to the following HUD assistance (section 3 covered assistance):*

(2) *Housing and community development assistance. Section 3 applies to training, employment, contracting and other economic opportunities arising in connection with the expenditure of housing assistance and community development assistance that is used for the following projects:*

- (i) *Housing rehabilitation*
- (ii) *Housing construction; and*
- (iii) *Other public construction.*

(3) *Thresholds-*

(ii) *Thresholds for section 3 covered housing and community development assistance-(A) Recipient thresholds. The requirements for this part apply to recipients of other housing and community development program assistance for a section 3 covered project(s) for which the amount of the assistance exceeds \$200,000.*

#### 135.90 Reporting

*Each recipient which receives directly from HUD financial assistance that is subject to the requirements of this part shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for the purpose of determining the effectiveness of Section 3. Where the program providing the section 3 covered assistance requires submission of an annual report, the section 3 report will be submitted with that annual performance report.*

**Cause:** We noted in our prior year audit that DCED does have written procedures in place for the supervisory review and approval of the PER. However, due to recent experienced staff turnover, these procedures were not followed for the PER submitted during our audit period. Further, DCED was unable to provide support or an explanation as to how the amount in Section 1, Line B and the detail in Section 2, Lines B (1-5) of the PER were derived. Regarding the non-submission of the Section 3 Summary Report, DCED indicated that they were aware of this reporting requirement and have been working with HUD to understand the specific information required for the report. However, the experienced staff turnover also hindered their ability to submit this report for the year under audit as HUD had been working on training the staff that retired from DCED and is now in the process of working with and training other DCED personnel on the specifics of this report.

**Effect:** The PER submitted to HUD for the year ended December 31, 2006 for the grant referred to in the condition was materially inaccurate and not supported by the accounting records. Further, DCED did not follow their established review and approval procedures during the year under audit to ensure the accuracy and completeness of amounts reported on the PER. As a result, there is limited assurance that reports prepared and submitted in the future will be materially accurate. Additionally, DCED did not have any procedure in place during the year under audit for the preparation and submission of the Section 3 Summary Report to HUD which resulted in noncompliance with this federal reporting requirement.

**Recommendation:** We recommend that DCED resubmit the PER for the year ended December 31, 2006 in order to accurately report the amounts drawn down from IDIS in Section 1, Line C for the affected grant. DCED should review the additional PER reports submitted during our audit period and ensure they are also resubmitted to HUD if found to be inaccurate. Also, we recommend that DCED follow established procedures for the supervisory review and approval of the PER to ensure that the information entered into the PER is complete and accurate in accordance with federal regulations

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 26: (continued)**

and that all amounts reported are supported by the accounting records. We also recommend that DCED continue to work with their subgrantees and HUD to implement procedures to ensure that the information needed for the Section 3 Summary Report is properly accumulated and submitted to HUD each year as required by federal regulations.

**Agency Response:** In calendar years 2006 and 2007, DCED once again experienced significant loss of personnel due to retirements and resignations. Four positions critical to the operations were left vacant by staff, each having 20+ years of experience with the federal programs and reporting requirements. Several of those positions were filled during the timeframe, and other positions remained vacant with existing staff filling the gaps.

The “Amount Obligated to Recipients” Section 1 Line B of the Part 1 report: DCED was unable to provide supporting documentation to substantiate the information. The 2006 PER was completed using information from the Integrated Disbursement and Information Systems (IDIS) as well as internal reports that were kept by previous staff. When the auditors came in and were provided the reports, current staff did not have hard copies of the reports used. Therefore, staff could not provide the documentation to support the numbers. For Section 2 Lines B (1) through (5), the information was also derived from reports maintained by previous staff which could not be verified by the new staff. In addition, the auditor pointed out that the 2006 PER report did not contain information on the competitive awards. In the future, the establishment of an internal tracking report will be able to provide this information for a more accurate report of funds obligated and funds spent in any given year.

The “Amount Drawn Down” Section 1 Line C was derived from the IDIS PR02, which indicates the amount of funds that were set up and drawn down in a given point-in-time by each particular program year. However, the auditor uses the PR35 (grant sub-fund and sub-grant report) to review expenditures which reports on sub-grantees on a cumulative basis. The PR35 does not report by program year, it is a first-in, first-out report. DCED believes that the PR02 is a more accurate report to use for the “Amount Drawn Down” since it is a report by program year

Staff revised the 2006 PER after discussion with the auditor and forwarded the revised form to the auditor. However, the 2006 PER for the report period January 1 through December 31, 2006 was not resubmitted to HUD. DCED subsequently revised the PER report for the “Amount Drawn Down” based on discussions with the auditor. The 2007 PER covering the FY 2006 program will reflect the use of the IDIS PR35 report for the “Amount Drawn Down.” DCED intends to discuss with the auditor which is the best IDIS report to use for the PER.

The report was reviewed and approved by the appropriate supervisor after the submission, and will be reviewed and approved prior to submission in subsequent years.

In regard to the Section 3 Summary report (HUD 60002), DCED is aware that the report is required and submitted the report late. DCED updated its Section 3 Plan and Program Guide and is in the process of conducting training with grantees so that the information for this report is accurate for the upcoming reporting period. DCED fully expects the future reports will be prepared in a timely manner.

**Auditors’ Conclusion:** The IDIS PRO2 referred to in the agency response was never provided to the auditor as support for the amount reported in Section 1, Line C of the 2006 PER. Accordingly, and consistent with the prior year, we used the PR35 report as support for the amount reported in Section 1, Line C, which does show draws by program year. We therefore additionally recommend that DCED contact HUD to determine which of the aforementioned reports should be used to report the “Amount Drawn Down” in Section 1, Line C on the Annual Report. Based on the above, 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, 2007***

### **Finding 07 – 27:**

#### **CFDA #14.228 – Community Development Block Grants/State’s Program**

#### **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 #06-21)**

**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 audit of the CDBG Program and in connection with our follow up of prior year finding #06-21, we performed procedures to determine if DCED’s during-the-award monitoring procedures were adequate on-site. Based on our review of the DCED 2006-2007 Monitoring Schedule, we noted that a total of 66 CDBG subrecipients and 72 HOME subrecipients were scheduled for on-site visits. However, our testing and inquiry revealed that on-site visits were completed for 39 CDBG subrecipients and 35 HOME subrecipients. Accordingly, DCED only completed 60 percent and 49 percent of the on-site visits scheduled for the CDBG and HOME Programs, respectively. Further, the results of our testing within the CDBG Program disclosed that for four of the 39 subrecipients that were actually monitored on-site, the letters communicating the results of the on-site monitoring visits that were conducted in December 2006 and July 2007 were not yet issued to the subrecipients as of our 2008 testing date. Additionally, we noted that for two of the ten CDBG subrecipients selected from the 2006-2007 Monitoring Schedule to test DCED’s on-site monitoring procedures, the monitor did not complete the entire checklist. Finally, during our testing of project closeouts for the CDBG Program, we noted that a project for one of the ten subrecipients in our sample had been closed out during the year under audit, but the subrecipient had never been monitored as required by federal regulations. Therefore, DCED’s during-the-award monitoring of its subrecipients was not adequate to provide reasonable assurance of the subrecipients’ compliance with federal regulations as noted in the four previous single audits.

During the year ended June 30, 2007, DCED reported subrecipient expenditures for the CDBG and HOME Programs of \$57,851,034 and \$17,217,269, 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 323 and 114 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, 2006 and would not have been required to submit an A-133 Single Audit to the Commonwealth during SFYE June 30, 2007. 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 11 HOME subrecipient projects during SFYE June 30, 2007, nine projects during SFYE June 30, 2006, five projects during SFYE June 30, 2005, and two 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.

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, 2007, and resolution of all findings and recommendations between DCED and HUD remain ongoing through our testing date.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 27: (continued)**

**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.*

**Cause:** DCED indicated that staffing shortages combined with an overly aggressive monitoring schedule prevented DCED from completing all of the on-site visits that were scheduled in their monitoring cycle and led to delays in issuing the letters to the subrecipients. With respect to the incomplete monitoring checklists, the monitors indicated that the missed areas on the checklist were an oversight. DCED also indicated that the on-site visits that were not completed on the 2006-2007 Monitoring Schedule will be added to the 2007-2008 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 if these visits are not completed timely.

**Recommendation:** We recommend that DCED ensure that all on-site visits are completed along with all required documentation and correspondence, 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. Furthermore, we understand that, subsequent to our audit period, HUD resolved nine of the 11 recommendations reported in the 2005 HUD OIG audit for the HOME Program. Accordingly, we recommend that DCED continue working with HUD to resolve the remaining two recommendations from the HUD OIG audit and the one finding from the 2005 HUD monitoring review.

**Agency Response:** DCED's efforts to complete the monitoring schedule was impeded by a significant number of retirements, delays in the hiring process and unanticipated early resignations by some of the new hires, in addition to staff gaining the experience and effectively managing their work load. The 2006–2007 monitoring schedule was an aggressive schedule which included contracts not monitored in previous years.

DCED, in the hiring of the AO2 position, did add monitoring support responsibilities to support in the monitoring of our subrecipients. This position was not filled until April 2008.

While staff did not fully complete the schedule, more monitoring was accomplished in this period than the previous period. In the 2005-2006 year, only 45 percent of the CDBG contracts and 23 percent of the HOME contracts scheduled for monitored were actually monitored. In 2006-2007, staff completed 60 percent of the CDBG contracts and 49 percent of the HOME contracts. This is a substantial increase over the previous year's completed monitoring. Once again in the 2007-2008 schedule, monitoring will be a priority task for the grant managers.

The auditors noted that several of the completed reviews did not have letters issued several months after the review was completed. The auditors also noted that two of the files tested did not have checklists completed. One contract that was tested had been closed out prior to monitoring.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 27: (continued)**

In addition, it was noted that there was a lack of progress in closing out the HOME contracts during the 2006-2007 report period. Only 11 HOME contracts were closed out; this was two more than the previous year. However, although not noted in the audit report, 137 CDBG contracts were closed out in this same period compared to 39 in the previous report period. While progress needs to be made in the HOME closeout process, staff continue to be aggressive in closing out projects under these federal programs. Close outs will be made a priority task for the 2007–2008 report period.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. We will review the 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, 2007***

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### **Finding 07 – 28:**

**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**

**Unallowable Equipment Purchases and Cash Payments Result in Questioned Costs of \$9,678 and Internal Control Deficiencies and Noncompliance in PEMA’s Subrecipient Monitoring (A Similar Condition Was Noted in Prior Year Finding #06-22)**

**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 and other subrecipients for counter-terrorism training, planning, and exercise needs as well as costs associated with increased security measures at critical infrastructure sites.

In order to test the allowability of the HS Cluster program expenditures, we randomly selected a sample of 49 payments for purchases by PEMA (primarily equipment and related items), consisting of 45 payments for nine local task forces and 4 payments for other state agencies during the year ended June 30, 2007. Additionally, we selected a sample of 12 cash payments to the local task forces and other subrecipients during the year ended June 30, 2007. Our testing disclosed the following unallowable payments:

- Our testing of the allowability of the purchases by PEMA revealed that 3 of the 49 payments for purchases of equipment and related items were not on the DHS Authorized Equipment List (AEL) and were not authorized under the applicable DHS grant agreement. Further, DHS subsequently confirmed that these three purchases totaling \$1,060 are not allowable uses of HS Cluster funds resulting in questioned costs of \$1,060. Additionally, we also noted that certain other items included on the same purchase orders as our three sample items were also considered to be unallowable resulting in additional questioned costs of \$7,609. The 49 sampled purchases totaled \$442,337 out of \$41,928,239 in total purchases made by PEMA during the year under audit.
- Our testing of the allowability of the cash payments to subrecipients revealed that one of the twelve cash payments to a local task force in the amount of \$1,009 was for lunches during training courses which are not related to the goals and objectives of the HS Cluster. As a result, a total of \$1,009 is questioned. The twelve sampled cash payments totaled \$263,386 out of \$9,422,376 in total cash payments to subrecipients made by PEMA for the year.

Our prior two audits also disclosed control deficiencies and noncompliance with respect to PEMA’s monitoring of the nine local task forces. Our follow up for the current year disclosed similar deficiencies existed throughout 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 6 of the 49 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 purchase on behalf of another state agency in our sample.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 28: (continued)**

Since PEMA was able to subsequently obtain supporting documentation and confirm the receipt of the equipment by the task forces and other state agency 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 have any procedures in place to 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. We did note that PEMA accompanied DHS on one on-site visit to a task force during the year under audit but no formal support was provided to document the monitoring procedures or results.
- PEMA reviews subrecipients' requests for reimbursement to ensure that payments are adequately supported. However, our current year testing revealed that while PEMA is performing this review, PEMA is not requesting sufficient documentation from the subrecipients to ensure that all expenditures included on the request are allowable. Also, PEMA has no other form of monitoring to ensure the allowability of these expenditures. Specifically, our current year testing revealed that for two of the twelve cash payments to subrecipients, PEMA provided reimbursement to the subrecipient although the documentation provided by the subrecipient to support the allowability of all expenditures included on the reimbursement request was not adequate. Since PEMA was able to subsequently obtain the necessary documentation to support the allowability of such expenditures as a result of our audit, no costs are questioned.
- 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. Our current year testing revealed that these reports were not submitted or were not consistently submitted by the task forces during the year under audit. Further, our conversations with PEMA personnel revealed that PEMA does not review the information on these reports to monitor the task force's activities.
- 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.

Furthermore, during the year ended June 30, 2007, the DHS OIG contracted for a separate performance audit of PEMA's HS Cluster grants awarded during the fiscal years 2002 through 2004, and we reviewed this other audit report as part of our Single Audit of the HS Cluster. This audit report included a finding which concluded that PEMA did not implement a system to monitor and measure improved preparedness and subrecipient performance. Specifically, the report indicated that PEMA's monitoring activities lack subrecipient monitoring of financial or programmatic performance or effectiveness. Problems disclosed in this finding existed during our audit period and resolution of this finding between DHS OIG and PEMA remain ongoing through our testing date.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

### Finding 07 – 28: (continued)

During the year under audit, the expenditures for these task forces reported on the SEFA totaled \$45,487,457 or 82 percent of the total HS Cluster expenditures of \$55,264,554. A total of \$40,334,893 of the \$45,487,457 in expenditures to the task forces was in the form of non-cash assistance. Therefore, we consider the control deficiencies 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.*

*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.*

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:*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

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### Finding 07 – 28: (continued)

- (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. . . .*

**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 incomplete 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.

Regarding the lack of adequate documentation in support of reimbursement requests, PEMA relies primarily on the task force to submit only allowable costs for reimbursement. However, as noted above, PEMA does not perform any other form of monitoring to ensure that these costs are allowable.

With respect to the performance reports, PEMA was not enforcing the requirement for the task forces to submit these reports during the year under audit. Additionally, PEMA is 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 communication of award information to the subrecipients for non-cash assistance is not part of the standard contract with the task force and is not provided to the task forces by PEMA unless specifically requested by the task forces. 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:** Equipment purchases and cash payments totaling \$9,678 are unallowable and are therefore questioned. Additionally, 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 pursue appropriate settlement with DHS regarding the \$9,678 of questioned costs. We also 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. We also recommend that PEMA require subrecipients to submit sufficient documentation or develop other means to enable PEMA to determine the allowability of all expenditures included on the subrecipients' requests for reimbursement. Additionally, we recommend that PEMA establish a system to perform on-site visits of the areas served by the task forces 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 PEMA enforce the requirement for the task forces to submit interim performance reports and in conjunction with the performance of on-site visits, also review the information provided in the performance reports to monitor the status of the task forces' activities.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 28: (continued)**

**Agency Response:** The items purchased in the amount of \$1,060 and \$7,609 were purchased as training accessories. While we understand these items may not be specifically listed on the authorized equipment list, there is a DHS procedure to purchase items that are not on the AEL. We are researching to see if the subject items of this audit finding were subject to that process.

The reimbursement for lunches in the amount of \$1,009 for Violence in the Workplace training was believed to be eligible as it was considered to fall under All Hazards Training. We continue to have discussions with DHS regarding this matter. Based on the outcome of those discussions, we will either notify the auditor that DHS has deemed this as an eligible expense or we will request that the Task Force reimburse DHS for this expense.

PEMA is in the process of revising our current Equipment Request Format which is used by the Task Forces. The equipment purchases will be linked to investment justifications in accordance with Homeland Security strategy. A policy guidance will be developed that will include approval by PEMA Area Office and program staff before equipment purchases are made. Properly signed receiving reports, bills of lading, etc. will be part of this policy guidance.

Informal Task Force monitoring visits are conducted on a regular basis by the three PEMA Area Offices and Bureau of Plans staff. Staff have attended at least 108 full Task Force meetings during the year. Additionally, they attend Task Force Executive Board meetings and Committee meetings, as well as meetings regarding grants, assessments and special projects. PEMA staff assist the Task Forces with their exercises and trainings. Hundreds of hours are spent by staff with the Task Forces in phone and email communications. That said, we have collected best practices from other states and will develop a formal checklist for use during formal Task Force monitoring visits and assist in the review of the interim performance reports. The process will be developed and vetted for comment within ninety days.

PEMA has incorporated the CFDA name and CFDA number into grant agreements. We have drafted a policy to ensure accurate reporting on the SEFA. We anticipate that the policy guidance will be distributed within ninety days.

**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, 2007*

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### **Finding 07 – 29:**

**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**

### **Noncompliance and Internal Control Deficiency Over Period of Availability Requirements Results in Questioned Costs of \$1,632,447**

**Condition:** During the year ending June 30, 2007, a total of \$5,865,615 in expenditures were charged to the SAP accounting system subsequent to the end of the grant period for three HS Cluster grants that closed prior to the end of our audit period (Domestic Preparedness FY 02, SHSGP 2003-1 and SHSGP 2003 II). In order to determine if these expenditures were obligated within the period of availability for the closed grants and liquidated within 90 days of the grant ending date, we selected a sample of 25 expenditures charged to these grants subsequent to the grants' ending dates. Our testing revealed that all expenditures in our sample were obligated within the period of availability for the closed grants, but not all sampled expenditures were posted to the SAP accounting system within the 90-day liquidation period. As a result, we performed follow up, which revealed that a grand total of \$1,632,447 in expenditures were posted to the SAP accounting system subsequent to the liquidation period for the three HS Cluster grants mentioned above resulting in questioned costs of \$1,632,447.

**Criteria:** Regarding period of availability, 28 CFR, Section 66.23 states:

- (a) *General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.*
- (b) *Liquidation of obligations. A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period to coincide with the submission of the annual Financial Status Report. The Federal Agency may extend this deadline at the request of the grantee.*

**Cause:** Regarding the expenditures that were not liquidated within the required 90 day period, PEMA indicated that they were unable to liquidate the obligated amounts due to delays in the task forces providing authorization that the goods or services were received or performed. Further, PEMA did not have adequate procedures in place to ensure compliance with the 90 day liquidation period.

**Effect:** Costs of \$1,632,447 claimed under HS Cluster Grant numbers noted above are unallowable since they were not liquidated within the required time period under federal regulations (\$56,520 for Federal Award #2002-TE-CX-0109; \$522,171 for Award #2003-TE-TX-0188; and \$1,053,756 for Award #2003-MU-T3-0037). Additionally, PEMA did not have adequate procedures in place during the year under audit to ensure that expenditures are liquidated within the required 90 day time period.

**Recommendation:** We recommend that PEMA repay the \$1,632,447 in questioned costs or pursue appropriate settlement with DHS. Additionally, we recommend that PEMA strengthen their existing procedures to ensure that all expenditures are liquidated within the required 90 days after the grant ending date.

**Agency Response:** The various activities noted after the liquidation period on the 2003 Part I and 2003 Part II grants were a result of many variables. The Purchase Orders within this time frame were **procured prior to the grant expiration date**. These grants were processed in the early stages of the SAP system. The transition to a completely new enterprise-wide financial accounting and management system, coupled with the transition of trained personnel to manage the grant activity, resulted in transactions occurring outside of the liquidation period. A number of necessary corrections to purchase orders, reimbursements and advance payments were required to adjust the expenses and expended dollar amounts.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 29: (continued)**

Additionally, PEMA's Comptroller's Office was advised by DHS to continue to submit quarterly interim Financial Status Reports (FSR) until such time that a final FSR could be filed. In a performance audit conducted by the Department of Homeland Security Office of Inspector General (OIG) for the grants awarded during fiscal years 2002 through 2004, a similar situation occurred. Rather than questioning grant expenditures as unallowable, the OIG recommended PEMA, in conjunction with the Comptroller's Office, revise its policies and procedures to ensure the timely submission of future Financial Status Reports. Such procedures have been implemented.

The final item has been resolved and we expect the related transaction to occur within the next few weeks. Therefore, we are working with DHS to request a formal extension that will enable us to completely close out the 2003 Part I and 2003 Part II grants.

**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, 2007

### Finding 07 – 30:

#### 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 #06-24)

**Condition:** L&I is required to submit an ETA 563 Report titled “Trade Adjustment Assistance Quarterly Activities Report,” to USDOL on a quarterly basis. The ETA 563 report provides information on income support payments, reemployment services, training and waivers from training. The data supplied on the ETA 563 is used by USDOL to measure the effectiveness of the TAA program in helping adversely affected workers adjust and find new employment. The report assists USDOL in the allocation of program and administrative funds to the State Agencies administering the trade programs.

Each quarter, L&I submits the ETA 563 in electronic format to USDOL. The ETA 563 contains 40 data fields used to report both financial and statistical information; six data fields include financial and 34 data fields include statistical information. Summary data for each field is electronically submitted.

In order to test the accuracy of the information submitted to USDOL, we obtained the ETA 563 submitted for the quarter ended June 30, 2007. We obtained the electronic files which contain detail of the individuals included in the ETA 563 report (which was provided as of our testing date) and compared the detail by individual to the totals for each of the 40 data fields on the ETA 563 report. We then selected a sample of 44 individuals from the supporting detail provided by L&I in order to determine if the information for the individual was properly reported in each of the 40 data fields. For the sixth year in a row, our testing disclosed discrepancies as follows:

- For 10 of the 40 data fields, there were differences between the totals reported on the ETA 563 report and the supporting detail provided by L&I as follows:

Data Field	Total Number or Amount Reported	Total Number or Amount Supported	Difference
Entered Training-Occupational	251	252	(1)
Entered Training-In Training	1357	1359	(2)
Waivers Issued-Marketable Skills	1037	1048	(11)
Waivers Issued-Enrollment Unavailable	111	112	(1)
Waivers Revoked-Marketable Skills	219	220	(1)
Training Costs-Recipients	1283	1284	(1)
Training Costs-Amount	\$3,841,616	\$3,850,017	\$(8,401)
Participants-This Quarter	3778	3789	(11)
Co-Enrolled in Wagner Peyser Program	1318	0	1318
Co-Enrolled in WIA Dislocated Worker Program or National Emergency Grants Program	1152	0	1152

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 30: (continued)**

Additionally, for one of the 40 data fields (Total Participants-Year to Date), L&I inappropriately reported the data field as being “N/A” and therefore, there was no detail provided for this field.

Based on our sampling of 44 individuals from the supporting documentation, we noted additional discrepancies in six of the 40 data fields as follows:

For the field titled “Basic TRA Recipients,” we noted that one of the 44 individuals in our sample was not included as a recipient of Basic TRA Payments for the quarter. However, our review of supporting documentation indicated that the individual did receive basic payments during the quarter and therefore, the individual should have been counted as a recipient of Basic TRA Payments for the reporting quarter.

For the field titled “Basic TRA-Weeks Paid,” we noted that one of the 44 individuals in our sample was not included in this field on the ETA 563 report. However, our review of supporting documentation revealed that this individual received 5 weeks of Basic TRA payments during the reporting quarter. Therefore, the information in this field was not properly reported for this individual.

For the field titled “Basic TRA-Amount Paid,” we noted that one of the 44 individuals in our sample was not included in this field on the ETA 563 report. However, our review of supporting documentation indicated that this individual received basic payments totaling \$1,870 for the reporting quarter and therefore the information was not properly reported for this individual.

For the field titled “Additional TRA-Weeks Paid,” we noted that one of the 44 individuals in our sample had 14 weeks of Additional TRA paid on the ETA 563 report. However, the supporting documentation indicated that the individual had actually received 9 additional weeks of TRA for the reporting quarter. Accordingly, the information was incorrectly reported for this individual on the ETA 563 report.

For the field titled “Additional TRA-Amount Paid,” we noted that one of the 44 individuals in our sample had additional payments of \$5,236 on the ETA 563 report. However, the supporting documentation revealed that the actual amount of additional TRA paid was \$3,366 for the reporting quarter and therefore, this information was not properly reported for this individual on the ETA 563 report.

For the field titled “Additional TRA-First Payment,” we noted that one of the 44 individuals in our sample was not included as receiving their first additional TRA payment during the reporting quarter. However, the supporting documentation indicated that this individual received their first individual TRA payment during the quarter and therefore should have been included in this field on the ETA 563 report.

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

- For one of the data fields “Total Participants-Year to Date,” we noted that L&I reported “N/A” on the ETA 563 report, since L&I had no procedures in place to compile information for this field. The use of “N/A” is not allowed based on review of the ETA 563 reporting instructions.
- We noted that one individual within L&I is responsible for compiling a significant portion of the information on the ETA 563 report which comes from various L&I databases. Further, the procedures used to compile this report along with the detail sources of information are not formally documented and there appears to be no formal review and approval procedures in place prior to submission of this report to USDOL.

**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.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

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### Finding 07 – 30: (continued)

Training and Employment Guidance Letter (TEGL) No. 23-06 provides the reporting instructions for the revised ETA 563 and states in part:

*General Instructions. Each report is quarterly and covers a three-month period for all petition activity. The state aggregate totals reported should account for all trade program activity in the state, including any remaining NAFTA-TAA program.*

*Item Coverage. When there is no activity to report for a particular report item, a zero needs to be entered. If the item does not apply, a zero must also be entered. The use of dashes or “N/A” is not allowed, nor should any items be left blank...*

*Amended Reports. Amended reports should be used to correct errors on previously submitted reports...*

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

*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:** Regarding the differences between the detail of the ETA 563 report and the actual amounts reported to USDOL for the 10 data fields noted in the condition, L&I indicated that the differences for the first eight fields occurred due to certain individuals being included in error tables. These individuals had been identified as having issues or problems and these error tables have to be cleared by the CWIA department within L&I before the individuals can be included in the report. L&I stated that these error tables were not cleared prior to the report generation and submission to USDOL. Further, there was no communication between the department in charge of clearing these error tables and the department responsible for generating and submitting the ETA 563 report. For the remaining two data fields, L&I was unable to retrieve the support for the fields. With respect to the differences in the supporting documentation, manual entries are made in the benefit payment system to identify the type of TRA payment being made to the recipient. (Basic versus Additional) If errors are made during this process, the information will not be reported correctly on the ETA 563 report. Regarding the field containing an “N/A” on the ETA 563 report, L&I stated that they have requested a clarification from USDOL of the definition for this field before they can develop procedures to accumulate data for this 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.

**Effect:** Based on the number of errors cited in the condition on the ETA 563 for the quarter ended June 30, 2007, 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 recommend that L&I ensure that all error tables have been cleared before the ETA 563 report is generated and submitted to USDOL. We also recommend that L&I store their data used to generate the quarterly ETA 563 reports to ensure that the data can be retrieved to support all data fields being reported to the federal government. We further recommend that L&I formally document the process used to retrieve the data for the compilation of the ETA 563 report and ensure that an adequate segregation of duties exists in the generation and submission of the report including an adequate review and approval process. Additionally, we recommend that L&I consult with USDOL to obtain

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 30: (continued)**

clarification of the definition for the data field titled “Total Participants-Year to Date” in order to develop procedure to accumulate this data for future reports. Finally, we recommend that L&I amend the 6/30/07 ETA 563 report in accordance with USDOL instructions to correct the errors on the previously submitted report.

**Agency Response:** Though the Department confirms that the issues reported for 10 of the 40 data fields were valid and for which, we emphasize, an adjusted report was submitted on April 30, 2008 due to the differences being brought to the program personnel’s attention, we do call into question the audit’s cutoff for the margin of error. Four items cited only a difference of one between the total number or amounts reported and the total number or amounts supported. One other item had a difference of two with two other items having a difference each of 11. Additionally, the training cost amounts differed by less than one percent. Given the overall dollar amount of the report, we would question the materiality of this. We concede that a portion of the report during this audit timeframe still relied on manual input and also that procedures and implementation for conversion into the new computer system (CWDS) were still being worked out and as such, errors still occurred. It is anticipated as the CWDS conversion is completed along with the implementation of related procedures that the process will be more totally supported. This is discussed in more detail further in the response.

### Difference Between the ETA-563 and the Actual Reporting to USDOL

When the new server based ETA 563 generated report initiated, access to the edit check table was behind the power curve. After the second quarter 2007 report was sent, it was brought to our attention that some of the petitions had not been included in the report. The problem occurred when an edit-check was made to verify a petition number that is associated with a service/payment is valid. Checking a Trade petition table that is routinely updated is used for this verification. Normally this situation arises when an out of state petition claimant is receiving TAA services in PA. CWIA will review and verify prior to adding it to the edit-table once the information is passed across. The edit check of the petition number is a holdover from the original 563 report where breakouts by petition were included. The error table held the "flawed" data in suspension until it could be reviewed. This was the last thing to be developed by our Office of Information Technology (OIT) unit. It was not accessible at the time of the report; CWIA had no knowledge of a problem. As development proceeded, we were informed that there were petitions to review and adjustments were made accordingly. The error table is now accessible for CWIA to utilize. Prior to any submittals, CWIA now verifies that the error table is empty immediately prior to retrieving the report information from the server.

The second quarter calendar year 2007 report was corrected and resubmitted to ETA. Pennsylvania also resubmitted the ETA-563 reports for the 4th Quarter CY 2006 through the 4th Quarter calendar year 2007 to add data that had been previously omitted while the state awaited definition clarification.

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

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 would like to note that out of the 44 individuals audited, only 2 or 4.5 percent of those audited had an incorrect coding issue.

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.

The Department has embarked on a major UC electronic system modernization, which will update the existing TRA electronic filing and benefit payments. This will include the adjustment of TRA benefit payment types, and will preclude manual errors of this nature. Implementation of the new UC system, including TRA, is projected to “go live” in May of 2010.

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 30: (continued)**

#### Difference Between Reported and Supported ETA-563 TAA Fields

Pennsylvania neither confirms nor disputes the audit findings relating to TAA-related data on the ETA-563 report. As recommended, Pennsylvania submitted an amended report on April 30, 2008 that includes the supported fields and to correct the N/A reported in the “Total Participants – Year to Date” field as indicated in the audit finding, with the exception of three fields.

Pennsylvania has requested and received clarification from USDOL on the definition for the two co-enrollment fields (“Co-enrolled in Wagner-Peyser Program” and “Co-enrolled in WIA Dislocated Worker or NEG Program”). Pennsylvania understands that the finding was based on an incorrect definition for these fields and neither confirms nor disputes the finding on that basis. Pennsylvania believes this was a misunderstanding in the response from USDOL for the definition of these two fields. Per an e-mail from USDOL, they have granted leave for Pennsylvania to submit an amended report before the beginning of the next audit in order collect the correct records due to this misunderstanding. Pennsylvania will also discuss this with Regional staff at the ETA-563 report training session on June 26, 2008 to ensure there is no further confusion on the proper definition for these two fields.

#### Formal Documentation of ETA-563 Report Process

Pennsylvania will develop and implement a formal written process for the ETA-563 report, including the process used to retrieve the data, an adequate segregation of duties, and an adequate review and approval process.

**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, 2007

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### Finding 07 – 31:

#### CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Fund

#### CFDA #66.468 – Capitalization Grants for Drinking Water State Revolving Fund

#### Weaknesses in the Calculation of CWSRF and DWSRF Outstanding Federal Loans Receivable Balances Reported in the Footnotes to the SEFA

**Condition:** Our testing of the CWSRF and DWSRF disclosures in Note E to the SEFA disclosed an error in the PPR Comptroller methodology of calculating the outstanding federal loan receivable balance at June 30, 2007. The CWSRF and DWSRF federal share of the loans receivable is calculated based on the percent of federal loan disbursements since the inception of the programs to total loan disbursements (cumulative federal, state and recycled funds). The PPR Comptroller methodology used only cumulative federal and state loan disbursements, and did not consider recycled funds. As a result, PPR Comptroller initially reported the federal loans receivable in Note E as \$811 million and \$176.7 million for the CWSRF and DWSRF, respectively, at June 30, 2007. The auditors found that by properly including the recycled loan disbursements in the equation, federal loans outstanding were actually \$617.0 million and \$123.4 million for the CWSRF and DWSRF, and an auditor-proposed adjustment was required to report the correct balances.

**Criteria:** OMB Circular A-133, section 310.b states that: *At a minimum, the schedule shall...*

*(6) Include, either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end.*

Furthermore, the auditors confirmed with EPA, the federal agency in charge of these programs, that only federal expenditures exclusive of recycled funds should be included in the note disclosure.

**Cause:** According to the management at the PPR Comptroller Office, because of staff turnover, new staff was assigned the responsibility of doing the federal loan receivable calculation. In addition, there was inadequate supervisory review of this calculation to ensure it was correct.

**Effect:** The amount of federal loan receivable in Note E to the SEFA was overstated by \$194.0 and \$53.3 million for the CWSRF and DWSRF, respectively, and an auditor-proposed adjustment was necessary. If internal controls are not strengthened, misstatements will continue into the future.

**Recommendation:** We recommend the PPR Comptroller Office review their calculation methodology to ensure it reports accurate CWSRF and DWSRF loans receivable in the SEFA note disclosures. In addition, these loan receivable calculations should be reviewed and approved by a supervisor to ensure amounts are correct.

**Agency Response:** We believe the *Cause* in the finding is not correctly stated. Although a new staff person at the PPR Comptroller Office was assigned the responsibility of calculating the federal loan receivable balance for NOTE E, an understanding of the calculation methodology was gained through discussion with former staff and a review of historical calculations. The methodology that was used to calculate the outstanding federal loan receivable balance at June 30, 2007 was the same methodology that had been used dating back to 2000. This methodology, which was discussed with and reviewed by a supervisor, had been accepted by the single auditors in the past and had been used to consistently report the federal loan receivable balances each year.

After discussing this matter with EPA and PENNVEST, the PPR Comptroller Office has concluded that all disbursements (cumulative federal, state and recycled funds) for a program should be included when calculating the percentage of federal loan disbursements to be applied to the outstanding loan balance. The methodology used to determine the outstanding federal loan receivables has been altered accordingly. This calculation will continue to be used going forward and will be reviewed by a supervisor each year before it is submitted for inclusion in the SEFA notes.

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 31: (continued)**

**Auditors' Conclusion:** Based on the guidance received from EPA on this issue, our finding and recommendation, with the above clarification on the cause, remain as previously stated. We will review the corrective action in methodology 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, 2007

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### Finding 07 – 32:

#### CFDA #66.468 – Capitalization Grants for Drinking Water State Revolving Fund

##### Internal Control Weakness in State Matching Procedures at DEP for DWSRF

**Condition:** Our testing of state match disclosed that DEP did not monitor to ensure that DWSRF State Program Management set-aside state match was met for our current audit period. DEP used State Public Water System Supervision (PWSS) program state overmatch expenditures as State Program Management set-aside state match for DWSRF. Although the state match requirement was met since sufficient PWSS overmatch existed for use as DWSRF set-aside state match in the current year, the lack of monitoring by DEP is considered an internal control weakness.

**Criteria:** 40 CFR section 35.3550(h) states:

*A State must agree to provide a dollar for dollar match for expenditures made under the State Program Management set-aside. This match is separate from the 20 percent State match requirement for the capitalization grant and must be identified as an eligible credit, deposited into set-aside accounts, or documented as in-kind services.*

In addition, strong internal controls would include monitoring state match to ensure the requirements are met.

**Cause:** DEP officials stated that key personnel retired and additional time is required to prepare and review documentation to confirm compliance with the match requirements.

**Effect:** Without monitoring the State Program Management set-aside match, there is limited assurance that the DWSRF will be in compliance with match requirements in the future.

**Recommendation:** We recommend that DEP set up procedures to properly and timely monitor the State Program Management set-aside match to ensure the compliance with match requirements.

**Agency Response:** In order to ensure the Drinking Water State Revolving Fund (DWSRF) State Program Management set-aside match is in compliance with match requirements, written procedures have been established with time lines to complete tasks. The Bureau of Fiscal Management staff have been assigned to monitor the DWSRF and Public Water Supply Supervision Program (PWSSP) accounts to ensure the match is met and any over match is reported at least semi-monthly. The Bureau of Fiscal Management staff will also follow up with the PPR Comptroller Office regarding FSR submission, if necessary. Staff from the Bureau of Water Standards and Facility Regulation (BWSFR) will be required to prepare semi-annual grant progress reports to EPA. Overall, these procedures will ensure a mechanism for more timely reporting.

These procedures have been reviewed by the Federal/Audit Unit Supervisor, the Bureau Director for Fiscal Management and the DWSRF Environmental Program Manager.

**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, 2007

### Finding 07 – 33:

#### CFDA #84.010 – Title I Grants to Local Educational Agencies

#### CFDA #84.367 – Improving Teacher Quality State Grants

#### Inadequate Controls Over Ensuring LEA Compliance With MOE Requirements (A Similar Condition Was Noted in Prior Year Finding #06-31)

**Condition:** The Pennsylvania Department of Education (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. PDE's Bureau of Information Systems extracts the necessary AFR information, determines net expenditures, and generates the 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.

In three of the last four audit years, we have issued a finding regarding inadequate controls of the MOE process.

Our testwork disclosed that the two prior year audit exceptions were not adequately resolved during the current audit year. In the prior year audit, we identified two subrecipients where expenditure levels decreased by more than 10 percent. PDE identified those subrecipients but failed to notify them or conduct follow up procedures to properly verify compliance with MOE. No resolution of these discrepancies was completed.

During the current year audit, we disclosed that PDE failed to complete the yearly MOE review timely. PDE generated an initial MOE schedule before the audit period on 1/27/06 where five subrecipients were identified that potentially did not meet the MOE requirement. The subrecipients were finally notified of their possible failure to meet MOE in September 2007 or 20 months later. For three of these five subrecipients, PDE has failed to resolve the issue as of the date of our testwork in April 2008, or seven months later, and 27 months after initial identification.

**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:** The deficiencies are the result of continued inadequate management oversight of the MOE process. In prior years, PDE lacked written procedures regarding MOE. We were provided written procedures that were generated after the audit period. Our review of PDE's MOE process used during the current audit year indicates that their procedures are inadequate.

PDE management did not adequately control and coordinate the MOE process, which is decentralized. One employee identifies subrecipients that potentially do not meet MOE and then forwards the exceptions to separate regional coordinators to resolve the issues with the subrecipients, but the exceptions are not being resolved. A more centralized control would provide better management oversight since the effort would be the duty of one, rather than multiple employees.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 33: (continued)**

Further, PDE follow up procedures are weak because program personnel assume that subrecipients who do not appear to meet MOE have probably reported erroneous information on their AFR. AFRs are signed and approved by subrecipient representatives and include a certification clause that attests the AFR is accurate and complete. PDE's conclusion that the AFR is inaccurate assumes that the subrecipient met MOE. Further, the assumption that the subrecipients need to revise their AFR's does not promote timely resolution of the MOE variance. Rather, if PDE assumed that AFR information as submitted is accurate by immediately notifying the subrecipients of the resulting reduction in federal grant funds, the subrecipient would be motivated towards a timely resolution of not meeting MOE.

**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 because subrecipients are optimistic of an annual increase in 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 subrecipient fails to meet MOE. Subrecipients may be in violation of federal regulations if there is decreasing state and local spending and no reduction in federal grant money.

**Recommendation:** PDE should take the necessary actions to ensure that the MOE report is fully and properly reviewed in a timely manner each year. Further, subrecipients identified as not meeting MOE should be timely contacted and the issue resolved in an appropriate and timely manner. PDE should strengthen written procedures and coordinate their MOE effort so that identification and resolution is assured each year.

**Agency Response:** The Pennsylvania Department of Education (PDE) has amended the written procedures to address the auditor's recommendations for the Maintenance of Effort (MOE) requirements. The revisions include reassignment of responsibilities, readjustment of the timeline to allow adequate time to complete and correct any areas of non-compliance, and development of letters notifying LEAs annually of their MOE status.

The PDE does NOT agree with the auditor's statement regarding the distribution of MOE issues to Regional Coordinators and the assumptions regarding Annual Financial Report (AFR) data and meeting MOE.

When it has been determined that an LEA has not met MOE requirements, the Division of Federal Programs (DFP) MOE staff notifies the Regional Coordinator responsible for the LEA. The Regional Coordinator contacts the LEA to discuss the MOE issue and reviews the AFR for possible errors. Although the AFRs are submitted with certifications and attestations, it has been noted that the majority of the LEAs identify errors that have been made when submitting the AFR data which led to a MOE noncompliance finding. The DFP staff review reports, by LEA, generated from the AFR and in many cases, it is evident that errors have occurred—i.e., reporting of federal expenditures that are more than 100 percent of the actual federal funding awards. It is the conviction and practice of the DFP to provide assistance to the LEAs to rectify errors made in the AFR which would deter funds being returned to PDE erroneously.

The DFP has revised its MOE procedures, but will continue to require Regional Coordinators to assist LEAs to rectify MOE situations, with the priority that no funds are returned unless the MOE requirements have been violated. The new staff person assigned to MOE will ensure, with the assistance of the Fiscal Manager and the Division Chief that all non-compliance issues with LEAs are resolved by the end of each fiscal year. This will be an on-going process to further develop, revise and perfect this system.

**Auditors' Conclusion:** The points raised by PDE management in the agency response have no impact on the finding itself or our related auditor conclusions, so our finding and recommendation remain as previously stated. PDE should work towards implementing the most effective and efficient corrective action that management deems appropriate. 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, 2007***

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### **Finding 07 – 34:**

#### **CFDA #84.010 – Title I – Grants to Local Educational Agencies**

##### **Inadequate Controls Over PDE’s Consolidated State Performance Report (A Similar Condition Was Noted in Prior Year Finding #06-30)**

**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 (AYP) towards meeting the standards.

The Pennsylvania Department of Education (PDE) ensures that Local Education Agencies (LEAs) annually review the progress of each Title I school to determine whether the schools are making AYP. Under NCLB, the general rule is that LEAs and schools that do not make AYP for two consecutive years are identified for improvement and 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 corrective action plans and work with PDE to implement the plans to ensure that students can 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).

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 results on the CPR. In addition this vendor posts and maintains assessment results on a web site called PAAYP.com. PAAYP.com 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.

Although PDE has contracted with these vendors, federal regulations require PDE 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. While some information comes directly from the vendor, other reporting information on the CPR comes from within PDE.

For detailed testing purposes, we haphazardly selected various types of information from the CPR. For each item selected we traced the reported information back to source documentation that included computer reports, and other lists and schedules. For the CPR, we selected a sample of 15 fields out of the approximately 650 fields on the report.

Of the 15 fields tested on the CPR, PDE could only provide support for and adequately assure us of the validity of eight fields. The remaining seven fields were determined to be unsupported, so we could not determine the accuracy of the data submitted. These seven fields were as follows:

1. Section 1.3.3 – Grade 4 Mathematics – Total Number of Students tested – Female
2. Section 1.3.4 – Grade 4 Reading – Percent of Students Proficient or Advanced, School Year 2005-2006 – Economically Disadvantaged
3. Section 1.3.5 – Grade 5 Mathematics – Total Number of Students Tested – Students with Disabilities

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## *Federal Award Findings and Questioned Costs - June 30, 2007*

### **Finding 07 – 34: (continued)**

4. Section 1.3.7 – Grade 6 Mathematics – Total number of Students Tested – Limited English Proficient
5. Section 1.3.8 – Grade 6 Reading – Total Number of Students Tested –Native
6. Section 1.3.13 – High School Mathematics – Percent of Students Proficient or Advance, School Year 2005-2006 – Male
7. Section 1.4.5.1 – Public School Choice – The Number of public schools to which students transferred under the provision for public school choice under section 1116 of Title I during the 2005-2006 school year.

As a result, for the third year in a row, PDE did not submit an accurate and properly supported CPR to USDE in violation of federal regulations.

**Criteria:** Title I, Sections 1111(h) (1) and (4) of ESEA state:

*(h) Reports.*

*(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:** The process of assembling the data for the CPR is decentralized. Various divisions with PDE are responsible for different sections of the report. When asked for support for individual amounts, the auditors were sent from one person to the next for the data. It appears as if no one within the department knows who is responsible for what sections of the report.

PDE depends heavily upon the outside vendors for the determination of making AYP and identifying schools in the improvement classifications. Further, it appears that PDE has an inadequate number of staff devoted to the CPR effort. Since timeliness of the reports is viewed as most critical, accuracy of the information appears to be a secondary concern.

PDE has a division that reportedly verifies data accuracy regarding AYP. However, their review consists of repeatedly performing data extractions, sorts, and reviews until their result matches the results of the vendor. PDE's review is not an independent review. PDE maintains that they perform comparisons of year to year data that are documented on a newly created Accountability Checklist and Quality Control Approval documents. The documents were signed by PDE but they did not provide variance guidelines or additional evidence that their review resulted in additional investigation to help ensure the validity of the reported data.

**Effect:** Unsupported and inaccurate information on the CPR is in violation of federal regulations. The CPR is to provide information on state activities and outcomes of ESEA programs. In part it is to provide valid evidence of program outcomes and results in meeting NCLB standards. Since portions of the CPR are unsupported and inaccurate the report can not be used by USDE or the public in measuring NCLB success.

**Recommendation:** PDE management should institute reasonable documented measures to insure that data on the CPR is complete, accurate, and properly supported and documented. Assessment data should be independently verified, 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 properly coordinate and track the other sources of report information and to hold those sections accountable for the accuracy of information presented. PDE should develop comprehensive written procedures to document the process. Procedures should include independent verification, supervisory review, and documented

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 34: (continued)**

sign-offs. Audit trails should be documented that show individual and school data rolling-up into the summary data presented on the CPR. Procedures, audit trails, data summaries, and reviews and approvals should be retained on file by PDE.

**Agency Response:** The Pennsylvania Department of Education (PDE) has been aware of this finding for the past several years. During this time, corrective action has been implemented including strengthening internal controls and developing written procedures.

The PDE's system for submitting data for the Consolidated State Performance Report (CSPR) is coordinated by the Bureau of Teaching and Learning Support, Division of Federal Programs (DFP). The data is gathered from the various offices, divisions and bureaus within the PDE.

Items one (1) through six (6) indicated by the auditor were data elements collected by the Bureau of Assessment and Accountability. The Bureau runs validations on the collected data. However, the validations were not documented for the data submitted in the 2005-06 CSPR. These validation steps are documented beginning with the 2006-07 year. The PDE maintains that the data verifications were completed and that data submitted on the CSPR was accurate.

The seventh item indicated by the auditor (“...Section 1.4.5.1—Public School Choice—The number of public schools to which students transferred under the provision for public school choice under section 1116 of Title I during the 2005-06 school year...”) was a new data element required by USDE within the CSPR in the 2005-06 year. This data element was added after 2005-06 data collected had been completed by the PDE, so the information was not available for the 2005-06 CSPR. After the data element was added in the 2005-06 CSPR, PDE added the data element to its collection for the 2006-07 year and reported it in the 2006-07 CSPR.

**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.**

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## Federal Award Findings and Questioned Costs - June 30, 2007

### Finding 07 – 35:

#### 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 #06-33)

**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 CD, or via the internet from LEAs and outside contractors who administer standardized testing.

For the sixth year in a row, we found reporting errors and 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 we sampled from the fourteen Secondary and Post-Secondary sub-indicators in the 2005-06 CAR submitted to USDE.

We tested two sub-indicators (1S2, 2S2) out of the seven Secondary sub-indicators in the 2005-2006 CAR, and we found internal control weaknesses. PDE utilizes the results from three approved tests (known as NOCTI, NIMS, and ICE) for reporting the 1S2 and 2S2 sub-indicators. PDE contracts with Penn State, McKeesport to compile the test results on behalf of PDE. Our review of this information disclosed that PDE accepts this data without performing any independent verifications of the accuracy of the data received. PDE only performed a high-level review of hard copy data reports, which we consider to be insufficient.

Our testing of postsecondary measures disclosed material differences in the numbers reported for five out of seven sub-indicators. PDE stated that the CAR submitted was incorrect and plans to submit revisions to USDE as follows:

CAR numbers reported to Feds	1P1	1P2	2P1	4P1	4P2
Numerator	38,397	44,025	11,410	4,665	733
Denominator	55,320	58,527	13,106	46,910	7,966

CAR numbers revised by PDE	1P1	1P2	2P1	4P1	4P2
Numerator	7,528	9,593	11,410	4,665	733
Denominator	11,410	11,410	75,416	43,599	7,583

Difference - Numerator	30,869	34,432	0	0	0
Difference - Denominator	43,910	47,117	(62,310)	3,311	383

In addition we compared the sub-indicator descriptions noted in the CAR to the Federally Agreed Upon Performance Levels (FAUPL) report. For some sub indicators, the descriptions reported in the CAR did not agree to the FAUPL report, making it unclear as to whether the data actually reported is in accordance with federal requirements in the FAUPL report. Examples are as follows:

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## Federal Award Findings and Questioned Costs - June 30, 2007

### Finding 07 – 35: (continued)

Sub-Indicator	Numerator (N)/ Denominator (D)	FAUPL	CAR
3S1	N	Number of career and technical education students who reach the state defined threshold and enter employment, further education or training and/or enter the military within nine months.	Number of respondents to the PDE follow-up survey who were reported as: a) employed; b) pursuing additional education or training; or c) in the military.
3S1	D	Number of all career and technical education students who complete their program requirements and graduate. Number of respondents who return a usable PDE follow-up survey.	Number of respondents who returned a usable PDE follow up survey.
3P1	N	Number of postsecondary occupationally specific students who completed a postsecondary program in the reporting year and were placed in additional postsecondary education or advanced training, employment, and/or military service within eight months after completion of a program.	Number of respondents to the PDE survey who were reported as employed, pursuing additional education or advanced training, and/or in the military.
3P2	N	Number of students who completed a postsecondary career and technical education program and were employed in a related field in the First Quarter following graduation (July 1 – September 30) and were also employed in the Third Quarter following completion (January 1 – March 31).	Number of postsecondary completers who were placed in employment and who were reported as continuing to be employed.
3P2	D	Number of students who completed a postsecondary career and technical education and were employed in a related field in the First Quarter following completion (July 1 – September 30).	Number of postsecondary career and technical education program completers who were placed in employment in the initial survey and complete and return a usable follow-up survey.
4P2	N	Number of non-traditional occupationally specific completers who meet the state defined threshold for employment in occupations in which underrepresented gender groups represent less than 25 percent of employment.	Number of non-traditional completers of occupationally specific programs in the reporting year.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

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### Finding 07 – 35: (continued)

**Criteria:** Federal Regulation 34 CFR 80.40 regarding a state's performance reporting, provides, in part:

- (1) *Grantees shall submit annual performance reports . . .*
- (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.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

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### Finding 07 – 35: (continued)

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.*

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:** Inadequate review and approval over the compilation and submission of the CAR report led to an inaccurate submission of the CAR report. PDE officials believed at the time of submission of the CAR that the data was reasonably accurate, complete, and in accordance with federal definitions, and their compilation and reporting procedures were appropriate. However, an incorrectly written query of the Post-Secondary system led to incorrect data reported.

**Effect:** As a result of continued internal control weaknesses and lack of adequate reviews noted above, the CAR contains erroneous and inaccurate 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, and in accordance with USDE definitions. Data should also be adequately supported, analyzed, and properly reviewed prior to submission. Furthermore, PDE should ensure that errors detected in source data are corrected as necessary for sub-indicators reported in the CAR. Lastly, we recommend PDE send a corrected CAR to the USDE to ensure USDE has the correct program data.

**Agency Response:** The Pennsylvania Department of Education has been notified of the audit findings for the 2007 fiscal year and has been aware of this finding for the last several years. During this time, continual action has been taken. The Bureau of Career and Technical Education continues to improve the internal control procedures over the CAR submission to USDE annually and establish a system to ensure all CAR data is accurate, complete and in accordance with USDE definitions. We believe these revisions will resolve this finding and prevent the finding from reoccurring.

**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, 2007

### Finding 07 – 36:

#### 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 #06-34)

**Condition:** As a result of federal resolution of multiple prior audit findings on debarment and suspension requirements, which have been reissued annually since SFYE June 30, 1992, 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 18 vendors receiving RSBS payments in SFYE June 30, 2007, to verify whether OVR was documenting its review of the Federal List after August 1, 2000. We noted that for 5 of these 18 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. We also noted that for one of the 18 vendors, the "Date Record Added" was September 2006, indicating that this was a new vendor which required a review for debarment/suspension. However, for all six 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 8 out of 18 vendors had a date in the "Debar Review" field, indicating that OVR reviewed the vendor for debarment or suspension. Four out of 18 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, 2007, 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 OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

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### Finding 07 – 36: (continued)

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.*

**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.

Regarding the one vendor which was added in September 2006, OVR personnel could not explain why this vendor was not checked for debarment/suspension. With respect to the other five 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 five 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. Four out of 18 vendors tested during SFYE June 30, 2007 were existing vendors as of August 1, 2000 who were still in use by OVR during SFYE June 30, 2007 and have not been checked for debarment or suspension in seven 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, 2007 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:** The condition for this finding states that OVR is required to manually check the list of parties excluded from Federal Procurement and Non Procurement 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.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 36: (continued)**

There is no condition that OVR need to check vendors prior to August 1, 2000. With more than 25,000 vendors, it would be reasonable to expect and continue to find vendors where the debarment indicator is not checked.

Since this finding, OVR's mainframe was converted to a new computer system, Commonwealth Workforce Development System (CWDS) in November 2007. With this system we have a direct hyperlink to the Federal Excluded Parties List System (EPLS), a federal website where OVR enters a provider's tax ID and immediately finds out if there are any contractor responsibility issues with this particular vendor. Included is a field where the date of verification is recorded. It is OVR's standard operating procedure that before any new vendor is approved to provide services to OVR clients, they must first be verified and pass the debarment and suspension check. We are also talking with our IT personnel about a future interface with the federal web site that would automatically check debarment and suspension.

It is the auditors' recommendation that OVR personnel check EPLS every time a service authorization is created and maintain adequate documentation to support when the providers were checked for debarment or suspension. We believe with that type of restriction and the number of vendors involved it would result in delaying necessary services to our clients and also result in duplication of effort by our local offices.

We believe that since the implementation of CWDS and our standard operating procedures the debarment and suspension problem will be resolved.

**Auditors' Conclusion:** Only 8 out of 18 vendors tested had written evidence of being checked for debarment/suspension. OVR uses many vendors for multiple years, and OVR's procedures do not appear to be adequate to ensure that OVR's vendors are not debarred/suspended. USDE's finding resolution dated August 1, 2000 appears to be outdated because existing vendors could become debarred or suspended since the time of that resolution, and OVR would not be aware of the debarment/suspension. 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. Regarding OVR's new fiscal system which was implemented in November 2007, subsequent to the end of our current audit period, we will evaluate its effectiveness in checking new vendors for debarment/suspension during the subsequent audit period. However, it appears from the agency response that the new system does not address debarment/suspension for existing vendors. Therefore, the finding and recommendation remain 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, 2007

### Finding 07 – 37:

#### CFDA #84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States

##### Unallowable Payment to a Vendor Results in Questioned Costs of \$146 and Likely Questioned Costs Over \$10,000

**Condition:** As part of our testing of RSBS program expenditures, we randomly selected 19 payments which OVR made to vendors or service providers on behalf of OVR clients during SFYE June 30, 2007 and determined whether OVR clients were eligible for RSBS services. We also determined whether amounts paid to vendors or service providers on the clients' behalf were allowable under the RSBS program and correct based on OVR's fee schedule which was approved by USDE. OVR utilizes a fee schedule to pay vendors in order to establish a maximum amount for each particular good or service based on various sources such as Medicare, Pennsylvania Blue Shield, American Dental Association, etc. If a payment exceeds a maximum fee schedule amount, the OVR counselor must obtain documented authorization and justification for the excess charge. Our testing disclosed that for one out of 19 payments tested, the vendor was paid \$185 more than the OVR fee schedule maximum allowable amount, without proper documented authorization/justification in the client case file. The Federal portion of this overpayment was \$146.

The total Federal amount of the 19 payments tested was \$49,870 out of a population of \$43,340,706 payments made to vendors and service providers on behalf of OVR clients during SFYE June 30, 2007.

#### **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 . . . 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. . . .*

OMB Circular A-87, Attachment A, Section C, states the following factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- (d) *Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.*
- (e) *Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.*

Further, an adequate system of internal controls would ensure that amounts on OVR's fee schedule could not be exceeded without appropriate authorization.

**Cause:** OVR personnel indicated that a relatively new OVR counselor wrote a case budget request amount based on the vendor's actual cost instead of OVR's fee schedule maximum amount. OVR personnel stated that OVR's Fiscal System improperly allowed the counselor to authorize the payment greater than the maximum fee schedule amount for the fixed cost item, without obtaining the proper documented authorization to do so.

**Effect:** Since RSBS funds were overpaid to the vendor noted above, there are questioned costs of \$146 and likely questioned costs over \$10,000.

**Recommendation:** We recommend that L&I pursue appropriate settlement with USDE for the \$146 in questioned costs and likely questioned costs over \$10,000 reported above.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 37: (continued)**

**Agency Response:** The \$146 overpayment was an isolated incident made by a new counselor. Since that time OVR has moved on to a new system (CWDS) in November 2007. As part of a corrective action plan, OVR will be talking with CWDS developers to implement more internal controls and put in hard stops for approvals when a fixed rate is overridden.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as stated above. We will evaluate 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, 2007

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### Finding 07 – 38:

#### 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 \$22,268 in Unsupported Program Income (A Similar Condition Was Noted in Prior Year Finding #06-36)

**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 \$6.4 million in program income from SSA during state fiscal year ended June 30, 2007, 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, 2007 testwork disclosed that for the second year in a row, for two out of five clients that we sampled, OVR could not provide complete documentation supporting the VR Provider Claim forms for our review. For one client, OVR could not provide us a copy of the VR Provider Claim form which was submitted to SSA. Furthermore, OVR did not retain and provide the OVR-208 Forms which supported expenses in the amount of \$5,622 claimed by OVR on behalf of the client for which OVR was reimbursed by SSA.

Our testwork also disclosed that for a second client out of the five clients sampled, OVR did not retain and provide the OVR-208 Forms which supported an additional \$16,646 of direct costs claimed for the client in question.

The amount in unsupported program income for RSBS that was reimbursed by SSA for the two sample items in question was \$22,268 out of a total of \$323,601 for the five claims sampled (Document No. RE94028447 posted to the SAP System on October 26, 2006).

**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 Central Office personnel stated that their procedure has been to return the claim documentation to the originating OVR district office after the claim has been processed. OVR personnel stated that the district offices have various methods for filing the claim information which leads to claim documentation not being easily located when necessary. OVR personnel stated that they intend to implement procedures to retain copies of the claim documentation at the OVR Central Office to ensure that the documentation is retained and available for audit purposes.

**Effect:** Since there was no documentation to substantiate the proper determination of the SSA claims for \$22,268 in program income recorded for RSBS, this income is not properly supported in violation of federal regulations. Because of this lack of documented support for the sample items in question, OVR provides little assurance that the SSA income received by L&I in the RSBS program for these items are 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.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 38: (continued)**

**Recommendation:** OVR should pursue appropriate settlement of the \$22,268 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.

**Agency Response:** The first client audit issue states that OVR did not retain and provide the OVR-208 forms or documentation to support \$5,622 in expenses claimed by OVR on behalf of the client for which OVR was reimbursed by SSA. Attached you will find processed fiscal documentation from the case budget authorizing the questioned \$5,622 in expenses. Pages numbered 4 thru 8 from OVR's Main Frame show the units and amounts billed and paid on behalf of the client including the questioned amount. The Main Frame automatically creates invoices from the 45 screen information. Invoices are then sent for payment.

The Condition for the second client states that supporting documentation is not available for \$16,646 in expenses. There is a period where the client was with another agency. At that time, the client was being serviced by the Department of Public Welfare, since 1999 and prior. It is my understanding that DPW uses some other form and does not track expenses the same way OVR does, therefore no OVR 208's would be available for that time period.

We contend that OVR does have substantial documentation supporting all claims made to SSA for both clients as evidenced by the two attachments. We do admit that there are clerical errors being made in the District Offices as far as copying and filing practices, but going forward Central Office will also maintain separate SSA files. Also, as evidenced by the attached "SSA Notice of Determination" SSA does review, accept or reject all submitted claims and are they fully satisfied before any monies are paid out by SSA.

We respectfully request the auditors recommendation that OVR should pursue a settlement of the \$22,268 in unsupported program income with SSA be removed from the Single Audit Preliminary Finding #07-38.

**Auditors' Conclusion:** Regarding the first client in question, OVR provided two Case Budget forms totaling \$5,622 with its Agency Response. Although the Case Budget forms authorize the vendor to provide services to the OVR client in question, OVR did not provide any documentation to show that the services were actually rendered, for example, OVR-208 Forms or vendor invoices which include signatures of the vendor and OVR counselor certifying that the invoiced services were performed on behalf of the OVR client. Therefore, no documentation was provided to show that the \$5,622 was incurred on behalf of this client, so the \$5,622 costs claimed for reimbursement from SSA are still considered to be unsupported. Further, OVR did not provide the VR Provider Claim Form as stated in the finding Condition.

Regarding the second client in question, OVR stated that no OVR-208 Forms or vendor invoices were available to support direct costs claimed in the amount of \$16,646 because the client was receiving services from DPW when the \$16,646 was expended. Since no documentation was provided to show that the \$16,646 expenditures were incurred on behalf of this client, the \$16,646 direct costs claimed for reimbursement from SSA are still considered to be unsupported.

Therefore, 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, 2007

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### Finding 07 – 39:

#### CFDA #84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States

##### Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs (A Similar Condition Was Noted in Prior Year Finding #06-35)

**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, 2007, 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 all employees whose salaries were charged 100 percent to the RSBS program during the year ended June 30, 2007, OVR failed to prepare the signed semi-annual certifications to re-certify that employees worked solely on the RSBS program as required. During the state fiscal year ended June 30, 2007, OVR charged personnel expenditures of \$31,043,310 in salaries and \$11,936,404 in fringe benefits, or \$42,979,714 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:** Based on discussions with OVR personnel, there have been recent staffing changes in OVR which have resulted in a lack of review and oversight related to the federally required semi-annual certifications for OVR employees.

**Effect:** Although our audit determined OVR personnel costs to be allowable, OVR's semi-annual certification documents were not prepared for 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 employees who are charged 100 percent to the RSBS program are included in the semi-annual certifications in accordance with the provision in OMB Circular A-87.

**Agency Response:** Regarding the semi-annual certifications, certifications are not available for the second half of the SFY January through June 2007. At that time, multiple OVR personnel retired or moved on to new positions. With the vacancies and change of personnel, the semi-annual certification process was overlooked and did not happen. Since then staff positions are being filled and OVR is aware of the necessity of the semi-annual certification process. One six-month certification was completed in January 2008 and the request for the next six-month period certification will be sent out at the end of June 2008.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 39: (continued)**

**Auditors' Conclusion:** Although the agency response states that semi-annual certifications were not available for the second half of the SFYE June 30, 2007, semi-annual certifications were actually not available for the entire year ended June 30, 2007 as noted in the finding. We will review any corrective action in the subsequent audit. 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, 2007

### Finding 07 – 40:

#### CFDA #84.287 – Twenty-First Century Community Learning Centers

##### Internal Control Weakness in PDE's Monitoring of Federal Earmarking Requirements (A Similar Condition Was Noted in Prior Year Finding #06-38)

**Condition:** As part of our audit of the Twenty-First Century Community Learning Centers (21<sup>st</sup> CCLC) Program for SFYE June 30, 2007, 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 established two separate appropriations for each Federal grant, one for the awards to subrecipients (or approximately 95 percent of each grant award) and one for state administration and state activities (or approximately five percent of each grant award). However, for the second year in a row, our inquiry of PDE personnel and review of supporting documentation disclosed that PDE did 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 tracked 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, 2007***

### **Finding 07 – 40: (continued)**

**Cause:** Per PDE personnel, as a result of our prior-year finding they established SAP accounts to separate the state administration and state activities allotments in accordance with federal regulations. However, the separate accounting for these costs was not established until subsequent to our current audit period. Therefore, for the whole period under audit, PDE did not have procedures in place to properly monitor these federal earmarking requirements.

**Effect:** Since no system existed to track state administrative costs separately from state activities costs during our audit period, there is limited assurance that PDE was complying with the Federal earmarking requirements for 21<sup>st</sup> CCLC Grants.

**Recommendation:** We recommend that PDE ensure that procedures are adequate 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 Pennsylvania Department of Education is aware of this finding and corrective action has been implemented. New procedures were implemented during the 2006/2007 Fiscal Year to track and account for state administrative costs separately from state activities costs. A separate account code was established for 21<sup>st</sup> Century Community Learning Center state activities. These separate account codes were implemented for the 2007/2008 Fiscal Year.

**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, 2007

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### Finding 07 – 41:

#### CFDA #84.357 – Reading First State Grants

##### Noncompliance and Internal Control Weakness in the LECS Comptroller Office System of Cash Management (A Similar Condition Was Noted in Prior Year Finding #06-40)

**Condition:** For the second year in a row, our cash management testing of the Reading First (RF) Program at PDE disclosed noncompliance and an internal control weakness in LECS Comptroller monitoring of RF subrecipients for excess cash. In order to follow up on our prior-year finding for our current audit, we tested Philadelphia School District (PSD), the largest RF subgrantee, which received \$11.3 million out of \$29.5 million in total RF funds paid to subrecipients during the fiscal year ended June 30, 2007. In our current-year testing, we found that PSD was allowed to retain excess cash on hand throughout SFYE June 30, 2007 in violation of federal cash management regulations.

In particular, we found that as of December 2006, LECS had advanced \$4.7 million to PSD for the 06-07 RF grant. PSD's December 2006 cash report showed no expenditures by PSD as of December 2006. LECS then made an additional payment of \$800,000 in January 2007 before receiving PSD's December 2006 expenditure report. At that time, LECS suspended future payments to PSD. As of March 2007, PSD received \$5.5 million in advances and reported no year-to-date expenditures for the RF program in its March cash report. Additionally, PSD did not submit an expenditure report for June 2007. Therefore, PSD was permitted to retain excess cash on hand throughout the current-year under audit.

Further audit follow up disclosed that the LECS Comptroller's policies and procedures would have resulted in 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:** Annual RF subrecipient contracts beginning in July are often not finalized until September or October each year. Thus, LECS's initial monthly payments to the subrecipients are delayed. When the contracts are fully executed, LECS makes one-time, catch-up payments and then begins routine monthly payments, without checking actual year-to-date cash needs at the subrecipient level. Without payments in the first three months of the fiscal year, subrecipients are not required by PDE to submit a September expenditure report, usually resulting in the first quarterly expenditure report not being submitted until December. Therefore, LECS's quarterly monitoring of subrecipient cash activity is delayed. This allows RF subrecipients to easily accumulate excess cash, for example, up to seven months worth of payments 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.

LECS reported that, as a result of our prior-year finding, changes were made to the payment process beginning in the state fiscal year ending June 30, 2008, or after our current year under audit.

**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. Also, if not corrected, the internal control weaknesses noted above in LECS monitoring will cause similar noncompliance in the future.

**Recommendation:** We recommend that the LECS Comptroller's Office re-evaluate their subgrantee 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.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 41: (continued)**

**Agency Response:** The LECS Comptroller Office has established the following to help prevent excess cash disbursements to RFP subrecipients, all new 2007-08 RFP projects starting as of July 1, 2007, did not include the standard back payments as part of their initial payment.

The initial payment was limited to one monthly payment. Late starting projects did not receive back payments, only the initial one monthly payment. The RFP subrecipient is required to submit the *Reconciliation of Cash on Hand – Quarterly Report* when it becomes due. At that time, the cash status will be evaluated to determine if the recipients are accumulating excess funds.

This new procedure did not go into effect until July 1, 2007, with the new 2007-08 RFP projects, therefore, did not impact the 2006-07 projects in this audit period.

**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, 2007

### Finding 07 – 42:

#### CFDA #84.357 – Reading First State Grants

#### Internal Control Weaknesses and Noncompliance With Earmarking Requirements Result in Questioned Costs of \$213,734 (A Similar Condition Was Noted in Prior Year Finding #06-41)

**Condition:** Consistent with our prior audit, our current audit of the Reading First State Grants program 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 \$213,734 of questioned costs.

Reading First earmarking requirements state that PDE may expend no more than 20 percent 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 percent, PDE may not spend more than 65 percent (or 13 percent of the total grant award) on professional in-service and preservice development and review; 25 percent (or 5 percent of the total grant award) for technical assistance for LEAs and schools; and 10 percent (or 2 percent of the total grant award) for planning, administration and reporting.

During the fiscal year under audit, PDE did not separately track and monitor compliance for the 65 percent and 25 percent requirements (or 18 percent of each year’s grant award in total) and combined these costs using the same SAP account (i.e. Internal Order). Since these costs were combined, 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, 2007 were as follows:

#### Summary of Professional In-service/Technical Assistance Costs

Grant Award	Federal Grant No.	Award Amount	18% of Grant Award	Actual Expenditures
2004-2005	S357A040039	\$30,330,660	\$5,459,519	\$5,673,253
2005-2006	S357A050039	31,927,705	5,746,987	3,459,855
Total Costs				<u>\$9,133,108</u>

As a result, we could not determine whether PDE complied with the individual earmarks within the \$9,133,108 combined expenditure total.

In addition, PDE erroneously charged back 2005-2006 award Professional In-service/Technical Assistance Costs to the 2004-2005 award believing there was sufficient available balance remaining within this earmark category. The chargeback resulted in over spending of the 2004-2005 earmark by \$213,734 in questioned costs as follows.

#### Summary of Questioned Professional In-service/Technical Assistance Costs

Grant Award	Federal Grant No.	Award Amount	18% of Grant Award	Actual Expenditures	Over/(Under) Earmark
2004-2005	S357A040039	30,330,660	5,459,519	5,673,253	213,734

In addition, a review of RF costs charged to the SAP accounting system for our current year disclosed that PDE misclassified planning, administration, and reporting costs of \$229,129 as professional development and technical assistance expenditures within the 2005-2006 RF grant award. However, when these costs are properly re-categorized, we determined that the maximum 10 percent administrative earmark (or 2 percent of each year’s grant award in total) for the 2005-2006 grant year was not exceeded.

**Criteria:** Federal Regulation 20 USC 6362 (d) relating to formula grants to state educational agencies and state use of funds, provides, in part:

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 42: (continued)**

- (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.

Prior to the previous year's finding, PDE officials 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. However, due to timing of the accounting posting cycle, an additional \$229,129 was posted as professional in-service and preservice development rather than administration in the current year.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 42: (continued)**

Lack of separate Internal Orders for the various earmarking components resulted in ineffective tracking of earmarked expenditure totals, which in turn caused the erroneous chargeback of expenditures.

**Effect:** The \$213,734 of Reading First Professional In-service/Technical Assistance expenditures, representing the amounts in excess of the maximum earmark of 18 percent (combined 13% and 5%, respectively) 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 \$9,133,108 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 \$213,734 in questioned costs noted above; and 2) the \$9,133,108 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:** The Pennsylvania Department of Education (PDE) is aware of this finding, and corrective action has been implemented. The Bureau of Teaching and Learning Support, Division of Federal Program staff corrected this accounting error in all Reading First grants that were open for adjustments. Because the 2004-2005 grant was already closed, adjustments were unable to be made to this account. This particular issue has been corrected in all grants where possible. As stated in the prior year response to this audit finding, PDE maintains that Reading First funds were spent appropriately. These funds were used to provide participating LEAs with the technical assistance and support necessary to administer compliant programs.

**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, 2007

### Finding 07 – 43:

#### CFDA #84.357 – Reading First State Grants

#### Noncompliance Noted in PDE’s Allocations of Reading First Subgrant Awards to LEAs (A Similar Condition Was Noted in Prior Year Finding #06-39)

**Condition:** In accordance with PDE’s application to USDE for Reading First funds, Pennsylvania developed a competitive funding formula approved by USDE to allocate and award 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 PDE has allocated the same proportionate share of funds regardless of the fluctuation in subgrant award amounts or student/teacher counts to each LEA every year since.

In order to test PDE’s 2006-2007 LEA allocations, auditors recalculated the allocation for the four largest LEAs, out of a total of 35 LEAs receiving a grand total of \$24.6 million in Reading First subgrant awards for the year. For each LEA tested, we obtained documentation to support child and teacher counts. The following chart illustrates the results of our recalculations:

<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 2006-07 Total Allocation</u>	<u>Difference</u>
Harrisburg SD	2,222	\$ 888,800	116.5	\$ 233,000	\$ 1,121,800	\$ 949,897	\$ (171,903)
Pittsburgh SD	5,371	\$ 2,148,400	283	\$ 566,000	\$ 2,714,400	\$ 2,631,795	\$ (82,605)
Philadelphia City SD	31,305	\$12,522,000	1,295	\$2,590,000	\$15,112,000	\$ 9,379,762	\$(5,732,238)
Reading SD	4,980	\$ 1,992,000	224.5	\$ 449,000	\$ 2,441,000	\$ 2,383,466	\$ (57,534)

The differences noted for each LEA above reflect the difference between PDE’s allocated proportionate share of the 2006-07 RF subgrant award and the auditor’s calculated allocation which is based on 2003-04 student/teacher counts. As a result, for the second year in a row, PDE did not comply with the competitive funding formula which requires subgrant award allocations to be made based on annual student/teacher counts.

**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.*

*Eligible schools that meet the standard on the application and are competitively awarded Reading First funds will receive their respective grant award for the duration of the six year grant period contingent upon evidence of significant improvement in student performance.*

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, 2007***

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### **Finding 07 – 43: (continued)**

**Cause:** PDE officials stated that since the RF program's 2003-04 base year, the same proportionate share of RF subgrants have been allocated to each eligible LEA to ensure that LEAs would receive, over a six year period, a stable amount of funding for planning and continued support of the program. As a result, PDE did not allocate the current subgrants to LEAs based on annual student and teacher counts as required by the RF program's approved funding formula.

**Effect:** The 2006-2007 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.

**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 are adequately documented.

**Agency Response:** The Pennsylvania Department of Education (PDE) believes that the current formula used to determine Reading First allocations is in compliance with the funding formula approved by the USDE.

The 2003-04 FY was the initial year of funding for the Reading First Program. In the prior year audit (2005/2006), it was discovered that PDE's student and teacher numbers for several LEAs did not properly support the allocation of funds to the LEAs. PDE responded to that finding and sought resolution from USDE on those few LEA allocations. To date, PDE has not received a recommendation for resolution from USDE.

The LEAs that were awarded funds in the initial year of the Reading First Program entered into contracts with PDE that guaranteed each LEA their respective allocation amount each year for the duration of the six (6) year contract. This language was put into the contract with the intention of providing each LEA with at least the same level of support each year, unless there was an increase or a decrease in the available funds statewide. If more or less funds were available in any given year, each LEA would receive a prorated share of the whole.

The audit finding assumes that PDE must obtain updated student and teacher figures from each participating LEA each year and run new allocations with those figures each year. At no time within the grant application is this stated, and no information from the USDE requires this to be done. At the auditors' request, the Division of Federal Programs provided a USDE/Reading First contact name/telephone number. However, an agreement could not be obtained from USDE on this finding. Therefore, PDE believes this finding is unfounded and arbitrary.

**Auditors' Conclusion:** PDE needs to pursue appropriate settlement with USDE on this finding. Therefore, our finding and recommendation remain as previously stated. We will review any required 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, 2007

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### Finding 07 – 44:

#### CFDA #90.401 – Help America Vote Act Requirements Payments

##### DOS Did Not Perform Adequate Monitoring of Subrecipients (A Similar Condition Was Noted in Prior Year Finding #06-42)

**Condition:** For the second year in a row, 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 have adequate procedures in place during the year under audit for the on-site visits of HAVA subrecipients. Without the performance of adequate 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 are for allowable program purposes.

While OMB Circular A-133 single 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.

It should be noted that DOS did implement formal procedures for the performance of on-site visits of its subrecipients, including testing the counties' compliance with federal equipment management requirements, in response to our prior year finding #06-42, but this corrective action occurred subsequent to our audit period.

During the year under audit, payments to subrecipients reported on the SEFA totaled \$24,327,253 or 89% of the total HAVA expenditures of \$27,188,720. 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:*

*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.*

**Cause:** With respect to on-site visits of counties, DOS did perform some informal on-site visits of 12 counties during the year under audit. However, these visits were designed primarily for the purpose of assisting the counties in preparing their quarterly reports and the results of the visits were documented in brief memos often consisting of bullets containing DOS comments. Also, while DOS did inspect the voting equipment during these visits, these inspections were informal and did not include a comparison of the equipment to detailed county records. Further, DOS did not formally

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 44: (continued)**

communicate the results of the visits to the counties and no corrective action process was in place during the year under audit. As noted in the condition, DOS did implement formal procedures to conduct on-site visits of the counties, subsequent to our audit period, which included detailed procedures to test the counties' compliance with federal equipment management requirements.

**Effect:** DOS's during-the-award monitoring procedures were not adequate since DOS did not have adequate procedures in place during the year under audit for the on-site visits of its subrecipients. 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:** As stated in the condition, we noted that DOS did implement formal procedures for conducting on-site visits of its subrecipients subsequent to our audit period. 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 and comparison to the county records.

**Agency Response:** DOS agrees with the finding and has implemented corrective actions that remediate this finding subsequent to this audit period. Formal procedures for on-site visits to subrecipients have been established to assure that the Federal awards are being administered in compliance with laws, regulations, and the provisions of contracts or grant agreements, and that performance goals are met. These procedures include detailed procedures to test the counties' compliance with:

- Federal equipment requirements,
- Help America Vote Act program compliance, and
- Reporting and fiscal compliance required by grant agreements between the Commonwealth and the counties.

Findings resulting from the on-site visits are now formally communicated in writing to the county including recommendations for resolution of findings.

The Department will continue to implement the formal procedures for conducting on-site visits of its subrecipients on a cyclical basis. DOS will ensure that the visits cover all activities of the subrecipient and include procedures for the inspection of equipment and comparison to county records.

**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, 2007*

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### **Finding 07 – 45:**

#### **CFDA #93.283 – Centers for Disease Control and Prevention – Investigations**

##### **Noncompliance and Internal Control Weaknesses in Charging Personnel Costs (A Similar Condition Was Noted in Prior Year Finding #06-43)**

**Condition:** During the state fiscal year ended June 30, 2007, DOH incurred personnel expenditures of \$8.4 million in total for the CDC program. This represents 19 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.

For the third year in a row, 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. In addition, in the sample of 12 individuals tested in the current audit, the job descriptions for five employees were not properly signed. One job description was not signed by the employee and four others did not contain the employee's signature, employee's supervisor's signature, or the reviewing officer's signature.

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 signatures and semi-annual certifications required by OMB A-87 represent overall internal control weaknesses in DOH's documentation procedures supporting 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 not aware of the missing signatures on job descriptions. In addition, CDC personnel have been attempting to implement corrective action on the OMB A-87 semi-annual certification requirement for employees who work 100 percent of their time on the CDC program. However, corrective action did not occur in our current audit period.

**Effect:** The lack of semi-annual certifications and missing signatures to clearly support 100 percent of salary and fringe benefit charges to CDC are significant deficiencies 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:** Although the DOH Office of Public Health Preparedness (OPHP) implemented a Monthly Personnel Activity Sheet (for Emergency Preparedness funded employees) in July, 2007 in order to comply with the certification requirement, it is recommended similar procedures be implemented for the other cooperative agreement

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 45: (continued)**

employees being charged 100 percent to CDC as well. Furthermore, job descriptions should be properly signed to demonstrate that job duties have been properly documented, approved, and are in accordance with federal program requirements.

**Agency Response:** DOH concurs with the auditor's recommendations. Due to conflicting guidance from CDC as to what is considered sufficient documentation to meet OMB A-87, the DOH's Office of Public Health Preparedness (OPHP) developed a monthly Personnel Activity Report (PAR), which was implemented in July 2007. OPHP continues to require completion of the PAR on a monthly basis by all DOH employees charged to the CDC Public Health Emergency Preparedness Cooperative Agreement.

The PAR details each employee's activities for the month and the percent of time spent on each activity to verify that the employee worked solely on CDC allowable activities for the period submitted. Currently, all staff charged to the CDC Cooperative Agreement are 100 percent funded. The monthly PAR is submitted by the employee to their supervisor for verification and then submitted to OPHP by the appropriate DOH Bureau Director or their designee for final review.

OPHP will also provide guidance to all DOH Bureaus with Public Health Emergency Preparedness funded employees to ensure the proper documentation of appropriately signed and approved job descriptions in accordance with federal program requirements.

**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, 2007

### Finding 07 – 46:

#### 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 #06-44)

**Condition:** For the third year in a row, our review of DOH's procedures for during-the-award monitoring of CDC subgrantees for compliance with federal regulations revealed that DOH did not adequately monitor the activities of CDC subgrantees. During the current audit period, we found that there were inadequate procedures established at DOH to conduct regular on-site visits to CDC subrecipients to ensure compliance with CDC program requirements. Out of the five subgrantees we sampled and tested, representing 63 percent of program subgrant expenditures and 11% of CDC total program expenditures, DOH conducted only two on-site visits. The DOH indicated that it began a more comprehensive on-site review process during August 2007, after the end of our current audit period, to include all County and Municipal Health Departments (CMHDs) awarded federal funds under the Emergency Preparedness Cooperative Agreement.

Also during our audit, it was noted that Management did not adequately monitor subrecipient cash-on-hand for the Philadelphia City Treasurer and Allegheny County Health Department. We found that the Philadelphia City Treasurer did not submit quarterly expenditure reports as required by the subgrant contract. The Philadelphia City funding represented 17 percent of the total program subgrant expenditures. During our audit period, two quarterly payments totaling \$2,241,628 were advanced to Philadelphia before any confirmation of amount spent was received. In addition, Allegheny County had over \$560,000 cash-on-hand at the time the DOH advanced an additional quarterly payment of \$231,327. The Allegheny County Health Department funding represented 11 percent of the total program subgrant expenditures.

**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.*

45 CFR 92.20, Standards for financial management systems, 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.*

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.*

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.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 46: (continued)**

**Cause:** DOH personnel have been attempting to implement corrective action by developing a CMHD monitoring assessment tool and performing routine on-site monitoring visits with subgrantees. However, only limited monitoring occurred during the current audit period. In addition, submission and DOH tracking of subgrantee expenditure reports was not sufficient to ensure cash was limited to immediate needs.

**Effect:** DOH did not adequately perform during-the-award monitoring of subgrantee activities to ensure subgrantee compliance with applicable federal regulations. Without on-site visits, DOH cannot be reasonably 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 limited assurance of subrecipient compliance with federal regulations. Additionally, without adequate expenditure report submission and tracking, the DOH cannot ensure that subgrantee cash is confined to immediate needs.

**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 submission and adequate tracking of subgrantee expenditure reports to ensure subgrantee cash is kept to immediate cash needs.

Although the DOH Bureau of Community Health Systems implemented a monitoring assessment tool and routine CHMD site visits in August, 2007 in order to comply with the subgrantee monitoring requirement, it is recommended that similar procedures be implemented for the other cooperative agreement contracts applicable to the CDC program as well.

**Agency Response:** Our response is in two parts to address the two conditions identified in the finding.

1. “During the current audit period, we found that there were inadequate procedures established at DOH to conduct regular on-site visits to CDC subrecipients to ensure compliance with CDC program requirements.”

DOH’s Bureau of Community Health Systems (BCHS) has developed and implemented a number of actions and strategies to ensure that subgrantees are in compliance with the CDC program requirements.

- During the 2006-2007 grant period, two subgrantees received on-site visits; however, after the 2007-2008 grant period began and before the end of calendar year 2007 all remaining eight subgrantees received an on-site visit. A tool to assess the activities of the subgrantees was developed and utilized during these site visits. The BCHS staff persons toured each of the subgrantee facilities and observed equipment, supplies, storage facilities and the general office areas where business is conducted. A copy of each subgrantee’s assessment including the supporting attachments and other documentation is on file in the BCHS. Repeat site visits will be completed for each subgrantee during the 2007-2008 grant period.
  - Each subgrantee is required to submit a quarterly narrative report to the BCHS describing their actions completed during the prior quarter. Within 30 days following the submission of the quarterly report, the subgrantee is notified by the BCHS if any of the actions are inappropriate, or if any of the actions that should be noted are not included in the report. An electronic system is in place to monitor and track the actions to ensure their compliance with the DOH and the CDC requirements. This tracking and monitoring system is continuing.
  - Beginning in calendar year 2007, the BCHS implemented monthly conference calls with the subgrantees and included the DOH District Executive Directors (DED) for the six health districts. The purpose of these calls is to discuss the actions of the subgrantees; issues and concerns of the subgrantees; and new initiatives, funding availability, and appropriate utilization of grant funds. Including the DEDs in these conference calls assists the BCHS with hands-on monitoring since they are geographically positioned in or close to the subgrantees and are often involved in actions delivered by the subgrantee. These conference calls are ongoing.
2. “Also during our audit, it was noted that Management did not adequately monitor subrecipient cash-on-hand for the Philadelphia City Treasurer and Allegheny County Health Department.”

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 46: (continued)**

- Historically, Philadelphia Department of Public Health's accounting system was set up in a way making it impossible to submit quarterly invoices to BCHS. Therefore, Philadelphia submitted all invoicing and documentation by the deadline at the end of the grant year. At that time, the BCHS reconciled the expenditures against payments. However, BCHS has worked very hard with Philadelphia's program and fiscal agents to assist them in meeting their quarterly expenditure reporting obligations; and currently they have submitted reports for the first two quarters of the 2007-2008 grant year. BCHS will continue to work with Philadelphia towards the goal of quarterly invoicing and backup documentation.
- The majority of the overpayment to Allegheny County Health Department consisted of Cities Readiness Initiative (CRI) funding (over \$470,000) for quarters one and two. No CRI payments were made to the Allegheny County Health Department in quarters three and four. When quarters one and two were paid, it was done with the understanding of the BCHS that Allegheny County Health Department had negotiated arrangements with the Region 13 Counter Terrorism Task Force to get the funding allocations out to the individual counties in that region. However, negotiations between County Health Department and Region 13 failed despite diligent efforts by the BCHS to reconcile their differences. As a result, the CRI money was largely unspent.

**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, 2007*

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### **Finding 07 – 47:**

- 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 (A Similar Condition Was Noted in Prior Year Finding #06-45)**

**Condition:** During our prior year audit, 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. Further, 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 \$500,000 or more in Federal awards during the subrecipient’s fiscal year for fiscal years ending after December 31, 2003... 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.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 47: (continued)**

**Agency Response:** The Department of Public Welfare (DPW) does provide subrecipients with the required information regarding CFDA numbers and funding amounts. This is done both through allocation letters and payment invoices. Payment invoices include the amount of federal funds being dispensed and the corresponding CFDA number for those funds. Although the U.S. Department of Health and Human Services (HHS) is not identified on the payment invoices as the original granting agency, the CFDA number is able to provide that information with the two digit identifier (93).

DPW has reviewed payment procedures with each corresponding program office. In the case of DPW's Child Care Information Services (CCIS) program, the internet-based reporting system (CCMIS) is now able to provide up to date reporting of CFDA numbers and corresponding federal funds disbursed. This information is also archived at the state level and can be accessed through a request to program staff.

The PHHS Comptroller's Office is responsible for payments made for Title IV-E Foster Care, Title IV-E Adoption Assistance and Temporary Assistance for Needy Families. Currently, when a subrecipient receives a payment from the Comptroller's Office a remittance advice is sent confirming the payment. This remittance identifies the specific program, the service dates, and the amount of payment for each. While this remittance identifies each specific program, the actual corresponding CFDA numbers are not identified.

**Auditors' Conclusion:** While our testing disclosed some instances where DPW was transmitting some of the required award information to subrecipients, this was not always done as noted in the condition above. 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, 2007

### Finding 07 – 48:

#### 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 #06-47)

**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 December 2006. We selected a sample of 45 out of the 249 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, for the 10<sup>th</sup> year in a row 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 9 of the 45 cases, or 20 percent, as follows:

- Out of the 45 cases reviewed on the data report, 25 cases had no work activity for the period and 20 cases included work activity. However, for 4 of the 20 cases with work activity, or 20 percent, the number of unsubsidized weekly employment hours (Item #50) reported was not supported by documentation in the case file as follows:

Case	Hours Reported	Hours Per Case File	Difference
A	30	5	25
B	48	50	2
C	30	5	25
D	56	22	34

- Documentation provided within Case A indicated that the participant was to begin a job on November 26, 2006, working an estimated 30 hours per week, which is what was reported. However, there was only one check stub included in the case for December 2006 showing that the participant had only worked a total of 26 hours during the month from December 2, 2006 to December 15, 2006, or on average five hours per week.
- Documentation within Case B included check stubs and other employment verification that supported 50 hours on average per week for December 2006, as indicated, not the 48 hours reported.
- Documentation provided within Case C indicated that the participant’s hours were estimated based on hours the participant was expected to work. However, there was only one check stub included in the case file for December showing that the participant worked a total of 26 hours during the month in the week ending December 2, 2006, or on average five hours per week.
- Documentation provided within Case D indicated that the participant’s hours were estimated based on hours the participant worked. The case included one check stub for the period December 9, 2006 to December 19, 2006 that showed that the participant worked 112 hours for the month, or an average of 22 hours per week. DPW incorrectly reported 56 hours.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

### Finding 07 – 48: (continued)

- One of the 45 case files, case E, reported 10 hours of Community Service Programs (Item #56). However, there was no documentation in the case file to support 10 hours reported.
- Two of the 45 case files, cases F and G, 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, so other identifying numbers should have been reported. We noted that, because of their status, these individuals were not receiving regular TANF benefits.
- For 1 of the 45 cases, case H, DPW could not provide an application for the participant to support their eligibility.
- For 1 of the 45 cases, case I, the case file documentation included evidence of potential ineligibility for TANF benefits due to resources in excess of \$1,000. The files indicated that the participants owned four vehicles which would be in excess of the \$1,000 resource limit.

**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:*

(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 Community Services Program (Item #56) state:

#### 56. Community Service Programs

*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.

Section 140.11 of the DPW Cash Assistance Handbook states:

#### 140.11 Resource Limits

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

### Finding 07 – 48: (continued)

The resource total for each budget group is determined separately. The resource limit for each group is as follows:

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 in work hours reported above, DPW officials felt that they reported hours based on their established criteria as indicated above. In addition, DPW officials could not explain why documentation was not available to support the hours reported for Community Service Programs or why the CAO could not provide an application for one of the cases. 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 benefit payments were made to potentially ineligible participants that 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. Although we noted improvement in the accuracy of the current year ACF-199 Report vs. prior years, the 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. 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 case I, 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:** DPW's response to findings outlined above is as follows:

- We disagree with the findings for cases A, B and C. Our Work Verification Plan was approved by HHS in their letter dated September 12, 2007. The approved Work Verification Plan states that hours of work participation are projected (for not more than six months) based on employer verification or one pay stub that was current at the time

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 48: (continued)**

it was used. Cases A, B and C were reviewed by DPW prior to submitting information on the ACF-199 and hours were determined to be reported correctly. The auditors' finding that employment hours are not supported by documentation in the case file is based on an assumption that no hours were worked in the month except for the hours on the one pay stub in the record.

- DPW agrees with the finding for case D. The client subsequently reported that employment ended and DPW did not adjust the projected hours accordingly.
- DPW agrees with the finding in Case E, however it does not change the participation status which was reported correctly. DPW reported hours in the incorrect activity; documentation is in the record to support hours of participation in Job Search.
- DPW disagrees with the finding for Cases F and G. The adults in the two cases do not have social security numbers. The information was reported correctly; there is no requirement to report other identifying information for undocumented aliens. In cases where recipients cannot receive Social Security numbers, DPW assigns pseudo numbers, so that each individual has a unique identifying number on file.
- For Case H, DPW agrees that we did not provide a copy of the application form but we assert that eligibility is adequately supported in the electronic case file. DPW is attempting to locate the paper application for Case H.
- For Case I, DPW will verify the value of the vehicles to determine if the case exceeds the resource limit. It is possible that this case does not have resources in excess of the resource limit.

DPW will continue to work with the CAOs to ensure that all employment and activity changes are recorded and that the adjustments are made to projected hours. In addition, to improve filing practices, DPW is developing electronic scanning and filing at the CAOs for improved accessibility in the future.

**Auditors' Conclusion:** Regarding the response to cases A, B and C hours projected based upon one pay stub would still not agree to hours reported. Regarding case E no documentation was provided to support any Job Search participation. Regarding case F and G DPW should obtain and report SSNs for all persons on the ACF-199. Regarding case H the electronic case file note are entries in to the DPW CIS systems which is not adequate support. 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, 2007

### Finding 07 – 49:

**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 \$20,617 (A Similar Condition Was Noted in Prior Year Finding #06-48)**

**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 \$188.1 million in total federal and state-funded special allowances posted to the Statewide SAP System for SFYE June 30, 2007, which consisted of the following amounts (in millions):

<u>Special Allowance</u>	<u>TANF</u>	<u>CCDF</u>	<u>Total</u>
Child Care – Federal	\$24.7	\$ 1.8	\$ 26.5
Child Care – State	32.8	93.4	126.2
Other – Federal	16.3	--	16.3
Other – State	19.1	--	19.1
Total	<u>\$92.9</u>	<u>\$95.2</u>	<u>\$188.10</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 45 TANF participants sampled by us from the TANF ACF-199 Data Report submitted to HHS for our test month of December 2006. Based on our review of each CIS printout, we judgmentally selected a sample of 79 special allowance payments made throughout the current year to 29 of the 45 TANF participants totaling to \$22,056. This sample was selected from the overall population of \$188.1 million in special allowance payments charged as federal CCDF dollars, federal TANF dollars, and state MOE dollars combined (see table above).

Our testing of the 79 transactions disclosed documentation problems with 75 items totaling \$20,617, as follows:

- 17 PW-764 or PA-1583 authorization forms were not provided.
- 21 PW-764 or PA-1583 authorization forms were missing the signature of a supervisor.
- 57 items did not contain receipts or other adequate documentation that the goods or services were actually purchased.
- For 12 Child Care payments, adequate documentation that the client was in work or other appropriate activities for days that child care was paid for was not provided, and two of the 12 items appear to be duplicate payments.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 49: (continued)**

- 4 payments for college related expenses may not have been necessary due to the client having a refund balance due back in excess of the special allowances paid for financial aid or grants received in excess of tuition, with no DPW follow-up.
- 3 payments were made to a client with two motor vehicles which appear to be in excess of the TANF resources requirement; therefore, making the client ineligible, with no DPW follow up. Also, it appears a duplicate payment for a clothing allowance was made to this client.
- A payment for emergency shelter grant was made to a client who lived with her mother and no documentation that client was in danger of losing such housing arrangement.

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. These disclosures are now being reported for the third year in a row.

**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:** 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 \$20,617 of special allowance payments charged to TANF, which represents 93 percent of our sample. At least \$20,617 are, therefore, unallowable questioned costs. Since we could not track individual child care special allowance charges on CIS to SAP, we could not ascertain whether these child care CIS charges were made to TANF or CCDF, or whether the costs ended up as federal or state funded. 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 most special allowance payments, we consider this weakness to be pervasive throughout the TANF and CCDF programs, and inappropriately puts the entire population of \$188.1 million in TANF and CCDF special allowances at high risk for lack of documentation. Therefore, there are additional unknown questioned costs of special allowance payments for the current year.

**Recommendation:** We recommend that DPW pursue appropriate settlement with HHS regarding the \$20,617 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.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

### **Finding 07 – 49: (continued)**

**Agency Response:** The report presents conditions, based on criteria set forth in federal regulations 45 CFR Part 92.20(b)(2) and 45 CFR Part 92.42(b)(1) in which “Documentation such as sales receipts, verification of child care, verification of house in assistance, etc. should be maintained with the PW-764 to support the allowability of each special allowance payment.” The audit process found documentation problems with 75 of the 79 transactions tested. The report provides recommendations to: 1) Pursue Settlement with HHS regarding the questioned costs; and, 2) Establish a system of strengthened internal controls over their case file documentation to support allowability and establish effective recorded retention procedures to ensure that adequate documentation is obtained and maintained on file to support TANF and CCDF special allowance payments.

The Department disagrees with the assumption that there is no documentation to support special needs allowances payments. The findings outlined in the audit report are incorrectly based on the availability of receipts or leases copies with the PA 764.

PART 92--UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS, from which these citations are taken, refers to the Federal requirements of the State. It does not filter down to the individual client responsibility. 45 CFR 92.3 Definitions defines a grantee as “the government to which a grant is awarded and which is accountable for the use of the funds provided. The grantee is the entire legal entity even if only a particular component of the entity is designated in the grant award document.” A subgrantee is defined as “the government or other legal entity to which a subgrant is awarded and which is accountable to the grantee for the use of the funds provided.” None of this refers to the client providing any documentation to the state. The whole section is referring to government agencies and legal entities. In the context of Part 92, the Grantor is the Federal government, the Grantee is the State receiving the funds and Sub-grantees are the contractors to whom the State filters the grant in return for services.

92.20 (b)(2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

As grantees, we maintain records which identify what money goes where and is used for what purpose. The cost codes associated with the SPAL reason codes are used to track how the grant is spent. We, in turn, require our subgrantees to submit budgets showing how the money that we give them is spent. The state then reports how the grant money was used on the quarterly fiscal and annual MOEs provided to the federal government.

If one refers to the opening sentence of 92.20, from which both of the above citations are drawn, it states: § 92.20 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.

The federal government allows the State to create laws and procedures related to the use of the grant money and DPW must then show that it has followed its own State rules in the use of grant money. PA Code specifically states, in relation to special allowances, that verification for the need for a special allowance is required only when the need is not readily apparent (165.44(a)(2)). 165.44 continues to say that acceptable verification can include collateral contacts, written statements, and departmental forms from employers, schools, training providers, etc. CAOs do try to get verification to be able to determine if the SPAL is necessary to enable the recipient to participate in an approved education or training activity (165.44(a)(1)(i-iv). Any verification that the CAO requests is maintained in the case record.

But specific requirements of attaching receipts to the PA 764 do not exist and are not reflected in the federal code of regulations. The State procedure is what DPW is directed to follow in 92.20 and that is the law that has been followed.

If any changes to the requirement of verification are deemed necessary, then the PA Code must be adjusted accordingly for DPW to be able to alter its process.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 49: (continued)**

Additionally, while receipts are not required under federal regulation, Special Allowance purchases are verified through documented participation in a training program, offer of employment, or successful employment. Measures to improve controls and strengthen supervisory review are being implemented. First, Targeted Supervisory Reviews, a process in which case file elements are sampled to assure proper documentation and authorization, will be augmented to include Special Allowances. Second, Special Allowances for clothing will be made directly by staff through the “PA Working Wardrobe” program, which assures the needed clothes are purchased at a discounted price with the same list of vendors. Third, the Special Allowance for automobile purchases is being reduced from once-per-job to once-per-lifetime and checks will continue to require dual endorsement of the client and vendor. Lastly, the Department is developing use of a “purchasing card” system using a visa card for direct purchases of Special Allowances, and to document the completion of such purchases, and allowing for improved supervisory and auditory review. DPW’s Work Verification Plan outlines a variety of work participation activities to meet the varied needs of our population. Without adequate child care, transportation, vocational skills and adequate work apparel, successful work activity and self sufficiency cannot be obtained and maintained.

Finally, the Department would like to clarify that Quality Control (QC) has added a special allowance review in the QC review process of TANF eligibility for the fiscal year which began October 1, 2007. New automated processes are being developed to enhance our review and eligibility process for TANF even though there are no new staff resources in DPW.

**Auditors’ Conclusion:** The information provided in the agency response does not change our conclusions in the finding. Furthermore, no additional documentation was provided with the agency response to resolve the questioned costs. Without adequate verification of the costs associated with recipient work or training activities, DPW did not reasonably demonstrate that the special allowance payments were allowable in accordance with program regulations. Our finding and recommendation, with the above clarifications, 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, 2007***

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### **Finding 07 – 50:**

#### **CFDA #93.568 – Low-Income Home Energy Assistance Program**

##### **Noncompliance and Internal Control Deficiencies in DCED’s Program Monitoring of LIHEAP Weatherization Subrecipients (Similar Conditions Were Noted in Prior Year Findings #06-53 through 06-58)**

**Condition:** Our prior year Single Audit of the Weatherization Assistance portion of the LIHEAP program administered by DCED disclosed numerous instances of noncompliance with federal regulations, potential questioned costs, and material internal control deficiencies at both the state and subrecipient levels. These prior-year findings were based on the report of other auditors who performed compliance testing of Weatherization expenditures at both the state and subrecipient levels and issued a separate stand-alone audit report which we utilized in our Single Audit of LIHEAP. Our current year Single Audit follow-up for the fiscal year ended June 30, 2007 was performed at DCED, and disclosed that these prior-year control deficiencies remained uncorrected as follows:

- DCED’s on-site monitoring of subrecipient case file documentation was not sufficient. The other auditors’ reviews of client case files at the subrecipient level in the prior year disclosed major exceptions because of deficiencies at the individual subrecipient level and inadequate oversight by DCED. These exceptions included: ineligible clients receiving services, lack of adequate support for project costs, inadequate re-verification of client eligibility after one year, noncompliance with the 48-hour crisis rule, crisis clients not serviced timely, no evidence of using a priority list to ensure cost-effectiveness, and other missing or incomplete documentation.
- There were inconsistent state guidelines in calculating client income to determine individual eligibility for weatherization assistance. Clients receiving cash or crisis benefits paid through DPW could automatically qualify as eligible for weatherization paid through DCED. While DCED policy required the use of actual income for 12 months out of the year to determine client eligibility, DPW policy allowed for a pro-rated calculation of client income based on 30 or 90 days of actual income. This situation led to inconsistent eligibility determinations in the Weatherization program, and the potential for client abuse.
- Subrecipients inappropriately treated renters differently from owners without detection or follow-up by DCED (e.g., owners received benefits for furnace replacement, but renters did not).
- DCED did not properly verify that client complaints were properly tracked and resolved by its subrecipients.
- A lack of written policies and procedures considered by DCED to be necessary for subrecipients to effectively administer their weatherization programs.
- DCED’s failure to properly monitor two local agencies servicing the same geographic area in the Philadelphia region to ensure duplicate services are not provided. This situation involved Weatherization funding from both LIHEAP (CFDA #93.568) and U.S. Department of Energy’s Weatherization Assistance for Low-Income Persons (CFDA #81.042), a nonmajor program. The Philadelphia Housing Development Corp and the Energy Coordinating Agency of Philadelphia separately provided initial weatherization and re-weatherization services to the same clients without communicating and coordinating with each other to make sure the dwellings were eligible and not receiving assistance from the other agency.
- DCED approved payment requests from subgrantees but did not adequately review subgrantee costs for proper support. At the time of payment, DCED only ensured that payments did not exceed the subrecipient’s budgeted allocation for the program year, with no supporting documentation provided. Also, during on-site monitoring visits, DCED did not properly review subgrantee payment requests for proper support and upon inquiry in the prior audit, subrecipients indicated that they did not develop or retain documentation to support their payment requests to DCED. While subgrantees also submitted quarterly reports to DCED showing expenditures and other program data, DCED’s reviews of these reports for accuracy and propriety were not adequate.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

### Finding 07 – 50: (continued)

- DCED did not properly monitor subrecipients' contracting procedures to verify reasonableness and ensure that bidding was appropriate, and contracts or subcontracts were awarded to the appropriate parties. In addition, no review of subcontractor invoices was performed by DCED to verify propriety, accuracy, etc. of costs.
- Subrecipients did not ensure that the most vulnerable and needy clients (i.e., low-income elderly and disabled) received priority for weatherization assistance, with insufficient monitoring and oversight by DCED. Nearly all the subrecipients had waiting lists of clients in the prior year, with no standard procedures in place for maintaining and using the lists to prioritize weatherization services appropriately. DCED also failed to monitor the promotional/outreach activities of its subrecipients to ensure the most needy residents were made aware of the Weatherization program.
- In addition to the more detailed control deficiencies reported above regarding DCED's on-site monitoring of its subrecipients, the auditors also noted that DCED had no overall written policies and procedures in place regarding this on-site monitoring activity, to include an assessment of internal controls at the subrecipients and a sampling methodology to ensure that a representative sample of client case files was reviewed. In addition, there was inadequate oversight of DCED's on-site reviewers to ensure that: significant problems at the subrecipient level were properly identified, reported, and followed up on: documentation of on-site reviews was adequate; and results of all subrecipient monitoring visits were properly summarized, reviewed, and evaluated at the overall state level by DCED program managers.

Total Weatherization program payments made by DCED to its 42 subrecipients during the fiscal year ended June 30, 2007 were \$27.1 million (or 15.7 percent) out of total federal LIHEAP expenditures of \$172.1 million on the June 30, 2007 SEFA under audit.

**Criteria:** Federal regulation 45 CFR Part 96.30 under "Subpart C – Financial Management" and applicable to LIHEAP, states in part:

#### **Section 96.30 Fiscal and administrative requirements.**

- (a) *Fiscal control and accounting procedures. Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (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.*

The OMB Circular A-133 Compliance Supplement for Single Audits, Part 4, related to LIHEAP (CFDA #93.568), Section III.A., specifies the following:

#### A. *Activities Allowed or Unallowed*

2. *LIHEAP funds may be used to intervene in energy-related crisis situations, as defined by the grantee (42 USC 8623(c) and 8624(b)(1)).*
3. *LIHEAP funds may be used to conduct outreach activities (42 USC 8624(b)(1)).*
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)).*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

### Finding 07 – 50: (continued)

8. *LIHEAP funds may be used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance, including needs assessments, counseling, and assistance with energy vendors (42 USC 8624(b)(16)).*

The OMB A-133 Compliance Supplement, Part 4, Section III.E. for LIHEAP eligibility, specifies the following:

#### 1. *Eligibility for Individuals*

*Grantees may provide assistance to: (a) households in which one or more individuals are receiving Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), Food Stamps, or certain needs-tested veterans benefits; or (b) households with incomes which do not exceed the greater of 150 percent of the State's established poverty level, or 60 percent of the State median income. Grantees may establish lower income eligibility criteria, but no household may be excluded solely on the basis of income if the household income is less than 110 percent of the State's poverty level. Grantees may give priority to those households with the highest home energy costs or needs in relation to income (42 USC 8624(b)(2)).*

The OMB Circular A-133 Compliance Supplement, Part 3, Section I. related to Procurement, states in part:

*States, and governmental subrecipients of states, shall use the same state policies and procedures used for procurements from non-federal funds. . .*

The OMB Circular A-133 Compliance Supplement Part 3., Section M. related to 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.*

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, floor, or act of God and repair of the damage to weatherization materials is not paid for by insurance. This language is included in the subrecipient grant agreements with DCED.

*42 USC 8624(b)(8)(B): the State will treat owners and renters equitably under the program assisted under this title;*

*42 USC 8624(b)(5): provide, in a timely manner, that the highest level of assistance will be furnished to those households which have the lowest incomes and highest energy costs or needs in relation to income,*

**Cause:** DCED and the subrecipients lacked adequate policies and procedures to ensure Weatherization program objectives were being achieved and the risk of fraud, waste, and abuse was reduced. DCED management monitored 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 prevented them from providing more guidance on the fiscal management of the Weatherization program to subrecipients.

DCED had no system in place to ensure the two local agencies in Philadelphia were 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 did not compare client data to identify dwellings previously serviced by the other local agency.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 50: (continued)**

For subrecipient billings, DCED relied too heavily on: 1) each subrecipient to ensure its Weatherization program expenditures were valid, accurate, and appropriate, 2) its on-site visits, and 3) independent audits that are required to be conducted on each subrecipient. DCED management stated that it lacked the resources to provide better financial guidance to subrecipients. In addition, DCED provided inadequate policy and procedures to subrecipients addressing how operations should be functioning.

DCED did not have policies and procedures in place to instruct subrecipients on how to maintain Weatherization service waiting lists, including prioritizing applicants. In addition, DCED weatherization monitors did not review those waiting lists to determine whether they are maintained and if the subrecipients prioritize service for at-risk citizens.

Finally, DCED management stated to us that they did not have enough time to implement any corrective action on the prior-year findings until after the current year under audit had ended.

**Effect:** DCED did not comply with federal regulations related to the proper administration of the LIHEAP Weatherization program and adequate oversight and monitoring of its subrecipients to verify the proper expenditure of federal funds. If the above internal control deficiencies are not corrected by DCED, noncompliance with federal regulations and mis-spending of Weatherization funds will occur in the future periods.

**Recommendation:** We recommend that DCED management review and strengthen its internal controls in its program monitoring and oversight of LIHEAP Weatherization subrecipients. Each of the above-specified weaknesses in internal controls should be corrected either during the regular invoicing and payment process or during DCED's on-site monitoring visits conducted throughout the year at the subrecipient level.

**Agency Response:** In the fall of 2005, DCED staff had identified operational weaknesses in this program and had embarked upon ways to address them. When the prior year's audit (FYE 6/30/06) was received in June of 2007, a DCED internal Task Force was established to review the findings noted in the report and to establish an Action Plan to address each of those findings and incorporate the work that DCED staff had established from the year prior. The Action Plan details all implementation steps with a corresponding timeframe and goal. As of May 15, 2008, we have accomplished the following:

- In order to address control weaknesses, we have updated and reissued our administrative directives (11/7/07), which included policy positions on the following topics:
  - DCED/DPW Crisis Interface Policy and Procedures
  - Program Eligibility and Documentation
  - Client Prioritization and Standard Waiting List
  - Quality Control, Final Inspection and Client Verification
  - Procurement, Bidding and Subcontracting Procedures
  - Invoice Revision
- We have also drafted a Monitoring Guidelines/Procedures Manual, which is currently being field-tested by the Weatherization monitors. Initial drafts have been shared with our national association for review and input. These guidelines cover standards and practice areas such as client eligibility and file documentation, field inspection of completed units, inventory control and property maintenance, and administrative/fiscal procedures.
- We have consulted with DPW regarding the Crisis Interface and the referral of ineligible clients to WAP. Referral procedures have been strengthened, and referral forms revised and issued. Statewide training on the revised form and procedures was conducted for DPW's County Assistance Offices and Crisis contractors prior to the beginning of the heating/Crisis season.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 50: (continued)**

- The two Philadelphia agencies, ECA and PHDC, signed an agreement on procedures to ensure that duplication of weatherized homes does not occur, and those procedures have been implemented. PHDC and ECA are exchanging lists of approved clients on a daily basis via access to each other's computer systems. Further, ECA's Neighborhood Centers, which conduct intake, also have access to the systems.
- The procedure to review subgrantee expenditures is incorporated into the monitoring guidelines. The invoice form has been revised to collect more detailed expenditure information, and that invoice is currently being used by the grantees. The new computer database system will also provide validation for expenditures with real-time data being collected.
- We reviewed copies of each agency's procurement procedures, and issued letters of acceptance to each. We also issued a directive outlining procurement and subcontracting requirements and procedures. The Lancaster agency has renegotiated prices with their contractors, resulting in more consistent prices in their three-county service area. The Dauphin County agency is now documenting all bid prices. PHDC set new prices for 2007-08 that include labor costs. All procedures were reviewed and approved.
- DCED developed a new prioritization point scoring system, and issued a directive that explained and mandated its use. All agencies are now using the new system for prioritizing households for services. Factors for consideration include the number of children, elderly and/or disabled household members there are, as well as household energy usage. To address the backlog/waiting list finding, DCED worked with DPW to increase funds for the program. When DHHS released emergency funds for the LIHEAP program, DCED did receive 15% of those additional monies.
- Agencies are required to inspect and verify that weatherization work is performed to the appropriate standards. This determination is documented by a Quality Inspection Sheet. One hundred percent (100%) of homes weatherized are to be inspected, unless it is not feasible due to circumstances beyond the control of the agency (e.g., clients are unavailable for inspections). Agencies are encouraged to document three attempts to reach the client before a final inspection waiver may be granted.
- DCED believes local agencies actively promote the program via newsletters, TV ads, radio spots and brochures. Additionally, the program is linked to the websites of other state agencies, including DPW, the PUC and Aging. WAP is also listed on the web sites of several local providers. For multi-service providers such as Community Action Agencies, Weatherization is one of the many services provided and for which eligibility is assessed as part of the intake process. DCED also encourages support of the program through education, awareness and showcasing of subgrantee accomplishments through strategies such as conducting site demonstrations and Weatherization Day celebrations. With DCED's input, the Governor issued a proclamation for Weatherization Day on October 31, 2007. The Weatherization Task Force issued a Public Information Campaign toolkit for agencies to use for Weatherization Day activities, as well as for use throughout the year.
- A Request for Proposals for a statewide impact evaluation of the WAP has been drafted that requires a representative sample of homes weatherized by each of the subgrantees. We are looking to determine the total annual energy savings achieved by the program, as well as the average annual energy savings achieved per household.
- Each agency is monitored at least once each year (many are monitored twice), at least five percent of the units are inspected, and at least 10 percent of the files are reviewed. In selecting client files for review and inspection, a modified random sample is used to ensure that a cross-section of housing stock, subcontractors, unit costs, and geographic areas are reviewed and inspected. However, DCED is continuing efforts to develop internal monitoring expertise by:
  - Enlisting the Comptroller's Office to conduct fiscal reviews of WAP subgrantees, and to provide training for department staff;
  - Updating the monitoring guide

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 50: (continued)**

- Developing a semi-annual report of monitoring results to review trends and identify appropriate training and technical assistance needs
  
- In order to obtain an appropriate computer database system with integration capabilities, DCED reviewed several existing systems that would best allow for the collection of program-specific data, including: administrative costs, training and technical assistance costs, health and safety, vehicle, and equipment uses. The system would also have to provide specific agency budget information by funding stream, carryover from previous years, and costs by specific measure (client education, basic air sealing, sidewall, windows, doors, cooling fans, insulation, furnaces).

The system selected, provided by HES, will allow direct, real time access to data that can be used to evaluate and monitor the activity of each agency and to spot trends as they are developing, thereby allowing for faster, more accurate responses to areas of concern, either statewide or by agency. It would also provide for unit costs, job costs, labor costs, job hours and inventory control. The new priority list will be a part of the new system, and it will also provide for the information that is needed for federal reports.

**Auditor's 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, 2007***

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### **Finding 07 – 51:**

#### **CFDA #93.568 – Low-Income Home Energy Assistance Program**

##### **Internal Control Deficiencies in DPW’s Administration of LIHEAP Cash and Crisis Benefits (Similar Conditions Were Noted in Prior Year Findings #06-50 and 06-51)**

**Condition:** Our prior year Single Audit of cash and crisis benefits paid through the LIHEAP program administered by DPW disclosed numerous instances of noncompliance with federal regulations, questioned costs, and material internal control deficiencies within DPW as a whole. These prior-year findings were based on the report of other auditors who performed separate compliance testing of LIHEAP expenditures at DPW’s County Assistance Offices (or CAOs) and issued a separate stand-alone audit report which we utilized in our Single Audit of LIHEAP. Our current year Single Audit follow-up for the fiscal year ended June 30, 2007 disclosed that these prior-year control deficiencies remained uncorrected as reported below.

For cash benefits, there were material internal control deficiencies at the CAOs related to eligibility determinations, application processing, safeguarding of records, segregation of duties, and data entry errors impacting DPW’s compliance with the LIHEAP state plan and federal regulations. In particular, we noted the following for cash payments:

- Applicant case files lacked documentation to prove the applicant was responsible for heating bills, the type of heat, a landlord statement if heat is included in rent, and calculation of household income.
- Case files contained numerous undetected errors in calculating eligibility income for cash benefits in accordance with the LIHEAP State Plan.
- Applications did not contain supervisory review/approval signatures to demonstrate a proper supervisor review of cash benefits for compliance.
- There were significant undetected data entry errors into DPW’s LIHEAP Information System (or LIS) related to household members’ names, social security numbers, addresses, income amounts, and primary heating sources. We noted that the overall confirmation process that was used at the CAOs to ensure accurate data entry into LIS was deficient.
- Applications to support cash benefit payments could not always be located by the CAOs. In addition, CAO procedures for the safeguarding of records were deficient since case files were stored in boxes in unrestricted areas, allowing unlimited access and the potential for unauthorized removal or destruction of client files, which contain confidential information.

For crisis benefits, there were material internal control deficiencies at the CAOs and crisis contractors related to computer access to LIS, untimely crisis resolution, missing vendor receipts, lack of proper signatures, data entry errors, missing applications and Weatherization referral forms, and ineligible referrals to the Weatherization program run by DCED. In particular, we noted the following for crisis payments:

- Crisis situations were not being resolved within 48 hours, as required. In addition, crisis authorization and delivery dates were not entered accurately into LIS to support proper monitoring of the 48-hour requirement.
- Vendor receipts to confirm fuel delivery and crisis benefit amounts were missing.
- Certifier and/or crisis worker signatures were missing on crisis applications.
- Crisis applications could not always be located by the CAOs and crisis contractors.
- Crisis referral forms to DCED’s Weatherization Program could not be located to show that repairs were properly completed as required.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 51: (continued)**

- Ineligible applicants were referred by the CAOs to DCED for Weatherization Assistance.
- User IDs and passwords assigned to Philadelphia CAO crisis workers were not properly secured since they were inappropriately shared with non-data-entry employees when periodic application processing demand was high. In addition, because of software problems, crisis contractors in certain counties did not have proper access to LIS, and weatherization referrals in Philadelphia CAO were not data-entered into LIS.

According to SAP accounting system records, during SFYE June 30, 2007, DPW paid out \$90,415,134 in cash and \$44,331,555 in crisis benefits out of total LIHEAP expenditures of \$172,130,776 reported on the SEFA for the year.

**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. 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 applicable 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 are accurately data entered into LIS. Finally, applications and support should be filed in a restricted area to ensure proper safeguarding of records.

**Cause:** CAOs had no written policy or procedures on how to process, approve, and store LIHEAP applicant files. Also, DPW personnel were not adequately supervised in the performance of their LIHEAP duties within the CAOs. Further, some errors can occur due to the large number of applications being processed by limited staff in short periods of time. The LIHEAP Manual, used by the CAOs to administer the program, was ambiguous and inadequate in addressing specific LIHEAP application procedures to make them consistent within DPW's 67 CAOs.

These prior-year control deficiencies could not be timely corrected by DPW prior to the end of our current audit period.

**Effect:** There is an increased risk of misspending and noncompliance with the LIHEAP State Plan and federal regulations because of the various deficiencies noted above. Such misspending and noncompliance will continue into future years if these deficiencies are not corrected.

**Recommendation:** We recommend that DPW:

- ensure the CAO personnel receive adequate training to properly process LIHEAP cash applications, and are properly supervised;
- ensure each CAO has a written 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 adequately staffed and properly administered;
- complete all pertinent information, including authorization and delivery dates, on crisis worksheets and resolve crisis situations timely;
- accurately data enter information into LIS;
- require certifiers to approve crisis applications prior to data entry.

We also recommend that DPW ensure the crisis contractors:

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 51: (continued)**

- have adequate controls, including written policies and procedures, to accurately document and process crisis transactions;
- 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 to promote efficiencies and properly code weatherization assistance referrals to ensure proper entry into LIS; and
- 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 proper entry into LIS.

**Agency Response:** The Department believes that many of the recommendations included in the audit report have merit and will continue to make changes and improvements to our existing policies and procedures where appropriate. We agree that a critical component of a well-run program includes the elimination of potential control deficiencies. The Department would also like to provide the following comments related to this audit finding:

- **Lack of Approval Signature and Training:** The Department is revising 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. The Department has taken steps to reinforce the importance of ensuring the completeness of all crisis applications including signatures.
- **Lack of Policy or Procedure Manuals and Training:** Policy and procedures are now in one place, the LIHEAP Handbook that is available on the internet for the public and the crisis contractors. The policies and procedures for LIHEAP are also 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 CAO and contractor staff and all of these documents were available to the workers operating the program prior to and during the LIHEAP season in question. All new LIHEAP employees receive training concerning policies and procedures by the CAOs and Contractors.
- **Applications Not Found:** The Department would like to point out that many of the previous year’s 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. All but five of the applications were subsequently located. To improve filing practices, DPW is developing electronic scanning and filing at the CAOs for improved accessibility in the future.
- **Crisis Applications Not Resolved Within 48 Hours:** According to federal regulations, when a crisis vendor is contacted, they must provide benefits within 48 hours or within 18 hours if a life-threatening situation exists to resolve weather-related, supply-shortage and other household-home-heating emergencies to eligible households. DPW works closely with local vendors to resolve any issues in this regard and assure that this requirement is performed.
- **Crisis Contractors Not Having LIS System Access:** All crisis contractors are offered read-only access to the LIHEAP system to verify eligibility. Some contractors choose not to avail themselves of this opportunity and continued the practice of calling the CAO to verify a household’s status for eligibility. DPW is working with the contractors so they will all gain access to LIS.
- **User IDs and Passwords Not Properly Secured for Crisis Contractors.** DPW agrees that this is a potential weakness related to fraud and a matter of protecting client privacy. We have made changes to our curriculum for crisis contractors to reemphasize the importance of securing user identification and passwords.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 51: (continued)**

- **Data Entry Errors:** Data entry errors were due to clerical staff confusion related to changes in the automated system used to process applications, where staff was following the previous year's methodology. The Department has changed its training curriculum to help ensure that clerical staff understands the updated procedure.
- **Ineligible Applicants Referred to Weatherization:** The Department does not agree that it was in error for referring ineligible applicants to the Department of Community and Economic Development (DCED)'s Weatherization program. Ineligibility for the cash and crisis programs administered by the Department does not automatically make a client ineligible for the weatherization benefits. DCED has other funding streams, such as the federal Department of Energy, Weatherization Assistance Program, which has its own eligibility guidelines.

**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, 2007***

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### **Finding 07 – 52:**

#### **CFDA #93.568 – Low-Income Home Energy Assistance Program**

##### **DPW Failed to Adequately Monitor the Processing of LIHEAP Applications (A Similar Condition Was Noted in Prior Year Finding #06-52)**

**Condition:** Our prior year Single Audit of the LIHEAP program administered by DPW disclosed material internal control deficiencies in DPW's overall monitoring and oversight of its 67 County Assistance Offices (or CAOs) who administer LIHEAP. These prior-year deficiencies were based on the report of other auditors who performed separate testing of internal controls at DPW and issued a separate stand-alone audit report which we utilized in our Single Audit of LIHEAP. Our current-year Single Audit follow-up for the fiscal year ended June 30, 2007 disclosed that these prior-year control deficiencies remained uncorrected as reported below.

During the 2006-07 LIHEAP year, DPW employed only one monitor to perform its systematic review of processing LIHEAP cash and crisis applications at County Assistance Offices. As part of our audit, we requested copies of all monitoring reports issued during that program year, but the monitor did not provide any reports for our review, so there was no documentation to support DPW monitoring of LIHEAP cash and crisis benefits in the current audit period. Furthermore, in our prior audit period, despite the findings reported in our Single Audit, the monitor erroneously concluded on all monitoring reports that the CAOs complied with program policies and procedures and found no significant compliance and administrative problems. We found through our updated interviews and review of current-year documentation that the prior-year control deficiencies regarding the monitor's procedures for reviewing the LIHEAP application process at the CAOs continued through our current audit period as follows:

- The monitor informed the CAO how many cash and crisis application acceptances and rejections to retrieve from the case files for review. However, the CAO was 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 did 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 did not test any applications processed through the nine external crisis contractors with whom DPW contracts to process crisis applications for nine CAOs.
- The monitor did 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 was 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 were not documented or identified. Furthermore, the documentation that is supposed to support various interviews was limited to minimal notes on a tablet.
- The monitor did not ensure that each of the 67 CAOs were examined every four years, as required. 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 2006-07 LIHEAP program year for investigative or follow-up purposes.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

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### Finding 07 – 52: (continued)

Overall, DPW failed to adequately administer LIHEAP cash and crisis benefits, which amounted to \$134,746,689 in SFYE June 30, 2007 out of total LIHEAP expenditures of \$172,130,776 reported on the SEFA for the year. 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.

**Criteria:** The LIHEAP State Plan for the 2006-07 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 did not have standard written procedures for conducting, documenting, reviewing and reporting on the monitoring visits during our audit period. 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.

These prior-year control deficiencies could not be timely corrected by DPW prior to the end of our current audit period.

**Effect:** Without adequate overall monitoring of the processing of LIHEAP applications at the CAOs, DPW lacks assurance that LIHEAP applications are processed accurately and that CAO controls are adequate for preventing, detecting, and reporting noncompliance and any fraud and abuse. Also, the lack of an effective monitoring system presents a greater opportunity for fraud, noncompliance, and abuse to occur at the CAO level.

**Recommendations:** Based on the results of our audit, we recommend that DPW ensure that necessary resources are available to allow for a proper and timely review of all CAOs and crisis contractors participating in LIHEAP. 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;

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 52: (continued)**

- 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.

**Agency Response:** The audit report cited conditions concerning the number of monitors, testing procedures, and a lack of adequate controls at the County Administration Offices. It also states that DPW did not provide documentation of the monitoring of the LIHEAP program. The report provided recommendations: 1) to ensure the necessary resources are available to allow for a proper and timely review of all CAOs and crisis contractors participating in LIHEAP; 2) to develop written procedures and sampling methodology for systematic review during a standard cycle; and, 3) to require documentation of the on-site monitoring be reviewed by a supervisor.

The Department respectfully disagrees with the assertion that the processes put in place to monitor the processing of LIHEAP applications failed to adequately monitor the program. The Department however continues to implement improvements as a result of the recommendations. Monitoring of LIHEAP will be improved by:

- The Bureau of Program Evaluation will take responsibility for reviewing a random sample of cases.
- The monitoring instrument has been revised and is attached to this memo (Draft OPSMEMO dated 5/21/08).
- An audit team of 6 reviewers (with members from Bureau of Operations, Bureau of Program Evaluation/Division of Quality Control and Bureau of Policy/Division of Federal Programs) will be employed to monitor the program this season.
- Monitoring protocols have been improved:
  - Philadelphia and Allegheny CAOs and Crisis contractors will be monitored annually;
  - Other Crisis contractors will be reviewed every other year;
  - All other CAOs will be monitored at least every third year;
  - Area Managers and Staff Assistants will review in off years;
  - Crisis contractors will be reviewed by the Pennsylvania Health and Human Services (PPHS) Comptroller's Office on an annual cycle as requested by Office of Income Maintenance (OIM) in the Department's Agency Annual Audit Plan.

Finally, in reference to not providing documentation of monitoring, DPW would like to note that documentation was provided shortly after the audit finding was issued for 18 counties including Allegheny, Erie, and Philadelphia. Documentation was also provided for certain Crisis contractors. We are hopeful that the information provided can be fully considered for the final report.

**Auditors' Conclusion:** The information and planned corrective actions provided by DPW in its agency response does not change the conclusions in our finding or our recommendations disclosed above for SFYE June 30, 2007. DPW is correct in its assertion that monitoring documentation was provided to us after preliminary issuance of this finding; however, this monitoring documentation provided for the current year clearly demonstrates that the internal control deficiencies reported in the prior year remained uncorrected in the current year. Therefore, our 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

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 53:**

#### **CFDA #93.568 – Low-Income Home Energy Assistance Program**

#### **Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$7,101 in LIHEAP (A Similar Condition Was Noted in Prior Year Finding #06-49)**

**Condition:** Our prior year Single Audit of LIHEAP disclosed material deficiencies in DPW's internal controls designed to prevent and/or detect potential fraud and abuse in the LIHEAP program. Our prior audit also disclosed questioned costs as a result. These prior year disclosures were based on the report of other auditors who performed separate testing of LIHEAP cash and crisis benefits paid out by DPW and related internal controls, and issued a separate stand-alone audit report which we utilized in our Single Audit of LIHEAP. Our current year Single Audit follow up for the fiscal year ended June 30, 2007 disclosed that these prior year control deficiencies over potential fraud and abuse remained uncorrected as reported below.

DPW administers LIHEAP cash and crisis payments through its 67 CAOs and its nine outside crisis contractors, as applicable. DPW utilizes the LIHEAP Information System (LIS) to process cash and crisis applications and to determine the benefit amounts to be paid. The LIS relies on social security numbers (SSNs) to track each applicant. Additionally, the LIS identifies and tracks household members claimed by each applicant when applying for LIHEAP benefits. Total cash benefits paid during SFYE June 30, 2007 were \$90,415,134 and total crisis benefits paid were \$44,331,555 out of total LIHEAP expenditures of \$172,130,776 reported on the current year SEFA. We noted the following control deficiencies over cash and crisis payments processed through DPW's LIS for the SFYE June 30, 2007:

- Applicants were able to file multiple LIHEAP applications using variations of their SSNs and inappropriately receive more than one LIHEAP payment. Applicants also received LIHEAP benefits by using SSNs associated with deceased individuals. We noted that this was because DPW and LIS did not perform any SSN verification, edit checks, or other matching procedures with other computer systems to ensure SSNs are valid and associated with legitimate and living individuals.
- Applicants residing in the same household were able to inappropriately file separate applications for and receive LIHEAP benefits using slight variations in their addresses. In addition, applicants residing in separate residences were both able to inappropriately claim the same household member to receive LIHEAP benefits. We noted that these situations occurred because DPW and LIS did not perform any edit checks to detect potential irregularities related to applications submitted with similar names or addresses.
- Applicants residing in large subsidized housing complexes were able to receive LIHEAP benefits for which they may not have been eligible due to already receiving rent discounts. We noted that DPW did not obtain sufficient documentation to verify the eligibility of these applicants for LIHEAP benefits.
- Applicants were able to receive benefits for water/sewer bills with no indication or documentation obtained by CAOs to support that water was necessary to operate the heating system, as required.
- Applicants were able to under-report income on their LIHEAP applications to inappropriately obtain LIHEAP benefits since DPW does not check LIHEAP-reported income with other outside sources, such as tax returns.
- Applicants were able to receive excessive crisis benefits above the maximum allowable amount in situations where CAOs utilized outside crisis contractors to administer the crisis portion of LIHEAP. This was because there was inadequate coordination and supervisory review between the CAOs and their outside crisis contractors in the application approval process and data entry into the LIS and outside contractor databases. In addition, there was no requirement for routine reconciliations to be performed between crisis contractor databases and LIS to ensure all crisis transactions were properly accounted for on the separate systems.

In addition to re-reporting the above control deficiencies from our prior-year audit, we also noted from our current year testwork that DPW could not provide case files to support 21 payments for cash and crisis totaling \$5,708 out of the 60

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 53: (continued)**

payments sampled by us totaling \$19,604. As a result, DPW could not support the allowability and eligibility of \$5,708 in LIHEAP payments in the current year. In the case of 14 of these payments, no case file was provided in response to our requests for documentation, and for the six additional payments, a case file was provided by DPW, but the file was incorrect since it did not pertain to the actual payment sampled in our audit.

We also noted that for three crisis payments in our sample of 60 items totaling \$1,200, DPW had no documentation in the case file provided to support that a crisis actually existed, so these costs are also unallowable.

Lastly, for one additional LIHEAP sample item, the case file provided by DPW indicated the individual was actually not eligible for the cash payment of \$193.

Therefore, from our current year testwork, we noted a total of \$7,101 in LIHEAP cash and crisis payments to be unallowable or ineligible and are, therefore, questioned.

**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, verification of income, and proper reconciliations.

**Cause:** The LIS did not perform SSN verification or other matching procedures with other computer systems to ensure SSNs were valid and associated with legitimate and living individuals. Furthermore, the system did 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 lacked adequate monitoring of the LIHEAP program to ensure that fraud and abuse was minimized. As further explained in another finding, DPW's one monitor did not assess the adequacy of CAOs controls for processing applications, did not test any applications processed through the nine external crisis contractors, and did not verify that application information was properly entered into LIS.

Additionally, there were no requirements to perform reconciliations 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 did not exist in the application approval and data entry process of applications into the LIS and crisis contractor databases.

These prior year internal control deficiencies continued into the current year because DPW could not implement timely corrective action by the end of our current audit period.

DPW indicated that for the 14 case files not provided, eligibility was mostly determined by an outside contractor who no longer has a contract with DPW, so the case files are difficult to retrieve. DPW has not provided any reasons for the other issues noted above related to the lack of support for the allowability and eligibility of current-year LIHEAP payments.

**Effect:** Due to the lack of documentation to support current-year LIHEAP cash and crisis payments, \$7,101 in LIHEAP costs are questioned. Because of the internal control deficiencies noted above, LIHEAP cash and crisis payments are being made in violation of federal regulations and the LIHEAP State Plan. In addition, there are clear indications that fraud and abuse occurred in the LIHEAP program. If these control deficiencies are not corrected, such noncompliance, fraud, and abuse will continue into future periods.

**Recommendations:** We recommend that DPW:

- pursue appropriate settlement of the \$7,101 in LIHEAP questioned costs with the federal award agency, HHS.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 53: (continued)**

- improve LIS controls to ensure that SSNs entered into the system are valid and associated with legitimate and living individuals;
- ensure appropriate edit checks are developed to detect irregularities or potential fraud and abuse on applications submitted with similar addresses, names, and SSNs;
- require routine reconciliations to be performed between crisis contractor databases and LIS to ensure all crisis transactions have been accounted for and forwarded to the CAOs for data entry;
- require CAOs and crisis contractors to independently verify SSNs prior to application approval; and
- ensure adequate supervisory reviews exist at CAOs and crisis contractors in the application approval and data entry process of applications into the LIS and crisis contractor databases.

**Agency Response:** In response to the prior year Single Audit, a letter dated October 24, 2007 from DPW to the Office of the Auditor General (AG) provided our final resolution of the LIHEAP Special Audit which led to the single audit, addressing the claim of systematic weaknesses, potential fraud and questioned costs. For the previous year audit, we reported that our review of the cases identified by the computer match indicated that 99.97 percent of the cases were processed accurately and that 99.96 percent of the \$57,848,893 in total benefits was paid out correctly. Only 67 cases with overpayments totaling \$23,209 were identified; 16 of these cases with payments totaling \$5,003 were referred to the Pennsylvania Office of Inspector General (OIG) for investigation of potential fraud. DPW is pursuing the recovery of the balance of the overpayments. In its entirety, the review has shown that potential fraud was indicated in less than 0.01 percent of the cases.

DPW has been informed that the Office of the Auditor General has provided the previous year's audit report and data identifying the potential LIHEAP fraud and abuse to the OIG for independent investigation. Based on preliminary information, none of those cases met the OIG's criteria for criminal investigation. A final report is expected later in 2008 and will confirm if any action was taken on these referrals. DPW respectfully requests that the OIG's information be considered for in the LIHEAP single audit process.

To help insure that the LIHEAP program is administered with the highest possible degree of accuracy and integrity, DPW has been implementing system changes that were already under development at the time of the audit. To prevent errors, the LIHEAP Information System (LIS) is now checking all former LIHEAP recipients' demographics against DPW's Master Client Index (MCI) to identify validated Social Security Numbers. LIS is updating each individual identification number. All new LIHEAP applicants who are not known to the Master Client Index will be assigned a unique identification number and their information will be sent to the Social Security Administration to validate their SSN. These changes provide assurance that SSNs are properly used and that discrepancies and duplicate applications are corrected at application.

DPW has moved ahead quickly to implement many of the other useful management recommendations made in this audit process:

- Monitoring of LIHEAP will be improved by our Bureau of Program Evaluation taking responsibility for pulling random sample of cases for review.
- The LIHEAP monitoring instrument has been revised and an audit team of six reviewers (with members from our Bureau of Operations, Program Evaluation/Division of Quality Control and Bureau of Policy/Division of Federal Programs) will be employed to monitor the program this season.
  - Philadelphia and Allegheny County Assistance Offices (CAOs) and Crisis contractors will be monitored annually;
  - Other Crisis contractors will be reviewed every other year;
  - All other CAOs will be monitored at least every third year;

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 53: (continued)**

- Area Managers and Staff Assistants will review in off years; Crisis contractors will be reviewed by the Pennsylvania Health and Human Services (PPHS) Comptroller's Office on an annual cycle as requested by Office of Income Maintenance (OIM) in the Department's Agency Annual Audit Plan.

We have also pulled together all of the program guidance for operation of the LIHEAP program by our staff and contractors into one comprehensive LIHEAP Handbook, and are currently training staff and contractors, stressing areas of weakness that were sited in the audit.

In response to the current year testwork which identified 25 payments with \$7,101 of questioned costs, DPW is in the process of securing and recovering these costs. Since the time of this single audit report, the case files for 15 payments, totaling \$4,413, have been received by the audit team and we will continue to review the remaining cases. DPW will require additional time to complete the review and resolution of these cases.

DPW shares the Auditor General's commitment to ensuring that all public benefits programs are administered with the highest possible degree of accuracy and integrity, it is important that the public and the Legislature be given accurate information about the nature of audit findings. OIM will continue to work through the CAOs to require that documentation is better kept and maintained. Additionally, we requested a follow-up audit internally by DPW's Office of Administration, Bureau of Financial Management for the fiscal year ending June 30, 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, 2007

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### Finding 07 – 54:

#### CFDA #93.569 – Community Services Block Grant

#### Noncompliance and Internal Control Deficiencies at DCED Over Subgrantee Payments (A Similar Condition Was Noted in Prior Year Finding #06-59)

**Condition:** During our prior audit, we reviewed SAP payments made by DCED to subrecipients and we reported that they were not limited to immediate cash needs and costs were not expended within the CSBG period of availability in violation of federal regulations. During our current audit follow up, we noted that for the fourth year in a row, the CSBG standard Request for Payment Form submitted by subrecipients did not include an actual service or cash disbursement date, but only total expenditures plus “accrued costs.” It is unclear whether the cash for expenditures and accrued costs has actually been disbursed by the subrecipient or whether all or a portion of these costs represent anticipated future cash disbursements. Based on this fact, there may be instances in which DCED advanced the subrecipients cash in excess of immediate needs, and costs were expended by subrecipients outside the period of availability, without being detected by DCED.

**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*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

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### Finding 07 – 54: (continued)

*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:** 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. Also, 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 response to our prior year finding, DCED indicated that they would revise the Request for Payment Form to include a Project Activity Date, and request additional documentation for the last quarter's payment requests. Such documentation would take the form of a list of all accounts payable/acrued costs that may be due after the contract has expired or the period of availability has terminated. Additionally, management approved the hiring of a staff person for the office whose primary responsibility would be oversight of all CSBG payments/invoicing. However, this corrective action was not implemented within our current audit period.

**Effect:** Payments to subrecipients may not be limited to immediate cash needs in compliance with federal cash management regulations. Also, there is not adequate assurance that subgrantee costs are incurred within the period of availability.

**Recommendation:** We recommend that DCED improve its invoicing and payment system to properly ensure that subrecipients are limited to immediate cash needs, and to properly document that expenditures are incurred by subrecipients within the period of availability.

**Agency Response:** We do advance payments to CSBG grantees based on their approved workplan and budget which is submitted to the DCED for the fiscal year. Although the quarterly payments are anticipated expenditures, by the time payment is received by the grantee, almost two months have passed, significantly decreasing the amount of cash they would actually have on hand.

However, in order to rectify the conditions listed, we will implement the following change effective July 1, 2008: (1) to revise the Request for Payment form to include a date/timeframe for the "Total Disbursements to Date" line; (2) allow subgrantees to invoice every other month instead of quarterly; and (3) request a reconciliation within 60 days after the end of the contract period to account for all funds received.

**Auditors' Conclusion:** Based on the agency response, 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, 2007

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### Finding 07 – 55:

#### 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

#### Weaknesses in DPW Program Monitoring of Child Care Cluster Subgrantees (A Similar Condition Was Noted in Prior Year Finding #06-62)

**Condition:** During SFYE June 30, 2007 DPW had CCDBG/CCDF (Child Care Cluster) funded contracts in place with one statewide and six regional agencies called “Keys” for the purpose of improving the quality of child care, community planning and early learning programs, etc. Our examination of DPW’s procedures for monitoring the statewide and six regional Keys for compliance with federal regulations revealed that, for the ninth year in a row, DPW did not adequately document during-the-award monitoring of these subgrantees for compliance with applicable federal regulations since on-site visits lacked supporting documentation.

DPW developed a pilot site-visit monitoring instrument for the six regional Key agencies intended to include both a fiscal and programmatic review of operations. The monitoring instrument was to be provided to and used at each regional key visit; however, this document was only available for one of the six regional Key agencies we tested. Also, the monitoring instrument does not contain a section for reviewer or supervisory sign-offs, to document that results were properly approved and discussed with the regional Key agencies. Further, DPW could not provide documentation that the statewide Key was monitored during SFYE June 30, 2007. The regional and statewide Key agencies account for approximately 11 percent of Child Care Cluster expenditures.

In addition, our testing of 10 of 56 Child Care Information Services (CCIS) subgrantees which administer the provision of child care services to eligible clients and pay child care providers on behalf of those clients disclosed that the electronic on-site monitoring tool functioned properly, except that data relevant to ineligible application determinations was not linked to the tool’s monitoring summary, nor was there any documentation available to indicate that these results were discussed with CCIS agencies.

While Circular A-133 audits of Child Care Cluster subrecipients are conducted each year, this auditing activity does not compensate for the lack of adequate 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.*

**Cause:** DPW management stated the site-visit monitoring instrument was not used for the oversight of the statewide Key since the physical location of the statewide Key was near DPW offices. Instead, DPW intended to rely on regular informal visits, staff meetings and budget discussions with the statewide Key management. However, meetings and site visits of the statewide Key were not documented. DPW could only provide a contract budget/expenditure activity summary schedule for SFY 2006-07, but no other written support for meetings and any on-site visits which may have occurred were available.

Regarding the regional Key agencies, DPW management stated that while the monitoring instrument lacked a reviewer sign-off area, and no monitoring instrument was completed for five of six regional keys, monitoring of all regional Keys was done, and meetings were held with all regional Key directors to address monitoring results on an informal, verbal basis.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 55: (continued)**

Regarding the flaw in the electronic on-site monitoring tool relative to properly documenting ineligible application determinations summary results and discussion of these results with CCIS agencies, DPW management has indicated that for the 2008-09 SFY, this link will be established.

**Effect:** DPW is not adequately documenting during the award monitoring of all Child Care Cluster subgrantees to ensure subgrantee compliance with applicable federal regulations. As a result, DPW provides little assurance of that all subrecipients are in compliance with federal requirements.

**Recommendation:** DPW should properly document on-site during the award monitoring procedures for all Child Care Cluster 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.

**Agency Response:** We are in agreement that DPW conducted on-site monitoring of the CCIS agencies and the Regional Keys and will work to strengthen the supporting documentation. It should be noted that DPW provided fiscal reports to the auditors for all Regional Keys and that the monitoring instrument mentioned in this finding related to program.

**Auditors' Conclusion:** As noted in the condition above, only one of six monitoring instruments (which covered both programmatic and fiscal operations) was available for the six Regional Keys. Therefore, 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, 2007

### Finding 07 – 56:

#### 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 Result in Noncompliance with Federal Earmarking Requirements and Questioned Costs of at Least \$912,853 (A Similar Condition Was Noted in Prior Year Finding #06-61)

**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 Federal Fiscal Year (FFY) 2005 (Federal Grant No. G-0501PACCDF) infant and toddler earmark applicable to Pennsylvania in our current audit period was \$3,078,776. For our six prior year audits in a row, 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 was able to provide support for current expenditures charged to the earmark for the FFY 2005 CCDF grant; however, as explained below, certain costs included in the earmark have been disallowed by the federal grantor agency.

As of June 30, 2007, DPW reported infant and toddler earmark expenditures of \$3,227,128 on the Final ACF-696 Report for the 2005 grant, which exceeded the required earmark noted above. These expenditures consisted of 23 subrecipient contracts of which we selected 5 contracts for testing totaling \$1,484,832. Our testing of three of these five contracts totaling \$912,853 disclosed that they were for the Nurse-Family Partnership, a service program providing home-based nurse visits for first-time low income mothers and their infants that was not included in DPW's federally approved CCDF State Plan. Further investigation revealed that, in response to an inquiry from DPW management, the US Department of Health and Human Services (HHS) indicated in a January 25, 2007 letter to DPW, that the Nurse-Family Partnership program did not meet the infant and toddler earmark requirements and was not an allowable use of CCDF funds. While this HHS disallowance letter covered DPW's inquiry for the FFY 2006 and 2007 grants, we concluded that these costs are also unallowable under the FFY 2005 grant that we tested; therefore, we question the \$912,853 tested above as unallowable.

Our inquiries also disclosed that DPW did not calculate and revise the CCDF Program Financial Reports (ACF-696) for FFY 2006 and FFY 2007 to deduct the unallowable charges to the CCDF Program related to the Nurse-Family Partnership, as required by the January 25, 2007 HHS letter. As a result, there are additional unknown unallowable costs in the FFY 2006 and FFY 2007 infant and toddler earmarks that DPW failed to return to HHS.

**Criteria:** The terms and conditions issued with the FFY 2005 Child Care and Development Fund grant award state:

#### **Discretionary Fund**

*Discretionary Funds must be obligated by September 30, 2006. States must liquidate obligations by September 30, 2007.*

#### **Earmarks associated with the Discretionary Fund**

*The Department of Labor, HHS, and Education Appropriations Act, 2004 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, 2007*

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### **Finding 07 – 56: (continued)**

In addition, HHS's Final Allocation for the FFY 2005 Final Allotments and Earmarked Funds established Pennsylvania's infant and toddler earmark as \$3,078,776.

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.*

Finally, 45 CFR Part 98.66(a) states:

- (a) *Any expenditures not made in accordance with the Act, the implementing regulations, or the approved [State CCDF] Plan, will be subject to disallowance.*

**Cause:** PHHS Comptroller personnel indicated that they were unaware of the Nurse-Family Partnership disallowance since a copy of the January 25, 2007 HHS letter was never forwarded to them by DPW CCDF program personnel; therefore, no corrections were calculated or made to the ACF-696 Reports and DPW CCDF accounting records for these disallowed costs. DPW cited staff turnover as a cause for the breakdown in communication between DPW, the PHHS Comptroller Office, and HHS concerning the issues related to the infant and toddler earmarking initiatives with the Nurse-Family Partnership.

**Effect:** DPW claimed inappropriate expenditures to comply with the federal infant and toddler earmarking requirements for the FFY 2005, and as a result, did not meet the federal earmarking expenditure requirement for FFY 2005. For the FFY 2005 grant, at least three of the 23 subrecipient contracts claimed involved disallowed program expenditures of \$912,853, or 28.2 percent of the total reported earmark of \$3,227,128. The disallowed amount results in a net earmark expenditure of \$2,314,275 which is less than the required \$3,078,776. Also, we question the \$912,853 as unallowable under CCDF since these costs were not in the federally-approved CCDF State Plan. In addition, there could be other subrecipient contracts in the FFY 2005 Grant that are also unallowable for the federal infant and toddler earmark.

Further, the lack of effective communication with the Comptroller Office concerning the federal disallowance prevented the corrective action that was required by HHS for the FFY 2006 and 2007 grants, and resulted in additional unknown disallowed costs that were not refunded to HHS, as required.

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, subgrantee expenditures supporting the other CCDF earmarks (Child Care Quality and Child Care Resource and Referral) may be in question as well due to the deficiencies noted above.

**Recommendation:** We recommend that DPW pursue appropriate settlement with HHS regarding the \$912,853 in disallowed costs for FFY 2005, and for all additional disallowed costs related to the Nurse-Family Partnership for all grant years affected. In addition, DPW should ensure that expenditures used for CCDF activities are approved by HHS prior to being charged to the program. Finally, DPW needs to improve their methodology for communicating CCDF program related actions on the part of HHS to the PHHS Comptroller Office to ensure all federal requests are properly acted on in a timely manner.

**Agency Response:** Upon receipt of HHS's decision that NFP did not meet the Infant and Toddler Earmark requirements, DPW took action to identify infant and toddler qualifying expenditures in the Regional Keys to Quality Program which includes Pennsylvania's Keystone Stars Program. Considering that DPW expended over \$40 million dollars in FY 2005-06 on quality initiatives and that nearly 30 percent of children in child care are infants and toddlers, DPW easily offset the NFP expenditures with Keystone Stars expenditures.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 56: (continued)**

Recently, the Office of Child Development and Early Learning (OCDEL) submitted expenditure adjustments to the PHHS Comptroller's Office to have all Nurse Family Partnership (NFP) costs moved from the Infant and Toddler Earmark to discretionary non-earmarked for FFY's 2005, 2006, and 2007. An additional expenditure adjustment was requested to move Keys expenditures from discretionary non-earmarked to the infant/toddler earmark for FFY's 2005 and 2006. This will not change previously submitted reports as the total amount pertaining to the Earmark has not changed.

DPW believed that an expenditure adjustment was entered recently after receipt of the HHS letter denying NFP expenditures as evident by the on-site Infant and Toddler Earmark monitoring visits administered by OCDEL on the Regional Keys. These monitoring visits included a fiscal and programmatic review. The fiscal review instruments for all Regional Keys included sections on Infant and Toddler Earmarks and were shared with the auditors.

**Auditors' Conclusion:** DPW did not provide any documentation to support any amount of infant and toddler related expenditures under the Keystone Stars program. Therefore, based on the agency response, our finding and recommendation remain as previously stated, and DPW should pursue resolution of all Infant and Toddler Earmark issues with HHS. 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, 2007*

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### **Finding 07 – 57:**

#### **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 #06-63)**

**Condition:** In our prior year audits for the fiscal years ended June 30, 2004 to June 30, 2006 (for four fiscal years in a row), we identified an internal control weakness in that when a county submits a supplemental invoice to DPW, nobody within Office of Children, Youth and Families (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 limited 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. As a result, DPW currently relies mainly on OMB A-133 Single Audits of subgrantees to detect any noncompliance related to supplement payments to subgrantees. However, OCYF and DPW's BIS are developing an automated Title IV-E Validation System which will require the counties to submit all invoices electronically. This system will provide OCYF with the capability of detecting duplicate claims, while performing additional checks to determine that the participants for whom the claims are being made are Foster Care eligible. OCYF personnel indicated that they plan to implement the Title IV-E Validation System in the quarter ending September 2008.

**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.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 57: (continued)**

**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.

**Office of Children, Youth and Families (OCYF) Response:** OCYF has worked with the Department's Bureau of Information Systems to design an information technology system that will validate Title IV-E invoices. This system that will be operational on July 1, 2008, will reject any claim for an individual that was previously submitted for that date(s) unless there was a change in the contracted per diem amount during that billing time.

The Title IV-E invoices will no longer be paper copies that are sent from the counties directly to the PHHS Comptroller Office. Instead, invoices will be electronically entered into this invoice validation system. After the invoice has been electronically validated by the system (including the supplemental review) and there are no errors found on the invoices, it will be ready for OCYF's review. Once OCYF has completed its review of the invoice, a paper invoice will then be taken to the PHHS Comptroller Office. If an error is found by the system, the entire invoice is rejected and sent back to the county for their correction and resubmission.

**PHHS Response:** The PHHS Comptroller Office recognizes the significance of the internal control issues noted within this finding. As noted in the finding, a IV-E Quality Assurance process that requires electronic submission of both the original and supplemental invoices is currently being developed with a projected implementation date during the July - September 2008 quarter. When completed the system will enable additional checks for participant eligibility and provide DPW the capability of identifying duplicate claims. The PHHS Comptroller Office is working with the DPW's Office of Children, Youth and Families to ensure the new system includes appropriate internal controls related to expenditure claims and reimbursements.

**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, 2007

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### Finding 07 – 58:

#### CFDA #93.658 – Foster Care – Title IV-E

#### Internal Control Weakness Over Expenditure Information Reported on the SEFA (A Similar Condition Was Noted in Prior Year Finding #06-65)

**Condition:** Our review of the SEFA and accompanying footnotes for the Foster Care Program disclosed that the PHHS Comptroller Office erroneously posted \$(86,931,420) in negative expenditure adjustments resulting from an audit settlement reached with HHS during our current audit period on March 13, 2007. However, only \$(6,771,364) of the \$(86,931,420) adjustment was applicable to our current audit period, with the remaining \$(80,160,056) applicable to prior audit periods. Therefore, current year SEFA expenditures for Foster Care were understated by \$(80,160,056), and an auditor-proposed adjustment was necessary.

**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.*

Further, OMB Circular A-133, Section 205 basis for determining Federal awards expended paragraph (a) states in part:

*(a) Determining Federal awards expended. The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients;*

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 improper written policy within OB on SEFA preparation for costs deferred or disallowed by federal awarding agencies. PHHS Comptroller personnel included the entire \$(80.1) million adjustment on the current year SEFA since they did not have proper guidance as to how to report disallowances applicable to prior audit periods. PHHS Comptroller personnel indicated that since the final settlement was reached during our audit period and this amount was posted to SAP, that the entire \$(80.1) million should be posted as a negative adjustment to the SEFA for SFYE June 30, 2007.

**Effect:** Due to the \$80.1 million understatement of expenditures on the SEFA for the Foster Care disallowance, the SEFA did not accurately report current-year expenditures incurred during SFYE June 30, 2007 and an auditor-proposed adjustment was made as a result. SEFA misstatements will continue into the future if procedures for SEFA preparation are not corrected.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 58: (continued)**

**Recommendation:** We recommend that OB establish proper written procedures for reporting federal awarding agency deferrals and disallowances on the SEFA, and distribute the procedures to all Commonwealth Comptroller Offices to ensure proper reporting of expenditures.

**Agency Response:** We agreed to increase the SEFA by \$80.1 million to accurately reflect current year federal expenditures and to revise the Note to the SEFA to accurately reflect the disallowances. Furthermore, we will seek clarification from the federal government regarding the reporting of disallowances on the SEFA and, where needed, will revise our policy on SEFA preparation, as presented in Comptroller Operations Directive 405.11, Schedule of Expenditures of Federal Awards (SEFA), to provide proper guidance on the reporting of deferrals and disallowances.

**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, 2007

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### Finding 07 – 59:

#### CFDA #93.658 – Foster Care – Title IV-E

#### CFDA #93.659 – Adoption Assistance

#### DPW Office of Children, Youth and Families Documentation Supporting the Licensing and Monitoring of Foster Care and Adoption Assistance Agencies Is Incomplete (A Similar Condition Was Noted in Prior Year Finding #06-64)

**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/monitoring 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 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 the monitoring of Foster Care and Adoption Assistance eligibility requirements and allowable costs contained in 42 U.S.C., Section 672 and 673, and 55 PA Code, Chapter 3140, Subchapter B and C, and Chapter 3170, et. al.

As a result, for the third year in a row, monitoring of county agencies was incomplete and an internal control weakness exists over DPW monitoring of Foster Care and Adoption Assistance subrecipients.

**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. . . .*

42 U.S.C., Section 672 applies to Foster Care Maintenance Payment Program and Section 673 applies to Adoption Assistance Program.

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.

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:** DPW personnel within OCYF indicated that during our audit period, they were updating their procedures used to perform their on-site monitoring, and also negotiating with a new outside contractor to assist with the monitoring. The new contractor was subsequently hired and they began to assist DPW in performing the on-site monitoring in accordance with the revised procedures, which should ensure that compliance with program regulations is properly documented in the future.

**Effect:** Internal controls at DPW are weak and county agencies could be operating out of compliance with federal regulations.

**Recommendation:** DPW OCYF should strengthen its 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.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 59: (continued)**

**Agency Response:** The DPW Office of Children, Youth and Families has for the past several months worked diligently in conjunction with the PHHS Comptroller Office and the Department's Bureau of Information Systems to design and develop an automated Title IV-E invoice review system that will assist and improve efforts for internal review of IV-E invoices submitted by Pennsylvania's Counties including supplemental invoices. This system is expected to be functional in time to review invoices submitted for the first quarter of State Fiscal Year 2008-09 (July 1 to September 30, 2008).

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation have not been addressed and 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, 2007

### Finding 07 – 60:

#### CFDA #93.667 – Social Services Block Grant

##### Weaknesses in DPW Program Monitoring of SSBG Subgrantees (A Similar Condition Was Noted in Prior Year Finding #06-62)

**Condition:** For the fifteenth year in a row, our examination of DPW's procedures for monitoring SSBG subgrantees for compliance with federal regulations revealed that, other than Subsidized Child Day Care Program subgrantees, DPW did not adequately monitor subgrantees, which comprised 52 percent of total SSBG program expenditures on the current SEFA, for compliance with applicable federal regulations during the award since on-site visits by state officials do not occur.

Furthermore, for the compliance requirement related to cash management, we noted that DPW advances funds to SSBG subgrantees in 5 of 11 SSBG program areas representing approximately 36 percent of SSBG program expenditures without adequate monitoring during the year to ensure subgrantee cash balances are reasonable. In particular, for the Legal Services component of the SSBG program, DPW advanced funds to subgrantees on a monthly basis. For SSBG Early Intervention, 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 SSBG subrecipients are conducted each year, this auditing activity does not compensate for the lack of on-site during-the-award 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.*

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.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 60: (continued)**

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. During the prior audit, we tested this tool and found that: (1) not all subrecipients received a monitoring visit; (2) sampling procedures were not followed by monitors prior to on-site visits so SSBG eligible clients were not always part of the test sample; and (3) 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. For the current year audit, we discussed the status of these observations with program management and were informed that no changes to on-site monitoring procedures had occurred for SFYE June 30, 2007. This was confirmed via a walkthrough of one subrecipient for the 2006 monitoring cycle. Program management noted that effective July 1, 2007, a new on-site monitoring system was introduced which should address the deficiencies described above.

Consistent with prior year audits, DPW management has again noted that there have been no changes to the payment methodology for the Early Intervention, Legal Services, Mental Health, Mental Retardation and Child Welfare components of SSBG. These programs 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. 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. Also, as stated in the prior year finding, in our prior-year contact with HHS officials in the Division of Payment Management, HHS officials stated that, in order to resolve 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.

**Recommendation:** DPW should perform on-site during the award monitoring procedures for all 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:**

#### **Subrecipient Monitoring:**

The Administrative Entity Oversight Monitoring Process (effective April 1, 2007) for the community Mental Retardation Programs is currently being utilized to monitor the implementation of the waiver and the adherence to the CMS Assurances for the Office of Developmental Programs. This process involves a review of the individuals' records for the base, consolidated waiver, and Person/Family Directed Support (P/FDS) waiver funding. For this monitoring, the sample of reviewed records is higher than the previously used "Office of Mental Retardation Monitoring of Counties." This process now consists of a record review of the following individual information contained in the HCSIS system:

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 60: (continued)**

- A review of policies and procedures developed by the counties;
- On-site reviews of fiscal and programmatic issues; and
- Face to face interviews with a subset of the sample of individuals in each category.

This process is completed every two years, with the validation of the plan of correction being conducted within that two year period. Additionally, the Administrative Entity (County) must conduct a self-assessment annually utilizing the same monitoring instruments, as well as, develop a plan of correction and complete required validation activities.

The Office of Children, Youth and Families (OCYF) relies on SSBG funds to supplement gaps in needed services provided to abused and neglected children. It should be noted that OCYF receives \$12 million in SSBG funds, which represents about 1 percent of the county, state, and federal funding expended to support a wide array services, which are provided through Pennsylvania's 67 County Children and Youth Agencies and numerous contracted providers.

SSBG is monitored as a part of the county OCYF programs. The agency promulgates instruction to the provider agencies (Bulletin No. 3140-00-05 County Children and Youth Program Title XX and Title IV-B Procedures) and monitors expenditures to assure funds are used in accordance with both state and federal regulations.

In addition, OCYF maintains contact and dialogue with the county agencies through a variety of venues, including the County Needs-based Plan and Budgeting process. Also, agency licensing visits and thorough ad hoc tactical assistance visits are conducted throughout the fiscal year.

Currently, the legal services contract with Pennsylvania Legal Aid Network, contractor for this program, is being cost settled by the Public Health and Human Services Comptroller's Office, and the single audit report is submitted to and reviewed by the DPW's Audit Resolution Section (ARS). In an effort to obtain complete monitoring of this contract, the Office of Income Maintenance has requested that the BFO, Division of Audit and Review add the Pennsylvania Legal Aid Network to the Annual Audit Plan.

The Office of Mental Health and Substance Abuse Services (OMHSAS) also uses this funding to provide additional services under other federal programs. The BFO is in charge of monitoring all SSBG funds given to each of the program offices. For this reason, both OMHSAS and BFO will meet to explore options for effectively monitoring this funding.

Starting with the 2008-09 fiscal year, SSBG funds will no longer be funding Early Intervention (EI) Services. For this reason, the DPW feels that there is no longer a need to pursue monitoring requirements with regard to SSBG funding for EI.

### **Cash Management**

The DPW's policy has been that counties would be advanced funds to provide services on a consistent basis. If advanced funds were not given, it is possible that the county would need to obtain a short-term line of credit or in some instances suspend services. To monitor expenses, the Bureau of Financial Operations (BFO) reviews the County Mental Health and Mental Retardation, Income and Expenditure reporting annually, as well as the OCYF's County Quarterly Expenditures Report.

For PA Legal Aid Network, the Comptroller's Office, Document Review and Control Section receives a reporting of total expenditures 30 days after the end of each program year. PA Legal Aid Network provides the DPW with a single audit report for each fiscal year, which is accompanied by a Compliance Attestation and required supplementary schedule. This schedule mirrors the budget page within the contract and is used by Comptroller's to settle the contract for OIM.

The OCYF employs a complex system of quarterly advance payments and payments based on actual expenditures for State funds set in the Pennsylvania Code Title 55, Chapter 3140. Due to the fact that SSBG funds represent only a small percentage of the funds allocated to counties, it would not be efficient to set up a separate reimbursement-based system

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 60: (continued)**

to distribute these funds. County Quarterly Expenditures Reports are reviewed when submitted to assure funds are being used in accordance with the county allocations. These expenditures are reconciled at year's end with a final expenditure report.

**Auditors' Conclusion:** Regarding the agency response on Mental Retardation monitoring, while the effective date noted for the new process was April 1, 2007 subgrantees were not monitored under this new process until July 1, 2007. Further, the OCYF and Legal Aid agency response does not address on-site monitoring of subgrantees.

Regarding the agency response on subgrantee cash management, the annual monitoring of subgrantee cash balances referred to for Mental Health, Mental Retardation and PA Legal Aid does not comply with Federal cash management regulations as noted in the criteria above. Also, no evidence was provided to document that DPW monitored subgrantee cash advances with the use of the OCYF Quarterly Expenditure Reports noted in the agency response.

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, 2007

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### Finding 07 – 61:

#### CFDA #93.767 – State Children’s Insurance Program

##### **Noncompliance With Procurement Standards Related to Ensuring Actuarial Soundness of Monthly Premium Rates (A Similar Condition Was Noted in Prior Year Finding #06-67)**

**Condition:** The Pennsylvania Insurance Department (PID) contracts with eight insurance providers to operate the state children’s insurance program and to provide CHIP health care services throughout the Commonwealth. The standard contracts between PID and these eight insurance providers that are in effect from December 1, 2005 through November 30, 2008 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 December 1, 2005 through December 31, 2006, disclosed that PID’s actuary did not document their review and approval of the rates, and these prior-year rates were in effect during the first six months of our current audit period; therefore, PID could not demonstrate compliance with the Federal CHIP procurement standards mentioned below for the period July 1, 2006 to December 31, 2006. Documentation provided by PID for rates effective January 1, 2007 contained an approval stamp and cover memorandum to document the actuary’s premium rate review.

**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 first six months of our current audit period, PID did not receive our prior audit findings before the awarding of its CHIP contracts effective December 1, 2005, so the same documentation procedures were followed as in the prior years. PID subsequently implemented corrective action with the use of an approval stamp and cover memorandum to document the actuary’s premium rate review for the new rates that were implemented on January 1, 2007.

**Effect:** Without proper documentation to demonstrate review and approval by the PID actuary of any rate changes at the time of implementation of the 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 were in effect.

**Recommendation:** PID should ensure proper support for compliance with CHIP procurement standards and demonstrate that monthly premium rates are properly reviewed and approved for actuarial soundness when the rates are in effect.

**Agency Response:** The auditors had performed an audit of the Pennsylvania Children’s Health Insurance Program (“CHIP”) in June of 2006 covering SFY 04-05. The auditors issued a finding alleging that there was some internal

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 61: (continued)**

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 auditors 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 letter from the Department of Health & Human Services Centers for Medicare & Medicaid Services to the undersigned (hereafter the “federal resolution letter”), agreed with that plan.

In 2007, the auditors performed an audit for SFY 05-06 and identified the same issue, simply because that audit covered the rates that took effect December 1, 2005 (in effect SFYE June 30, 2006), which is prior to the date the Department received the SFY 04-05 finding from the auditors and prior to the date of the federal resolution letter therefor. While the Department formally adopted as response to that audit the response it submitted to the June 2006 audit, the Department also noted 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 January 1, 2007. Therefore, the Department asserted that the finding was moot. The Department stands by that response.

Now, the auditors performed an audit for SFY 06-07 and identified the same issue again, simply because the audit covered rates that were in effect June 2006 – June 2007, the first six months of which were still prior to the date of the federal resolution letter relative to the first referenced audit. While the Department formally adopts as response to this current audit the responses it submitted to the prior two audits, the Department also reiterates 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 January 1, 2007. Therefore, again, the finding is moot.

**Auditors’ Conclusion:** We are required to report noncompliance occurring during the audit period. Based on the agency response, the finding and recommendation remain as previously stated. We will review PID’s compliance with CHIP Procurement Standards for the entire year 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, 2007***

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### **Finding 07 – 62:**

#### **CFDA #93.767 – State Children’s Insurance Program**

##### **PID Did Not Perform Adequate During-The-Award Monitoring of CHIP Subrecipient Insurance Providers (A Similar Condition Was Noted in Prior Year Finding #06-68)**

**Condition:** During SFYE June 30, 2007, the Pennsylvania Department of Insurance (PID) contracted with eight insurance providers to operate children’s health insurance programs and to provide CHIP health care services throughout the Commonwealth. For the third year in a row, we noted that PID did not adequately monitor its CHIP subrecipient insurance providers for compliance with federal regulations. During our current year audit, PID officials indicated that they did not perform any on-site during-the-award monitoring since they did not have any staff to perform the monitoring. To compensate for this lack of monitoring, in March 2008, or about nine months after the end of our current audit period, PID requested the CS Comptroller Office to conduct performance audits of the eight insurance providers, applicable to our current audit period. However, none of the audits have been completed or available for our review as of May 2008, the date of our testwork.

Furthermore, we reviewed the OMB Circular A-133 Single Audits of the seven insurance providers required to have audits for calendar year 2006 in order to determine the extent of any outstanding noncompliance or internal control weaknesses reported. This review revealed that four of the seven insurance providers had significant audit findings in their reports, all of which related to eligibility determinations by subrecipients.

During the fiscal year ended June 30, 2007, PID reported CHIP payments to eight insurance providers totaling \$165.6 million, representing 96.1 percent of total program expenditures of \$172.4 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:** As disclosed in the condition above, PID indicated they did not have any monitoring staff available to perform any on-site monitoring during our audit period. PID officials stated that they are currently trying to fill the vacant positions in order to resume the completion of on-site monitoring in the future.

**Effect:** Since PID did not perform on-site monitoring of its insurance providers during the SFYE June 30, 2007, PID did not comply with federal regulations, and did not adequately ensure subgrantees were complying with federal regulations.

**Recommendation:** We recommend that PID strengthen its procedures and perform on-site during-the-award monitoring of all insurance providers of the CHIP program for compliance with federal regulations.

#### **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 positions. These positions have been posted numerous times with little or temporary success. PID took the additional step this year of retaining the services of the Commonwealth’s Comptroller Office to perform the audits. Unfortunately, the Comptroller’s work was not completed or available for review as of May 2008 due to staff changes in that office as well.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 62: (continued)**

In spite of these staffing limitations, PID has engaged in significant monitoring efforts. On-site monitoring visits by PID staff have been focused on 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.

As noted last year, 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 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 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.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 62: (continued)**

#### **Internal Application Monitoring**

As of March 2007, PID hired a vendor, Health Management Systems (HMS), to perform cross matching services for the CHIP population to determine the insurance status of new applicants. PID now produces a monthly report which captures the results of the cross match, i.e. the number of confirmed families with insurance, and the cost savings associated with discovering applicants with insurance prior to enrollment. In addition to this new process, PID cross matches CHIP applications with the Medical Assistance program, a process that has been place for several years.

#### **A-133 Single Audits**

While the A-133 single audits did in fact produce findings for the Contractors listed below, as noted in the auditors' findings, PID disputes that these findings were in all cases significant.

- Aetna did have a significant issue dating back to 2003 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 situation was resolved in 2007. This was 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. For FY 2006, no additional findings were reported.
- Blue Cross of N.E. PA (First Priority Health): Two instances of non-compliance resulting in ineligibility and nine instances of data input errors, not resulting in ineligibility, were reported. A corrective action plan was submitted and accepted and NEPA reimbursed PID in the amount of \$1,573.
- Keystone Health Plan East: One instance of non-compliance was reported. A corrective action plan was requested and accepted. The corrective action involved implementing a scanning process which was to be implemented this year. We will be following up with Keystone to ensure that the new process is in place and functioning properly.
- Unison: Two instances of non-compliance were reported. 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, 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 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 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, 2007***

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### **Finding 07 – 63:**

#### **CFDA #93.917 – HIV Care Formula Grants**

##### **Weaknesses in Internal Controls Over Eligibility Determinations Result in an Undetermined Amount of Questioned Costs Up To \$13,275,656 (A Similar Condition Was Noted in Prior Year Finding #06-70)**

**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 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.

In our prior-year Single Audit for SFYE June 30, 2006, we audited the HIV program as a major Type A program in accordance with OMB Circular A-133 and we reported material noncompliance, questioned costs, and multiple internal control weaknesses in DPW's administration of HIV. Because of the reduction in HIV program expenditures in our current-year ended June 30, 2007, we no longer audited the program as a major Type A program in the current year, but we conducted limited follow-up on the prior year finding referred to above. The results of our current year follow up on these prior year issues are noted below.

During our current audit we reviewed five cases that were approved for HIV ADAP assistance near the end of SFYE June 30, 2007. All five cases included significant discrepancies as follows:

- 1) Case file SPxxxxx72 dated 5/30/07: Participant had no income, and indicated that Medical Assistance and Social Security was applied for, and was improperly enrolled into HIV ADAP without evidence of ineligibility for the Medical Assistance program.
- 2) Case file SPxxxxx74 dated 5/31/07: Participant was age 65 or older and income eligible for PACENET, but was not referred to PACENET, as required.
- 3) Case file SPxxxxx75 dated 5/2/07: Participant provided PA ID Card dated 9/12/06; however, Social Security benefits letter dated 4/12/07 disclosed the participant lives in New Jersey and phone number on the application worksheet was a New Jersey area code.
- 4) Case file SPxxxxx76 dated 6/1/07: Participant did not provide documentation of PA residency, such as PA ID or voter registration Card. Application was not signed by a Licensed Physician, but was signed by a Certified Registered Nurse Practitioner.
- 5) Case file SPxxxxx78 dated 5/16/07: Participant information disclosed individual was eligible and approved for Medical Assistance but was improperly enrolled into HIV ADAP. Application was not signed by a Licensed Physician, but was signed by a Certified Registered Nurse Practitioner.

The SPBP did not have an annual re-certification process to support continued participant eligibility in effect during SFYE June 30, 2007. Specifically, during our prior year reviews 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, while we noted that procedures were implemented to require those eligible for Medicare Part D to be enrolled in Part D to maintain SPBP program eligibility, 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

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 63: (continued)**

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, or that other insurance that participants may have obtained would be used reduce claims to ADAP.

Further, DPW uses a third party contractor to administer all pharmacy benefit claims for the HIV Care Formula 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 Care Formula grant funds less than 11 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 performs what it calls audits and retains copies of "Audit Error Reports" for pharmacies it monitors which show the pharmacy name, the date of each audit, and the prescriptions the pharmacies paid for in error. While it appears that pharmacy audits are 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 Care Formula grant funds.

As a result of the above noted lack of audit coverage of HIV Care Formula 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, for the fourth year in a row DPW did not adequately document the eligibility and allowability of the drug portion of the HIV program as a whole in accordance with OMB Circular A-87.

**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.*

The Special Pharmaceutical Benefits application establishes the income limits for low-income limits for low-income individuals as follows:

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

### Finding 07 – 63: (continued)

The financial component for Eligibility is determined by the following criteria:

*Income Limits: Individuals - \$33,000 gross income per year  
Families - \$33,000 gross income per year, plus an allowance of \$2,728 for each additional family member. (Example: family of two \$35,728 combined gross; family of three \$38,456 combined gross; etc.)*

In addition, good internal controls dictate that all documentation supporting the participant's eligibility such as a physicians 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 prior 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 latter half of 2007 that requires an annual re-certification for all program participants.

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 resolved 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, given the errors noted in all five cases tested as listed in condition, SPBP has limited assurance that the participants are eligible to receive ADAP benefits. Also, there is limited assurance that insurance information is still correct as on the original applications, and therefore costs to HIV ADAP may not be properly reduced for other insurance coverage available.

Also, based on the lack of audit or monitoring coverage of HIV Care Formula 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.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 63: (continued)**

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 \$13,275,656 (\$12,306,256 for Federal Grant No. 2-X07-HA-00021-15 and \$969,400 for Federal Grant No. 2-X07-HA-00021-16).

**Recommendation:** SPBP should pursue appropriate settlement with HHS on the undetermined amount of current-year questioned costs, up to \$13,275,656. 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 applications are properly approved, rejected, or referred to other insurance programs and adequate documentation supporting the participants' eligibility 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:** DPW agrees with the recommendations as follows:

DPW will pursue appropriate settlement with the Department of Health and Human Services (HHS).

SPBP established procedures to monitor the re-certification process and is recording the requirements and procedures in a written format to ensure accuracy and consistency in annual re-certifications. The written document will include, but will not be limited to, the following:

1. The requirement to file in the hard the hard copy case record original source documents submitted by the member such as the re-certification form and the supporting documentation verifying that the member continues to meet the SPBP eligibility criteria.
2. Procedures for handling cases when the re-certification form is returned to the SPBP marked addressee unknown.
3. Procedures for handling cases when the member fails to respond to the request for recertification and the re-certification form was not returned to the SPBP marked address unknown.

As noted in the response to #2 above, the SPBP is drafting a written requirements and procedures document to ensure accuracy and consistency in processing and adjudicating applications, re-certifications, and all eligibility-related actions and contacts with SPBP enrollees, and delineating requirements for documentation of eligibility in the case file. The new document will consolidate various worksheets and informational documents into one master reference document. For example, the SPBP currently uses a work sheet which serves as a quality management tool designed to confirm that the applicant provided all of the information needed to adjudicate the application, including the required documentation, conduct a file clearance to verify that the applicant is not receiving drug coverage through Medicaid, record availability of third party coverage for proper claims processing, identify potential eligibility for coverage under other private or public third party resources and require that the applicant apply for those benefits. The procedures to accurately complete the worksheet and document eligibility in the case file will be delineated in the written requirements and procedures document. The document will also include standardized forms and notices. Examples of case record documentation of eligibility related actions include, but are not limited to, positive matches in the monthly file match with the Department's Client Information System (COIS) verifying that the member is receiving pharmacy benefits under the Medical Assistance (MA) Program or the semi-annual match with the Department of Health's Vital Statistics that verifies that the member is deceased.

The Public Health and Humans Services Comptroller Audits Office has agreed to audit SPBP claimed pharmacy services. The procedures for audit review, audit reports and audit resolution are in writing and the Assistant Comptroller for Audits confirmed that audit reviews are being performed. The SPBP expects to received two audit reports that include SPBP claims within the next few weeks.

**PHHS Comptroller Response:** In March 2008, PHHS auditors began an on-going series of on-site pharmacy engagements that include an examination of SPBP/ADAP pharmacy claims to determine whether the claims meet certain program requirements. The claim selection process and the specific procedures performed connected with the PHHS examinations of SPBP/ADAP claims were agreed to by program representatives. The examinations of SPBP/ADAP

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

### Finding 07 – 63: (continued)

Pharmacy claims are performed along with our examinations of other pharmacy program claims, including claims under the Pharmaceutical Assistance Contract for the Elderly (PACE) Program. PHHS examinations of SPBP/ADAP claims began in two regions of the Commonwealth (Regions 2 and 4). Within these regions, PHHS examined or is in the process of examining SPBP/ADAP claims for the period April 1, 2006 to March 31, 2007 that were submitted by sixty pharmacy providers. The first PHHS report on claims submitted by ten of these sixty pharmacy providers was issued on May 15, 2008. There were 378 SPBP/ADAP claims examined amounting to \$201,249.21 connected with these ten pharmacy providers. PHHS expects to issue the remaining reports connected with Regions 2 and 4 in the near future. Periods covered by similar examinations of SPBP/ADAP pharmacy claims for the six remaining regions of the Commonwealth will be as follows:

<u>Region</u>	<u>From</u>	<u>Period</u> <u>To</u>
1	January 1, 2007	December 31, 2007
3	July 1, 2006	June 30, 2007
5	October 1, 2006	September 30, 2007
6	October 1, 2006	September 30, 2007
7	July 1, 2006	June 30, 2007
8	January 1, 2007	December 31, 2007

On-site pharmacy examinations within a region begin immediately upon completion of the previously scheduled region. Upon completion of all eight regions covering the periods noted above, PHHS expects to begin a new series of on-site pharmacy examinations of SPBP/ADAP claims beginning with regions 2 and 4 covering the period April 1, 2007 to March 31, 2008.

**Auditors' Conclusion:** While PHHS Comptroller indicated in their response that the first pharmacy audit including claims of HIV Care Formula Grants was issued on May 15, 2008, no such report was provided with the PHHS response. Therefore, 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, 2007

### Finding 07 – 64:

**CFDA #14.900 – Lead-Based Paint Hazard Control In Privately-Owned Housing**  
**CFDA #93.994 – Maternal and Child Health Care Services Block Grant to the States**  
**CFDA #93.197 – Childhood Lead Poisoning Prevention Projects**

#### Internal Control Deficiencies Result in Questioned Costs of \$27,231 and Improper Reporting on the SEFA

**Condition:** As part of our testing of the MCH program, we selected a sample of 23 payments to subrecipients totaling \$406,139 out of a population of \$16,078,525 paid to subrecipients during SFYE June 30, 2007. Our testing disclosed that two payment invoices totaling \$27,231 were for lead paint abatement projects within privately owned homes. The contracts provided to support these payments indicated that the funding source was supposed to be the Lead Hazard Control Program (CFDA #14.900), and HUD was the federal funding agency. Also, subrecipient funding amendments and all other supporting documentation also referenced these HUD funded contracts, and none of the subrecipient award documents identified these payments as MCH (CFDA #93.994) funding. Further, Pennsylvania’s MCH Block Grant Application did not identify the use of any MCH funds for lead paint abatement. The MCH application only listed lead screening and increased access to childhood lead screening within the Block Grant Budget and List of MCH Priority Needs. In addition, due to inadequate information documented on the invoices, we could not determine if any significant remodeling was involved in the lead paint abatement projects which would be an unallowable expense under MCH. As a result, we question the two payments totaling to \$27,231 for lead paint abatement projects charged to MCH (\$17,400 for Federal Grant No. B04MC06583 and \$9,831 for Federal Grant No. B04MC04234) as unallowable.

Further, our follow-up review of the Commonwealth’s SEFA disclosed that no expenditures were reported under CFDA #14.900 - Lead-Based Paint Hazard Control In Privately-Owned Housing. Our inquiry with DOH and PHHS Comptroller Office personnel and our review of Commonwealth SAP accounting reports disclosed that \$1,134,305 of CFDA #14.900 expenditures (SAP Grant No. Y34293) were erroneously reported by the PHHS Comptroller under CFDA #93.197 - Childhood Lead Poisoning Prevention Projects on the SEFA.

**Criteria:** 45 CFR Part 96.30 under “Subpart C – Financial Management” and applicable to MCH, states in part:

*Section 96.30 Fiscal and administrative requirements.*

(a) *Fiscal control and accounting procedures. Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (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.*

42 USC 704 (a) related to the MCH block grant states, in part:

*Except as otherwise provided under this section, a State may use amounts paid to it under section 703 of this title for the provision of health services and related activities ... consistent with its application transmitted under section 705(a) of this title.*

42 USC 705 (a) related to MCH block grant applications states, in part:

(2) *includes for each fiscal year—*

- (A) *a plan for meeting the needs identified by the statewide needs assessment ... and*
- (B) *a description of how the funds allotted to the State under section 702(c) of this title will be used for the provision and coordination of services to carry out such plan ...*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

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### Finding 07 – 64: (continued)

42 USC 704 (b) related to the MCH block grant states, in part:

*Amounts described in subsection (a) of this section may not be used for—*

*(3) the purchase or improvement of land, the purchase, construction, or permanent improvement (other than minor remodeling) of any building or other facility, or the purchase of major medical equipment...*

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.*

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.*

**Cause:** DOH management stated that HUD grant agreements were signed in prior years and were amended by DOH's Subsequently Available Funds (SAF) process to include MCH funding in the current year; however, they did not indicate why MCH award information was missing from current award documents. Further, DOH management stated they had obtained HHS approval to use MCH funds for lead paint abatement during 2002, or about five years ago; however, DOH could not provide evidence of such HHS approval. PHHS Comptroller personnel offered no cause for why CFDA #14.900 funds were erroneously posted to the incorrect federal program on the SEFA; however, we note controls over review and approval of expenditure postings at PHHS were not adequately functioning to detect SEFA errors in non-major programs causing grants to be erroneously posted to the Commonwealth's accounting records and resulting in the misidentification of funding sources to subrecipients.

**Effect:** Since DOH could not provide adequate documentation to determine if the lead paint abatement project costs charged to the MCH Block Grant were allowable, the \$27,231 charged to MCH is questioned. Also, since DOH and PHHS Comptroller controls were not adequate to identify the CFDA title or number in subrecipient award documents and on the Commonwealth's SEFA, subrecipients and their auditors may be misinformed about what specific program and other regulations apply to the funds, and the Commonwealth's and subrecipient SEFA's may contain undetected errors. In addition, if the internal control weaknesses are not corrected, noncompliance with MCH Block Grants laws and regulations, and Circular A-133 audit provisions, will continue to occur in the future.

**Recommendation:** DOH should pursue resolution of the \$27,231 in questioned costs with HHS. Further, DOH and PHHS Comptroller Office should implement adequate controls to properly identify Federal award funding expended so that such expenditures are allowable and reported under the correct CFDA title and number on the Commonwealth's SEFA, and that the correct CFDA title and number, award name and name of Federal agency are accurately communicated to all subrecipients on award documents. Also, PHHS Comptroller Office should determine if any other state accounting records and/or federal reports are in error as a result of the SEFA error, and if so corrections should be made as necessary. DOH should also ensure proper follow up with subrecipients in instances where they are not properly aware of and maybe misreporting federal award information in subrecipient audits submitted to DOH.

**Agency Response:** DOH does not concur that the \$27,231 in questioned costs should be pursued with HHS. As part of the block grant application submitted to HHS on July 14, 2004, DOH clearly identified the MCH funds have been used during the interim between receiving HUD grants, and that MCH funds will continue to supplement lead hazard control activities. Since HHS accepted and awarded MCH funds based on the application submitted for funding, DOH's contention is that HHS has approved the use of MCH funds for these activities.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 64: (continued)**

It is DOH's position that it already has sufficient controls in place to address the issue of identifying the CFDA title and number, award name and name of Federal agency. All DOH contracts/grants include the following identifying information in each contractual document's boilerplate, as follows:

#### **Funding Source(s)**

Pursuant to Management Directive 305.21, *Payments to Local Governments and Other Subrecipients*, the Department must identify the amounts of federal and state funding it provides to Contractors. This identification follows and includes the breakdown of federal and state dollars provided and the related federal and state financial assistance program name and number:

**[Insert breakdown (either by dollar or percent) of federal and state dollars, CFDA No., Federal Granting Agency/Division, and Federal Grant Program Title]**

It is DOH's position that it already has sufficient controls in place to address the issue of proper follow-up with subrecipients regarding federal award information in subrecipient audits submitted to DOH. DOH's Audit Requirements appendix (which is attached to all DOH contracts/grants), Section VI, General Audit Provisions, paragraph G, Funding Source(s), refers the subrecipients' auditors to do as follows:

#### **Funding Source(s)**

The audit report must identify the amounts of federal and state funding that is included in the report. This identification must include the breakdown of federal and state dollars provided and the related federal and state financial assistance program name and number. This identifying information is provided in Section III, FUNDING SOURCE(S), of the contract.

In addition, as part of its subrecipient single audit review process, DOH already performs "follow up with subrecipients in instances where they are not properly aware of and may be misreporting federal award information in subrecipient audits submitted to DOH."

**PHHS Comptroller Response:** PHHS agrees that the questioned expenditures were reported under the incorrect CFDA title and number on the SEFA. These expenditures were also recorded under the incorrect CFDA number on the supporting grant master record in SAP. This occurred, in part, because the Federal grant award document did not include a CFDA number. The questioned expenditures, however, were drawn against the proper funding source and subsequently reported correctly on the Federal Financial Status Report (FSR SF-269) under the Lead Hazard Control Grant.

PHHS will implement additional procedures in the future to ensure that future expenditures are properly reflected under the correct CFDA title and number on the SEFA and under the correct CFDA number on grant master record. The additional procedures will require an accountant to contact the appropriate Federal agency to obtain the correct CFDA number when a CFDA number is missing from a Federal Grant Award document. The additional procedures will also require the accountant to request a revised grant award document or other appropriate written documentation from the federal agency, which reflects the CFDA number. This documentation will be filed as support for the grant master record and will become part of the permanent grant file maintained by PHHS.

**Auditors' Conclusion:** The MCH block grant application prepared and submitted by DOH, and approved by HHS, for the 2006-07 Federal MCH Grant No. B04MC06583 failed to include any reference to lead paint abatement to support it as a federally-approved block grant activity under that federal grant number. In addition, all the subrecipient documents indicate that the \$17,400 in questioned costs referred to above were awarded under another program (CFDA #14.900), not MCH. Auditors are also concerned that CFDA #14.900 clearly allows for construction or remodeling activity by subrecipients, while the MCH block grant does not allow for this activity. Without clearer documentation and better DOH monitoring of subrecipients, we could not reasonably verify if unallowable remodeling costs were inappropriately charged to MCH under this federal grant.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 64: (continued)**

For the \$9,831 in costs charged to the prior-year 2004-05 Federal MCH Grant No. B04MC04234, DOH provided a copy of the related MCH block grant application from July of 2004 which stated that MCH funds will be used in “future plans” to supplement CFDA #14.900 grant activities, which include lead paint abatement. While this provides some limited evidence of federal approval of these “future plans,” DOH provided no other block grant application documents for any other years which included any reference to or description of lead paint abatement as current activity. Since DOH failed to properly report and describe this in its MCH block grant applications to get federal approval, such approval remains uncertain. In addition, the other exceptions disclosed above for the \$17,400 in questioned costs also exist for the \$9,831 in questioned costs for Grant No. B04MC04234.

For these reasons, the finding and recommendation related to the \$27,231 in questioned costs has not changed, and because of their unusual nature, we conclude they should be resolved by HHS, the federal awarding agency.

Regarding the DOH contention that each contact should include a funding source attachment, that statement is correct; however, the funding source attachment for two contracts noted above identified the funding source as CFDA #14.900, with no reference to MCH (CFDA #93.994), when the payments were actually charged to CFDA # 93.994.

Regarding the DOH contention that sufficient controls are in place to address subrecipient misreporting of expenditure information, we noted that the Single Audit of the City of Philadelphia identified CFDA# 14.900 funds on its SEFA for FYE June 30, 2006; however, DOH could not have ensured the CFDA on the Philadelphia SEFA was accurate because no CFDA #14.900 was posted on DOH accounting records.

Regarding the PHHS Comptroller response, we could not verify that the expenditures for CFDA #14.900 were drawn against the proper funding source and properly reported on the Federal Financial Status Report since no documentation was provided as support.

Based on the agency and comptroller responses, our 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

## Federal Award Findings and Questioned Costs - June 30, 2007

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### Finding 07 – 65:

#### CFDA #93.994 – Maternal and Child Health Services Block Grant to the States

##### Weaknesses in DOH Program Monitoring of MCH Subgrantees

**Condition:** Our testing of DOH during-the-award monitoring of MCH subgrantees for compliance with program regulations and contract provisions revealed that DOH does not adequately monitor the activities of all subgrantees. Our testing disclosed that only one of the six subgrantees selected for testing received any form of on-site monitoring visits during SFYE June 30, 2007. The five subgrantees not monitored during the year were paid approximately \$2.2 million out of \$7 million tested from payments totaling \$16.1 million. Without on-site visits, DOH cannot be certain that services supporting expenditures claimed by the subgrantees met the compliance requirements of the MCH program. Further, since MCH payments totaling over \$5 million were made to subgrantees receiving less than \$500,000 in MCH funds and, therefore, may not be subject to OMB Circular A-133 Single Audits, a material amount of subgrantees may not have any on-site monitoring of expenditures for MCH program compliance.

**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 management stated that they only required on-site monitoring to be performed once over the life of a grant contract period which could be once every three years. As a result, three of five subgrantees not monitored during SFYE June 30, 2007 were monitored during prior years. Also, DOH officials stated that as a result of employee turnover there were periods of time during the fiscal year in which there was no administrator for the programs; therefore, no on-site monitoring was conducted for two of the five subgrantees during their award period.

**Effect:** DOH is not adequately performing during-the-award monitoring of the allowability of subgrantee activities to ensure subgrantee compliance with applicable MCH federal regulations. As a result, DOH provides little assurance of subrecipient compliance with federal regulations and contract provisions.

**Recommendation:** DOH should implement adequate on-site during-the-award monitoring procedures for all MCH subgrantees each year since a material amount of subgrantee dollars may not be subject the Single Audit.

**Agency Response:** DOH does concur with the aforementioned finding. In response, DOH has developed and initiated the Maternal and Child Health Services Title V Block Grant On-Site Assessment Tool. MCH staff are required to develop yearly monitoring schedules for all subgrantees. The Assessment Tool will be utilized by program staff for all MCH subgrantees each year. An MCH on-site monitoring log has been created to track and store all on-site monitoring results. MCH Program Objectives are also available.

**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, 2007

### Finding 07 – 66:

#### CFDA #93.994 – Maternal and Child Health Services Block Grant to the States

##### Noncompliance and Internal Control Weaknesses Result in \$194,610 in Questioned Personnel Costs

**Condition:** During the state fiscal year ended June 30, 2007, DOH claimed \$8.1 million of personnel expenditures under the MCH program; \$4.7 million was directly charged for employees classified as working 100 percent on MCH activities and \$3.4 million was allocated as personnel costs for employees classified as working on MCH and other activities. This represents 26 percent of total MCH program expenditures for the year. Our testing of these personnel costs disclosed the following results:

**Direct Charge Employees:** We selected a sample of seven employees with a total of \$444,893 in salaries and fringe benefits charged 100 percent to MCH during the year. Our testing found that one employee worked on other activities in addition to MCH. Therefore, there is inadequate documentation to support the charging of 100 percent of the \$82,546 in salary and benefits to the MCH program for this employee for the year.

**Allocated Personnel Charges:** We selected a quarterly transfer of personnel costs totaling \$844,125 posted to MCH for the quarter ended September 30, 2006. These charges represented transfers for employees working at DOH's State Health Care Centers, whose total costs allocated for the quarter amounted to \$4,555,453. DOH allocated the payroll charges for the quarter by requiring employees to enter their hours worked by program into the Community Health Reporting System database for a sample period within the quarter, in this case the two pay periods from June 26, 2006 through July 21, 2006. During DOH's sampling period, staff entered their time and their supervisors approved it. At the end of the quarter, and after the sampling period was closed, DOH ran reports which were provided to the program areas. These reports were then used by the program offices to determine what percentage of State Health Care Centers' expenditures were to be charged to the various programs, including MCH, for the entire quarter.

In testing the quarterly State Health Care Center personnel transfer of \$844,125 to MCH for the quarter ended September 30, 2006, we obtained the DOH summarized report that supported the transfer. In order to test the detail in the report, we obtained an excel file for DOH's sampling period of June 26, 2006 through July 21, 2006, generated from the Community Health Reporting System showing detail by employee, date, program, and hours worked. However, we could not reconcile this detail to the summarized report used to calculate the quarterly transfer tested. The summary reported an MCH percentage of 18.53 percent; however, the detail provided for audit supported an MCH percentage of only 16.07 percent, or 2.46 percent less than the costs actually charged to MCH. Therefore, in recalculating the percentage to be used to allocate personnel charges to MCH from the \$4,555,453 in total State Health Care Center Costs for the quarter, we found that the MCH Block Grant was overcharged by \$112,064 or 2.46 percent of the total State Health Care Center personnel expenditures.

Therefore, the results of our sampling and detail testing disclosed a total of \$194,610 in unsupported personnel charges to the MCH Block Grant for SFYE June 30, 2007 (\$61,065 claimed under Federal grant no. B04MC07805 and \$133,545 claimed under Federal Grant No. B04MC06583).

**Criteria:** 45 CFR Part 96.30 under "Subpart C – Financial Management" and applicable to MCH, states in part:

*Section 96.30 Fiscal and administrative requirements.*

(a) *Fiscal control and accounting procedures. Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (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.*

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 66: (continued)**

**Cause:** For the direct charge employee, the job description was not 100 percent MCH-related duties and inquiry with the employee indicated that she believed she worked about 92 percent of her time on MCH-related activities, but could provide no documented support. Regarding the transferred personnel charges, MCH personnel indicated that the Community Health System database is a live system and can be updated with any changes an employee may post to their time. Therefore, MCH personnel stated that the system may have been changed after the report was produced for the quarterly personnel transfer, causing the variance between the current data available supporting that time period and the original data used for the quarterly personnel transfer.

**Effect:** Our testing disclosed \$194,610 in inadequately documented and unsupported personnel charges to MCH, and these costs are therefore questioned as unallowable. Further, without strengthened internal controls over DOH's documentation and charging of personnel costs, additional unallowable costs may be charged to the MCH program in the future.

**Recommendation:** DOH should pursue appropriate settlement with the federal awarding agency for the \$194,610 in questioned MCH costs. In addition, DOH management should strengthen internal controls to ensure that salaries and fringe benefits charged to the MCH block grant are for employees performing MCH-related work, and are properly supported by detailed job descriptions, or adequately documented time studies or timesheets.

**Agency Response:** For the direct charge employee, the job description provides fiscal support for all divisions within the Bureau of Family Health, which includes coordination of federal funds expended and the match/maintenance of effort (MOE) requirements of the block grant. Thus the employee's response that 92 percent of her charged time was MCH related did not reflect the fiscal complexity of the preparation for match contribution and MOE requirements stipulated by the Health Resources and Services Administration (HRSA). In fact, this position supports the work from a fiscal perspective to increase the number of low income children to receive preventative and primary care services in the commonwealth. The prudent oversight and monitoring of all federal and state expenditures is essential for this position.

Lastly, the auditor's finding concerning the testing of quarterly State Health Care Centers' personnel transfers states that only 16.07 percent of MCH activities could be supported. However in the documentation that was provided, the claimed amount of 18.53 percent is clearly reflected. This is comprised of 15.92 percent for Family Health, plus 1.85 percent for immunizations-communicable and .76 percent for adult immunizations.

**Auditors' Conclusion:** Regarding the DOH response for the direct charge employee, DOH did not provide documentation that is adequate to establish that the employee worked 100 percent on MCH activities. Therefore, the \$82,546 for this employee remain questioned and need to be resolved by the Federal awarding agency.

Regarding the personnel transfer, the documentation provided with the agency response was a copy of the summary quarterly State Health Care Centers for the quarter ended September 30, 2006 and did not include any detailed documentation to support the summary. As a result, the questioned costs of \$112,064 related to detail documentation not agreeing the summary documentation noted in the condition above still remain.

Based on the agency and comptroller responses, our 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

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 67:**

#### **CFDA #93.994 – Maternal and Child Health Services Block Grant to the States**

##### **DOH Could Not Support Information Submitted to HHS on its Annual Statistical Report**

**Condition:** As part of its 2006-07 MCH Block Grant Application submitted to HHS in July of 2006, DOH provided an Annual Report of statistical data on the number of individuals served with MCH funds. This statistical data was reported to HHS on three forms as follows:

- Form 6 -Number and Percentage of Newborns and Other Screened, Confirmed and Treated
- Form 7 -Number of Individuals Served (Unduplicated) Under Title V
- Form 8 -Deliveries and Infants Served by Title V and Entitled to Benefits Under Title XIX

Our audit disclosed that DOH could not reasonably support the accuracy or completeness of the data submitted on these forms due to the following internal control weaknesses:

- DOH did not adequately perform on-site monitoring visits during our current audit period ended June 30, 2007 to the health care providers submitting statistical data to DOH for inclusion on the above forms. As a result, the data was not reviewed to ensure its accuracy, reasonableness, or completeness at this lower reporting level.
- DOH's Bureau of Family Health did not maintain the source data to support totals reported to HHS. DOH officials informed us that much of the historical information submitted to HHS was later changed and updated with finalized figures after report submission. As a result, certain data categories were not supported by underlying records.
- While a Deputy Secretary at DOH signed the MCH application to certify its accuracy, completeness, etc., we found weak controls in that there was no overall review documented for the data reported in the three forms above to verify its reasonableness, accuracy, or completeness prior to submission to HHS.

**Criteria:** 42 U.S.C. 706(a) provides:

*(1) Each State shall prepare and submit to the Secretary annual reports on its activities under this subchapter. Each such report shall be prepared by, or in consultation with, the State Maternal and Child Health Agency. . . .*

*(2) Each annual report under paragraph (1) shall include the following information:*

*(A)(I) The number of individuals served by the State under this subchapter. . . .*

Further, 45 CFR 96.30 states, in part:

*. . . Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant.*

**Cause:** The data included in Forms 6, 7, and 8 of the annual report was extracted without saving or printing the files for future reference. Consequently, the historical data was not maintained and could not be obtained as support for the information reported on the 2006 report. Also, DOH program officials relied on data provided by health care providers because they believed it was accurate and no additional verification procedures were considered necessary.

**Effect:** DOH may have reported inaccurate data to HHS in violation of federal regulations. In addition, the inability to support participant data on the annual report may cause such data to be inaccurate and incomplete in the future in violation of federal regulations.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 67: (continued)**

**Recommendation:** DOH should perform a review of the information on its MCH 2006 annual report and notify HHS officials if information needs to be corrected. In addition, we recommend that internal controls be strengthened to ensure proper reporting of statistical data to HHS in the future. These controls should ensure that on-site monitoring visits are performed of health care providers and include regular reviews of the data submitted to DOH, original source data used to compile the report is retained to support totals submitted to HHS, supervisory review of the data is adequate, and procedures are performed and documented by DOH to support the reasonableness, accuracy, and completeness of the required data prior to submission to HHS.

**Agency Response:** The Department's Bureau of Family Health (BFH) has developed an MCH Data Certification Form which will require providers receiving Block Grant funds to certify the reasonableness, accuracy, and completeness of data submitted to the Department. This will help strengthen the accuracy of the statistical data to ensure what is reported to HHS can be documented.

In addition, BFH has developed and initiated the Maternal and Child Health Services Title V Block Grant On-site Assessment Tool. This tool includes the documenting of data elements, which will also assist in ensuring the completeness of the data being submitted.

**Auditors' Conclusion:** While we agree with the agency response, DOH should also ensure that copies of data extracted out of DOH systems reported on Forms 6, 7, and 8 are saved on the date of preparation to support all amounts reported on each form.

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, 2007

### Finding 07 – 68:

#### CFDA #93.994 – Maternal and Child Health Care Services Block Grant to the States

##### Internal Control Deficiencies Result in Questioned Costs of \$36,912

**Condition:** As part of our testing of the MCH program, we selected a sample of 6 payments to contractors for operational expenses totaling \$170,702 out of a population of \$3,785,831 charged during SFYE June 30, 2007. Our testing disclosed that one monthly payment invoice item of \$8,916 for July of 2006 was an emergency procurement of network support by the statewide coordinating office for the Special Kids Network under Purchase Order (PO) #4500334736. The monthly invoice provided to support this payment also included additional charges to MCH as follows: Database Development/Maintenance \$10,342, Training \$6,759, and Telecommunications \$10,895. Each of the four categories on the invoice had only brief and inadequate descriptions of costs incurred, stating supply personnel, equipment, supplies and other items, travel, lodging etc.; however, no detail was provided such as the number of personnel working on the project, including hours and billing rates, travel expenses, equipment and supplies expenses, etc. No other documentation such as a separate contract was provided by DOH to support the services provided or amounts billed. As a result, we could not adequately determine the reasonableness of the charges under this PO, and we question the entire \$36,912 paid on the monthly invoice as an unallowable charge to MCH. Also, additional monthly charges under this PO may have been claimed for other months without adequate detail to support reasonableness of the charges for the Special Kids Network.

**Criteria:** 45 CFR Part 96.30 under “Subpart C – Financial Management” and applicable to MCH, states in part:

*Section 96.30 Fiscal and administrative requirements.*

(a) *Fiscal control and accounting procedures. Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (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.*

**Cause:** The emergency procurement and PO only contained pricing by month for the following four categories: Database Development/Maintenance, Network Support, Training, and Telecommunications. There was no detail to support personnel hours and billing rates, equipment and supplies usage and rate changes, travel expenses and rates, etc. DOH officials believed the documentation to support the costs was adequate.

**Effect:** Since DOH could not provide adequate documentation to support that the Database Development/Maintenance, Network Support, Training, and Telecommunications charges under PO#4500334736 were reasonable, the \$36,912 charged to MCH Federal Grant No. B04MC04234 for July 2006 is questioned. Also, additional monthly charges under this PO may have been claimed for other months without adequate detail to support the reasonableness of the charges. In addition, if the internal control weakness related to procurement is not corrected, additional claims with inadequate documentation will continue to occur in the future.

**Recommendation:** DOH should pursue resolution of the \$36,912 in questioned costs with HHS. Further, DOH should implement adequate controls to ensure that MCH costs are supported by adequate detail to substantiate the reasonableness of charges for services.

**Agency Response:** DOH does not concur with the auditor’s position that documentation for reasonableness of the charges under this Procurement Order is not sufficient to allow charges to the MCH Block Grant. Provided with this response is documentation specifically stating that the services rendered for this Emergency Procurement #4500334736 are to continue the contractor’s contract (SAP #4700003193 that extends service provided by the contractor under Contract ME 03001, SAP #4000003861) to assure a continuum of services through the existing technology network to the Special Kids Network (SKN) Regional Offices until a new contract for SKN was finalized. The contractor’s

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 68: (continued)**

activities described in contract #4700003193 and referenced contract #4000003861 delineate services that include complex telecommunications; database development/maintenance; training; computer network support; and the staffing, supplies and other items necessary to achieve quality service delivery.

**Auditors' Conclusion:** Documentation provided with the agency response is the same documentation that was provided prior to issuance of this finding and, in our opinion, does not provide any additional detail to substantiate the reasonableness of the costs claimed.

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, 2007***

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### **Finding 07 – 69:**

#### **CFDA #97.036 – Disaster Grants – Public Assistance (Presidentially Declared)**

##### **Internal Control Deficiencies in Systems of Cash Management and Federal Reporting for PAG Program (A Similar Condition Was Noted in Prior Year Finding #06-71)**

**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, (< \$57,500 for the period July 1, 2006 through September 30, 2006 and < \$59,700 for the period October 1, 2006 through June 30, 2007), 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.

In our prior two audits, we noted that payments to subrecipients for large projects under the Hurricane Ivan Disaster (#1557), and the April 2005 Storms Disaster (#1587) (prior year audit only) 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 two 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.

In our current year follow up, we noted that PEMA discontinued the practice of advancing the federal share to subrecipients for large projects effective with the June 2006 disaster, which accounted for \$38,069,801 or approximately 81 percent of the total expenditures reported under CFDA #97.036 for the PAG program on the current year SEFA. However, we also noted that PEMA continued to advance the entire federal share of the approved PW to subrecipients for large projects under the Hurricane Ivan (Ivan) disaster during the year under audit. We also noted, in conjunction with our current year testing of subrecipient monitoring, that PEMA had procedures in place to review supporting documentation for actual project costs at project closeout for all large projects under this disaster. However, PEMA had 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 in the prior year that PEMA paid, via interagency transfers, the full federal share to other state agencies for large projects under the Ivan and April 2005 Storms 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. We specifically noted that PEMA advanced federal funds to one state agency, DCNR, during the prior year for large projects under the Ivan and April 2005 Storms disasters totaling \$19,422,928. However, DCNR only incurred \$881,336 in expenditures on the prior year Schedule of Expenditures of Federal Awards (SEFA) for such large projects, so excess cash clearly existed at DCNR in the prior year. Our current year follow up revealed that PEMA did not advance any federal funds to other state agencies during the year under audit. However, we also noted that DCNR only incurred an additional \$909,139 in expenditures on the current year SEFA under these two disasters and therefore a material amount of excess cash (\$17.6 million) still existed at DCNR as of 6/30/07.

Our prior year testing also revealed that PEMA's interagency transfers resulted in the misreporting of program outlays by PEMA to FEMA on the quarterly FEMA FF20-10 Financial Status Report. Since these interagency transfers in the prior year were not actually program outlays, but only represented 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 were materially misstated. Our current year follow up revealed that PEMA did not adjust these program outlays on the FF20-10 reports as of the beginning of the year for the Ivan or April 2005 Storms disasters. Since these program

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

### Finding 07 – 69: (continued)

outlays are only reported on a cumulative basis and a material amount of excess cash still existed at DCNR throughout the year under audit, the program outlays reported on the FF20-10 reports under these two disasters were materially misstated on the reports submitted for the current year.

A total of \$46,772,761 in federal expenditures was reported on the SEFA under CFDA #97.036 for the year ended June 30, 2007. A total of \$2,920,562 and \$990,955 of these expenditures was reported under grant #1557 for the Ivan Disaster and grant #1587 for the April 2005 Storms Disaster, respectively.

**Criteria:** US Treasury Regulations in 31 CFR, Part 205, Subpart B, provide the rules applicable to federal assistance programs not included in a CMIA Treasury-State Agreement as follows:

205.33 (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.*

Further, section 205.35 regarding a State's non-compliance with the rules in subpart B states:

*We may require a State and a Federal Program Agency to make the affected Federal assistance programs subject to subpart A of this part, consistent with Federal assistance program purposes and regulations, notwithstanding any provision of this part, if:*

*(a) A State demonstrates an unwillingness or inability to comply with this subpart B; or*

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 a 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. Although the practice of advancing federal funds was discontinued during the year under audit effective with the June 2006 disaster, PEMA continued to advance federal funds under the Ivan disaster since this was the established practice for this disaster.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 69: (continued)**

Regarding the excess cash at DCNR, we were informed that a large portion of the federal funds that were advanced to DCNR under Ivan was for repairs to the Delaware Canal State Park and that before DCNR could request bids on these repairs further damage was done to the park during the April 2005 Storms and then again during the June 2006 Storms. As a result, DCNR is grouping similar types of work for contracting purposes and is still in the process of awarding these contracts.

**Effect:** PEMA did not adequately monitor advances made to subrecipients for large projects under the Ivan disaster to limit excess cash on hand. As a result, there is limited assurance that these subrecipients complied with federal cash management regulations. Further, a material amount of excess cash still exists at DCNR as of June 30, 2007 as a result of the prior year advances made to DCNR by PEMA under the Ivan and April Storms disasters. While PAG is not included in the CMIA Treasury-State Agreement, the CMIA regulations for non-covered programs (subpart B) provide that if a state shows an unwillingness or inability to comply with subpart B of the CMIA regulations, the US Treasury can require the program to be covered by the CMIA Agreement. As a result, the state could potentially incur a significant interest liability based on the excess cash at DCNR as of June 30, 2007 and the current CMIA interest rate of 5.02 percent.

In addition, program outlays on the FF20-10 Reports submitted to FEMA during the year under audit for the Ivan and April Storms disasters are materially misstated for the difference between the cash transfers from PEMA to DCNR in the prior year and the actual expenditures incurred and reported by DCNR as of June 30, 2007 for these two disasters.

**Recommendation:** As noted in the finding, 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. Further, we recommend that DCNR expedite the awarding of contracts for the Delaware Canal State Park PWs in order to eliminate the material amount of excess cash that resulted from the prior years' advances from PEMA and avoid any potential future CMIA interest liability.

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. Further, we recommend that PPR adjust the cumulative outlays on the FF20-10 reports for the Ivan and April Storms for the difference between the cash transferred to DCNR and the actual expenditures reported on the current and prior year SEFA by DCNR for these two disasters.

### **Agency Responses:**

**PEMA Response:** PEMA will ensure that all payments of federal funds for large projects under the current open disasters and all future are based on actual costs incurred as the work is completed. PEMA will require an applicant to submit a DAP-9 (Request for Reimbursement) with all supporting documentation before any funds are transferred.

The payments that were made in the fiscal year ending June 30, 2007 fell in the time frame when the practice was still in place for advancing the full federal share of total eligible costs on the approved PW, rather than actual costs incurred to date. These payments were under Hurricane Ivan Disaster (#1557). PEMA has changed the policy to include all disasters with a DAP-9 and supporting documentation requirement.

**DCNR Response:** DCNR will continue to expedite the awarding of contracts for the remaining project components, mainly the Delaware canal. It should be noted that DCNR did not request the drawdown of funds, and we will work with PEMA and the Comptroller's Office to insure all expenditures are properly documented.

Furthermore, it should be noted that damages from subsequent storms in April 2005 and June 2006 resulted in significant re-survey and re-design of work under the original contracts. We now have eleven construction contracts totaling \$36 million in process for repair work at this site. The Department estimates it will have committed or expended all available funds by Fall of 2008, thereby reducing or eliminating the current cash balance of funds received from PEMA.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 69: (continued)**

**PPR Response:** As the finding indicates, effective with the June 2006 disaster, the PPR Comptroller Office now requires a DAP-9 Request for Reimbursement Form for all large project payments. Although Hurricane Ivan disaster payments made during the fiscal year ending June 30, 2007 were based on the approved Project Worksheets rather than actual project costs, these payments occurred before implementing DAP-9 Request for Reimbursement Form requirement for all large project payments in FY 06-07. PPR will work with PEMA and DCNR to ensure all expenditures are properly documented.

Until FEMA instructs PEMA otherwise, the PPR Comptroller Office will include interagency cash transfers as outlays on the FF20-10 report.

**Auditors' Conclusion:** Based on the agency responses, 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, 2007

### Finding 07 – 70:

#### CFDA #97.036 – Disaster Grants – Public Assistance (Presidentially Declared)

#### Internal Control Deficiency Over Expenditure Information Reported on the SEFA by PPR Comptroller and PADOT Comptroller

**Condition:** During our review of the interagency transfers from PEMA to other state agencies during the year under audit, we noted errors in the expenditures reported on the SEFA under CFDA #97.036 for the following four state agencies:

State Agency	Expenditures (Under) Over Reported on the SEFA	Disaster #
Fish & Boat Commission	\$ (147,193)	1649
Game Commission	(604,096)	1649
DCNR	(272,800)	1649
PADOT	(772,087)	1587
Total	<u>\$(1,796,176)</u>	

The errors noted above resulted in an understatement of expenditures reported on the SEFA for CFDA #97.036 totaling \$1,796,176. The SEFA was corrected as a result of our audit.

**Criteria:** 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 and the CFDA number or other identifying number when the CFDA information is not available.*

In addition, an adequate internal control system would ensure that federal awards expended would be properly recorded on the SEFA.

**Cause:** With respect to the errors for the first two agencies, PPR indicated that they have to manually input the SEFA expenditures for these agencies since the agencies' expenditures are in ledger 2 appropriations, which are not federal ledgers. PPR requested federal expenditures for the current year from these two agencies but didn't specifically request disaster related expenditures to be reported under CFDA #97.036. As a result, the expenditures were not submitted to PPR and PPR did not detect the error when performing their review of the expenditures reported under CFDA #97.036. For DCNR, PPR informed us that an appropriation symbol for the new disaster #1649 had not yet been established for DCNR and therefore these expenditures under this disaster were not included in the status of appropriations, which PPR reconciles to the SEFA to ensure the expenditures are properly reported on the SEFA. Additionally, these expenditures were not reported to PPR by DCNR and PPR did not detect this error during their SEFA review procedures. Regarding the error for PADOT, we were informed that the Project Worksheets (PWs) sent to the PADOT Comptroller for the current year only included PWs for disaster #1649. The PWs for disaster #1587 in the amount of \$772,087 were inadvertently excluded since PADOT agency personnel thought the PADOT Comptroller Office already had this information. However, PADOT Comptroller did not detect the missing PWs when preparing the SEFA adjustment for PADOT to report disaster related expenditures under CFDA #97.036.

**Effect:** The amounts reported by the aforementioned state agencies on the SEFA under CFDA #97.036 were understated by a total of \$1,796,176. As a result, an adjustment to the SEFA was necessary for the SFYE June 30, 2007. Further, without adequate internal controls in place, the SEFA may continue to be misstated in the future.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 70: (continued)**

**Recommendation:** We recommend that the PPR Comptroller Office specifically request disaster related expenditures from those agencies that do not maintain federal ledgers. Further, we recommend that PPR perform a comparison of all PEMA interagency transfers during the year to the expenditures reported by the other state agencies on the SEFA under CFDA #97.036 to ensure SEFA expenditures are properly reported. We also recommend that PADOT agency personnel and PADOT Comptroller personnel improve communications relative to the adjustment needed to report the disaster related expenditures under CFDA #97.036.

#### **Agency Responses:**

**PPR Response:** To ensure that expenditures are properly reported on the SEFA, the PPR Comptroller Office will specifically ask for and obtain disaster related expenditure information from those agencies that do not maintain federal ledgers. In addition, for CFDA #97.036, PPR will compare all PEMA interagency transfers during the year to the SEFA expenditures reported by those other state agencies. Information obtained from the PPR inquiries and comparisons will be used to determine if adjustment to the SEFA are necessary.

**PADOT Comptroller Response:** The error that resulted in an improper adjustment amount was due to the Department not providing project worksheets for all disasters that federal reimbursement was received. To mitigate the risk of inaccurate SEFA reporting of disaster expenditures, we have developed a tool to monitor federal disaster reimbursements. We will compare our record of reimbursements to what the Department provides us and reconcile any differences prior to reporting disaster expenditures on the SEFA.

**Auditors' Conclusion:** Based on the agencies' responses, 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, 2007

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### Finding 07 – 71:

**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**

### **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 #06-72)**

**Condition:** As part of our current year follow-up on prior year Finding #06-72, 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. For the third year in a row, 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 a prior audit, 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 (\$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.*
  - (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, 2007***

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### **Finding 07 – 71: (continued)**

In order to carry out these responsibilities properly, good internal control dictates that state pass-through agencies ensure A-133 subrecipient SEFAs 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 timeliness or consistency in performing the SEFA reconciliations, and staffing and workload issues make it difficult to complete the reconciling of all SEFA amounts. DPW audit resolution personnel stated that DPW management was planning to move the Independent Audit Settlement Unit into the Audit Resolution Unit and has dedicated extra resources in an effort to eliminate the current backlog of settlements in order to make them current by December 31, 2008. However, these procedures were not implemented during our SFYE June 30, 2007 audit period. 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:** Due to the way SAP shows federal expenditures, it has been difficult to accurately review the SEFA. Therefore, Audit Resolution has reviewed the SEFA to ensure that all DPW funded programs are present based on Program Area. Also, the DPW has always utilized a program settlement unit to complete an accurate review of allocated funds versus expended funds. This settlement unit does compare all funding, state and federal, and makes necessary adjustments based on questioned costs contained with the single audit report.

**Auditors' Conclusion:** Based on the agency response, in order for the review of funds performed by DPW's program settlement unit to be effective in satisfying OMB Circular A-133 requirements, this review needs to be performed on an annual basis when the subrecipient audit report is received by DPW, instead of at the end of the multi-year contract period, and the review needs to include the subrecipient audit report SEFA. This would enable any discrepancies between DPW's records and the subrecipient's records to be followed up and resolved on a timely basis. 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, 2007*

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### **Finding 07 – 72:**

- 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 #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 #90.401 – Help America Vote Act Requirements Payments**
- 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 #93.658 – 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 #93.959 – Block Grants for Prevention and Treatment of Substance Abuse**
- CFDA # 93.994 – Maternal and Child Health Services Block Grant to the States**
- CFDA #97.036 – Disaster Grants – Public Assistance (Presidentially Declared)**
- 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**
- CFDA #Various – Aging Cluster**

### **Noncompliance and Internal Control Weaknesses Exist in the Commonwealth’s Subrecipient Audit Resolution Process (A Similar Condition Was Noted in Prior Year Finding #06-73)**

**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 OB-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, 2007*

### **Finding 07 – 72: (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 for the second year in a row. Out of a sample of 20 subrecipient audit reports we detail tested, we noted the average time OB-BOA took to forward the desk reviewed reports to the funding agencies for further resolution was 3.1 months, which represents 50 percent of the federal requirement to resolve subrecipient findings within six months after receipt. Based on our sampling and based on further overall review of OB-BOA's listings of forwarded reports, we concluded that OB-BOA's desk review process is not reasonably timely.
- For the third year in a row, 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 37 reports with findings at four different funding agencies (PDE, PADOT, Aging and Insurance), we noted 18 (or 49 percent) with findings that were resolved between approximately 10 months to 19 months after originally received by OB-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.
- Our detailed testing of PDE's subrecipient audit resolution procedures disclosed that for 6 out of 25 subrecipient audit reports with findings, the time period for making management decisions on findings ranged from approximately 7 months to over 14 months from the date that PDE received the audit reports. For one of the 6 PDE subrecipients in question, Philadelphia SD, although the subrecipient audit report for SFYE June 30, 2005 was received by PDE in March 2007, audit resolution and SEFA reconciliation procedures had not been started as of our testwork date in May 2008, over 14 months after PDE received the audit report.
- Our review of the DOH agency listing and inquiry of DOH personnel disclosed that DOH was not processing subrecipient audit reports in a timely manner which resulted in a substantial backlog of unreviewed subrecipient audit reports during SFYE June 30, 2007. Out of 123 subrecipient audit reports received by DOH during SFYE June 30, 2007, DOH personnel performed audit resolution procedures and made management decisions on 3 audit reports with findings, but for 120 audit reports without findings, DOH did not perform SEFA reconciliations or correspond with the subrecipient as to the adequacy of the audit reports and SEFAs.

**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:*
- (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 (\$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.*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 72: (continued)**

(6) *Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.*

In order to carry out these responsibilities properly, good internal control dictates that state pass-through agencies ensure A-133 subrecipient SEFAs are properly and timely reconciled to state payment records each year, and reconciling items properly resolved.

**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.

In addition, the explanation given by PDE personnel for untimely audit resolution was that PDE's policy is to not begin resolution procedures for a subrecipient's audit report until the resolution process for the same subrecipient's prior year audit report has been completed. As a result, PDE does not always begin audit resolution procedures upon receipt of a subrecipient audit report. In addition, PDE personnel stated that there has been an increase in the volume of audit reports received and an increase in the number of findings in the reports.

The explanation given by DOH personnel for untimely audit resolution was that the audit reviewer position was vacant from October 2004 until November 2005 which resulted in a backlog of unreviewed subrecipient audit reports. The position was filled in November 2005. However, the employee inherited a large backlog of work, in addition to management directing the employee to concentrate his efforts on reviewing program-specific audit reports. The only Single Audit reports which were reviewed were those with findings. The employee retired in November 2007, at which time the position became vacant again. DOH is currently trying to fill the vacant audit reviewer position.

**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. With respect to the SEFA reconciliations which are not being performed, there is an increased risk that subrecipients could be misspending and/or inappropriately tracking and reporting federal funds over multiple year periods, and these discrepancies may not be properly monitored, detected, and corrected by agency personnel as required.

**Recommendation:** We recommend that the above weaknesses that cause untimely OMB A-133 audit resolution, including untimely SEFA reconciliations, be corrected to ensure compliance with federal audit resolution requirements and to better ensure more timely subrecipient compliance with program requirements.

### **Agency Response:**

**BOA Response:** BOA agrees that an average of 3.1 months (compared to 4.2 months for the year ended June 30, 2006) to process and transmit reports to funding agencies for review and resolution of findings is too long. However, BOA strongly disagrees that the 3.1 months "...represents 50 percent of the federal requirement to resolve subrecipient findings within six months after receipt." As noted in the response to the prior year's finding, 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 had also been the auditor's position in the past, until last year when they changed the criteria to indicate the six-month time frame begins with receipt of the audit report in BOA. We still strongly disagree with this criterion.

As stated in the finding, the Commonwealth's subrecipient audit review process is split into two stages. BOA, functioning as clearinghouse 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."

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 72: (continued)**

BOA has continually strived to make the desk review process more efficient without forfeiting quality. Currently, BOA has only one full-time employee to perform desk reviews for approximately 1500 subrecipient audit reports a year. Ideally, BOA would like to be able to process all reports within the 30-60 days timeframe. Because of the understaffing, the Audit Supervisor and the Audit Manager are still performing desk reviews. Additionally, due to a reduction in the clerical staff, the desk reviewers are performing some administrative duties in conjunction with their regular functions and activities.

There are numerous factors that impact the time that it takes to complete reviews, including but not limited to:

- Audit reports are received on an irregular or cyclical basis, with the majority of the reports received between March and October.
- 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.
- Some auditors are not properly applying the risk-based approach in determining major programs, requiring additional time for review, follow-up and receipt of revised reports.

It should also be noted that 8 of the 20 subrecipients selected for testing by the auditors were counties. The desk review process for counties is more complex. Specifically, county audit reports consist of the primary government and the component units, which are required to be reviewed as a complete report package. Because the component units often have separate single audits and different fiscal year-ends, additional time is expended to track the primary government and its component units.

To ensure timelier transmittal of the single audit reports and more timely resolution of audit findings, the following corrective measures are in process:

- BOA will generate a weekly listing of audit reports with findings and review those reports first instead of the application of first-in/first-out. This approach will ensure timelier transmittal and resolution of findings by funding agencies.
- BOA is in the process of creating a collaborative web site to enable single audit reports to be electronically transmitted to BOA. This will reduce the time to review and transmit the reports to the pass-through agencies, and should also reduce audit resolution time.
- BOA will continue to pursue the hiring of another full-time desk review position.
- BOA continues to refine the desk review process. To reduce the backlog and improve processing time, BOA is considering reviewing only a sample of reports without findings, and streamlining the review process for those entities or auditors that have had no problems or deficiencies in their reports over the last few years.

**PDE Response:** The Pennsylvania Department of Education (PDE) has received 700 single audit reports in the 2006/2007 fiscal year; 93 percent have been closed and 44 single audit reports remain to be resolved. The PDE has hired additional staff to improve the processing time of the single audit reports.

**DOH Response:** As stated in the third paragraph of the finding's cause section, the reason for DOH's untimely audit resolution was that its subrecipient audit resolution position was vacant from October 2004 until November 2005 which resulted in a backlog of unreviewed subrecipient audit reports. The position was filled in November 2005. However, the employee inherited a large backlog of work. In addition, DOH continued to receive a large volume of subrecipient single audit reports. Therefore, the employee was directed to concentrate efforts on the review and resolution of subrecipient single audit reports with findings pertaining to DOH. The employee subsequently retired in November 2007, at which time the position became vacant again. DOH is currently trying to fill the vacant audit reviewer position with a qualified candidate.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2007***

### **Finding 07 – 72: (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 recent testing results in the last two years, 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. BOA should pursue appropriate resolution of this finding with federal audit resolution officials, as applicable.

**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, 2007

### Finding 07 – 73:

- CFDA #10.550 – Food Donation
- CFDA #10.557 – Special Supplemental Nutrition Program for WIC
- CFDA #14.228 – Community Development Block Grants/State’s Program
- CFDA #20.205 – Highway Planning and Construction
- CFDA #90.401 – Help America Vote Act Requirements Payments
- CFDA #93.283 – Centers for Disease Control & Prevention – Investigations
- CFDA #93.558 – Temporary Assistance for Needy Families
- CFDA #93.563 – Child Support Enforcement
- CFDA #93.575 – 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
- CFDA #93.959 – Block Grants for Prevention & Treatment of Substance Abuse
- CFDA #93.994 – Maternal and Child Health Services Block Grant to the States
- CFDA #97.036 – Disaster Grants – Public Assistance (Presidentially Declared)
- CFDA #Various – Child Nutrition Cluster
- CFDA #Various – Homeland Security Cluster
- CFDA #Various – Aging Cluster

### Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements

**Condition:** As part of our audit of OB’s statewide A-133 subrecipient audit monitoring system, we evaluated the significance of unaudited subrecipient dollars for each of the 31 major programs or clusters with material subgranted funds recorded on OB-BOA’s subrecipient universe in the prior fiscal year (SFYE June 30, 2006) for which audits were required to be submitted in the current year (SFYE June 30, 2007). Our testwork disclosed that for 28 out of the 31 major programs/clusters, unaudited dollars were not considered material to the program/cluster and represented immaterial noncompliance with OMB Circular A-133. However, for 3 out of the 31 major programs/clusters we tested, unaudited dollars were considered material to the program/cluster as follows:

CFDA #	Program Name	SFYE June 30, 2006 Expenditures	
		Total Subgranted Funds Per OB-BOA Universe	Total Subgranted To Entities Without Audits
93.563	Child Support Enforcement (CSE)	\$100,397,956	\$ 4,765,200
93.959	Block Grants for Prevention and Treatment of Substance Abuse (SAPT)	48,255,785	2,371,838
16.007, 97.004 and 97.067	Homeland Security Cluster	49,719,624	11,692,174

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

### Finding 07 – 73: (continued)

Totals subgranted to entities without audits only include entities receiving \$500,000 or more which were required to submit audits in our current audit period. The unaudited federal funds listed above were subgranted to three entities (Bucks County, Crawford County, and Potter County) which did not submit audit reports for the year ended December 31, 2005. The audit reports in question were due by September 30, 2006. Therefore, the required subrecipient audit reports were more than 20 months late as of our test date in June 2008.

**Criteria:** OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, Subpart C, Section .320, Report Submission, states the following:

(a) *General.* The audit shall be completed and ... submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

OMB Circular A-133, 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) *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.*

To ensure Commonwealth enforcement of OMB A-133 for subrecipient noncompliance with audit requirements, Commonwealth Management Directive 325.8, Remedies for Recipient Noncompliance with Audit Requirements, Section 5 related to policy states, in part:

(a) *Agencies must develop and implement a progressive series of remedial actions to be taken when recipients exhibit a continued inability or unwillingness to comply with performance, reporting and resolution requirements for audits of Commonwealth-funded programs.*

(c) *Where recipients receive Commonwealth financial assistance from multiple state agencies, the agency providing the largest amount of such assistance shall be the lead agency, responsible for coordinating the imposition of remedial actions, in accordance with the provisions of this directive.*

(d) *The progressive series of remedial actions should be tailored to the unique aspects of each program... Such actions should be implemented in a timely and judicious manner to ensure that those entities who exhibit an inability or unwillingness to comply with the requirements of OMB Circular A-133 and/or Commonwealth policy, rules, and regulations related to audit performance, reporting, and resolution, are promptly brought into compliance or are properly sanctioned.*

*Overall time frames for the implementation of the series of remedial actions should not exceed six months from the date the first remedial action is initiated. At the end of the six-month time period, either the appropriate corrective action should be taken by the recipient or the final stage of progressive remedial action should be imposed on the recipient.*

**Cause:** Although SAPT is administered by DOH and the Homeland Security Cluster is administered by PEMA, in accordance with Commonwealth Management Directive 325.8, DPW was designated as the lead agency for the county audit reports and was primarily responsible for implementing and coordinating remedial action among the affected state agencies in order to ensure that the county audit reports were submitted to the Commonwealth. DPW personnel did contact the counties at various times to request that the required audit reports be completed and submitted, but to no avail. However, DPW did not adhere to the progressive steps in its Remedial Action Plan, which include suspending payments to the recipients, and did not adhere to the overall six month timeframe for the implementation of the series of remedial actions.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 73: (continued)**

**Effect:** Since the Commonwealth did not obtain and review the required audit reports, material federal funds in the CSE program, SAPT program, and Homeland Security Cluster were not audited in violation of OMB Circular A-133. Also, there is an increased risk that subrecipients could be mispending federal funds in numerous additional major programs (see above) and not be detected and followed up by Commonwealth personnel. In addition, a weakness exists since DPW was not following its established remedial action plan. Material dollars may be unaudited in the future without effective remedial action from DPW to enforce compliance.

**Recommendation:** We recommend that DPW continue its efforts to obtain A-133 audits from the unaudited entities. We also recommend that if the unaudited amounts identified above are not ultimately subjected to audit as required by OMB Circular A-133, DPW and the affected agencies should consider implementation of other remedial action procedures as outlined in Management Directive 325.8 (such as additional on-site program monitoring). Finally, DPW should adhere to the steps and timeframes in its Remedial Action Plan.

**Agency Response:** While the DPW does have a policy in place to sanction subrecipients for noncompliance with audit requirements, this would not be a favorable option in this situation. Due to the nature of the County programs, suspending grant funding may impact on the Commonwealth's most vulnerable citizens.

The Remedial Action Plan (Officially called the DPW Audit Policies – Section III – Sanctions Policy for Noncompliance With Audit Requirements), under the Policy section, states that "...overall time frames for the implementation of the series of remedial actions should not exceed six months from the date of the Notice of Final Remedial Action." It must be noted that the Audit Resolution Section (ARS) has not sent a Notice of Final Remedial Action to the Counties due to extenuating circumstances which include the implementation of a new accounting system, change in auditors and an extensive investigation into the defalcation by an employee. Accordingly, the six month timetable for remedial action on these counties has not begun.

As lead agency, the DPW has remained in contact with Potter, Bucks, and Crawford Counties through emails, phone calls, and letters. The DPW is making progress. As of June 17, 2008, the DPW has received draft Single Audit reports for Crawford and Potter Counties and expects a report from Bucks County by the end of July. The DPW will continue to follow up on this situation through monitoring or, if warranted, sending a Notice of Final Remedial Action or sending the BFO (internal) auditors to those counties.

**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, 2007

### Finding 07 – 74:

CFDA #10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children  
CFDA #10.561 – State Administrative Matching Grants for the Food Stamps Program  
CFDA #12.401 – National Guard Military Operations and Maintenance Projects  
CFDA #17.207, 17.801, and 17.804 – Employment Service Cluster  
CFDA #17.225 – Unemployment Insurance  
CFDA #17.245 – Trade Adjustment Assistance  
CFDA #17.260 – WIA Dislocated Workers  
CFDA #84.010 – Title I Grants to Local Educational Agencies  
CFDA #84.048 – Vocational Education – Basic Grants to States  
CFDA #84.126 – Rehabilitation Services – Vocational Rehab Grants to States  
CFDA #84.287 – Twenty-First Century Community Learning Centers  
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 #93.658 – Foster Care – Title IV-E  
CFDA #93.667 – Social Services Block Grant  
CFDA #93.778 – Medical Assistance  
CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse  
CFDA #93.994 – Maternal and Child Health Services Block Grant to the States  
CFDA #96.001 – Social Security Disability Insurance  
CFDA #Various – Various Non-Major Programs

### Unallowable Payments for Unused Employee Leave Result in at Least \$10,436,574 in Questioned Costs

**Condition:** Our review of the statewide SAP accounting system disclosed that payments for unused leave when employees terminated employment or retired were improperly charged to numerous federal programs during SFYE June 30, 2007, and are unallowable charges in violation of either OMB Circular A-87 or federal block grant regulations, as applicable. These unused leave payments (annual and sick) were charged directly to federal programs at the time of payment, but OMB A-87 requires that they be allocated as a general administrative expense (i.e., an indirect cost) to all activities of each agency or governmental unit, so these direct charges are not allowable. In addition, for block grants not subject to OMB A-87, federal regulations allow employee leave to be charged to the program only if employees actually worked on the program at the time when such leave was earned. However, there was no analysis or documentation provided by management to support when the unused leave was actually earned by employees for leave payouts charged to block grants, so these direct charges are also unallowable. In accordance with OMB Circular A-133 (see criteria below), we identified the federal programs/clusters and block grants with related amounts of unused leave (annual and sick) over \$10,000 charged during SFYE June 30, 2007, and they are as follows:

CFDA #	Program Name	Amount
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$80,358
10.560	State Administrative Expenses for Child Nutrition	\$10,223
12.401	National Guard Military Operations and Maintenance Projects	\$151,354
16.575	Crime Victim Assistance	\$54,585
Various	Employment Service Cluster (CFDA #17.207, 17.801 and 17.804)	\$464,292
17.225	Unemployment Insurance	\$977,798

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

### Finding 07 – 74: (continued)

CFDA #	Program Name	Amount
17.245	Trade Adjustment Assistance	\$45,594
17.260	WIA Dislocated Workers	\$30,283
20.218	National Motor Carrier Safety	\$102,618
20.600	State and Community Highway Safety	\$71,761
30.002	Employment Discrimination - State and Local Agency Contracts	\$12,732
45.310	Grants to States	\$16,186
64.111	Veterans Education Assistance	\$72,693
84.010	Title I Grants to Local Educational Agencies	\$72,078
Various	Special Education Cluster (CFDA #84.027 and 84.173)	\$115,429
84.048	Vocational Education - Basic Grants to States	\$43,953
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	\$1,551,705
84.181	Special Education Grants for Infants & Families with Disabilities	\$46,376
84.186	Safe and Drug-Free Schools and Communities - State Grants	\$18,406
84.287	Twenty-First Century Community Learning Centers	\$16,092
84.298	State Grants for Innovative Programs	\$120,325
84.369	Grants for State Assessments and Related Activities	\$17,279
93.268	Immunization Grants	\$32,298
93.568	Low-Income Home Energy Assistance	\$17,277
93.575	Child Care and Development Block Grant	\$10,861
93.959	Block Grants for Prevention and Treatment of Substance Abuse	\$195,283
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grant	\$57,944
93.988	Coop Agreements for State-Based Diabetes Control Programs	\$35,723
93.991	Preventive Health and Health Services Block Grant	\$25,317
93.994	Maternal and Child Health Services Block Grant to the States	\$34,401
96.001	Social Security - Disability Insurance	\$1,546,376

Total Leave Payouts Over \$10,000 Per Program/Cluster: \$6,047,601

We also noted that similar leave payouts of \$9,412,337 were also allocated and charged to various state and federal welfare programs through DPW's department-wide cost allocation plan (or CAP). We estimated that 46.63 percent of these leave payouts, or \$4,388,973, was allocated directly to federal programs through DPW's CAP. Since these represent direct rather than indirect charges through DPW's cost allocation system, they are also considered unallowable. The breakout of the \$4,388,973 by federal program was estimated by the auditors as follows:

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

### Finding 07 – 74: (continued)

CFDA #	Program Name	Amount
93.778	Medical Assistance	\$2,018,927
10.561	State Administrative Matching Grants for the Food Stamps Program	\$1,141,133
93.558	Temporary Assistance for Needy Families	\$614,456
93.563	Child Support Enforcement	\$219,449
93.658	Foster Care Title IV-E	\$43,890
93.667	Social Services Block Grant	\$351,118

Total Leave Payouts From DPW Cost Allocation Plan: \$4,388,973

Total unallowable costs for leave payouts inappropriately charged to the above federal programs were, therefore, \$10,436,574 for the year under audit.

Lastly, we noted that an additional \$780,560 in unused annual and sick leave payouts were posted directly as state match for various federal programs included in the Commonwealth's SEFA. Additional unallowable federal costs may have been charged to those federal programs since corresponding state match dollars must be allowable to claim federal participation. Although the actual unallowable federal amounts over \$10,000 for each program could not be clearly determined as part of our audit, we noted that the \$780,560 in state match was charged to the following federal programs:

- 12.401 - National Guard Military Operations and Maintenance Projects
- 14.239 - HOME Investment Partnerships Program
- 16.523 - Juvenile Accountability Incentive Block Grants
- 16.579 - Edward Byrne Memorial Formula Grant Program
- 17.005 - Compensation and Working Conditions
- 20.218 - National Motor Carrier Safety
- 84.048 - Vocational Education – Basic Grants to States
- 84.126 - Rehabilitation Services – Vocational Rehab Grants to States
- 93.775 - State Medicaid Fraud Control Units
- 93.778 - Medical Assistance Program
- 99.999 - Miscellaneous

**Criteria:** OMB Circular A-87; Attachment B; Part 8.d. related to employee fringe benefits, states in part:

- (3) *When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.*

45 CFR 96.30 under Subpart C – Financial Management for HHS Block Grants, states in part:

*Section 96.30 Fiscal and administrative requirements.*

- (a) *Fiscal control and accounting procedures. Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (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.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

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### Finding 07 – 74: (continued)

OMB Circular A-133, in Section \_\_\_\_\_,510 states in part:

*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. . .*
- (4) *Known questioned costs which are greater than \$10,000 for a Federal program which is not audited as a major program. . .*

**Cause:** According to BFM, the charges to federal programs for leave payouts have historically been small in prior years and, therefore, were not closely scrutinized by management. As a result, there has been no specific policy in Commonwealth Management Directives or other issuances to provide guidance to agencies on the charging of these costs to federal programs. Commonwealth management running the above programs were not aware of the OMB A-87 and federal block grant requirements mentioned above, and the methodologies for charging these costs to federal programs were not in compliance.

**Effect:** At least \$10,436,574 in unused annual and sick leave payments charged to the above federal programs are questioned as unallowable. There may also be additional questioned costs in other federal programs noted above due to unallowable matching dollars charged. Furthermore, unallowable unused leave charges will continue to occur in the future if the methodologies for charging these costs to federal programs are not corrected.

**Recommendation:** We recommend that Commonwealth management pursue appropriate settlement with the Federal Government regarding the \$10,436,574 in questioned costs. Management should also work with Federal audit resolution officials to ascertain any additional questioned costs resulting from unallowable state match charges to federal programs. Finally, we recommend that management change their methodology for charging unused leave payouts as a direct expense to federal programs, and ensure that these costs are allocated or charged in accordance with applicable federal regulations.

**Agency Response:** We are aware of this situation and are taking action to address it.

**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, 2007***

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### **Finding 07 – 75:**

- CFDA #10.555 – National School Lunch Program**
- CFDA #10.561 – State Administrative Matching Grants for Food Stamp Program**
- 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 #93.959 – Block Grants for Prevention and Treatment of Substance Abuse**
- CFDA #96.001 – Social Security – Disability Insurance**

### **Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$7.5 Million Known Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding #06-74)**

**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 for most federal programs using the Average Daily Clearance (ADC) method.

For the fourteenth year in a row, and since the initial implementation of the CMIA in the Commonwealth during SFYE June 30, 1994 the following weaknesses remain unresolved:

Check clearance studies to determine the ADC for applicable Federal programs, the last of which was completed during the period of February 1, 1999 through May 31, 1999, included the following deficiencies:

- The Commonwealth did not reconcile expenditure totals from the check clearance study to its general ledger in to ensure the accuracy and completeness of data used in the ADC study.

Further, as noted in Single Audits since SFYE June 30, 1994, each Voucher Transmittal (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.

- The posting dates used clearance studies did not always agree to the actual general ledger posting dates.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 75: (continued)**

As a result, the material weakness regarding incorrect posting dates from the study caused material noncompliance with CMIA during SFYE June 30, 2007 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 studies 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 studies.

Further, starting on July 1, 2002, the Commonwealth began decommissioning its legacy accounting system 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.

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.

Also, the interest liability on the CMIA Annual Report for SFYE June 30, 2006 which was submitted to the U.S. Treasury during our current audit period SFYE June 30, 2007, was misstated by a minimum estimate of \$7,487,910 as follows:

- We noted that invoice #KR1901427017 selected for testing during SFYE June 30, 2006 posted \$22,245,436 of payments to a subgrantee on SAP. As a result, federal funds were received under the TANF program, CFDA #93.558, on March 6, 2006; however, the PA Treasury Department rejected the invoice and the funds were not returned to HHS until April 25, 2006. Since the Commonwealth did not pay any interest to the federal government for the period that these funds were on hand for 50 days, the Commonwealth's interest liability was understated by \$127,244.
- 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 \$96,662,550 at June 30, 2006, with a carry-forward balance from the prior fiscal year of \$97,590,660. Our review of the CDS-301 Report disclosed that the Commonwealth did not pay any 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 \$97.13 million during the June 30, 2006 fiscal year, the state's interest liability was understated by an estimated \$4,060,000 for the Medical Assistance program, CFDA#93.778. We also found that the excess cash in this account was \$106.92 million as of June 30, 2007, so additional CMIA interest is owed for SFYE June 30, 2007 to be remitted during SFYE June 30, 2008.
- During our prior year audit we noted that DPW had a Federal Revenue Collected in Advance account balance of \$606,423,402 at June 30, 2005. 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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

### Finding 07 – 75: (continued)

balance at DPW was a policy change that Comptrollers were no longer required to transfer federal revenues in excess of federal expenditures to RCIA. For SFYE June 30, 2006 interest owed to the U.S. Treasury related to the transfers of \$319,130,003 and \$187,096,746 from RCIA under the MA program, CFDA#93.778, and TANF, CFDA#93.558, could be approximately \$2 million and \$1.2 million, respectively. Further, since DPW did not perform any analysis of the transactions posted into and out of its collected-in-advance account for CMIA interest impact for SFYE June 30, 2006, DPW cannot adequately support the source of this excess revenue on the SAP system and the interest owed on this excess revenue cannot be fully determined in our audit.

- We noted that expenditure adjustment #EA7802120036 selected for testing within the LIHEAP program, CFDA #93.568, during SFYE June 30, 2006 transferred \$19.3 million of federal expenditures to a state appropriation. This transaction resulted in \$19.3 million of excess federal funds being on hand for 37 days, from May 30, 2006, the date the EA posted on the SAP system, until the funds were returned to HHS on July 6, 2006. Since the Commonwealth did not pay any interest to the federal government for the period May 30, 2006 to June 30, 2006 that these funds were on hand, the Commonwealth's interest liability was understated by \$68,446. Also, an additional amount of Commonwealth interest liability may be understated on the CMIA Annual Report for SFYE June 30, 2007 for the period of July 1 to July 6, 2006 when these funds were on hand.
- Within the HPC cluster, CFDA#20.205 we noted that the PADOT Comptroller Office understated the state's interest liability by \$32,220 for payments made out of restricted receipts accounts. The CMIA Annual Report for the prior SFYE June 30, 2005 was also understated (by \$14,560) for the same reason.

**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.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2007

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### Finding 07 – 75: (continued)

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.*
- (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 studies, 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 a 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 posting dates and the posting dates used in prior ADC studies, 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 Commonwealth's accounting system which is used by CDS. As in prior years, the Commonwealth had no controls in place to make sure the correct posting dates are included on these magnetic tapes and incorporated into check clearance studies.

With respect to the payroll costs for the HPC program included in the clearance studies, BFM stated no changes were made from prior years to change the most current study to ensure the appropriate amount of payroll was included.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 75: (continued)**

Regarding the issue of payments rejected by PA Treasury causing unrecognized interest liabilities, BFM personnel have indicated that this issue is not significant. Also, PA 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 PA 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.

For Federal revenue collected in advance postings BFM management stated that any dollars reflected in these accounts represent federal revenue for which the Commonwealth has 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.

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.

The PADOT HCP CFDA#20.205 understatements were the result of a change in procedures to pay contractors from a restricted receipts account.

**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, 2006 are not accurate. Our testing disclosed a minimum estimate of \$7,487,910 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 for SFYE June 30, 2006.

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 \$7.5 million in additional interest owed to the U.S. Treasury.

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, 2007 CMIA interest due to the federal government as a result of all of the above noted discrepancies for CMIA-covered programs, 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, 2006 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, 2007***

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### **Finding 07 – 75: (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.

- 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 has been completed which identifies 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.

A new check clearance study has been completed which identifies all VTs and SAP payments for a specific CFDA. We believe that this new study will alleviate the concerns identified above.

#### **Other Items**

- Regarding invoice number 1901427017, the original invoice that was processed was rejected by Treasury due to concerns with the backup documentation containing potential duplicate line items. Funds for the original payment were drawn and returned as stated. Since there was no check issued, the Commonwealth agrees that there was cash on hand and that the Commonwealth's interest liability was understated and should be returned. The Commonwealth will adjust the next CMIA Annual Report to pay the interest liability of \$127,244 to the US Treasury.
- Medical Assistance 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.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2007*

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### **Finding 07 – 75: (continued)**

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.

- **RCIA:** 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 had zero balances. Consequently, we do not believe there is an interest related issue to report as an audit finding.
- **LIHEAP:** The timing of the expenditure adjustment transaction # EA 7802120036 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 May 30, 2006 and showed on the CDS draw screens on May 31, 2006 for acceptance. When the Comptroller's office reviewed the draw screen on May 31, 2006 there were dollar amounts rejected that resulted in the total LOC being a negative. On Monday, July 3, 2006, there were sufficient expenditures showing to accept the negative \$19.3 million transaction and process a request in CDS. On Wednesday, July 5, 2006, the SMARTLINK request was processed, requesting the funds for Thursday, July 6, 2006. The transaction was handled correctly in accordance with the parameters of the computer systems in place at both Treasury and the Federal Government. The \$19.3 million was returned as soon as the system in place would allow. The \$68,446 amount stated as interest being owed on \$19.3 million may be correct based on the days between activities; however, consideration should be given to the parameters of the systems in use to process these transactions.
- **HPC Cluster:** Prior to PADOT going live on SAP, restricted receipt payments from fund 4008900278 were processed similar to a standard payable. The pay date was not specific and would pay once Treasury completed their review. Treasury's review and subsequent payment required approximately ten to fourteen days, which was less than the FHWA draw delay of twenty days. Therefore, no interest was due to the federal government and nothing was reported on the CMIA report. PADOT went live in SAP in July of 2004. With this go-live came a change in how restricted receipt payments from fund 4008900278 were processed. Fund 4008900278 restricted receipt payments are now assigned a pay date which is after the FHWA draw down date. However, CMIA interest continued to be reported or not reported based on outdated fund 4008900278 processing/payment procedures in error for fiscal years 04/05 and 05/06. This reporting oversight has been corrected and for the 06/07 fiscal year appropriate interest due was reported on the CMIA report. The Commonwealth will adjust the next CMIA Annual Report to pay the interest liabilities to the US Treasury for 04/05 and 05/06 of \$14,560 and \$32,220, respectively.

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 has been completed. This new study will again exceed the three-month requirement of CMIA regulations, as it will involve one year of data. The results of the new study will be included in our 2008-09 Treasury-State Agreement.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2007***

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### **Finding 07 – 75: (continued)**

**Auditors' Conclusion:** Based on our review of the Office of the Budget's response, we believe OB should place a priority implementing the new check clearance study they state was completed in their response above, since the last one was performed in 1999, or nine years ago.

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.

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.

Regarding the \$19.3 million LIHEAP adjustment had the Commonwealth entered the transaction during the heating season or paid claims directly out of the state supplement heating funds a negative LOC would not have occurred. Therefore, we do not believe the agency response is reasonable for this issue.

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.**

# Summary Schedule of Prior Audit Findings



Commonwealth of Pennsylvania

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2007

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b><u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2006:</u></b>			
<b>OFFICE OF THE BUDGET (OB)</b>			
06-26	Internal Control Weakness Over Expenditure Information Reported on the SEFA	DOT	Resolved – Closed per FHWA letter of January 22, 2008.
06-40	Noncompliance and Internal Control Weakness in the LECS Comptroller Office System of Cash Management	USDE	Unresolved – USDE has not yet contacted LECS concerning this finding. However, as part of LECS' re-evaluation of existing cash management policies and procedures, the initial payment was reduced on the FY 2007-08 Reading First Program project. In addition, a letter was sent notifying Philadelphia City School District of excess cash status on FY 2006-07 RFP project.
06-65	Internal Control Weakness Over Expenditure Information Reported by PHHS Comptroller on the SEFA (Prior Year Finding #05-6)	HHS	Unresolved – Written procedures have been developed to ensure that significant federal awarding agency deferral, disallowance and settlement activity is appropriately disclosed in the footnotes to the SEFA. DPW is in the process of preparing a response to HHS's initial determination letter of April 4, 2008.
06-73	Noncompliance and Internal Control Weaknesses Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Findings #05-43 and #05-44)	HHS	Unresolved – BOA provided additional information to HHS on May 30, 2008. Awaiting federal audit resolution action.
06-74	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)	HHS	Unresolved – BFM provided additional information to HHS on May 30, 2008. Awaiting federal audit resolution action.
<b>DEPARTMENT OF AGRICULTURE (AGRI)</b>			
06-17	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)	USDA	Unresolved – USDA has not yet contacted the Department of Agriculture regarding resolution of this finding.

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## Summary Schedule of Prior Audit Findings – June 30, 2007

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)</b>			
06-21	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #05-8)	HUD	Unresolved – DCED submitted a response to HUD to address HUD/OIG Audit and Program Monitoring. During 2006 and 2007, DCED received training and technical assistance to improve the staff’s understanding of the HOME Program and the subrecipient recordkeeping and monitoring process.
06-53	Control Weaknesses and Potential Abuse Found in Administering the Weatherization Assistance Program Result in Potential Questioned Costs	HHS	Unresolved – DCED issued revised administrative policy directives for grantees and created a monitoring handbook for staff to ensure consistency and compliance of program requirements. DCED will pursue resolution of this finding with HHS.
06-54	Two Local Agencies Wasted \$94,081 Providing Weatherization Services to the Same Dwellings in Philadelphia and Result in Potential Questioned Costs	HHS	Unresolved – A client information exchange procedure has been developed for the two Philadelphia weatherization agencies, whereby they each have access to the other client list. Exchanges take place several times weekly. DCED provided additional information to HHS on May 30, 2008 and is awaiting resolution of the finding.
06-55	DCED Does Not Adequately Review Weatherization Assistance Program Expenditures for Accuracy Prior to Approving Local Agency Grant Payments	HHS	Unresolved – DCED has revised its invoice to collect more detailed expenditure information and continues to work with LECS, which provides guidance in building fiscal oversight capabilities. DCED has a signed MOU with LECS to provide financial monitoring to selected grantees. The monitoring guide also includes a fiscal monitoring section. DCED provided additional information to HHS on May 30, 2008 and is awaiting resolution of the finding.
06-56	Weaknesses in Contracting for Services Exist at Local Agencies	HHS	Unresolved – DCED reviewed and approved all grantees’ procurement procedures. A policy directive on minimum acceptable procurement and bidding requirements was also issued. This area will also be reviewed on monitoring visits. DCED provided additional information to HHS on May 30, 2008 and is awaiting resolution of the finding.
06-57	The Most Vulnerable and Needy Pennsylvanians Do Not Always Receive Priority and are Waiting up to Nine Years to Receive Weatherization Services	HHS	Unresolved – DCED developed a new prioritization point scoring system which agencies are currently utilizing instead of a “first in-first out” system. To address the backlog, DCED worked with DPW to increase funds for the program. DCED provided additional information to HHS on May 30, 2008 and is awaiting resolution of the finding.

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FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (Continued)</b>			
06-58	DCED Failed to Adequately Monitor Local Agencies	HHS	Unresolved – DCED disagreed with a part of this finding. However, DCED has developed a monitoring guide and is developing a semi-annual review/report of local agencies' monitoring results to identify trends and additional training needs. DCED provided additional information to HHS on May 30, 2008 and is awaiting resolution of the finding.
06-59	Weaknesses in Internal Controls Over Subgrantees Result in \$37,772 in Questioned Costs (Prior Year Finding #05-33)	HHS	Unresolved – DCED is currently addressing the need to improve and expand its grants monitoring activities and expects to implement a department-wide initiative effective July 1, 2008. DCED provided additional information to HHS on May 30, 2008 and is awaiting resolution of the finding.
06-60	Weaknesses in Internal Controls Over DCED On-Site Monitoring of Subgrantees	HHS	Unresolved – DCED has reinstated its monitoring tracking log that maintains records of monitoring dates, reports received, transmittal dates, response due dates, and the date of the final close-out letter. Any findings are also noted. DCED provided additional information to HHS on May 30, 2008 and is awaiting resolution of the finding.
<b>DEPARTMENT OF EDUCATION (PDE)</b>			
06-29	Internal Control Weaknesses in PDE Scheduling of On-Site Monitoring Visits to LEAs	USDE	Unresolved – Corrective action has been taken. PDE awaiting additional information from USDE.
06-30	Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #05-21)	USDE	Unresolved – Corrective action has been taken. PDE has provided additional information to USDE on August 29, 2007 and is awaiting a Program Determination Letter.
06-31	Inadequate Controls Over Ensuring LEA Compliance With MOE Requirements	USDE	Unresolved – Corrective action has been taken. PDE has provided additional information to USDE on August 29, 2007 and is awaiting a Program Determination Letter.
06-32	PDE Allocated VOC ED Funds to Subrecipients Based on Outdated Statistical Data (Prior Year Finding #05-23)	USDE	Unresolved – Corrective action has been taken. PDE has provided additional documentation to USDE on August 29, 2007 and is awaiting a Program Determination Letter.
06-33	Errors and Internal Control Weaknesses in PDE VOC ED Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (Prior Year Finding #05-22)	USDE	Unresolved – Corrective action has been taken. PDE is waiting for additional information from USDE.

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## Summary Schedule of Prior Audit Findings – June 30, 2007

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF EDUCATION (Continued)</b>			
06-37	Internal Control Weaknesses in the OMB Circular A-133 Subrecipient Audit Monitoring System	USDE	Unresolved – Corrective action has been taken. PDE is awaiting additional information from USDE.
06-38	Internal Control Weakness in PDE's Monitoring of Federal Earmarking Requirements	USDE	Unresolved – Corrective action has been taken. PDE is awaiting additional information from USDE.
06-39	Noncompliance Noted in PDE's Allocations of Reading First Subgrant Awards to LEAs	USDE	Unresolved – Corrective action has been taken. PDE is awaiting additional information from USDE.
06-41	Internal Control Weaknesses and Noncompliance With Earmarking Requirements Result in Questioned Costs of \$1,669,416	USDE	Unresolved – Corrective action has been taken. PDE is awaiting additional information from USDE.
<b>DEPARTMENT OF HEALTH (DOH)</b>			
06-19	Noncompliance and Weakness in Internal Controls Over DOH's Program Monitoring of WIC Local Agencies	USDA	Resolved – Resolved per USDA letter of March 7, 2008. DOH developed a monitoring tool which ensures program monitoring and corrective actions are reviewed by DOH management. Local agencies will be properly informed of results of reviews and reasonable documentation will be retained as support. DOH began using the monitoring tool in Spring 2007.
06-43	Noncompliance and Internal Control Weakness Regarding Semi-Annual Certifications for Personnel Costs (Prior Year Finding #05-26)	HHS	Unresolved – The DOH program office developed a monthly Personnel Activity Sheet to be completed by all DOH employees charged to the CDC PHEP Cooperative Agreement. The report is verified by the supervisor and then submitted to the DOH program office where it is reviewed to ensure all activities are preparedness related. This process was implemented in June 2007. DOH will pursue resolution of this finding with HHS/CDC.
06-44	Weaknesses in DOH Program Monitoring of CDC Subgrantees (Prior Year Finding #05-27)	HHS	Unresolved – An on-site assessment tool was developed to query subrecipients in the areas of prevention, detection/reporting, investigation, control, recovery and improvement. Beginning August 30, 2007, DOH program office staff visited each subrecipient and obtained answers and feedback per the assessment tool. A copy of each subrecipient's completed assessment tool, including supporting documentation, is filed with the DOH program office. DOH will pursue resolution of this finding with HHS/CDC.

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FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF HEALTH (Continued)</b>			
06-69	DOH Did Not Perform On-Site Monitoring of HIV Subgrantees	HHS	Unresolved – Per the corrective action plan previously submitted, the DOH program office was fully staffed as of December 2006. Subsequently, all seven site visits occurred as scheduled during the months of June and July 2007. Full staffing will enable the DOH program office to continue to perform on-site monitoring of all subgrantees in subsequent periods. DOH will pursue resolution of this finding with HHS.
<b>PENNSYLVANIA INSURANCE DEPARTMENT (PID)</b>			
06-67	Internal Control Weakness in PID Procedures to Ensure Actuarial Soundness of Monthly Premium Rates (Prior Year Finding #05-39)	HHS	Unresolved – HHS initial determination letter for this finding was received in April 2008. HHS/CMS will schedule a follow up visit to determine implementation of corrective actions. A similar finding in the prior year was resolved by HHS in October 2006.
06-68	PID Did Not Perform Adequate Monitoring of CHIP Subrecipient Insurance Providers (Prior Year Finding #05-38)	HHS	Unresolved – HHS initial determination letter for this finding was received in April 2008. HHS/CMS will schedule a follow up visit to determine implementation of corrective actions. A similar finding in the prior year was resolved by HHS in October 2006.
<b>DEPARTMENT OF LABOR AND INDUSTRY (L&amp;I)</b>			
06-23	Weaknesses Exist in the SAP FARS Replacement System Resulting in Questioned Costs of \$1,023,100 (Prior Year Finding #05-12)	DOL	Unresolved – The initial determination for this finding is currently in process.
06-24	Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (Prior Year Finding #05-15)	DOL	Unresolved – The initial determination for this finding is currently in process.
06-25	Unallowable Benefit Payments Result in Questioned Costs of \$638 (Prior Year Finding #05-16)	DOL	Unresolved – The initial determination for this finding is currently in process.
06-34	A Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #05-25)	USDE	Unresolved – A review of the information for this finding is in process at this time.
06-35	Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs	USDE	Unresolved – A review of this information for this finding is in process at this time.

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FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF LABOR AND INDUSTRY (Continued)</b>			
06-36	Internal Control Weakness Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA Results in \$64,177 in Unsupported Program Income	USDE	Unresolved – A review of this information for this finding is in process at this time.
<b>DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)</b>			
06-20	Noncompliance and Weakness in Internal Control Over Charging of Personnel Costs	DOD	Unresolved – DMVA submitted a detailed corrective action plan to the U.S. Property and Fiscal Officer for Pennsylvania on September 13, 2007. DMVA is awaiting resolution by DOD.
<b>PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)</b>			
06-22	Internal Control Weaknesses and Noncompliance in PEMA’s Subrecipient Monitoring (Prior Year Finding #05-11)	DHS	<p>Unresolved – PEMA is mapping the entire DHS grant program which will determine the grant flow process and identify gaps. PEMA will then develop a gap closure plan. The final process will include the following:</p> <ul style="list-style-type: none"> <li>• Individual(s) responsible for performing and coordinating monitoring activities.</li> <li>• Written guidance or procedures for performing monitoring activities.</li> <li>• Written plan or schedule for monitoring.</li> <li>• Documented quantifiable goals or criteria to determine the effectiveness of each grant specific to each grant year.</li> <li>• Subrecipient monitoring or financial or programmatic performance of effectiveness.</li> </ul> <p>The final process map will include list of reports due dates, who is responsible, and the task forces’ responsibility in this reporting. It is anticipated that the mapping process will reduce the time frame associated with the grant signature processes and facilitate the timely expenditure of grant funds. The scheduled completion date of the mapping is May 1, 2008. There is an interim reorganization taking place and personnel will be added to fill the gaps identified in the mapping process. Following the completion of the mapping process, PEMA plans on implementing an e-Grant system.</p>

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FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (Continued)</b>			
06-71	Internal Control Weaknesses in PEMA's System of Cash Management and Federal Reporting (Prior Year Finding #05-19)	DHS	Unresolved – PEMA will not advance funds on large projects. As large projects are worked on and applicant submits actual costs for reimbursement, PEMA will determine eligibility and then costs will be paid. PEMA has not yet received a response from DHS on this finding.
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>			
06-18	Internal Control Weaknesses at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #05-2)	HHS	Unresolved – DPW is in the process of preparing a response to HHS's initial determination letter of April 4, 2008.
06-45	DPW Did Not Specify CFDA Number and Other Required Award Information in Subrecipient Award Documents, Resulting in Noncompliance with OMB Circular A-133	HHS	Unresolved – DPW is in the process of preparing a response to HHS's initial determination letter of April 4, 2008.
06-46	Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (Prior Year Finding #05-28)	HHS	Unresolved – DPW is in the process of preparing a response to HHS's initial determination letter of April 4, 2008.
06-47	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #05-29)	HHS	Unresolved – DPW is in the process of preparing a response to HHS's initial determination letter of April 4, 2008.
06-48	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs of at Least \$28,252 (Prior Year #05-30)	HHS	Unresolved – DPW is in the process of preparing a response to HHS's initial determination letter of April 4, 2008. For child care voucher transmittals processed on or after October 1, 2005, an audit trail has been established that shows how individual child care payments are charged to CCDF and TANF on SAP and roll-up into the SEFA.
06-49	Systemic Weaknesses Exist in LIHEAP That Resulted in Potential Fraud and Abuse and Questioned Costs	HHS	Unresolved – DPW is in the process of preparing a response to HHS's initial determination letter of April 4, 2008.
06-50	Control Weaknesses Found in Administering LIHEAP Cash Benefits Result in Questioned Costs	HHS	Unresolved – DPW is in the process of preparing a response to HHS's initial determination letter of April 4, 2008.
06-51	Control Weaknesses Found in Administering LIHEAP Crisis Benefits Result in Questioned Costs	HHS	Unresolved – DPW is in the process of preparing a response to HHS's initial determination letter of April 4, 2008.

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## Summary Schedule of Prior Audit Findings – June 30, 2007

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF PUBLIC WELFARE (Continued)</b>			
06-52	DPW Failed to Adequately Monitor the Processing of LIHEAP Applications	HHS	Unresolved – DPW is in the process of preparing a response to HHS’s initial determination letter of April 4, 2008.
06-61	Internal Control Weaknesses and Inadequate Support for Federal Earmarking Requirements Result in Questioned Costs of \$3,135,166 (Prior Year Finding #05-35)	HHS	Unresolved – DPW is in the process of preparing a response to HHS’s initial determination letter of April 4, 2008.
06-62	Weaknesses in DPW Program Monitoring of Subgrantees (Prior Year Finding #05-34)	HHS	Unresolved – DPW is in the process of preparing a response to HHS’s initial determination letter of April 4, 2008.
06-63	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #05-36)	HHS	Unresolved – DPW is in the process of preparing a response to HHS’s initial determination letter of April 4, 2008. PHHS has met with the Office of Children, Youth and Families (OCYF) to address system requirements connected with OCYF’s development of a system, which requires the submission of electronic foster care invoices. System processes are being developed that will identify any duplicate claims between the initial and supplemental invoices. The system is expected to be in operation beginning July 1, 2008.
06-64	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)	HHS	Unresolved – DPW is in the process of preparing a response to HHS’s initial determination letter of April 4, 2008.
06-66	Lack of Documentation and Internal Control Weaknesses in DPW’s Youth Development Centers Result in Unknown Questioned Costs Up To \$10 Million	HHS	Unresolved – DPW is in the process of preparing a response to HHS’s initial determination letter of April 4, 2008. PHHS implemented a process to examine supporting documentation for charges to the Social Services Block Grant (SSBG) for costs incurred at DPW’s YDC’s to ensure that charges to the SSBG are properly supported.
06-70	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)	HHS	Unresolved – DPW is in the process of preparing a response to HHS’s initial determination letter of April 4, 2008. In March 2008, PHHS auditors began a series of on-site pharmacy engagements in two of eight regions to examine SPBP/ADAP claims to determine compliance with program requirements. Within these regions, PHHS is in the process of examining SPBP/ADAP claims for the period April 1, 2006 to March 31, 2007. The first PHHS report on claims examined was issued on May 15, 2008.

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FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF PUBLIC WELFARE (Continued)</b>			
06-72	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)	HHS	Unresolved – DPW is in the process of preparing a response to HHS’s initial determination letter of April 4, 2008.
<b>DEPARTMENT OF STATE (DOS)</b>			
06-42	DOS Did Not Perform Adequate Monitoring of Subrecipients	EAC	Resolved – Resolved per U. S. Election Assistance Commission letter of August 17, 2007.
<b>DEPARTMENT OF TRANSPORTATION (PADOT)</b>			
06-27	Duplicate Vendor Payment Results in Questioned Costs of \$176,617	DOT	Resolved – Closed per FHWA letter of May 7, 2008. On October 27, 2006, the Comptroller’s Office made a \$176,617 reimbursement to the FHWA. The amount was repaid by the vendor to PADOT.
06-28	Noncompliance With OMB Circular A-87 Cost Principles Results in \$392,536 in Questioned Costs	DOT	Resolved – Closed per FHWA letter of March 19, 2008. Questioned costs of \$4,107 were repaid, the remainder was allowable.
<b><u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2005:</u></b>			
<b>OFFICE OF THE BUDGET (OB)</b>			
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. However, LECS is continuing to do a supervisory review of the SF-269.
05-6	Internal Control Weakness Over Expenditure Information Reported by PHHS Comptroller on the SEFA and Statewide Subrecipient Payment Records	USDA	Unresolved – PHHS Federal Accounting staff reviewed GL account 6600500 and made the necessary SEFA adjustments. Staff now review this GL account monthly to ensure that the accounting records are properly reflected. For the deferrals and disallowances disclosure, the staff included a footnote to the 6/30/06 SEFA for the activity that occurred during that year.
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.
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.
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.

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FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF AGRICULTURE (AGRI)</b>			
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	Resolved – Closed per USDA/FNS letter of February 12, 2008. Questioned costs of \$3,651 were returned to recipient agencies.
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)</b>			
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.
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.
<b>DEPARTMENT OF EDUCATION (PDE)</b>			
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.
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.
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 on April 14, 2006 and is awaiting a Program Determination Letter.
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 on April 14, 2006 and is awaiting a Program Determination Letter.
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.

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FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF ENVIRONMENTAL PROTECTION (DEP)</b>			
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.
<b>DEPARTMENT OF HEALTH (DOH)</b>			
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	Resolved – Closed per USDA/FNS letter of November 26, 2007. Questioned costs were waived.
05-43	An Internal Control Weakness Exists in DOH's Subrecipient Audit Resolution Process	HHS	Unresolved – As of May 30, 2007, DOH had one unresolved subrecipient single audit report. This report had questioned costs requiring resolution from two DOH program offices. Both DOH program offices resolved their portion of the questioned costs with the subrecipient as of August 23, 2007. Awaiting resolution action by HHS.
<b>DEPARTMENT OF LABOR AND INDUSTRY (L&amp;I)</b>			
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 has determined the associated questioned costs have been allowed.
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.
05-44	An Internal Control Weakness Exists in L&I's Subrecipient Audit Resolution Process	HHS	Unresolved – Additional documentation to support defense of the finding is currently being reviewed by HHS.
<b>PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)</b>			
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 received documentation for the questioned costs of \$2,625 and the expenditure is allowable under the grant program. Equipment is now being purchased by DGS personnel at PEMA and not the task forces. Equipment requests are reviewed by DGS personnel as to meeting eligibility requirements. See additional comments under Finding 06-22. PEMA is awaiting final resolution action by DHS.

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FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (Continued)</b>			
05-19	Internal Control Weaknesses in PEMA's System of Cash Management	DHS	Unresolved – PEMA will not advance funds on large projects. As large projects are worked on and applicant submits actual costs for reimbursement, PEMA will determine eligibility and then costs will be paid. PEMA has not yet received a response from DHS on this finding.
<b>PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY (PENNVEST)</b>			
05-17	Internal Control Improvements Needed in Subrecipient Loan Monitoring System (Prior Year Finding #04-13)	EPA	Resolved – Resolved per guidance issued by EPA in August 2007 clarifying monitoring responsibilities for subrecipients under the loan programs.
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>			
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.
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 on July 6, 2006, and ACF will take action based on the results of the report. Awaiting federal audit resolution action.
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 review 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.
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. 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.

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## Summary Schedule of Prior Audit Findings – June 30, 2007

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF PUBLIC WELFARE (Continued)</b>			
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.
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.
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 FFY 2005 on May 21-23, 2007. Results of the review will ultimately determine the extent of questioned costs, if any.
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.
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.
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.
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.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2007

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>FINDINGS FOR THE YEAR ENDED JUNE 30, 2004:</b>			
<b>OFFICE OF THE BUDGET (OB)</b>			
04-14	Weaknesses in PPR Comptroller Office Internal Controls Over Federal Reporting	FEMA (DHS)	Closed – Corrective action has been taken. This finding is closed per OMB Circular A-133, section 315 (b)(4). More than two years have passed since the finding was issued, DHS is not currently following up on this finding, and a management decision was never issued.
04-15	Internal Control Weakness Over the Reconciliation of USDE’s Grant Administration and Payment System (EDGAPS) to Revenue on SAP System	USDE	Closed – 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 no management decision was issued.
04-26	LECS Comptroller Office Did Not Submit Required Federal Reports Within the CSBG Program	HHS	Closed – Closed per OMB Circular A-133, section 315 (b)(4). More than two years have passed since the finding was issued, HHS is not currently following up on this finding, and no management decision was issued.
04-37	Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least \$624,042 Under-statement of the CMIA Interest Liability (Prior Year Findings #03-29 and #03-30)	HHS	Closed – Corrective action has been taken. Closed per OMB Circular A-133, section 315 (b)(4). More than two years have passed since the finding was issued, HHS is not currently following up on the finding, and no management decision was issued.
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)</b>			
04-6	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #03-5)	HUD	Resolved – DCED has hired replacement staff and increased its complement by two positions. By letter of July 12, 2007, HUD accepted DCED’s response to monitor HOME grantees on a three year cycle with annual review of other financial information.
<b>DEPARTMENT OF EDUCATION (PDE)</b>			
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.
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.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2007

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF EDUCATION (Continued)</b>			
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.
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 provided additional documentation as requested in a letter dated October 3, 2005 from USDE and is awaiting a Program Determination Letter.
04-20	PDE Allocated VOC-ED Funds to Subrecipients Based on Outdated Statistical Data	USDE	Unresolved – Corrective action has been taken. PDE 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>			
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	Resolved – Closed per USDA/FNS letter of April 10, 2007. Questioned costs were determined to be allowable.
<b>DEPARTMENT OF LABOR &amp; INDUSTRY (L&amp;I)</b>			
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.
04-21	A Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #03-17)	USDE	Closed – 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 not issued.
04-22	Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs (Prior Year Finding #03-18)	USDE	Closed – 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 not issued.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2007

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>			
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 on July 6, 2006, and ACF will take action based on the results of the report. Awaiting federal audit resolution action.
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 review documentation related to recipient participation data in the ACF-199 to determine status of compliance. ACF will examine a sample of 100 cases, and then 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.
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 FFY 2005 on May 21-23, 2007. Results of the review will ultimately determine the extent of questioned costs, if any.
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.
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.
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.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2007

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>FINDINGS FOR THE YEAR ENDED JUNE 30, 2003:</b>			
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)</b>			
03-5	DCED Did Not Perform Adequate Monitoring of Community Housing Development Organization Operating Grants (Prior Year Finding #02-7)	HUD	Closed – This finding is closed per OMB Circular A-133, section 315 (b)(4). More than two years have passed since the finding was issued and HUD is not currently following up on this finding.
03-26	An Internal Control Weakness Exists in DCED's Subrecipient Audit Resolution Process	HUD	Closed – This finding is closed per OMB Circular A-133, section 315 (b)(4). More than two years have passed since the finding was issued and HUD is not currently following up on this finding.
<b>DEPARTMENT OF HEALTH (DOH)</b>			
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	Resolved – Closed per USDA/ FNS letter of June 29, 2006. Questioned costs were determined to be allowable.
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>			
03-20	Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (Prior Year Finding #02-23)	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 on July 6, 2006, and ACF will take action based on the results of the report. Awaiting federal audit resolution action.
03-21	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #02-24)	HHS	Unresolved – Per correspondence of January 10, 2007, ACF will review documentation related to recipient participation data in the ACF-199 to determine status of compliance. ACF will examine a sample of 100 cases, and then 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.
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	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 FFY 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, 2007

<b>FINDING NO.</b>	<b>STATE AGENCY / FINDING</b>	<b>FEDERAL AGENCY</b>	<b>COMMENTS</b>
<b><u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2002:</u></b>			
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>			
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 on July 6, 2006, and ACF action will be taken based upon the results of the report. Awaiting federal audit resolution.
02-24	Inaccurate Reporting on the TANF ACF-199 Report (Prior Year Finding #01-14)	HHS	Unresolved – Per correspondence of January 10, 2007, ACF will review 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.
<b><u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2001:</u></b>			
<b>OFFICE OF BUDGET (OB)</b>			
01-9	PEMA Did Not Properly Report Federal Expenditures on the SEFA	FEMA	Closed – The necessary adjustments to correct the SEFA have been made. This finding is closed per OMB Circular A-133, section 315 (b)(4). More than two years have passed since the finding was issued and DHS/FEMA is not currently following up on this finding.
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>			
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 review 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.

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# Corrective Action Plans



Commonwealth of Pennsylvania

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Corrective Action Plans - Financial Statement Findings - June 30, 2007***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>07-1</b>	<b>L&amp;I/SWIF</b>	<b>Noncompliance With Statutory Limits for Equity Investments</b>  The State Worker's Insurance Fund (SWIF) investment consultant has prepared a rebalancing proposal to be presented for consideration at the next SWIF board meeting to be held mid-May 2008. As indicated before within our response, this proposal will attempt to realign the investment portfolio in accordance with compliance of Act 41 of 2005 while ensuring that SWIF does not incur a material loss of investment income.
<b>07-2</b>	<b>LECS</b>	<b>Internal Control Weakness Over Financial Reporting in the Unemployment Compensation Fund (Prior Year Finding #06-3)</b>  LECS has been informed by the Unemployment Compensation Modernization System (UCMS) Team Lead that the interest and penalty amounts will be accessible from the new system.
<b>07-3</b>	<b>PHHS</b>	<b>Inaccurate Financial Reporting of DPW Other Reserves in the Fund Financial Statements</b>  PHHS agrees with the change in accounting treatment of IGT funds from reporting as unreserved/undesignated to reporting the June 30, 2007 balance of \$217 million as a funds reservation on the Commonwealth's year end financial statement balance sheet. PHHS will continue application of this accounting treatment through the final year of IGT activity. The IGT funding stream expires after the Commonwealth's 2008-09 fiscal year.  PHHS evaluated the feasibility of using a restricted revenue ledger to account for IGT funding as recommended in this finding. Because IGT funding is expiring after fiscal year 2008-09, we believe a fiscal year end GAAP accounting adjustment designating the IGT reserve is the most efficient methodology of implementing the recommendation for the remaining IGT years. PHHS has incorporated this adjustment as a step in its GAAP preparation process.
<b>07-4</b>	<b>OB/BFM TRANS PADOT</b>	<b>Lack of Procedures to Monitor, Assess, and Report the Impact of Highway and Bridge Infrastructure Replacement Activity in the BFS</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>07-5</b>	<b>PADOT</b>	<b>Internal Control Deficiency Over Lottery Fund Transportation Programs</b>  The Bureau of Public Transportation has a contract in place with Gannett Fleming to provide independent assistance to conduct on-site visits to both the Port Authority of Allegheny County and the Southeastern Pennsylvania Transportation Authority. These site visits will verify the accuracy of reported ridership data received by the Bureau of Public Transportation from both transit agencies. It is expected that the site visits and the evaluation of those site visits will be completed by December 31, 2008.
<b>07-6</b>	<b>TRANS CS</b>	<b>Internal Control Weaknesses Over Financial Reporting for the Lottery Fund (Prior Year Finding #06-1)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Corrective Action Plans - Financial Statement Findings - June 30, 2007***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>07-7</b>	<b>OB/BFM</b>	<b>Internal Control Weakness Over GAAP Entries to Account for Payroll Benefit Transfers</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>07-8</b>	<b>OB/BFM</b>	<b>Weakness in Internal Controls in COPA Fund Reconciliations of SAP Balances to Treasury</b>  In October 2007, BFM implemented steps that will ensure that all COPA funds are included in the monthly reconciliation process. At the close of each month the following additional steps have been added to the process: <ul style="list-style-type: none"><li>▪ The person in charge of comparing cash and short-term investment balances between Treasury and SAP has been reviewing the count of Treasury of COPA funds each month and comparing that to the count of COPA funds in SAP. Discrepancies have been evaluated and resolved.</li><li>▪ The person in charge of comparing cash and short-term investment balances between Treasury and SAP has requested and obtained each month a list of new COPA funds established during the most recently closed month. New COPA funds have been included in the reconciliation process.</li><li>▪ These control procedures have been reviewed by the supervisor each month.</li></ul>
<b>07-9</b>	<b>CS</b>	<b>Taxes Payable and Receivable Adjustments Are Not Properly Reviewed</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>07-10</b>	<b>DOR</b>	<b>Internal Control Weaknesses Identified in Processing Gaming Tax Revenue</b>  <b>Finding:</b> The Department of Revenue (DOR) only relied on its outside vendor G-Tech to determine gross terminal revenue for each active casino without reconciling this information to an independent source on a regular basis.  <b>Corrective Action:</b> The DOR's manual supplied to all venues prior to opening requires each venue to submit reports from their in-house system. "The licensed gaming entities will be required to submit, as an attachment to electronic mail, daily receipt and payout information by game from their accounting systems."  The first casino opened sent reports beginning November 14, 2006. After numerous attempts, the second venue began sending reports April 1, 2007. DOR personnel reviewed and compared the venue reports to the G-Tech reports. The DOR, after multiple requests from the remaining venues, contacted the Gaming Control Board and with its assistance, all venues began supplying daily reports beginning July 1, 2007. DOR personnel review these reports and compare them to the G-Tech system on a routine basis. The reports are reviewed on a machine-by-machine basis and any major discrepancies are resolved.  <b>Finding:</b> DOR established a policy to conduct on-site visits at each casino once every six months to audit and verify that casinos are reporting and submitting accurate gaming tax revenue. DOR is also doing four unannounced checks to verify slot machines are in communication with the CCS and reporting properly. Although five casinos were open and operating by our year end of June 30, 2007, only one casino audit was conducted.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Corrective Action Plans - Financial Statement Findings - June 30, 2007***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>07-10</b> <b>(continued)</b>		<p><b>Corrective Action Plan:</b> There are currently seven venues opened in Pennsylvania. DOR has conducted the first five audits and has scheduled the last two for May and July of 2008. The second audit is planned as an unannounced audit. Four of those audits are on the audit schedule. DOR has also committed to perform four additional random audits for connectivity to the CCS. Three of those audits were performed in March 2008.</p> <p><b>Finding:</b> According to the Independent Service Auditor's Report for G-Tech for the period November 1, 2006 to June 30, 2007, software support personnel with development responsibilities have access to the production environment to troubleshoot problems in emergency situations. Detective controls are not in place to determine if unauthorized changes are made to the production environment while emergency access is granted to developers. This deficiency results in the control not being suitable designed to provide reasonable assurance that new systems and changes to existing systems are authorized, tested, approved and implemented in a controlled environment.</p> <p><b>Corrective Action Plan:</b> This finding was addressed by G-Tech with the implementation of the Checksum Verification Process and the PA Video Remote Access procedure. The Checksum process is used to verify the system file structure and to ensure no changes have been made to the environment without proper approval. Once a scheduled release is performed, new target checksum and reference checksum files are created as the base for the verification. The verify checksum script will run and compare the reference checksum to the current checksum. As long as no changes have been made, the checksums will match. This process will be performed after each system release, after developers have been granted access to the system and on a monthly basis. The verification is performed on each system (primary, backup and off-site) separately. The PA Video Remote Access procedure was created to ensure that all users accessing the PA Video Environment are aware of the operating procedures necessary to guarantee that only authorized personnel can access the environment. All changes to the system must have DOR sign off before the changes are made.</p>
<b>07-11</b>	<b>OB OA</b>	<p><b>Lack of Documentation to Support Contracting and Procurement (Prior Year Finding #06-5)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
<b>07-12</b>	<b>OB/BFM</b>	<p><b>Internal Control Weakness in the Financial Accounting Records (Prior Year Finding #06-13)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
<b>07-13</b>	<b>LECS</b>	<p><b>Weakness in BFS Reporting of DCED Encumbrances by LECS Comptroller Office</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
<b>07-14</b>	<b>TREAS</b>	<p><b>Material Weakness Over Escheat Liability Estimation Methodology (Prior Year Finding #06-7)</b></p> <p>The Comptroller's Office will use care to compute the property available to be claimed prior to applying the payment factor. Current trends affecting the claims experience will be documented and considered in the analysis. Finally, the Comptroller's Office will strengthen internal controls by requiring management review of the abandoned and unclaimed property liability prior to reporting the information in the financial statements.</p>

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Corrective Action Plans - Financial Statement Findings - June 30, 2007***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>07-15</b>	<b>EO DGS</b>	<b>For the Third Year, Internal Control Weaknesses Exist Over Accounting for Assets Under Construction (Prior Year Finding #06-6)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>07-16</b>	<b>TREAS</b>	<b>Errors and Internal Control Weakness in Reporting Securities Lending Amounts (Prior Year Finding #06-12)</b>  The Comptroller's Office will strengthen internal controls by standardizing the reporting. To accomplish this we will document procedures required to compile Securities Lending assets and liabilities. Documentation will include the participation in and allocation of the GSL Euro Securities Lending Pool. Finally, the Comptroller's Office will include an additional review for reasonableness.
<b>07-17</b>	<b>PHHS</b>	<b>Internal Control Weaknesses Over Financial Reporting in the Department of Public Welfare GAAP Template</b>  PHHS concurs with this finding. PHHS has modified its GAAP template preparation process to ensure that, in the future, accrued refunds are properly accounted for in the GAAP templates. Regarding program office estimates, PHHS will continue to request that the agencies provide estimates using reasonable and measurable estimation methodologies. PHHS will perform validation of estimates before finalizing GAAP entries.
<b>07-18</b>	<b>LECS</b>	<b>Internal Control Weaknesses Over Financial Reporting in the Labor and Industry GAAP Template</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>07-19</b>	<b>PPR</b>	<b>Internal Control Weaknesses Over Financial Reporting in DCNR's General Fund GAAP Template</b>  As indicated in our agency response, this finding was the result of a clerical error. Federal disaster assistance revenue from PEMA to DCNR was inadvertently deposited to the incorrect collected-in-advance revenue code for the deferred revenue. The error resulted in an audit adjustment. The revenue has been transferred to the to the proper revenue code for collected-in-advance.  In addition, our office has implemented procedures for our Federal Accounting Division to monitor and review any federal revenue deposited to collected-in-advance for PPR agencies to ensure the proper reporting on the GAAP templates.
<b>07-20</b>	<b>DGS/BRIM</b>	<b>Internal Control Weakness in Reporting Self-Insurance Liability in the BFS (Prior Year Finding #06-15)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>07-21</b>	<b>OA/IES OB/BFM</b>	<b>Statewide Weaknesses Within the SAP Accounting System Related to Segregation of Duties Conflicts (Prior Year Finding #06-16)</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 and Questioned Costs - June 30, 2007***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
07-22	DPW	<p><b>Internal Control Deficiencies at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #06-18)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
07-23	DPW	<p><b>Internal Control Weaknesses at DPW Related to Returned EBT Cards</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
07-24	DOH	<p><b>Noncompliance and Internal Control Weaknesses Related to Compliance Investigations at WIC Vendors, Food Instrument Redemption and Follow-Up Results in Likely Questioned Costs Over \$10,000</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
07-25	DMVA	<p><b>Noncompliance and Deficiencies in Internal Control Over Charging of Personnel Costs (Prior Year Finding #06-20)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
07-26	DCED	<p><b>Noncompliance and Internal Control Deficiencies Over Federal Reporting</b></p> <p>The 2007 PER covering the FY 2006 program will reflect the use of the IDIS PR35 report for the "Amount Drawn Down." DCED intends to discuss with the auditor which is the best IDIS report to use for the PER. In the future, the establishment of an internal tracking report will be able to provide this information for a more accurate report of funds obligated and funds spent in any given year. The report will be reviewed and approved prior to submission in subsequent years by appropriate supervisors.</p> <p>In regard to the Section 3 Summary report (HUD 60002), DCED is aware that the report is required and submitted the report late. DCED updated its Section 3 Plan and Program Guide and is in the process of conducting training with grantees so that the information for this report is accurate for the upcoming reporting period. DCED fully expects the future reports will be prepared in a timely manner.</p>
07-27	DCED	<p><b>DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #06-21)</b></p> <p>As stated in the agency response, monitoring of grantees and closing out completed projects will be priority tasks in the 2007–2008 reporting period. All staff will be advised of the expectation to complete the monitoring list. In addition, all staff will be advised that the performance review report is to be completed and forwarded to the grantee within 60 days of the monitoring visit. All checklists will be completed in the future even if a segment of the report is not applicable, it will be noted on the checklist.</p> <p>As for the closeout of the HOME and CDBG grants, each staff will continue to work on closing out at least 15 HOME grants this coming report period as well as 25 CDBG grant contracts. We believe that this will be an adequate number this reporting period. The Division Chief will periodically review each grant manager's progress and provide any necessary guidance to keep on track with the monitoring goals.</p>

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2007***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
07-27 (continued)		In addition, this office is working with the Information Technology Office to develop an electronic tracking system. Once this system is in place, the tracking system should be a tool that can be used by the Division Chief as well as each grant manager to monitor the work load and help effectively manage their work progress.
07-28	PEMA	<b>Unallowable Equipment Purchases and Cash Payments Result in Questioned Costs of \$9,678 and Internal Control Deficiencies and Noncompliance in PEMA's Subrecipient Monitoring (Prior Year Finding #06-22)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-29	PEMA	<b>Noncompliance and Internal Control Deficiency Over Period of Availability Requirements Result in Questioned Costs of \$1,632,447</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-30	L&I	<b>Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (Prior Year Finding #06-24)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-31	PPR	<b>Weaknesses in the Calculation of CWSRF and DWSRF Outstanding Federal Loans Receivable Balances Reported in the Footnotes to the SEFA</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-32	DEP	<b>Internal Control Weakness in State Matching Procedures at DEP for DWSRF</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-33	PDE	<b>Inadequate Controls Over Ensuring LEA Compliance With MOE Requirements (Prior Year Finding #06-31)</b>  <b>Specific Steps to be Taken and Timetable:</b> The Pennsylvania Department of Education, Bureau of Teaching and Learning Support, Division of Federal Programs (DFP) has revised the written procedures for carrying out the MOE requirements. These changes include: <ol style="list-style-type: none"><li>1. Reassignment of responsibilities to improve management oversight of the MOE process;</li><li>2. Moving the timeline for the process up by six (6) months to ensure adequate time within the FY to complete and correct any areas of non-compliance;</li><li>3. Developing letters that will be sent to ALL LEAs upon completion of MOE calculations to inform them of their status with MOE—both compliance and non-compliance letters. This will provide LEAs annual MOE status which will assist the monitoring of expenditures and deter future MOE findings. This will also provide a formal notification to those out of compliance along with documenting guidance and instruction.</li></ol> The new procedures will go into effect when DFP begins the MOE calculations review for the 2007/2008 school year (comparison of 2006/2007 and 2005/2006 AFR data). The 2008/2009 allocations will reflect reductions of LEAs out of compliance.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2007***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>07-33</b> <b>(continued)</b>		<p><b>Description of Monitoring:</b> The DFP will continue to work with LEAs to rectify MOE situations, with the priority that no funds are returned unless MOE requirements have been violated. The DFP staff will ensure that all non-compliance issues with LEAs are resolved by the end of each fiscal year.</p> <p><b>Title of Officials Responsible for Corrective Action:</b> Fiscal Manager, Division of Federal Programs Clerk Typist 3, Division of Federal Programs</p> <p><b>Anticipated Completion Date for Corrective Action:</b> Corrective actions will begin with the 2007/2008 MOE calculations which will be completed in August/September 2008 (whenever AFR data becomes available).</p>
<b>07-34</b>	<b>PDE</b>	<p><b>Inadequate Controls Over PDE's Consolidated State Performance Report (Prior Year Finding #06-30)</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> The Pennsylvania Department of Education (PDE), Bureau of Teaching and Learning Support, Division of Federal Programs (DFP) is responsible for the gathering of data from various offices within PDE for reporting within the Consolidated State Performance Report (CSPR). All offices providing data are responsible for the verification of the data they collect and supply for inclusion in the CSPR.</p> <p>During the next CSPR collection period, Fall 2008, the DFP will add a statement to its electronic notifications to PDE staff that specifically states that each office must validate and verify the data they provide.</p> <p>The Bureau of Assessment and Accountability, Division of Performance Analysis and Accountability began documenting the validation procedures and processes run beginning with the 2006/2007 data.</p> <p><b>Description of Monitoring:</b> The DFP will include the new statement in electronic communications that clarifies the need for data verifications.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Regional Coordinator, Division of Federal Programs Chief, Division of Federal Programs Chief, Division of Performance Analysis and Accountability</p> <p><b>Anticipated Completion Date for Corrective Action:</b> Fall 2008</p>
<b>07-35</b>	<b>PDE</b>	<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 #06-33)</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> As of July 2007, the Pennsylvania Department of Education (PDE) has established a Data Quality Committee which meets quarterly and includes the three bureaus involved in compiling data for the Comprehensive Annual Report (CAR). The committee's first meeting was held July 2007.</p>

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2007***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>07-35</b> <b>(continued)</b>		<p>The quarterly meetings schedule is as follows:</p> <ul style="list-style-type: none"><li>• October and December 2007</li><li>• Final review (last week in December 2007)</li><li>• January, March, June, and September 2008</li><li>• November 2008 (ensure data analysis is on time)</li><li>• December 2008</li><li>• Final review (last week in December 2008)</li></ul> <p>In addition to the quarterly data meetings, all three bureaus have been meeting to ensure the new data collection system is operating in a manner that ensures valid, reliable and accurate data.</p> <p>Each of the previous audit findings have been reviewed and addressed in regard to data collection and validation during these meetings. Systems have changed to address the previous specific data errors. Agenda items will now ensure review of Final Agreed Upon Performance Levels (FAUPL) definitions and CAR definitions.</p> <p>The PDE continues to address the issues with data collection and data verification. As the PDE continues to update and negotiate with USDE the definitions of the CAR sub-indicators, the data collection methods change and the review process changes to ensure valid, reliable and accurate data are collected. The PDE consistently reviews its internal control procedures and includes a means of meaningfully documenting improvements to the system.</p> <p>As of November 2007, the PDE no longer approves tests other than National Occupational Competency Testing Institute (NOCTI) and National Institute of Metal Working Skills (NIMS). Both assessment providers submit data to the PDE, which will be correlated to the PA Information Management System (PIMS) individual student data collection system. Penn State University (PSU) and the PDE prepare the same report and compare data to identify any possible discrepancies in data.</p> <p>As of June 2008, the PDE resubmitted corrected CAR data to USDE.</p> <p><b>Description of Monitoring:</b> Research Associate II will prepare agendas for quarterly Data Quality Committee meetings to include current data audit finding. The continued review of past data audit findings will remain on the agenda. The manager will review the CAR data and coordinate with the other bureaus to ensure all processes and definitions align.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Division Manager, Bureau of Career and Technical Education-Data Analysis, Assessment &amp; Contracts</p> <p><b>Anticipated Completion Date for Corrective Action:</b> June 2008</p>
<b>07-36</b>	<b>L&amp;I</b>	<p><b>A Weakness Exists in L&amp;I's Procurement System Related to Debarment and Suspension (Prior Year Finding #06-34)</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 - Federal Award Findings and Questioned Costs - June 30, 2007***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
07-37	L&I	<p><b>Unallowable Payment to a Vendor Results in Questioned Costs of \$146 and Likely Questioned Costs Over \$10,000</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
07-38	L&I	<p><b>Internal Control Weakness Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA Results in \$22,268 in Unsupported Program Income (Prior Year Finding #06-36)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
07-39	L&I	<p><b>Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs (Prior Year Finding #06-35)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
07-40	PDE	<p><b>Internal Control Weakness in PDE's Monitoring of Federal Earmarking Requirements (Prior Year Finding #06-38)</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> By July 31, 2007, the Pennsylvania Department of Education (PDE), Bureau of Community and Student Services established an account earmarking the state administrative costs (2%) and the state activities costs (3%) to monitor and track these funds separately, in accordance with Federal Regulation, Title 20, Section 7172.</p> <p><b>Description of Monitoring:</b> By Fall 2007, PDE established procedures to track and account for state administrative costs separately from state activity costs. This action will assure that PDE is in compliance with Federal earmarking requirements of the 21<sup>st</sup> Century Community Learning Centers grant program.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Administrative Assistant</p> <p><b>Anticipated Completion Date for Corrective Action:</b> Completed, Fall of 2007</p>
07-41	LECS	<p><b>Noncompliance and Internal Control Weakness in LECS Comptroller Office System of Cash Management (Prior Year Finding #06-40)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
07-42	PDE	<p><b>Internal Control Weaknesses and Noncompliance With Earmarking Requirements Result in Questioned Costs of \$213,734 (Prior Year Finding #06-41)</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> All corrective actions required to properly earmark Reading First funds were taken as a result of last year's audit finding. Due to the timing of the 2006/2007 Single Audit review, the corrective action will not be apparent until the subsequent audit review.</p> <p><b>Description of Monitoring:</b> Each year, when Reading First funds are received, the Program Director, the Fiscal Manager and the Division Chief will ensure that funds are properly earmarked and aligned to the requirements of the legislation.</p>

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2007***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
07-42 (continued)		<p><b>Title of Officials Responsible for Corrective Action:</b> Reading First Director, Division of Federal Programs Fiscal Manager, Division of Federal Programs Chief, Division of Federal Programs</p> <p><b>Anticipated Completion Date for Corrective Action:</b> Completed</p>
07-43	PDE	<p><b>Noncompliance Noted in PDE's Allocations of Reading First Subgrant Awards to LEAs (Prior Year Finding #06-39)</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> As stated in the Pennsylvania Department of Education's (PDE's) response to this finding, we do not believe that Reading First subgrant awards were allocated incorrectly or outside of the approved grant application. Therefore, PDE does not believe any corrective action is necessary.</p>
07-44	DOS	<p><b>DOS Did Not Perform Adequate Monitoring of Subrecipients (Prior Year Finding #06-42)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
07-45	DOH	<p><b>Noncompliance and Internal Control Weaknesses in Charging Personnel Costs (Prior Year Finding #06-43)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
07-46	DOH	<p><b>Weaknesses in DOH Program Monitoring of CDC Subgrantees (Prior Year Finding #06-44)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
07-47	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 (Prior Year Finding #06-45)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
07-48	DPW	<p><b>Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #06-47)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
07-49	DPW	<p><b>Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs of at Least \$20,617 (Prior Year Finding #06-48)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
07-50	DCED	<p><b>Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of LIHEAP Weatherization Subrecipients (Prior Year Findings #06-53 through #06-58)</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 - Federal Award Findings and Questioned Costs - June 30, 2007***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
07-51	DPW	<b>Internal Control Deficiencies in DPW's Administration of LIHEAP Cash and Crisis Benefits (Prior Year Findings #06-50 and #06-51)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-52	DPW	<b>DPW Failed to Adequately Monitor the Processing of LIHEAP Application (Prior Year Finding #06-52)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-53	DPW	<b>Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$7,101 in LIHEAP (Prior Year Finding #06-49)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-54	DCED	<b>Noncompliance and Internal Control Deficiencies at DCED Over Subgrantee Payments (Prior Year Finding #06-59)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-55	DPW	<b>Weaknesses in DPW Program Monitoring of Child Care Cluster Subgrantees (Prior Year Finding #06-62)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-56	DPW	<b>Internal Control Weaknesses Result in Noncompliance with Federal Earmarking Requirements and Questioned Costs of at Least \$912,853 (Prior Year Finding #06-61)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-57	DPW PHHS	<b>Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #06-63)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-58	PHHS OB/BFM	<b>Internal Control Weakness Over Expenditure Information Reported on the SEFA (Prior Year Finding #06-65)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-59	DPW	<b>DPW Office of Children, Youth and Families Documentation Supporting the Licensing and Monitoring of Foster Care and Adoption Assistance Agencies is Incomplete (Prior Year Finding #06-64)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-60	DPW	<b>Weaknesses in DPW Program Monitoring of SSBG Subgrantees (Prior Year Finding #06-62)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.

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## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2007***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
07-61	PID	<b>Noncompliance With Procurement Standards Related to Ensuring Actuarial Soundness of Monthly Premium Rates (Prior Year Finding #06-67)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-62	PID	<b>PID Did Not Perform Adequate During-the-Award Monitoring of CHIP Subrecipient Insurance Providers (Prior Year Finding #06-68)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-63	DPW PHHS	<b>Weaknesses in Internal Controls Over Eligibility Determinations Result in an Undetermined Amount of Questioned Costs Up To \$13,275,656 (Prior Year Finding #06-70)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-64	DOH PHHS	<b>Internal Control Deficiencies Result in Questioned Costs of \$27,231 and Improper Reporting on the SEFA</b>  <b>DOH:</b> DOH will pursue resolution of this finding with HHS. No additional information provided. See <b>Agency Response</b> in the body of the finding.  <b>PHHS:</b> No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-65	DOH	<b>Weaknesses in DOH Program Monitoring of MCH Subgrantees</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-66	DOH	<b>Noncompliance and Internal Control Weaknesses Result in \$194,610 in Questioned Personnel Costs</b>  DOH will pursue resolution of this finding with HHS. No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-67	DOH	<b>DOH Could Not Support Information Submitted to HHS on its Annual Statistical Report</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-68	DOH	<b>Internal Control Deficiencies Result in Questioned Costs of \$36,912</b>  DOH will pursue resolution of this finding with HHS. No additional information provided. See <b>Agency Response</b> in the body of the finding.
07-69	PEMA DCNR PPR	<b>Internal Control Deficiencies in Systems of Cash Management and Federal Reporting for PAG Program (Prior Year Finding #06-71)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.

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## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2007***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>07-70</b>	<b>PPR TRANS</b>	<b>Internal Control Deficiency Over Expenditure Information Reported on the SEFA by PPR Comptroller and PADOT Comptroller</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>07-71</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 #06-72)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>07-72</b>	<b>OB/BOA</b>	<b>Noncompliance and Internal Control Weaknesses Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding #06-73)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>07-73</b>	<b>DPW</b>	<b>Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>07-74</b>	<b>OB/BFM</b>	<b>Unallowable Payments for Unused Employee Leave Result in at Least \$10,436,574 in Questioned Costs</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>07-75</b>	<b>OB/BFM</b>	<b>Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$7.5 Million Known Understatement of the CMIA Interest Liability (Prior Year Finding #06-74)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.

# Appendix



Commonwealth of Pennsylvania

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***APPENDIX - Legend of Abbreviations - June 30, 2007***

The following legend presents descriptions of abbreviations that appear throughout the report:

<b><u>ABBREVIATION</u></b>	<b><u>DESCRIPTION</u></b>
21 <sup>ST</sup> CCLC	Twenty-First Century Community Learning Centers
ACF	Administration for Children and Families
ADC	Average Daily Clearance
BFM	Bureau of Financial Management
BFS	Basic Financial Statements
BOA	Bureau of Audits
BRIM	Bureau of Risk and Insurance Management
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
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 Offices
EPA	Environmental Protection Agency
ERP	Enterprise Resource Planning
ES	Employment Services
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
HAVA	Help America Vote Act
HHS	United States Department of Health and Human Services
HOME	Home Investment Partnerships

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## ***Legend of Abbreviations - June 30, 2007***

<b><u>ABBREVIATION</u></b>	<b><u>DESCRIPTION</u></b>
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
MCH	Maternal and Child Health Care Services Block Grant to the States
MD	Management Directive
MLF	Motor License Fund
MOE	Maintenance of Effort
NGMO	National Guard Military Operations and Maintenance Projects
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
SAPT	Block Grants for Prevention and Treatment of Substance Abuse
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
TSR	Targeted Supervisory Review
UC	Unemployment Compensation
UI	Unemployment Insurance

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## ***Legend of Abbreviations - June 30, 2007***

### **ABBREVIATION**

### **DESCRIPTION**

USDA	United States Department of Agriculture
USDE	United States Department of Education
VOI	Violent Offender Incarceration
VOC ED	Vocational Education
WIA	Workforce Investment Act
WIC	Women, Infants, and Children