

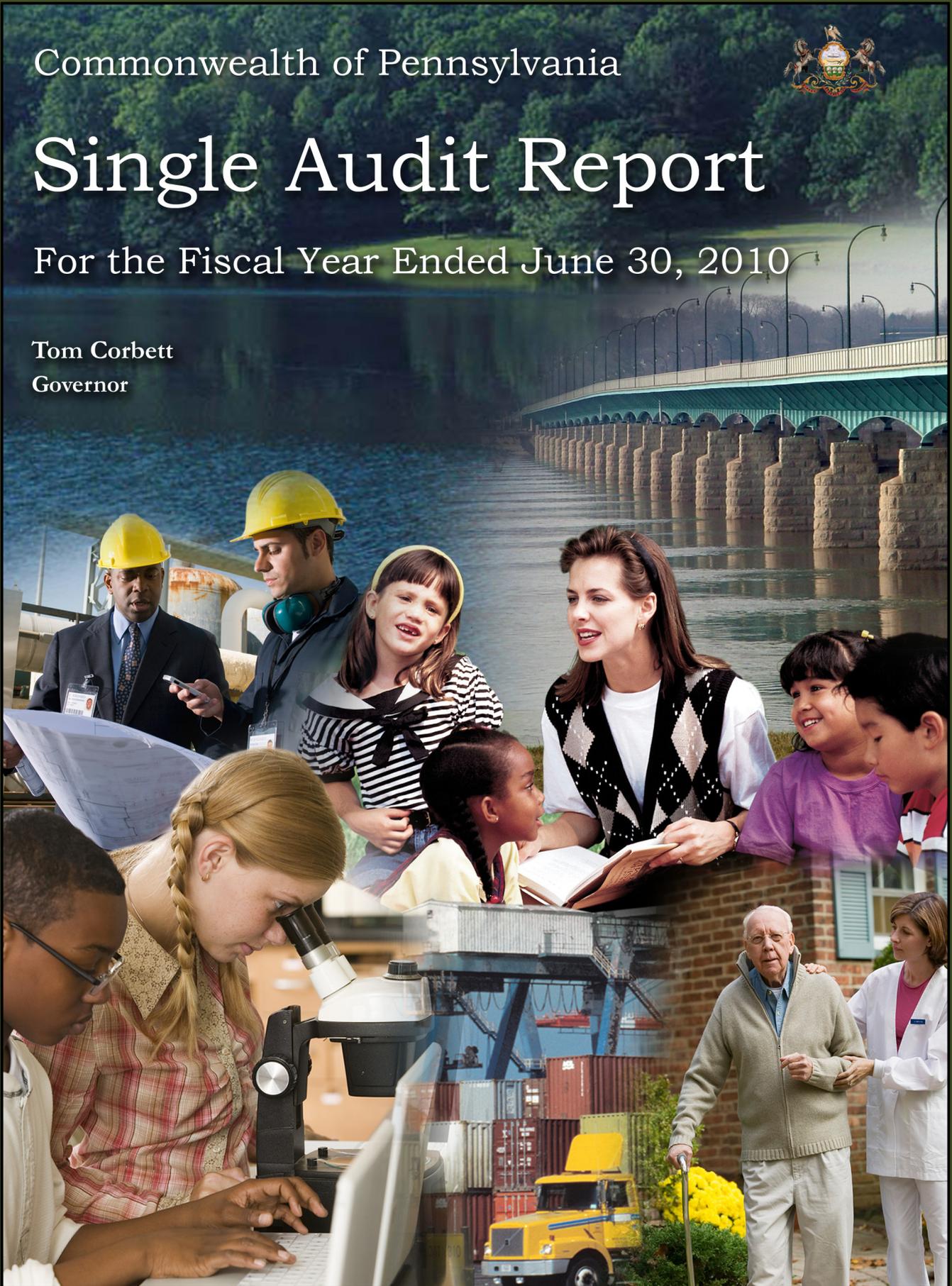
Commonwealth of Pennsylvania



Single Audit Report

For the Fiscal Year Ended June 30, 2010

Tom Corbett
Governor



Commonwealth of Pennsylvania
Single Audit Report
For the Fiscal Year Ended June 30, 2010



Tom Corbett, Governor

Prepared By:

Charles Zogby, Secretary
Office of the Budget

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Chief Financial Officer

Anna Maria Kiehl, CPA
Chief Accounting Officer

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**Commonwealth of Pennsylvania
Single Audit Report
For the Fiscal Year Ended June 30, 2010**

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COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

CHARLES B. ZOGBY
SECRETARY
OFFICE OF THE BUDGET

September 21, 2011

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, 2010. 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 Act 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, 2010 has been issued under separate cover. The auditors' 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 major federal programs are contained in this document.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying Schedule of Expenditures of Federal Awards reflects \$33.1 billion of federal expenditures by the Commonwealth during the fiscal year ended June 30, 2010. Most of the \$33.1 billion in federal expenditures occurred in twelve state agencies, as follows:

AGENCY NAME	<u>FEDERAL EXPENDITURES</u> <u>(in thousands)</u>
Public Welfare	\$16,107,240
Labor & Industry	10,145,943
Education	2,834,886
Transportation	1,887,897
Health	520,712
Insurance	276,389
Community & Economic Development	259,070
Military & Veterans Affairs	208,604
Corrections	179,463
Infrastructure Investment Authority	141,114
Aging	136,540
Environmental Protection	129,344
Subtotal	<u>\$32,827,202</u>
Other Agencies (17)	358,184
Grand Total	<u>\$33,185,386</u>

For purposes of the Commonwealth's single audit, a Type A federal program is any program with federal expenditures of at least \$49.8 million. Of the \$33.1 billion expended, 96.7 percent, or \$32 billion, represents expenditures under federal programs audited as major programs. The Summary of Auditors' Results lists the Commonwealth's 32 major federal programs for the fiscal year ended June 30, 2010.

FINDINGS AND RECOMMENDATIONS - CURRENT YEAR

The accompanying report for the fiscal year ended June 30, 2010 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 164 findings remain unresolved from single audits for the years ended June 30, 2004 through June 30, 2009.

INDEPENDENT AUDIT

The Commonwealth's June 30, 2010 single audit and basic financial statement audit were performed jointly by the Department of the Auditor General and the independent public accounting firm of KPMG 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.

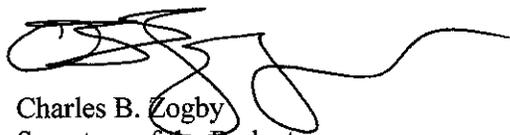
REPORTS OF OTHER INDEPENDENT AUDITORS

Other auditors performed the single audits of the Pennsylvania Higher Education Assistance Agency, the Pennsylvania Housing Finance Agency, the State System of Higher Education (component units of the Commonwealth), and the Judicial Department of Pennsylvania (part of the primary government). 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,



Charles B. Zogby
Secretary 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



KPMG LLP
Suite 200
30 North Third Street
PO Box 1190
Harrisburg, PA 17108-1190

Independent Auditors' Report on the Basic Financial Statements

The 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 (the Commonwealth), as of and for the year ended June 30, 2010, 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, 98 percent of total net assets and 99 percent of total revenues of the aggregate discretely presented component units. We also did not jointly audit 99 percent of the total assets, 99 percent of total net assets and 99 percent of the total additions of the Pension and Other Employee Benefit Trust Funds and 100 percent of the total assets, 100 percent of the total net assets, and 100 percent of the total revenues of the Private Purpose Trust Fund which, in total, comprises 85 percent of total assets, 94 percent of total net assets and 71 percent of total additions/revenues of the aggregate remaining fund information. The financial statements of the Tobacco Settlement Fund, Tuition Payment Fund, and these component units, and Pension and Other Employee Benefit and Private Purpose Trust Funds were audited by other auditors, including KPMG LLP and the Department of the Auditor General 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, and the Pension and Other Employee Benefit and Private Purpose Trust Funds, are based solely on the reports of the other auditors.

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a

The Governor

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, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions. The financial statements audited by other auditors 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, Port of Pittsburgh Commission, Ben Franklin Technology Development Authority, Philadelphia Regional Port Authority and 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, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with US generally accepted accounting principles.

As discussed in Note N to the financial statements, the Pennsylvania Turnpike Commission, a discretely presented component unit, has committed to making significant payments under a Lease and Funding Agreement as required under the terms of Act 44. The Pennsylvania Turnpike Commission's ability to make such payments is dependent on its continuing capability to issue bonds to fund such payments and ultimately to raise tolls sufficient to repay its bonded debt.

In accordance with *Government Auditing Standards*, we have also issued our report as of and for the year ended June 30, 2010, dated December 22, 2010 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, schedules of funding progress and employer contributions of other postemployment benefit plans, 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

The Governor

budgeted non-major special revenue 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.



KPMG LLP

December 22, 2010



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



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**Independent Auditors' 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 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 (the Commonwealth), as of and for the year ended June 30, 2010, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated December 22, 2010. Our report was modified to include a reference to other auditors. 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. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, Port of Pittsburgh Commission, Ben Franklin Technology Development Authority, Philadelphia Regional Port Authority and 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's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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.

The Governor

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 and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in the Commonwealth's internal control over financial reporting described in the accompanying schedule of findings and questioned costs as Findings 10-01 through 10-03, 10-05, and 10-10 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 10-04, 10-06 through 10-09, and 10-11 through 10-16 to be significant deficiencies in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commonwealth'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 10-03.

We noted certain matters that we reported to the management of the Commonwealth of Pennsylvania in a separate letter dated December 22, 2010.

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.

The Governor

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.

A handwritten signature in black ink, appearing to read "Jack Wagner". The signature is fluid and cursive, with a long horizontal stroke extending from the end.

KPMG LLP

December 22, 2010



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



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Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards

The Honorable Thomas Corbett, Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania

Compliance

We have jointly audited the Commonwealth of Pennsylvania's (the Commonwealth) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2010. 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 include the operations of the State System of Higher Education, the Pennsylvania Higher Education Assistance Agency, the Philadelphia Shipyard Development Corporation, the Pennsylvania Housing Finance Agency, and the Judicial Department of Pennsylvania, which received federal awards that are not included in the schedule of expenditures of federal awards for the year ended June 30, 2010. Our audit, described below, did not include the operations of these five component units or agencies because these entities engaged other auditors to perform audits (when required) in accordance with OMB Circular A-133.

We jointly conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 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. Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to those programs.

- The SNAP Cluster (CFDA #10.551 and #10.561) did not comply with procurement and suspension and debarment requirements as reported in Finding 10-17, did not comply with special tests and provisions related to EBT card security as reported in Finding 10-18, did not comply with special tests and provisions related to the ADP system for SNAP as reported in Finding 10-19, did not comply with eligibility requirements as reported in Finding 10-20, did not comply with allowable costs/cost principles and eligibility requirements as reported in Finding 10-30, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.
- 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 10-21 and Finding 10-102, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.
- The Special Supplemental Nutrition Program for WIC (CFDA #10.557) did not comply with allowable costs, eligibility, and subrecipient monitoring requirements as reported in Finding 10-23, did not comply with special tests and provisions related to food instrument disposition as reported in Finding 10-25, did not comply with allowable costs, eligibility, and subrecipient monitoring requirements, and special tests and provisions related to food instrument disposition as reported in Finding 10-26, did not comply with subrecipient monitoring requirements as reported in Finding 10-102, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.
- The Child and Adult Care Food Program (CFDA #10.558) did not comply with subrecipient monitoring requirements as reported in Findings 10-21, 10-28, 10-29, and 10-102, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.
- The Military Construction, National Guard Program (CFDA #12.400) did not comply with cash management and reporting requirements as reported in Finding 10-32 and did not comply with procurement and suspension and debarment requirements as reported in Finding 10-33.
- The National Guard Military Operations and Maintenance Projects Program (CFDA #12.401) did not comply with equipment and real property management requirements as reported in Finding 10-34.
- The Community Development Block Grants/State Administered Small Cities Program Cluster (CFDA #14.228 and #14.255) did not comply with federal reporting requirements as reported in Finding 10-37 and did not comply with subrecipient monitoring requirements as reported in Findings 10-38 and 10-102.
- The WIA Cluster (CFDA #17.258, #17.259, and #17.260) did not comply with allowable costs and subrecipient monitoring requirements and special tests and provisions related to awards with ARRA funding as reported in Finding 10-43, did not comply with federal reporting requirements as reported in Finding 10-44, and did not comply with subrecipient monitoring requirements as reported in Finding 10-102.

The Honorable Thomas Corbett, Governor

- The Highway Planning and Construction Cluster (CFDA #20.205, #20.219, and #23.003) did not comply with procurement and suspension and debarment requirements as reported in Finding 10-46 and did not comply with subrecipient monitoring requirements as reported in Findings 10-47 and 10-102.
- The Capitalization Grants for Clean Water State Revolving Funds Program (CFDA #66.458) did not comply with subrecipient monitoring requirements and special tests and provisions related to awards with ARRA funding as reported in Finding 10-49, did not comply with federal reporting requirements as reported in Finding 10-50, did not comply with subrecipient monitoring requirements as reported in Findings 10-51, 10-52, and 10-102, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.
- The Weatherization Assistance for Low-Income Persons Program (CFDA #81.042) did not comply with allowable costs, cash management, eligibility, and subrecipient monitoring requirements as reported in Finding 10-54, did not comply with allowable costs, cash management, Davis Bacon Act, eligibility, and subrecipient monitoring requirements as reported in Finding 10-55, did not comply with subrecipient monitoring requirements and special tests and provisions related to awards with ARRA funding as reported in Finding 10-56, and did not comply with subrecipient monitoring requirements as reported in Finding 10-102.
- The Title I, Part A Cluster (CFDA #84.010 and #84.389) did not comply with special tests and provisions related to identifying schools and LEAs needing improvement as reported in Finding 10-57, did not comply with allowable costs, equipment and real property management, real property acquisition/relocation, and subrecipient monitoring requirements, and special tests and provisions related to awards with ARRA funding as reported in Finding 10-58, did not comply with subrecipient monitoring and cash management requirements as reported in Finding 10-59, did not comply with allowable costs and subrecipient monitoring requirements as reported in Finding 10-60, did not comply with subrecipient monitoring requirements as reported in Finding 10-102, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.
- The Special Education Cluster (CFDA #84.027, #84.173, #84.391, and #84.392) did not comply with allowable costs, equipment and real property management, real property acquisition/relocation, and subrecipient monitoring requirements, and special tests and provisions related to awards with ARRA funding as reported in Finding 10-58, did not comply with subrecipient monitoring and cash management requirements as reported in Finding 10-59, did not comply with subrecipient monitoring requirements as reported in Findings 10-61 and 10-102, and did not comply with CMIA cash management regulations as reported in Finding 10-104.
- The Vocational Rehabilitation Cluster (CFDA #84.126 and #84.390) did not comply with procurement and suspension and debarment requirements as reported in Finding 10-62, did not comply with program income requirements as reported in Finding 10-63, did not comply with allowable costs/cost principles as reported in Finding 10-64, did not comply with eligibility requirements as reported in Finding 10-65, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.
- The Improving Teacher Quality State Grants Program (CFDA #84.367) did not comply with allowable costs, equipment and real property management, real property acquisition/relocation, and subrecipient monitoring requirements, and special tests and provisions related to awards with ARRA funding as reported in Finding 10-58, did not comply with subrecipient monitoring and cash management requirements as reported in Finding 10-59, did not comply with allowable costs and subrecipient

The Honorable Thomas Corbett, Governor

monitoring requirements as reported in Finding 10-60, did not comply with eligibility requirements and special tests and provisions related to assessment of need for LEAs as reported in Finding 10-67, did not comply with subrecipient monitoring requirements as reported in Finding 10-102, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.

- The State Fiscal Stabilization Fund Cluster (CFDA #84.394 and #84.397) did not comply with allowable costs, equipment and real property management, real property acquisition/relocation, and subrecipient monitoring requirements, and special tests and provisions related to awards with ARRA funding as reported in Finding 10-58, did not comply with subrecipient monitoring and cash management requirements as reported in Finding 10-59, did not comply with subrecipient monitoring requirements as reported in Finding 10-68, did not comply with federal reporting requirements as reported in Finding 10-69, and did not comply with allowable costs requirements as reported in Finding 10-71.
- The Aging Cluster (CFDA #93.044, #93.045, #93.053, #93.705, and #93.707) did not comply with subrecipient monitoring requirements and special tests and provisions related to awards with ARRA funding as reported in Finding 10-72, and did not comply with subrecipient monitoring requirements as reported in Findings 10-73 and 10-102.
- The Public Health Emergency Preparedness Program (CFDA #93.069) did not comply with subrecipient monitoring requirements as reported in Finding 10-102.
- The Immunization Cluster (CFDA #93.268 and #93.712) did not comply with subrecipient monitoring requirements as reported in Finding 10-102.
- The Temporary Assistance for Needy Families Cluster (CFDA #93.558 and #93.714) did not comply with procurement and suspension and debarment requirements as reported in Finding 10-17, did not comply with special tests and provisions related to EBT card security as reported in Finding 10-18, did not comply with eligibility requirements as reported in Finding 10-20, did not comply with allowable costs/cost principles and eligibility requirements as reported in Finding 10-30, did not comply with allowable costs and subrecipient monitoring requirements and special tests and provisions related to awards with ARRA funding as reported in Finding 10-43, did not comply with allowable costs, cash management, and subrecipient monitoring requirements as reported in Finding 10-76, did not comply with subrecipient monitoring requirements and special tests and provisions related to awards with ARRA funding as reported in Finding 10-77, did not comply with federal reporting requirements and special tests and provisions related to the penalty for failure to comply with the work verification plan as reported in Finding 10-78, did not comply with special tests and provisions related to ADP risk analysis and system security review as reported in Finding 10-80, did not comply with allowable costs and eligibility requirements as reported in Finding 10-94, did not comply with subrecipient monitoring requirements as reported in Findings 10-19, 10-101, and 10-102, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.
- The Child Support Enforcement Program (CFDA #93.563) did not comply with procurement and suspension and debarment requirements as reported in Finding 10-17, did not comply with subrecipient monitoring requirements and special tests and provisions related to awards with ARRA funding as reported in Finding 10-77, did not comply with special tests and provisions related to ADP risk analysis and system security review as reported in Finding 10-80, did not comply with subrecipient monitoring requirements as reported in Findings 10-19, 10-101, and 10-102, did not comply with allowable costs, matching, level of effort, and earmarking, and subrecipient monitoring requirements as reported in Finding 10-81, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.

The Honorable Thomas Corbett, Governor

- The Low-Income Home Energy Assistance Program (CFDA #93.568) did not comply with procurement and suspension and debarment requirements as reported in Finding 10-17, did not comply with allowable costs, cash management, eligibility, and subrecipient monitoring requirements as reported in Finding 10-54, did not comply with allowable costs, cash management, Davis Bacon Act, eligibility, and subrecipient monitoring requirements as reported in Finding 10-55, did not comply with special tests and provisions related to ADP risk analysis and system security review as reported in Finding 10-80, did not comply with allowable costs and eligibility requirements as reported in Findings 10-82 and 10-84, did not comply with subrecipient monitoring requirements as reported in Findings 10-101 and 10-102, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.
- The CSBG Cluster (CFDA #93.569 and #93.710) did not comply with cash management, period of availability, and subrecipient monitoring requirements as reported in Finding 10-86, did not comply with subrecipient monitoring requirements and special tests and provisions related to awards with ARRA funding as reported in Finding 10-87, did not comply with federal reporting requirements as reported in Finding 10-88, and did not comply with subrecipient monitoring requirements as reported in Finding 10-102.
- The CCDF Cluster (CFDA #93.575, #93.596, and #93.713) did not comply with procurement and suspension and debarment requirements as reported in Finding 10-17, did not comply with special tests and provisions related to EBT card security as reported in Finding 10-18, did not comply with eligibility requirements as reported in Finding 10-20, did not comply with allowable costs, cash management, and subrecipient monitoring requirements as reported in Finding 10-76, did not comply with subrecipient monitoring requirements and special tests and provisions related to awards with ARRA funding as reported in Finding 10-77, did not comply with special tests and provisions related to ADP risk analysis and system security review as reported in Finding 10-80, did not comply with subrecipient monitoring requirements as reported in Findings 10-101 and 10-102, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.
- The Foster Care Program (CFDA #93.658) did not comply with procurement and suspension and debarment requirements as reported in Finding 10-17, did not comply with subrecipient monitoring requirements and special tests and provisions related to awards with ARRA funding as reported in Finding 10-77, did not comply with special tests and provisions related to ADP risk analysis and system security review as reported in Finding 10-80, did not comply with subrecipient monitoring requirements as reported in Findings 10-19, 10-101, and 10-102, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.
- The Adoption Assistance Program (CFDA #93.659) did not comply with procurement and suspension and debarment requirements as reported in Finding 10-17, did not comply with subrecipient monitoring requirements and special tests and provisions related to awards with ARRA funding as reported in Finding 10-77, did not comply with special tests and provisions related to ADP risk analysis and system security review as reported in Finding 10-80, did not comply with subrecipient monitoring requirements as reported in Findings 10-19, 10-101, and 10-102, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.
- The Social Services Block Grant Program (CFDA #93.667) did not comply with procurement and suspension and debarment requirements as reported in Finding 10-17, did not comply with allowable costs, cash management, and subrecipient monitoring requirements as reported in Finding 10-76, did not comply with subrecipient monitoring requirements and special tests and provisions related to awards with ARRA funding as reported in Finding 10-77, did not comply with special tests and provisions related to ADP risk analysis and system security review as reported in Finding 10-80, did

not comply with subrecipient monitoring and cash management requirements as reported in Finding 10-91, did not comply with subrecipient monitoring requirements as reported in Findings 10-101 and 10-102, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.

- The Children's Health Insurance Program (CFDA #93.767) did not comply with special tests and provisions related to ADP risk analysis and system security review as reported in Finding 10-80, did not comply with procurement and suspension and debarment requirements as reported in Finding 10-95, did not comply with subrecipient monitoring requirements as reported in Finding 10-102, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.
- The Medicaid Cluster (CFDA #93.775, #93.777, and #93.778) did not comply with procurement and suspension and debarment requirements as reported in Finding 10-17, did not comply with eligibility requirements as reported in Finding 10-20, did not comply with subrecipient monitoring requirements and special tests and provisions related to awards with ARRA funding as reported in Finding 10-77, did not comply with special tests and provisions related to ADP risk analysis and system security review as reported in Finding 10-80, did not comply with subrecipient monitoring requirements as reported in Findings 10-101 and 10-102, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.
- The Block Grants for the Prevention and Treatment of Substance Abuse Program (CFDA #93.959) did not comply with subrecipient monitoring requirements and special tests and provisions related to awards with ARRA funding as reported in Finding 10-77, did not comply with subrecipient monitoring and cash management requirements as reported in Finding 10-91, did not comply with subrecipient monitoring requirements as reported in Findings 10-99, 10-101, and 10-102, and did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.
- The Social Security - Disability Insurance Program (CFDA #96.001) did not comply with CMIA-90 cash management regulations as reported in Finding 10-104.

In our opinion, except for the noncompliance described in the preceding paragraph, the Commonwealth complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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 Findings 10-24, 10-27, 10-35, 10-70, 10-74, 10-83, 10-90, 10-98, 10-100, and 10-103.

Internal Control Over Compliance

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 the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular

A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 10-17 through 10-23, 10-25, 10-26, 10-28 through 10-35, 10-37 through 10-39, 10-41 through 10-47, 10-49 through 10-52, 10-54 through 10-63, 10-65 through 10-69, 10-71 through 10-73, 10-75 through 10-82, 10-84 through 10-88, 10-91, 10-92, 10-94 through 10-97, 10-99, 10-101, 10-102, and 10-104 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 10-12, 10-24, 10-27, 10-36, 10-40, 10-48, 10-53, 10-64, 10-74, 10-89, 10-90, and 10-93 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We have jointly audited the basic 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 as of and for the year ended June 30, 2010, and have issued our report thereon dated December 22, 2010 which includes a reference to other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. 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.

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 the responses.

The Honorable Thomas Corbett, Governor

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.

A handwritten signature in black ink, appearing to read "Jack Wagner". The signature is fluid and cursive, with a long horizontal stroke extending from the end.

KPMG LLP

September 21, 2011

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Schedule of Expenditures of Federal Awards



Commonwealth of Pennsylvania

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
	<i>SNAP Cluster:</i>			
10.551	Supplemental Nutrition Assistance Program		2,258,702	
10.561	State Admin Matching Grants for Supp Nutrition Assist Prgm	180,693		44,345
10.561	ARRA - State Admin Matching Grants for Supp Nutrition Assist Prgm	7,384		
	Total State Admin Matching Grants for Supp Nutrition Assist Prgm		<u>188,077</u>	
	Total SNAP Cluster			2,446,779
	<i>Child Nutrition Cluster:</i>			
10.553	School Breakfast Program		71,413	71,128
10.555	National School Lunch Program (Cash Assistance)	279,769		279,268
10.555	National School Lunch Program (Food Commodities)	44,502		44,502
	Total National School Lunch Program		<u>324,271</u>	
10.556	Special Milk Program for Children		517	517
10.559	Summer Food Service Program for Children (Cash Assistance)	12,380		11,891
10.559	Summer Food Service Program for Children (Food Commodities)	256		256
	Total Summer Food Service Program for Children		<u>12,636</u>	
	Total Child Nutrition Cluster			408,837
	<i>Emergency Food Assistance Cluster:</i>			
10.568	Emergency Food Assistance Program (Administrative Costs)	2,561		951
10.568	ARRA - Emergency Food Assistance Program (Administrative Costs)	1,491		852
	Total Emergency Food Assistance Program (Administrative Costs)		<u>4,052</u>	
10.569	Emergency Food Assistance Program (Food Commodities)		<u>27,775</u>	27,775
	Total Emergency Food Assistance Cluster			31,827
10.025	Plant and Animal Disease, Pest Control, and Animal Care		2,337	206
10.069	Conservation Reserve Program		69	
10.086	ARRA - Aquaculture Grants Program (AGP)		182	182
10.162	Inspection Grading and Standardization		224	
10.163	Market Protection and Promotion		125	
10.169	Specialty Crop Block Grant Program		284	138
10.170	Specialty Crop Block Grant Program - Farm Bill		161	102
10.215	Sustainable Agriculture Research and Education		58	58
10.304	Homeland Security - Agricultural		34	
10.458	Crop Insurance Education in Targeted States		587	
10.557	Special Supp Nutrition Prgm for Women, Infants, and Children		186,268	45,832

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
10.558	Child and Adult Care Food Program		81,716	81,200
10.558	Child and Adult Care Food Program (Food Commodities)		63	63
	Total Child and Adult Care Food Program			
			81,779	
10.560	State Administrative Expenses for Child Nutrition		5,788	4
10.565	Commodity Supplemental Food Program		1,500	1,496
10.572	WIC Farmers' Market Nutrition Program (FMNP)		3,764	
10.574	Team Nutrition Grants		261	
10.578	ARRA - WIC Grants to States (WGS)		229	
10.579	Child Nutrition Discretionary Grants Limited Availability		(42)	
10.579	ARRA - Child Nutrition Discretionary Grants Limited Availability		2,536	2,536
	Total Child Nutrition Discretionary Grants Limited Availability			
			2,494	
10.580	Supp Nutrition Assistance Program Outreach/Participation		351	
10.582	Fresh Fruit and Vegetable Program		1,722	1,722
10.664	Cooperative Forestry Assistance		3,561	711
10.665	Schools and Roads - Grants to States		4,609	4,609
10.675	Urban and Community Forestry Program		9	
10.676	Forest Legacy Program		1	
10.678	Forest Stewardship Program		114	
10.680	Forest Health Protection		46	
10.902	Soil And Water Conservation		370	
10.913	Farm and Ranch Lands Protection Program		1,569	
	Total - U.S. Department of Agriculture		\$3,185,939	\$620,344
11.307	Economic Adjustment Assistance		(242)	
11.407	Interjurisdictional Fisheries Act of 1986		33	
11.419	Coastal Zone Management Administration Awards		1,633	793
11.457	Chesapeake Bay Studies		161	9
11.474	Atlantic Coastal Fisheries Cooperative Management Act		112	
11.555	Public Safety Interoperable Communications Grant Program		7,979	1,147
11.558	ARRA - State Broadband Data and Development Grant Program		341	
	Total - U.S. Department of Commerce		\$10,017	\$1,949

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
12.112	Payments to States in Lieu of Real Estate Taxes		499	499
12.400	Military Construction, National Guard		119,385	
12.401	National Guard Military Operations and Maintenance Projects	50,768		
12.401	ARRA - National Guard Military Operations and Maintenance Projects	1,680		
	Total National Guard Military Operations and Maintenance Projects		52,448	
Total - U.S. Department of Defense			\$172,332	\$499
<i>CDBG - State-Administered Small Cities Program Cluster:</i>				
14.228	Community Development Block Grants/State's Program	58,067		57,099
14.255	ARRA - Community Development Block Grants/State's Program	5,512		5,466
	Total CDBG - State-Administered Small Cities Program Cluster		63,579	
14.231	Emergency Shelter Grants Program		2,972	2,903
14.235	Supportive Housing Program		140	
14.239	Home Investment Partnerships Program		12,919	12,529
14.241	Housing Opportunities for Persons with AIDS		1,653	1,650
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program		2,647	2,476
14.401	Fair Housing Assistance Program - State and Local		998	
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing		827	730
14.908	ARRA - Healthy Homes Demonstration Grants		182	101
Total - U.S. Department of Housing and Urban Development			\$85,917	\$82,954
15.250	Regulation of Surface Coal Mining		10,612	
15.252	Abandoned Mine Land Reclamation (AMLR) Program		22,335	789
15.255	Science Prgm Coop Agreements for Coal Mining & Reclamation		70	
<i>Fish and Wildlife Cluster:</i>				
15.605	Sport Fish Restoration Program	9,282		
15.611	Wildlife Restoration	17,502		
	Total Fish and Wildlife Cluster		26,784	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
15.612	Endangered Species Conservation	137	
15.622	Sportfishing and Boating Safety Act	100	
15.625	Wildlife Conservation and Restoration	118	
15.633	Landowner Incentive Program	111	
15.634	State Wildlife Grants	3,045	
15.808	U.S. Geological Survey - Research and Data Collection	520	89
15.810	National Cooperative Geologic Mapping Program	300	
15.904	Historic Preservation Fund Grants-In-Aid	1,094	93
15.916	Outdoor Recreation - Acquisition, Development and Planning	1,170	1,160
15.926	American Battlefield Protection	36	
15.929	Save America's Treasures	287	250
Total - U.S. Department of the Interior		\$66,719	\$2,381
16.004	Law Enforcement Asst - Narcotics & Dangerous Drugs Training	1,445	
16.017	Sexual Assault Services Formula Program	196	196
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	466	
16.523	Juvenile Accountability Block Grants	1,315	1,240
16.540	Juvenile Justice & Delinquency Prevention - Alloc to States	1,272	940
16.548	Title V - Delinquency Prevention Program	82	82
16.550	State Justice Statistics Prgm for Statistic Analysis Centers	25	11
16.554	National Criminal History Improvement Program (NCHIP)	89	81
16.560	Natl Inst of Justice Research, Eval and Devel Project Grants	730	26
16.572	State Criminal Alien Assistance Program	1,315	
16.574	Byrne Evaluation Partnership Program	2,939	
16.575	Crime Victim Assistance	14,401	13,433
16.576	Crime Victim Compensation	5,065	
16.579	Edward Byrne Memorial Formula Grant Program	165	
16.580	Ed Byrne Memorial St & Loc Law Enforce Asst Disc Grants Prgm	1,843	
16.582	Crime Victim Assistance/Discretionary Grants	52	
16.588	Violence Against Women Formula Grants	4,130	3,889
16.588	ARRA - Violence Against Women Formula Grants	726	655
	Total Violence Against Women Formula Grants	4,856	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
16.590	Community-Defined Solutions to Violence Against Women Prgm	17	17
16.593	Residential Substance Abuse Treatment for State Prisoners	245	108
16.607	Bulletproof Vest Partnership Program	175	
16.609	Project Safe Neighborhoods	656	641
16.610	Regional Information Sharing Systems	6,419	
16.727	Enforcing Underage Drinking Laws Program	283	87
16.735	Protecting Inmates and Safeguarding Communities Grant Prgm	222	
16.738	Edward Byrne Memorial Justice Assistance Grant Program	8,958	5,631
16.740	Statewide Automated Victim Info Notification (SAVIN) Program	584	300
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	57	57
16.746	Capital Case Litigation	3	3
16.753	Congressionally Recommended Awards	9,220	6,863
16.801	ARRA - State Victim Assistance Formula Grant Program	531	531
16.802	ARRA - State Victim Compensation Formula Grant Program	1,461	
16.803	ARRA - Edward Byrne Memorial Justice Assistance Grant Prgm	4,998	3,937
16.UNKNOWN	Federally Seized/Forfeited Property	5	
Total - U.S. Department of Justice		\$70,090	\$38,728
<i>Employment Service Cluster:</i>			
17.207	Employment Service/Wagner-Peyser Funded Activities	23,778	409
17.207	ARRA - Employment Service/Wagner-Peyser Funded Activities	11,601	
	Total Employment Service/Wagner-Peyser Funded Activities		35,379
17.801	Disabled Veterans' Outreach Program (DVOP)		3,421
17.804	Local Veterans' Employment Representative Program		4,022
	Total Employment Service Cluster		42,822
<i>WIA Cluster:</i>			
17.258	WIA Adult Program	27,830	26,839
17.258	ARRA - WIA Adult Program	9,793	9,619
	Total WIA Adult Program		37,623
17.259	WIA Youth Activities	29,500	27,967
17.259	ARRA - WIA Youth Activities	25,627	24,012
	Total WIA Youth Activities		55,127

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
17.260	WIA Dislocated Workers	38,999		33,670
17.260	ARRA - WIA Dislocated Workers	25,339		24,284
	Total WIA Dislocated Workers		64,338	
	Total WIA Cluster		157,088	
17.002	Labor Force Statistics		2,810	
17.005	Compensation and Working Conditions		54	
17.225	Unemployment Insurance	6,698,021		
17.225	ARRA - Unemployment Insurance	2,865,258		
	Total Unemployment Insurance		9,563,279	
17.235	Senior Community Service Employment Program	6,129		5,956
17.235	ARRA - Senior Community Service Employment Program	930		930
	Total Senior Community Service Employment Program		7,059	
17.245	Trade Adjustment Assistance		27,193	228
17.250	Job Training Partnership Act		(13)	
17.261	WIA Pilots, Demonstrations, and Research Projects		463	462
17.268	H-1B Job Training Grants		12,756	12,580
17.270	Reintegration of Ex-Offenders		131	
17.271	Work Opportunity Tax Credit Program (WOTC)		805	
17.273	Temporary Labor Certification for Foreign Workers		137	
17.275	ARRA - Training and Placement in Growth and Industry Sectors		450	159
17.600	Mine Health and Safety Grants		671	
17.603	Brookwood-Sago Grant		14	
17.802	Veterans' Employment Program		300	293
	Total - U.S. Department of Labor		\$9,816,019	\$167,408
	<i>Highway Planning and Construction Cluster:</i>			
20.205	Highway Planning and Construction	1,314,562		184,073
20.205	ARRA - Highway Planning and Construction	435,811		
	Total Highway Planning and Construction		1,750,373	
20.219	Recreational Trails Program		1,281	889
23.003	Appalachian Development Highway System		44,525	
	Total Highway Planning and Construction Cluster		1,796,179	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
	<i>Federal Transit Cluster:</i>			
20.500	Federal Transit - Capital Investment Grants		690	690
20.507	Federal Transit - Formula Grants	864		
20.507	ARRA - Federal Transit - Formula Grants	3,154		3,154
	Total Federal Transit - Formula Grants		4,018	
	Total Federal Transit Cluster			4,708
	<i>Transit Services Programs Cluster:</i>			
20.513	Capital Assistance Program for Elderly and Disabled Persons		5,829	5,829
20.516	Job Access - Reverse Commute		1,505	1,505
20.521	New Freedom Program		651	651
	Total Transit Services Programs Cluster			7,985
	<i>Highway Safety Cluster:</i>			
20.600	State and Community Highway Safety		15,117	5,310
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I		6,817	6,817
20.602	Occupant Protection Incentive Grants		1,201	1,201
20.604	Safety Incentive Grants for Use of Seatbelts		11,151	
20.605	Incentives to Prevent Operation by Intoxicated Persons		224	
20.610	State Traffic Safety Information System Improvement Grants		370	
20.612	Incentive Grant Program to Increase Motorcyclist Safety		7	
	Total Highway Safety Cluster			34,887
20.005	Boating Safety Financial Assistance		2,822	
20.106	Airport Improvement Program		17,488	17,089
20.218	National Motor Carrier Safety		6,847	56
20.232	Commercial Driver's License Program Improvement Grant		189	
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort		192	
20.317	Capital Assistance to States - Intercity Passenger Rail Serv		95	
20.505	Metropolitan Transportation Planning		4,057	
20.509	Formula Grants for Other Than Urbanized Areas		19,327	19,222
20.509	ARRA - Formula Grants for Other Than Urbanized Areas		14,622	14,622
	Total Formula Grants for Other Than Urbanized Areas			33,949
20.515	State Planning and Research		9,272	
20.700	Pipeline Safety Program Base Grants		787	
20.703	Interagency Hazardous Materials Training and Planning Grants		572	486

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
20.930	Payments for Small Community Air Service Development	169	169
Total - U.S. Department of Transportation		\$1,920,198	\$261,763
23.002	Appalachian Area Development	65	65
23.009	Appalachian Local Development District Assistance	1,673	1,126
23.011	Appalachian Research, Technical Assistance and Demo Projects	171	
Total - Appalachian Regional Commission		\$1,909	\$1,191
30.002	Employment Discrimination - State and Local Agency Contracts	1,615	
Total - Equal Employment Opportunity Commission		\$1,615	\$0
39.003	Donation of Federal Surplus Personal Property	6,164	6,164
39.011	Election Reform Payments	2,984	2,925
Total - General Services Administration		\$9,148	\$9,089
45.025	Promotion of the Arts - Partnership Agreements	1,073	883
45.025	ARRA - Promotion of the Arts - Partnership Agreements	258	258
Total Promotion of the Arts - Partnership Agreements		1,331	
45.310	Grants to States	6,451	4,504
45.313	Laura Bush 21st Century Librarian Program	338	338
Total - National Foundation on the Arts and Humanities		\$8,120	\$5,983
64.005	Grants to States for Construction of State Home Facilities	141	
64.010	Veterans Nursing Home Care	727	
64.014	Veterans State Domiciliary Care	4,460	
64.015	Veterans State Nursing Home Care	30,954	
64.111	Veterans Education Assistance	1,172	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
Total - U.S. Department of Veterans Affairs		\$37,454	\$0
66.001	Air Pollution Control Program Support	20	20
66.032	State Indoor Radon Grants	495	127
66.034	Surveys, Studies, Activities Relating to the Clean Air Act	107	29
66.039	ARRA - National Clean Diesel Emissions Reduction Program	598	598
66.040	ARRA - State Clean Diesel Grant Program	520	520
66.202	Congressionally Mandated Projects	101	
66.312	State Environmental Justice Cooperative Agreement Program	6	6
66.419	Water Pollution Control State and Interstate Program Support	6,006	
66.432	State Public Water System Supervision	3,906	
66.436	Clean Water Act Surveys, Studies, Investigations and Demos	40	
66.438	Construction Management Assistance	22	
66.454	Water Quality Management Planning	242	
66.454	ARRA - Water Quality Management Planning	470	347
	Total Water Quality Management Planning		712
66.458	Capitalization Grants for Clean Water State Revolving Funds	17,795	
66.458	ARRA - Capitalization Grants for Clean Water State Revolving Funds	83,489	
	Total Capitalization Grants for Clean Water State Revolving Funds		101,284
66.460	Nonpoint Source Implementation Grants	4,827	3,842
66.461	Regional Wetland Program Development Grants	115	
66.466	Chesapeake Bay Program	2,548	2,325
66.468	Capital Grants for Drinking Water State Revolving Funds	32,588	738
66.468	ARRA - Capital Grants for Drinking Water State Revolving Funds	15,546	
	Total Capital Grants for Drinking Water State Revolving Funds		48,134
66.469	Great Lakes Program	71	71
66.474	Water Protection Grants to the States	122	64
66.479	Wetland Program Grants - Environmental Outcome Demo Prgm	224	
66.511	Office of Research and Development Consolidated Research	77	
66.605	Performance Partnership Grants	5,210	
66.606	Surveys, Studies, Investigations and Special Purpose Grants	831	18
66.608	Environmental Information Exchange Network Grant Program	112	
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	82	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
66.707	TSCA Title IV State Lead Grants Certification		309	
66.708	Pollution Prevention Grants Program		117	117
66.714	Pesticide Environmental Stewardship Regional Grants		10	10
66.716	Research, Dev, Education, Training, Demos, and Studies		2	2
66.801	Hazardous Waste Management State Program Support		5,240	1,266
66.802	Superfund State Site-Specific Cooperative Agreements		11	
66.804	Underground Storage Tank Prevention and Compliance Program		835	
66.805	Leaking Underground Storage Tank Trust Fund Program	1,749		
66.805	ARRA - Leaking Underground Storage Tank Trust Fund Program	2,749		
	Total Leaking Underground Storage Tank Trust Fund Program		4,498	
66.808	Solid Waste Management Assistance Grants		24	17
66.817	State and Tribal Response Program Grants		4	
	Total - Environmental Protection Agency		\$187,220	\$10,117
81.039	National Energy Information Center		39	
81.041	State Energy Program	6,808		2,342
81.041	ARRA - State Energy Program	22,563		22,313
	Total State Energy Program		29,371	
81.042	Weatherization Assistance for Low-Income Persons	22,817		22,153
81.042	ARRA - Weatherization Assistance for Low-Income Persons	79,929		71,959
	Total Weatherization Assistance for Low-Income Persons		102,746	
81.119	State Energy Program Special Projects		546	546
81.122	ARRA - Electricity Delivery and Energy Reliability, Research & Dev		146	
81.127	ARRA - Energy Efficient Appliance Rebate Program (EEARP)		7,828	7,801
81.128	ARRA - Energy Efficiency & Conservation Block Grant Program (EECBG)		10,201	10,118
	Total - U.S. Department of Energy		\$150,877	\$137,232
	<i>Title I, Part A Cluster:</i>			
84.010	Title I Grants to Local Educational Agencies	485,025		481,889
84.389	ARRA - Title I Grants to Local Educational Agencies	198,137		198,135
	Total Title I, Part A Cluster		683,162	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
	<i>Special Education Cluster (IDEA)</i>			
84.027	Special Education - Grants to States		433,890	421,720
84.173	Special Education - Preschool Grants		13,419	13,378
84.391	ARRA - Special Education Grants to States		175,092	175,092
84.392	ARRA - Special Education - Preschool Grants		3,308	3,308
	Total Special Education Cluster (IDEA)		<u>625,709</u>	
	<i>Student Financial Assistance Programs Cluster:</i>			
84.007	Federal Supplemental Educational Opportunity Grants		44	
84.032	Federal Family Education Loans		2,304	
84.033	Federal Work-Study Program		37	
84.063	Federal Pell Grant Program		2,710	
84.375	Academic Competitiveness Grants		16	
	Total Student Financial Assistance Programs Cluster		<u>5,111</u>	
	<i>Vocational Rehabilitation Cluster:</i>			
84.126	Rehabilitation Services - Vocational Rehab Grants to States		114,574	157
84.390	ARRA - Rehab Services - Vocational Rehab Grants to States		2,970	(153)
	Total Vocational Rehabilitation Cluster		<u>117,544</u>	
	<i>Independent Living State Grants Cluster:</i>			
84.169	Independent Living - State Grants		489	489
84.398	ARRA - Independent Living State Grants		144	144
	Total Independent Living State Grants Cluster		<u>633</u>	
	<i>Independent Living Services for Older Blind Individuals Cluster:</i>			
84.177	Rehab Serv - Independent Living Services for Older Blind Individuals		1,250	
84.399	ARRA - Independent Living Services for Older Blind Individuals		16	10
	Total Independent Living Services for Older Blind Individuals Cluster		<u>1,266</u>	
	<i>Education for Homeless Children and Youth Cluster:</i>			
84.196	Education for Homeless Children and Youth		1,946	1,894
84.387	ARRA - Education for Homeless Children and Youth		1,000	1,000
	Total Education for Homeless Children and Youth Cluster		<u>2,946</u>	
	<i>Educational Technology State Grants Cluster:</i>			
84.318	Education Technology State Grants		11,653	11,076
84.386	ARRA - Education Technology State Grants		1,756	1,213
	Total Educational Technology State Grants Cluster		<u>13,409</u>	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
	<i>School Improvement Grants Cluster:</i>			
84.377	School Improvement Grants		10,287	10,740
84.388	ARRA - School Improvement Grants		3,173	
	Total School Improvement Grants Cluster		<u>13,460</u>	
	<i>State Fiscal Stabilization Fund Cluster:</i>			
84.394	ARRA - State Fiscal Stabilization Fund - Education Grants		605,686	602,953
84.397	ARRA - State Fiscal Stabilization Fund - Gov Services		173,383	
	Total State Fiscal Stabilization Fund Cluster		<u>779,069</u>	
84.002	Adult Education - Basic Grants to States		17,360	15,786
84.011	Migrant Education - State Grant Program		8,148	7,737
84.013	Title I Program for Neglected and Delinquent Children		961	719
84.042	TRIO - Student Support Services		216	
84.048	Career and Technical Education - Basic Grants to States		43,082	40,161
84.144	Migrant Education - Coordination Program		92	92
84.181	Special Education - Grants for Infants and Families		13,061	11,735
84.185	Byrd Honors Scholarships		1,540	
84.186	Safe and Drug-Free Schools and Communities - State Grants		11,015	9,959
84.187	Supp Employment Serv for Indiv with Significant Disabilities		1,059	
84.213	Even Start - State Educational Agencies		2,301	2,194
84.235	Rehabilitation Services Demonstration and Training Programs		374	
84.243	Tech-Prep Education		3,895	3,717
84.265	Rehab Training - State Voc Rehab Unit In-Service Training		256	
84.282	Charter Schools		3,814	3,650
84.287	Twenty-First Century Community Learning Centers		31,468	29,920
84.293	Foreign Language Assistance		54	54
84.298	State Grants for Innovative Programs		321	334
84.323	Special Education - State Personnel Development		1,321	
84.330	Advanced Placement Program		234	210
84.331	Grants to States for Training for Incarcerated Individuals		846	
84.357	Reading First State Grants		11,324	8,328
84.358	Rural Education		1,076	1,075
84.365	English Language Acquisition Grants		8,520	8,139
84.366	Mathematics and Science Partnerships		4,814	4,814

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
84.367	Improving Teacher Quality State Grants	99,236	95,861
84.368	Grants for Enhanced Assessment Instruments	233	
84.369	Grants for State Assessments and Related Activities	12,043	
84.372	Statewide Data Systems	2,632	
84.378	College Access Challenge Grant Program	2,252	1,841
84.902	National Assessment of Educational Progress	117	
Total - U.S. Department of Education		\$2,525,974	\$2,169,371
89.003	National Historical Publications and Records Grants	5	
Total - National Archives and Records Administration		\$5	\$0
90.400	Help America Vote College Program	152	
90.401	Help America Vote Act Requirements Payments	8,866	6,844
Total - Elections Assistance Commission		\$9,018	\$6,844
<i>Aging Cluster:</i>			
93.044	Special Programs for the Aging - Title III, Part B	23,770	23,770
93.045	Special Programs for the Aging - Title III, Part C	25,478	23,376
93.053	Nutrition Services Incentive Program	6,609	6,609
93.705	ARRA - Aging Home-Delivered Nutrition Services for States	1,096	1,096
93.707	ARRA - Aging Congregate Nutrition Services for States	1,500	1,500
Total Aging Cluster		58,453	
<i>Immunization Cluster:</i>			
93.268	Immunization Grants (Cash Assistance)	8,619	3,320
93.268	Immunization Grants (Vaccines)	70,859	
Total Immunization Grants		79,478	
93.712	ARRA - Immunization (Cash Assistance)	532	
93.712	ARRA - Immunization (Vaccines)	6,011	
Total ARRA - Immunization		6,543	
Total Immunization Cluster		86,021	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
	<i>TANF Cluster:</i>			
93.558	Temporary Assistance for Needy Families		439,382	190,427
93.714	ARRA - Emergency Contingency Fund for TANF State Programs		37,779	11,784
	Total TANF Cluster		<u>477,161</u>	
	<i>CSBG Cluster:</i>			
93.569	Community Services Block Grant		26,188	25,313
93.710	ARRA - Community Services Block Grant		26,758	26,758
	Total CSBG Cluster		<u>52,946</u>	
	<i>CCDF Cluster:</i>			
93.575	Child Care and Development Block Grant		205,699	191,193
93.596	Child Care Mandatory and Matching Funds of the CCDF		112,596	112,234
93.713	ARRA - Child Care and Development Block Grant		20,761	20,761
	Total CCDF Cluster		<u>339,056</u>	
	<i>Head Start Cluster:</i>			
93.600	Head Start		224	224
93.708	ARRA - Head Start		170	154
93.709	ARRA - Early Head Start		50	50
	Total Head Start Cluster		<u>444</u>	
	<i>Medicaid Cluster:</i>			
93.775	State Medicaid Fraud Control Units		3,253	
93.777	State Survey and Cert of Health Care Providers and Suppliers		14,361	
93.778	Medical Assistance Program	10,332,237		362,341
93.778	ARRA - Medical Assistance Program	<u>1,908,098</u>		4,920
	Total Medical Assistance Program		<u>12,240,335</u>	
	Total Medicaid Cluster			<u>12,257,949</u>
93.003	Public Health and Social Services Emergency Fund		50	50
93.041	Special Programs for the Aging - Title VII, Chapter 3		252	252
93.042	Special Programs for the Aging - Title VII, Chapter 2		792	653
93.043	Special Programs for the Aging - Title III, Part D		1,019	1,019
93.048	Special Programs for the Aging - Title IV and Title II		113	113
93.052	National Family Caregiver Support, Title III, Part E		8,875	8,875
93.069	Public Health Emergency Preparedness (Cash Assistance)		52,216	15,381
93.069	Public Health Emergency Preparedness (H1N1 Vaccines)		<u>38,513</u>	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
	Total Public Health Emergency Preparedness	90,729	
93.070	Environmental Public Health and Emergency Response	271	59
93.071	Medicare Enrollment Assistance Program	167	168
93.089	Emergency System for Advance Registration of Vol Health Prof	60	60
93.103	Food and Drug Administration - Research	191	
93.110	Maternal and Child Health Federal Consolidated Programs	881	711
93.116	Project Grants and Coop Agreements for Tuberculosis Control	592	31
93.127	Emergency Medical Services for Children	130	
93.130	Primary Care Offices Coordination and Dev Coop Agreements	249	76
93.136	Injury Prevention and Control Research	1,990	1,805
93.150	Projects for Asst in Transition from Homelessness (PATH)	2,262	2,198
93.165	Grants to States for Loan Repayment Program	200	
93.197	Childhood Lead Poisoning Prevention Projects	663	436
93.235	Abstinence Education Program	74	62
93.240	State Capacity Building	419	
93.241	State Rural Hospital Flexibility Program	363	255
93.243	Substance Abuse and Mental Health Services - Projects	3,093	2,995
93.251	Universal Newborn Hearing Screening	89	
93.259	Rural Access to Emergency Devices Grant	11	
93.283	Centers for Disease Control & Prevention - Investigations	9,048	3,376
93.296	State Partnership Grant Program to Improve Minority Health	40	
93.402	ARRA - State Loan Repayment Program	23	
93.414	ARRA - State Primary Care Offices	13	
93.556	Promoting Safe and Stable Families	13,783	13,749
93.563	Child Support Enforcement		105,626
93.563	ARRA - Child Support Enforcement	141,074	
	Total Child Support Enforcement	<u>24,654</u>	17,792
	Total Child Support Enforcement	165,728	
93.566	Refugee and Entrant Assistance - State Administered Programs	9,676	2,854
93.568	Low-Income Home Energy Assistance	257,180	20,914
93.576	Refugee and Entrant Assistance - Discretionary Grants	763	667
93.584	Refugee and Entrant Assistance - Targeted Assistance Grants	533	533
93.585	Empowerment Zones Program	176	176
93.590	Community-Based Child Abuse Prevention Grants	1,267	1,267

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
93.597	Grants to States for Access and Visitation Programs	325	325
93.599	Chafee Education and Training Vouchers Program (ETV)	2,062	2,058
93.602	Assets for Independence Demonstration Program	321	321
93.617	Voting Access for Individuals with Disabilities - Gov Grants	665	665
93.630	Developmental Disabilities Basic Support and Advocacy Grants	3,611	2,684
93.645	Child Welfare Services - State Grants	10,530	9,490
93.658	Foster Care - Title IV-E	205,567	200,674
93.658	ARRA - Foster Care - Title IV-E	8,749	8,749
	Total Foster Care - Title IV-E	<u>214,316</u>	
93.659	Adoption Assistance	109,159	107,752
93.659	ARRA - Adoption Assistance	9,259	9,259
	Total Adoption Assistance	<u>118,418</u>	
93.667	Social Services Block Grant	97,987	78,084
93.669	Child Abuse and Neglect State Grants	826	292
93.670	Child Abuse and Neglect Discretionary Activities	197	197
93.671	Family Violence Prevention and Services	3,000	3,000
93.674	Chafee Foster Care Independence Program	4,803	4,803
93.717	ARRA - Preventing Healthcare-Associated Infections	81	
93.723	ARRA - Prevention and Wellness - State, Territories	8	
93.767	Children's Health Insurance Program	276,392	268,904
93.768	Medicaid Infrastructure Grants to Support Competitive Employ	4,289	4,283
93.779	CMS Research, Demonstrations and Evaluations	6,761	2,093
93.790	Alternate Non-Emergency Service Providers or Networks	285	
93.889	National Bioterrorism Hospital Preparedness Program	20,024	10,699
93.917	HIV Care Formula Grants	24,167	7,177
93.938	Coop Agreements to Support School Health Programs	351	239
93.940	HIV Prevention Activities - Health Department Based	3,371	767
93.943	Epidemiologic Research Studies of AIDS and HIV	1,476	274
93.944	HIV/AIDS Surveillance	783	
93.946	Coop Agreements to Support Safe Motherhood and Infant Health	168	
93.958	Block Grants for Community Mental Health Services	14,470	14,278
93.959	Block Grants for Prevention and Treatment of Substance Abuse	63,400	54,895
93.977	Preventive Health Serv Sexually Trans Diseases Control Grant	1,671	671

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
93.991	Preventive Health and Health Services Block Grant	5,570	3,503
93.994	Maternal and Child Health Services Block Grant to the States	21,733	10,638
93.UNKNOWN	Offset to Correct Drawdown of Federal Funds	(189)	
Total - U.S. Department of Health and Human Services		\$14,745,667	\$2,014,757
94.003	State Commissions	265	
94.004	Learn and Serve America - School & Community Based Programs	768	587
94.006	AmeriCorps	7,693	7,693
94.006	ARRA - AmeriCorps	1,813	1,813
	Total AmeriCorps	9,506	
94.007	Program Development and Innovation Grants	65	
94.009	Training and Technical Assistance	166	53
Total - Corporation for National and Community Service		\$10,770	\$10,146
96.001	Social Security - Disability Insurance	97,987	
Total - Social Security Administration		\$97,987	\$0
97.001	Pilot Demonstration or Earmarked Projects	79	
97.008	Non-Profit Security Program	222	222
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	94	94
97.023	Community Assistance Program State Support Services Element	122	
97.029	Flood Mitigation Assistance	592	592
97.036	Disaster Grants - Public Assist (Presidentially Declared)	12,560	5,609
97.039	Hazard Mitigation Grant	261	261
97.041	National Dam Safety Program	68	
97.042	Emergency Management Performance Grants	8,569	3,584
97.043	State Fire Training Systems Grants	22	
97.044	Assistance to Firefighters Grant	369	
97.045	Cooperating Technical Partners	110	
97.047	Pre-Disaster Mitigation	23	23

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2010

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
97.050	Presidential Declared Dis Assist to Households - Other Needs	(11)	
97.056	Port Security Grant Program	666	
97.067	Homeland Security Grant Program	42,508	8,727
97.070	Map Modernization Management Support	140	
97.075	Rail and Transit Security Grant Program	4,157	3,429
97.078	Buffer Zone Protection Program (BZPP)	738	
97.089	Driver's License Security Grant Program	747	
97.091	Homeland Security Biowatch Program	273	
97.092	Repetitive Flood Claims	28	28
97.110	Severe Loss Repetitive Program	48	34
97.111	Regional Catastrophic Preparedness Grant Program (RCPGP)	10	
Total - U.S. Department of Homeland Security		\$72,395	\$22,603
41 99.UNKNOWN	Refund on a Closed Grant	(4)	
Total - Unknown		(\$4)	\$0
GRAND TOTAL		\$33,185,386	\$5,563,359

COMMONWEALTH OF PENNSYLVANIA

Notes to the Schedule of Expenditures of Federal Awards - June 30, 2010

Note A: Single Audit Reporting Entity

The Commonwealth of Pennsylvania (the Commonwealth) includes expenditures in its schedule of expenditures of federal awards (SEFA) 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 (when required) and their expenditures of federal awards are therefore excluded from the Commonwealth's SEFA. These four component units are required to submit their own single audit reports to the Federal Audit Clearinghouse. The PSDC is not required to submit a single audit for the year ended June 30, 2010 because its federal expenditures are below the requirement threshold. In addition, the Judicial Department of Pennsylvania, which is included in the Primary Government, elected to have its own single audit performed. Their federal expenditures are also excluded from the Commonwealth's SEFA.

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 #10.551, Supplemental Nutrition Assistance Program (SNAP), represent amounts the Electronic Benefits Transfer (EBT) contractor paid to retail outlets for participants' purchases under the program during the fiscal year ended June 30, 2010.

The reported expenditures for benefits under SNAP (CFDA #10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 16.38 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2010.

Expenditures reported under CFDA #10.555, National School Lunch Program, CFDA #10.558, Child and Adult Care Food Program, CFDA #10.559, Summer Food Service Program, CFDA #10.565, Commodity Supplemental Food Program, and CFDA #10.569, Emergency Food Assistance Program, include 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, 2008.

Expenditures reported under CFDA #12.400, Military Construction, National Guard, represent reimbursement payments made to the Department of General Services (DGS) for construction expenditures related to the Department of Military and Veterans Affairs federal construction projects that are facilitated by DGS.

Subrecipient expenditures reported under CFDA #14.228, Community Development Block Grants, CFDA #14.231, Emergency Shelter Grants Program, and CFDA #14.239, Home Investment Partnerships 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 #20.205, Highway Planning and Construction, CFDA #20.515, State Planning and Research, CFDA #20.219, Recreational Trails Program, CFDA #20.604, Safety Incentive Grants for Use of Seatbelts, CFDA #20.605, Incentives to Prevent Operation by Intoxicated Persons, CFDA #23.003, Appalachian Development Highway System, and CFDA #23.009, Appalachian Local Development District Assistance 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.

COMMONWEALTH OF PENNSYLVANIA

Notes to the Schedule of Expenditures of Federal Awards - June 30, 2010

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.

Expenditures identified on the SEFA as Vaccines under CFDA #93.069, Public Health Emergency Preparedness, CFDA #93.268, Immunization Grants, and CFDA #93.712, ARRA – Immunization Grants, represent the dollar value of the items used.

Expenditures reported under CFDA #93.714, ARRA – Emergency Contingency Fund for TANF State Programs, include \$24,222,869 that were transferred from CFDA #93.558. The ARRA award was received in July of 2009 and a subsequent event note was included in the prior year Notes to the SEFA to disclose that this transfer would be reflected on the 2009-10 SEFA. Therefore, for \$24,222,869 in ARRA expenditures under CFDA #93.714 on the June 30, 2010 SEFA, the cash benefits were actually paid out of regular TANF funds during the prior year ended June 30, 2009 because the ARRA award had not yet been received.

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

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, 2010. The categorization of expenditures by program included in the SEFA 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: 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 in the schedule of expenditures of federal awards. The individual state and federal portions are as follows (amounts in thousands):

State Regular UC Benefits	\$4,425,996
Federal UC Benefits	4,923,622
Federal Admin.	<u>213,661</u>
Total Expenditures	<u><u>\$9,563,279</u></u>

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Schedule of Findings and Questioned Costs



Commonwealth of Pennsylvania

COMMONWEALTH OF PENNSYLVANIA

Summary of Auditors' Results - June 30, 2010

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:

SNAP 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)
Military Construction, National Guard (CFDA #12.400)
National Guard Military Operations and Maintenance Projects (CFDA #12.401)
Community Development Block Grants/State Administered Small Cities Program Cluster (CFDA #14.228 and 14.255)
WIA Cluster (CFDA #17.258, #17.259 and #17.260)
Highway Planning and Construction Cluster (CFDA #20.205, #20.219 and #23.003)
Capitalization Grants for Clean Water State Revolving Funds (CFDA #66.458)
Weatherization Assistance for Low-Income Persons (CFDA #81.042)
Title I, Part A Cluster (CFDA #84.010 and 84.389)
Special Education Cluster (IDEA) (CFDA #84.027, #84.173, #84.391 and #84.392)
Vocational Rehabilitation Cluster (CFDA #84.126 and #84.390)
Improving Teacher Quality State Grants (CFDA #84.367)
State Fiscal Stabilization Fund Cluster (CFDA #84.394 and #84.397)
Aging Cluster (CFDA #93.044, #93.045, #93.053, #93.705 and #93.707)
Public Health Emergency Preparedness (CFDA #93.069)
Immunization Cluster (CFDA #93.268 and #93.712)
TANF Cluster (CFDA #93.558 and #93.714)
Child Support Enforcement (CFDA #93.563)

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Summary of Auditors' Results - June 30, 2010

Low-Income Home Energy Assistance (CFDA #93.568)
 CSBG Cluster (CFDA #93.569 and #93.710)
 CCDF Cluster (CFDA #93.575, #93.596 and #93.713)
 Foster Care Title IV-E (CFDA #93.658)
 Adoption Assistance (CFDA #93.659)
 Social Services Block Grant (CFDA #93.667)
 Children's Health Insurance Program (CFDA #93.767)
 Medicaid Cluster (CFDA #93.775, #93.777, and #93.778)
 Block Grants for Prevention and Treatment of Substance Abuse (CFDA #93.959)
 Social Security – Disability Insurance (CFDA #96.001)

Unqualified for the following major program:

Unemployment Insurance (CFDA #17.225)

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

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster	Federal Expenditures (000s)
10.551 and 10.561	SNAP Cluster (A)	\$ 2,446,779
10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster	408,837
10.557	Special Supplemental Nutrition Program for WIC	186,268
10.558	Child and Adult Care Food Program	81,779
12.400	Military Construction, National Guard	119,385
12.401	National Guard Military Operations and Maintenance Projects (A)	52,448
14.228 and 14.255	Community Development Block Grants/State Administered Small Cities Program Cluster (A)	63,579
17.225	Unemployment Insurance (A)	9,563,279
17.258, 17.259 and 17.260	WIA Cluster (A)	157,088
20.205, 20.219 and 23.003	Highway Planning and Construction Cluster (A)	1,796,179
66.458	Capitalization Grants for Clean Water State Revolving Funds (A)	101,284
81.042	Weatherization Assistance for Low-Income Persons (A)	102,746
84.010 and 84.389	Title I, Part A Cluster (A)	683,162
84.027, 84.173, 84.391 and 84.392	Special Education Cluster (IDEA) (A)	625,709

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Summary of Auditors' Results - June 30, 2010

84.126 and 84.390	Vocational Rehabilitation Cluster	117,544
84.367	Improving Teacher Quality State Grants	99,236
84.394 and 84.397	State Fiscal Stabilization Fund Cluster (A)	779,069
93.044, 93.045, 93.053, 93.705 and 93.707	Aging Cluster (A)	58,453
93.069	Public Health Emergency Preparedness	90,729
93.268 and 93.712	Immunization Cluster (A)	86,021
93.558 and 93.714	TANF Cluster (A)	477,161
93.563	Child Support Enforcement (A)	165,728
93.568	Low-Income Home Energy Assistance	257,180
93.569 and 93.710	CSBG Cluster (A)	52,946
93.575, 93.596 and 93.713	CCDF Cluster (A)	339,056
93.658	Foster Care Title IV-E (A)	214,316
93.659	Adoption Assistance (A)	118,418
93.667	Social Services Block Grant	97,987
93.767	Children's Health Insurance Program	276,392
93.775, 93.777 and 93.778	Medicaid Cluster (A)	12,257,949
93.959	Block Grants for Prevention and Treatment of Substance Abuse	63,400
96.001	Social Security – Disability Insurance	97,987
	Total Federal Expenditures – Major Programs	<u>\$32,038,094</u>

(A) = ARRA Funds included

Dollar threshold used to distinguish between
Type A and Type B programs: \$49,778,079

Auditee qualified as low-risk auditee? yes X no

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Index to Basic Financial Statement Findings - June 30, 2010

Finding No.	Finding Title	Impacted State Agency	Finding Page	CAP Page
10-01**	Material Weaknesses Over Financial Reporting in the Unemployment Compensation Fund (A Similar Condition Was Noted in Prior Year Finding #09-06)	OB/OCO L&I	51	446
10-02**	Material Weaknesses Over Financial Reporting of Debt in Various GAAP Templates	OB – BFM	52	446
10-03**	Noncompliance With Statutory Limits for Equity Investments (A Similar Condition Was Noted in Prior Year Finding #09-08)	L&I	55	447
10-04*	Lack of Procedures to Monitor, Assess, and Report the Impact of Highway and Bridge Infrastructure Replacement Activity in the BFS (A Similar Condition Was Noted in Prior Year Finding #09-03)	OB/OCO PennDOT	59	447
10-05**	Weaknesses in BFS Reporting of Motor License Fund Encumbrances and Liabilities	OB/OCO	61	448
10-06*	Internal Control Weaknesses in Monitoring of Alternative Investments	Treasury	64	448
10-07*	Internal Control Deficiency Over Reporting of Intangible Assets	OB – BFM	65	449
10-08*	Internal Control Weaknesses in Investment Disclosure Reporting (A Similar Condition Was Noted in Prior Year Finding #09-11)	OB/OCO Treasury	66	449
10-09*	Internal Control Weaknesses in Accounting for Securities Lending	Treasury	68	449
10-10**	Internal Control Deficiencies Over Financial Reporting in the Preparation of the Basic Financial Statements	OB – BFM	69	449
10-11*	General Computer Controls in Various Commonwealth Agencies Need Improvement (A Similar Condition Was Noted in Prior Year Finding #09-16)	OB OA	72	450
10-12*	Statewide Weaknesses Within the SAP Accounting System Related to Potential Segregation of Duties Conflicts (A Similar Condition Was Noted in Prior Year Finding #09-15)	OB OA	85	462
10-13*	General Computer Controls in the PA Department of Treasury Need Improvement	Treasury	87	463

* - Significant Deficiency

** - Material Weakness

CAP - Corrective Action Plan

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Finding No.	Finding Title	Impacted State Agency	Finding Page	CAP Page
10-14*	Lack of Documentation to Support Proper Contracting and Procurement (A Similar Condition Was Noted in Prior Year Finding #09-13)	OB OA	90	465
10-15*	Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System and Inappropriate Role Assignments (A Similar Condition Was Noted in Prior Year Finding #09-18)	OB/OCO	94	465
10-16*	Weaknesses in Invoice Processing Procedures and Maintenance of Vendor Master Data and General Ledger Account Master Data	OB – BFM OB – BPS	97	466

* - Significant Deficiency

** - Material Weakness

CAP - Corrective Action Plan

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Basic Financial Statement Findings - June 30, 2010

Finding 10 – 01:

Office of the Budget – Office of Comptroller Operations Pennsylvania Department of Labor and Industry

Material Weaknesses Over Financial Reporting in the Unemployment Compensation Fund (A Similar Condition Was Noted in Prior Year Finding #09-06)

Condition: For the sixth year in a row, the Commonwealth's Basic Financial Statements (BFS) contained material or significant misstatements in the Unemployment Compensation (UC) Fund that required adjusting entries proposed by the auditors. Our testing of L&I's UC Fund GAAP Template for FYE June 30, 2010 resulted in: 1) a \$692.9 million misstatement and auditor-proposed adjusting entry to record federal withholdings and Interstate payments for UC benefits paid, and 2) an estimated \$82.1 million misstatement and auditor-proposed adjusting entry to reduce the UC Benefit Overpayments receivable (principal and interest) for a portion of receivables in which a new methodology is necessary to better reflect the collection of overpayments as they age. It should be further noted that these two particular misstatements are being reported by the auditors for the first time in the current year, and were not noted in prior years' misstatements.

Criteria: Strong internal controls should ensure that account balances and adjustments are reported accurately in the BFS in accordance with GAAP, and are appropriately reviewed and approved by management.

Cause: L&I and Office of Comptroller Operations internal review procedures in the UC GAAP template preparation process were not thorough enough to detect and correct the errors noted above by the auditors.

Effect: The above balances in the UC Fund government-wide and fund financial statements were misstated and required auditor-proposed adjustments. In addition, the noted weaknesses in internal review procedures and accounting systems could continue to result in additional misstatements in the BFS in the future.

Recommendation: While we have noted improvements in both L&I and Office of Comptroller Operations methodologies and internal review procedures for preparing the UC Fund GAAP template, additional improvements to these methodologies and internal review procedures are recommended to ensure GAAP accruals are accurate.

Agency Response: The Office of Comptroller Operations agrees with the finding. The Department is working with the Comptroller's Office and OIT to develop a review and analysis of the overpayment collection from 2002 to the current year in order to apply that data to a new methodology for GAAP reporting purposes. The review will include separating fault and non-fault overpayments, principal and interest, and also a further review of what may need to be designed for use in the soon-to-be-implemented UC Modernization System (UCMS).

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

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

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2010

Finding 10 – 02:

Office of the Budget – Bureau of Financial Management

Material Weaknesses Over Financial Reporting of Debt in Various GAAP Templates

Condition: The Commonwealth’s Basic Financial Statements (BFS) contained material misstatements related to general obligation bonds, refunding bonds, and tax anticipation notes in various funds that required adjusting entries proposed by the auditors. Our testing of the General Fund GAAP Template for FYE June 30, 2010 disclosed an \$801 million misstatement and adjusting entry to relieve the Tax Anticipation Notes liability and an \$801 million misstatement and adjusting entry to the Tax Note Sinking Fund to eliminate revenue and expenditures equal to the Tax Anticipation Notes. Our testing of the Capital Facilities Fund GAAP Template for FYE June 30, 2010 disclosed a \$148 million misstatement and adjusting entry to post general obligation bond proceeds for Pennvest, a discretely presented component unit. Our testing of the OB-BFM GAAP Template for FYE June 30, 2010 disclosed an \$83.8 million misstatement and adjusting entry to post the current year Net Deferred Refunding Loss in the Governmental Activities column in the Statement of Net Assets. In addition, the auditors noted that required BFS note disclosures were missing and proposed additions related to tax anticipation notes and a subsequent event related to the issuance of general obligation bonds as required by GAAP.

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. In addition, regarding the Pennvest bonds, GAAFR guidance in Chapter 5 related to “debt-financed capital grants” states that when governments use debt to finance grants to other governments (such as discretely presented component units), the appropriate accounting and financial reporting treatment is to report an Other Financing Source and an expenditure in the appropriate governmental fund. Regarding the Net Deferred Refunding Loss, GASB 34, paragraph 146, states that GASB 23 provisions apply to governmental activities on a prospective basis. GASB 23 requires deferral and amortization of the difference between the reacquisition price and the net carrying amount of the old debt in debt-refunding transactions. This difference, known as the Net Deferred Refunding Gain/Loss, is required to be reported as a deduction from or an addition to the new debt liability. OB-BFM should also have adequate procedures in place to review and ensure the inclusion of appropriate BFS note disclosures.

Cause: Office of the Budget – Bureau of Financial Management internal review procedures in its GAAP template preparation process and BFS note disclosure compilation were not thorough enough to detect and correct the errors noted above by the auditors.

Effect: Various balances in the government-wide and fund financial statements were materially misstated and required auditor-proposed adjustments. BFS note disclosures also required auditor-proposed revisions. In addition, the material weaknesses in internal review procedures could result in additional material BFS misstatements in the future.

Recommendation: Office of the Budget – Bureau of Financial Management should improve its control procedures over the preparation and review of its financial statements to ensure the accuracy and completeness of financial reporting in accordance with GAAP.

Agency Response: The Bureau of Financial Management (BFM) does not agree with all of the conditions included in this preliminary finding. While the auditors directed BFM to make several of the adjustments, others were identified by BFM during the CAFR preparation and review processes and made without communication or direction from the auditors.

We agree the auditors pointed out to BFM that the receipt of the tax anticipation note (TAN) proceeds and the repayment of the TANs were accounted for in different funds and an adjusting entry was needed. We note the accounting for the TAN proceeds and repayment was correctly accounted for during the fiscal year, however, because of the use of separate funds an additional adjustment was needed to eliminate the TAN liability.

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Basic Financial Statement Findings - June 30, 2010

Finding 10 – 02: (continued)

The condition related to the posting of the GO bond proceeds that receipted in the Pennvest fund did not result from the auditors testing of the Capital Facilities Fund as stated. Rather, the auditors inquired as to the Commonwealth's reporting convention of the GO proceeds that were reported by Pennvest, and recommended that BFM follow guidance found in the GAAFR. BFM chose to follow this guidance and post an adjustment in period 14 to the Capital Facilities Fund. This activity was completed prior to the completion and audit testing of the Capital Facilities Fund template.

The deferred net refunded loss adjustment was posted in period 15 as a result of BFM's reconciliation of the note disclosure to the financial statements. The reconciliation was completed prior to the auditors making inquiry about this adjustment. We recommend the language concerning the deferred net refunded loss adjustment be deleted from this preliminary finding.

We agree with the auditors that GASB Statement 38 requires the addition of a schedule when disclosing short-term indebtedness even if no short-term debt is outstanding. BFM added a schedule to Note J based on advice from the auditors.

We disagree that the auditors advised BFM of the requirement to disclose the October 12, 2010 TAN and recommend this language be deleted from this preliminary finding. BFM drafted Note R TAN disclosure language prior to the auditor inquiries on TANS.

We agree that the auditors advised BFM of additional debt issued by the Turnpike Commission that required disclosure.

Auditors' Conclusion: As noted in the agency response above, BFM agreed that an additional adjustment was required to eliminate the TAN liability and that GASB required the addition of a schedule to Note J as part of the disclosure related to short-term indebtedness. BFM also agreed that an additional disclosure was required to report additional debt issued by the Turnpike Commission.

Regarding the posting of the Pennvest GO bond proceeds, the adjustment posted by BFM was based on a recommendation by the auditors that BFM should follow GAAFR guidance to properly report bond proceeds issued by the Primary Government as a grant for the benefit of Pennvest, a discretely presented component unit. No established policy or procedure was in place to do this.

Regarding the Subsequent Event disclosures in Note R, the auditors agree that BFM properly disclosed a subsequent event related to the First Series of 2010-2011 Tax Anticipation Notes which were issued October 12, 2010 in the amount of \$1 billion. The disclosure which is cited in the above finding condition and was recommended by the auditors was the subsequent event disclosure related to the Third Series of 2010 General Obligation Bonds which were issued December 23, 2010 in the amount of \$650 million. No procedure was in place to disclose this in Note R.

Regarding the net deferred refunding loss adjustment, there was no current-year procedure in place to review and ensure the posting of this adjustment to BFM's GAAP Template in Period 14 in a timely fashion, so an internal control weakness was present. There is no change to our recommendation that management should improve its internal controls in this regard.

As noted above, a material weakness is present since BFM does not have adequate procedures in place over the preparation and review of its financial statements and BFS note disclosures related to general obligation bonds, refunding bonds, and tax anticipation notes, which resulted in various adjustments to the financial statements and additions to BFS note disclosures. BFM needs to improve its control procedures over the preparation and review of its financial statements and BFS note disclosures in order to ensure the accuracy and completeness of its financial reporting in accordance with GAAP in future periods.

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Basic Financial Statement Findings - June 30, 2010

Finding 10 – 02: (continued)

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

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

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2010

Finding 10 – 03:

Pennsylvania Department of Labor and Industry State Workers' Insurance Fund

Noncompliance With Statutory Limits for Equity Investments (A Similar Condition Was Noted in Prior Year Finding #09-08)

Condition: In accordance with The Fiscal Code (Code) (*see* Act 50 of 2009), 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 the Code to the lesser of twenty percent of the book value of its assets or one hundred percent of its statutory surplus. Further, in the event that SWIF's statutory surplus is less than seven and one-half percent of the book value of SWIF's assets, the Code requires SWIF to limit its equity investments to 75 percent of SWIF's aggregate surplus as applicable to savings banks¹ as provided for in Section 504 of the Banking Code of 1965. SWIF is also required to closely adhere to the prudent man rule of Section 504(c) of the Banking Code of 1965 when managing its investment portfolio.

During the current year audit, we noted that SWIF's equity investments exceeded the legal limit by \$91,996,252 as of December 31, 2009. As of December 31, 2009, SWIF's book value of its assets was \$1,640,600,449 and the statutory surplus totaled negative \$47,775,794. Using the lesser of these limitations noted, which was the negative surplus of \$47,775,794, SWIF was statutorily limited to \$0 in equity securities at year end. However, as of December 31, 2009, SWIF held a total of \$91,996,252 in equity securities at cost. Therefore, SWIF's equity investments exceeded the legal limit by \$91,996,252 at December 31, 2009. This noncompliance is being reported for the fourth year in a row. Since SWIF's surplus was negative at year end, it does not appear that SWIF was managing its investment portfolio in a prudent manner.

In addition, during the audit period ended December 31, 2009, SWIF had no formal process in place to document its compliance with these investment limitations.

Criteria: As of December 31, 2009, SWIF was subject to the equity investment provisions set forth in Section 1731-A(1) of the Code, as amended by Act 50 of 2009 which was effective from June 30, 2009 to June 30, 2010, and states as follows:

Notwithstanding any inconsistent provisions of section 1512 of the act of June 2, 1915 (P.L. 736, No. 338), known as the Workers' Compensation Act, section 504 of the act of November 30, 1965 (P.L. 847, No. 356), known as the Banking Code of 1965, section 922 of the act of December 14, 1967 (P.L. 746, No. 345), known as the Savings Association Code of 1967, and any other law of this Commonwealth, 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, except that in the event that the statutory surplus is less than 7 ½% of the book value of the assets of the State Workers' Insurance Fund, the investment in equities may not exceed the percentage set forth in the provisions applicable to savings banks in section 504 of the Banking Code of 1965.*

¹Please note that Section 102(x) of the Banking Code of 1965 defines a "savings bank" as "a corporation with or without capital stock."

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2010

Finding 10 – 03: (continued)

(1.1) Investments in equities shall be made subject to the prudent man rule of section 504(c) of the Banking Code of 1965.

(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).

Section 504(b)(vi)(B) of the Banking Code of 1965 states as follows:

(b) Authority under this act or other statutes - Except as otherwise provided in its articles, a savings bank may, in addition to investments authorized by its articles, other provisions of this act or other statutes, make investments in:

(vi) Shares of preferred stock, guaranteed stock or common stock of a corporation or similar entity existing under the laws of the United States, any state or the District of Columbia, subject to:

(B) A limit for the aggregate cost of all shares acquired pursuant to this subsection (vi) of the lesser of seven and one-half percent of the book value of the assets of the savings bank or seventy-five percent of the aggregate of its:

(I) surplus, unallocated reserves, undivided profits and subordinated securities, in the case of a mutual savings bank, or

(II) capital, surplus and capital securities, in the case of a stock savings bank, at the time of acquisition of each of such shares.

Section 504(c) of the Banking Code of 1965 states as follows:

(c) Prudent man rule-- Investments which are stated to be subject to the prudent man rule shall be made in the exercise of that degree of judgment and care under the circumstances then prevailing which men of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income to be derived therefrom as well as the probable safety of their capital.

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

Cause: SWIF personnel indicated that they were aware of the limitation on equity investments. SWIF personnel stated that the State Workers' Insurance Board and SWIF's investment advisor are monitoring SWIF's compliance with the equity limitations in Act 50 of 2009. SWIF personnel stated that SWIF is gradually rebalancing its investment portfolio to ensure compliance with the Act, but the rebalancing must be done gradually in order to avoid investment losses for SWIF.

It was also noted that the Banking Code of 1965's "prudent man rule" is outdated because it does not include key elements of the "prudent investor rule" as outlined in the Uniform Prudent Investor Act promulgated by the National Conference on Uniform State Laws and adopted in 1994. In 1999, the Pennsylvania General Assembly amended the Pennsylvania Probate Code by adopting the "prudent investor rule" through Act 28, but the Banking Code was not updated to encompass the "prudent investor rule."

Effect: SWIF is in violation of the Code and Section 504 of the Banking Code of 1965. This may have created a greater risk to investment principal since it over-invested more in equity securities than the Code allowed at December 31, 2009 and throughout the year under audit. In addition, because SWIF did not provide evidence of adequate procedures in place to monitor compliance with these requirements, including adherence to the prudent man rule, there is little assurance that SWIF was in compliance with the investment limitations after our year under audit.

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Basic Financial Statement Findings - June 30, 2010

Finding 10 – 03: (continued)

Finally, it was noted that Act 50 of 2009 abolished the Fiscal Code’s Chapter 1, Article XVII—A, Subarticle D (relating to Investments),² as of June 30, 2010, which was subsequent to the current audit period which ended December 31, 2009. This also eliminated Section 1731-A (related to the State Workers’ Insurance Board), including all references to the applicable Banking Code provisions. Therefore, effective July 1, 2010, SWIF’s equity investments are no longer subject to the limitations which were included in this legislation, and this could add further risk to SWIF’s investment principal since there are no longer any percentage limitations in place to preserve SWIF’s investment principal in future periods.

Recommendation: We recommend that internal controls be strengthened in SWIF’s monitoring of investments to ensure compliance with the equity limitations in the applicable state laws. In addition, SWIF should establish procedures to take appropriate future action to rectify any instances of noncompliance with equity investment limitations as noted above. SWIF should also, in cooperation with the Department of Banking, consider seeking a legislative change to the Banking Code’s prudence standard to ensure that it is updated to encompass all of the necessary elements of the “prudent investor rule” as contained in the Pennsylvania Probate Code, which was amended through Act 28 of 1999 (*see* 20 Pa.C.S. § 7203, as amended). Finally, SWIF management and the General Assembly should work together and consider the feasibility and appropriateness of re-enacting the Fiscal Code’s Chapter 1, Article XVII—A, Subarticle D (relating to Investments) as soon as possible in order to ensure that the original intent of this law is met to preserve SWIF’s investment principal in future periods.

Agency Response: This finding is based on a misinterpretation of SWIF’s investment authority. SWIF is not required to limit its equity investments to 75 percent of its aggregate surplus, as that provision of the Banking Code applies to stock savings banks and mutual savings banks, of which SWIF is neither. SWIF would have no basis for selecting between the two standards in § 504(b)(vi)(B)(i) and (ii), as neither of those provisions is applicable to SWIF. Rather, SWIF is limited to investing seven and one-half percent of the book value of its assets, as provided in § 504(b)(vi)(B). SWIF has consistently interpreted § 504(b)(vi)(B) of the Banking Code in this manner. Further, based on the Finding, the Department of Auditor General did no detailed investigation into SWIF’s management of its portfolio. In fact, SWIF has significantly reduced its investment in equities over the audit period. As of December 31, 2008, 8.33 percent of SWIF’s portfolio was in equities; as of December 31, 2009, 6.4 percent of its portfolio was in equities.

SWIF does have a formal process to monitor compliance with its investment authority. A review of the minutes of meetings of the State Workers’ Insurance Board shows that the Board reviews the status of SWIF’s portfolio with SWIF’s investment advisor at each meeting.

The finding opposes SWIF’s use of the “prudent man rule.” However, that standard is Legislatively-enacted. SWIF is subject to it because the Legislature has so provided. SWIF has attempted to address its investment authority with the Legislature. However, the Legislature has not considered SWIF investment authority since the Fiscal Code provisions expired.

Finally, the finding indicates that SWIF is no longer subject to the Banking Code. This is in error. The Workers’ Compensation Act specifically states that the Board may invest any of the surplus or reserve belonging to the fund in such securities and investments as are authorized for investment by savings banks. 77 P.S. § 2612. Therefore, § 504 of the Banking Code still applies to SWIF, even after the expiration of the Fiscal Code provisions.

Auditors’ Conclusion: We strongly disagree with SWIF’s interpretation of its investment mandates with respect to equity investments. SWIF management’s response demonstrates its continued misinterpretation of its equity investment restrictions under the Fiscal Code during the audit period (*see* 72 P.S. § 1731-A(1), Act 50 of 2009, now expired) as applicable to savings banks in the Banking Code. The Banking Code defines a savings bank very broadly as “a corporation with or without capital stock,” which would include all types of savings banks, including mutual savings banks or stock savings banks. Therefore, it was clearly the intention of the General Assembly to limit SWIF’s equity

²See 72 P.S. § 1732-A.

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Finding 10 – 03: (continued)

investments to 75 percent of its aggregate surplus. To conclude that only the first part of Section 504(b)(vi)(B) of the Banking Code pertaining to the seven and one-half percent limitation as it applies to SWIF unreasonably disregards the “seven and a half percent” clause of Section 1731-A(1) and the 75 percent equity investment limitation of Section 504 of the Banking Code.

Regarding SWIF’s investment portfolio, as SWIF management is aware, the auditors confirmed SWIF’s entire investment portfolio with SWIF’s third party custodian, in addition to performing substantial detailed audit procedures on SWIF’s investment portfolio. With regard to SWIF’s equity portfolio, SWIF management stated in response to the prior year finding that its intention was to gradually rebalance SWIF’s equity portfolio. However, SWIF’s statement that its equity portfolio was reduced from 8.33 percent as of December 31, 2008 to 6.4 percent as of December 31, 2009 does not mitigate the fact that, in accordance with the investment limitations in the Fiscal Code and Section 504 of the Banking Code, SWIF’s negative surplus as of and during the fiscal year ended December 31, 2009 precluded SWIF from holding any investments in equities.

Although SWIF states that it has a formal process to monitor compliance with its investment mandates, this monitoring process was not adequate since it did not ensure that SWIF’s investment in equities was in compliance with the investment limitations in the Fiscal Code and Section 504 of the Banking Code during the fiscal year ended December 31, 2009.

Regarding SWIF’s use of the “prudent man rule”, our concern is that the prudence standard is outdated and SWIF should consider pursuing a legislative change to the Banking Code’s prudence standard to ensure that it is updated to encompass all of the necessary elements of the “prudent investor rule” as contained in the Pennsylvania Probate Code.

Moreover, SWIF management’s assertion that Section 2612 of the Workers’ Compensation Act, 77 P.S. § 2612, places equity investment limitations on SWIF under the Banking Code is based on a faulty premise because this provision **only** applies to investments of surpluses rather than restrictions on equity investments.

Therefore, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

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

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Basic Financial Statement Findings - June 30, 2010

Finding 10 – 04:

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

Lack of Procedures to Monitor, Assess, and Report the Impact of Highway and Bridge Infrastructure Replacement Activity in the BFS (A Similar Condition Was Noted in Prior Year Finding #09-03)

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 for the fourth year in a row 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.

PADOT Finance has been working with department engineers to develop an effective method to translate historical materials consumed data into a workable form to write off replaced assets, however, problems were encountered. Due to the difficulties experienced, PADOT Finance has decided that the most reasonable approach to write off replaced assets is to start tracking resurfacing projects and analyzing the impact of new resurfacing projects on the potential write off. This analysis was not completed during our audit period, therefore, there continues to be no formal procedures in place to write off removed and replaced infrastructure assets. PADOT Finance confirmed that no retirements occurred during our audit period.

Effect: Highway and bridge infrastructure balances and accumulated depreciation may 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.

PADOT’s Response: Effective fiscal year 2010-11, PennDOT Bureau of Office Services (BOS) implemented two additional bridge class codes: Bridge Preservation (10 years) and Bridge Rehabilitation (25 years). Effective fiscal year 2009, resurfacing projects are capitalized individually with a depreciable life of 10 years.

Regarding overstated highway balances, research revealed that data cannot be retrieved from our information systems that would allow us to calculate a current net value of resurfacing projects installed in prior years. Therefore, PennDOT BOS proposed a change to the methodology to calculate an annual highway asset write-down to our capitalized balances. The process and progress is as follows:

- Capture the dollars of resurfacing capital additions for fiscal year 2009-10. Data file built that includes all of the capitalized resurfacing projects for fiscal year 2009.

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Basic Financial Statement Findings - June 30, 2010

Finding 10 – 04: (continued)

- Obtain a construction cost index deflation factor that allows the fiscal 2009 capital additions (original cost) to be deflated by 10 years. Capitalized cost of each project was deflated into 1999 dollars by utilizing construction cost index factors obtained from Department engineers.
- Assume that the aforementioned 2009 acquisitions, restated in 1999 dollars, would now be fully depreciated if originally assigned a 10-year full accrual depreciable life. Calculated full depreciation of projects of fiscal year 2009 resurfacing projects restated in 1999 dollars.
- Calculate the remaining book value, as of June 30, 2010, for the deflated fiscal 2009 capital additions assuming a 25-year depreciable life. Calculated the remaining book value of projects of fiscal year 2009 resurfacing projects restated in 1999 dollars based on the assigned 25 year depreciable life.
- The calculated amount from step 4 represents the amount that the net book value of the 1999 highway asset balance is overstated. Calculated the difference between the two accumulated depreciation schedules to determine the amount that the asset balance is overstated and accumulated depreciation is understated on the Commonwealth's balance sheet.
- Inform OB-BFM of the value of the overstatement and determine a proper methodology to write-down the value of the 1999 highway asset. Methodology has been discussed with OB-BFM and data will be presented to OB-BFM in April 2011.
- In each subsequent year, deflate that year's resurfacing capital additions by a 10-year deflation factor and repeat the above stated methodology. Beginning with fiscal year 2004, there will be individual highway asset records representing projects throughout the state. The write-down could be applied to each highway asset via a CATT developed by IES.

Implementation of this methodology allows capitalized highway balances from 1999 through 2008 to be adjusted annually through 2019. Overstated highway balances representing years 1986-1998 could be adjusted using a similar approach. It was estimated that this methodology would be ready for implementation in fiscal year 2010 and that the write down of capitalized bridge assets would be addressed in fiscal year 2011.

In preparation for the OB-BFM April 2011 update, PennDOT BOS has also obtained the estimated percentage of total highway expenditure dollars that are resurfacing related. This data is available for fiscal years 2004-2010. The next step in this process is to identify a percentage factor to use for fiscal years 1985-2003. The process of identifying and compiling these percentage factors should be complete by fiscal year 2010 3rd quarter. In addition, by completion of the fiscal year 2010 3rd quarter, the aforementioned factors will be used to compile a file for each year (1985 through 2008) that calculates the estimated accumulated depreciation that would have been calculated within SAP for resurfacing projects using either the 25-year or 10-year useful life schedules. For point of reference, it is important to note that the actual accumulated depreciation calculated within the SAP highway balances contains those projects that were resurfacing related. SAP highway balances were capitalized within SAP by using one project for years 1980-2003. Individual projects, as mandated by GASB 34, were capitalized in SAP beginning in fiscal year 2004 for highway, bridge and right of way (Land) projects.

OB-BFM's Response: BFM agrees with the content of the proposed finding, with one exception. For the second paragraph in the **Cause** section of the finding, BFM has not discussed, evaluated or agreed to a DOT Finance strategy which would be limited to a resurfacing project costs (wearing surface) strategy.

BFM is continuing to work with DOT Finance to measure potential highway/bridge infrastructure asset retirements.

Auditors' Conclusion: Corrective action noted in the agency's response is planned to occur in fiscal year 2010-11 (subject to BFM concurrence), which is beyond our current audit period. Therefore, the finding and recommendation remain as previously stated for our current year. We will review this 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, 2010

Finding 10 – 05:

Office of the Budget – Office of Comptroller Operations

Weaknesses in BFS Reporting of Motor License Fund Encumbrances and Liabilities

Condition: During our audit of the June 30, 2010 BFS, we found that the Office of Comptroller Operations (OCO) overstated the Reserve for Encumbrances account by \$290.7 million because of weaknesses in: 1) the preparation and review of the Motor License Fund (MLF) GAAP template, and 2) the review of SAP system encumbrance balances for accurate financial reporting. As a result, an auditor proposed adjustment to the BFS was necessary.

A majority of PADOT encumbrance balances that related to federally reimbursable projects were incorrectly accounted for on the SAP accounting system in the state appropriation ledger. As a result, the Reserve for Encumbrance account at fiscal year-end contained not only the state portion but the federal portion of the encumbrance. Analysis and adjustment was required by OCO to remove the federal portion of encumbrances. Federal encumbrances should not be included in the reserve for encumbrances account within the Commonwealth BFS because they will be paid for by the federal government and they do not represent valid reservations of state funds reported in the MLF fund balance at fiscal year end.

We also noted a weakness where the MLF GAAP template preparers had no procedures in place to routinely monitor and evaluate the impact of old MLF projects with engineering/ROW expenditures that had not or would not proceed to construction in accordance with federal regulations (i.e. within 10 or 20 years), and would thus be required to be paid back to the federal government and reported in the BFS as a liability in the MLF. An accrual adjustment in the MLF GAAP template was made to account for the reimbursement of \$176M in ROW and engineering costs to the federal government for old projects that failed to meet the 10 and 20 year federal regulation criteria. Federal billings in the subsequent fiscal year were reduced by \$176M to reimburse the federal government.

Criteria: Strong internal controls should ensure that the account balances are reported accurately, are appropriately reviewed and approved by management, and are in compliance with Commonwealth CAFR reporting guidance.

Bureau of Financial Management guidance, “Preparing a Special Revenue Fund CAFR Template” Step 8 Encumbrances states: “.... Exclude the amounts for Federal Appropriations.”

Federal regulation CFR 630.112 (c) (1) states: “*In the event that actual construction of a road on this right-of-way is not undertaken by the close of the twentieth fiscal year following the fiscal year in which the project is authorized, the STD will repay to the FHWA the sum or sums of Federal funds paid to the transportation department under the terms of the agreement.*”

Federal regulation CFR 630.112 (c) (2) states: “*In the event that right of way acquisition for, or actual construction of, the road for this preliminary engineering is undertaken is not started by the tenth fiscal year following the fiscal year in which the project is authorized, the STD will repay to the FHWA the sum or sums of Federal funds paid to the transportation department under the terms of the agreement.*”

Cause: The OCO failed to properly review and adjust the Reserve for Encumbrances for the federally reimbursable portion of encumbrances in the reserve account. The General Assembly approves the Motor License Fund state appropriation budget which, unlike other agencies, inappropriately includes federal funds received for reimbursement of federal projects. Due to the fact that MLF federal encumbrances and expenditures are being accounted for in a state appropriation ledger these dollars incorrectly remained in the Reserve for Encumbrance account at fiscal year end.

OCO GAAP template preparers were not aware of the federal CFR regulation requiring projects to proceed to construction within 10 and 20 years until it was brought to their attention by PADOT to reimburse the federal government for ROW/engineering costs in projects identified as not meeting the federal 10 and 20 year regulation criteria for proceeding to construction.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2010

Finding 10 – 05: (continued)

Effect: As a result of the misstatement, the Motor License Fund balance sheet Reserved for Encumbrances account was overstated by \$290.7 million, requiring an auditor proposed adjustment. Without strengthened internal controls and proper review and analysis of the Reserve for Encumbrance account, MLF encumbrances will continue to be misstated in the future.

Also, without strengthened internal controls over GAAP template preparation and analysis of PADOT's old project activity, liabilities for paybacks to the federal government could be misstated in the BFS in the future.

Recommendation: We recommend that OCO strengthen controls to ensure that the Reserve for Encumbrances account does not contain federally funded projects and is accurately presented. We also recommend that OCO regularly communicate with PADOT to ensure that a liability to the federal government related to old project paybacks for ROW/engineering is properly recorded in the BFS at fiscal year end.

OCO Response: The OCO does not agree with either issue in this finding. The first issue mentioned in the finding is based on preliminary encumbrance information provided the auditor in September 2010, not final documentation that supported the journal entry made in the GAAP template. At that time the auditor was aware that BFM had posted adjustments for encumbrances associated with federal grants, and that the preparer was calculating the amounts to adjust for encumbrances associated with non-grant federal funds. E-mail correspondence OCO received from the auditor on September 30, 2010 included a question as to whether the preparer planned to adjust for encumbrances associated with federal programs within PennDOT's State ledgers in addition to encumbrances associated with ARRA funds, to which the preparer answered yes. The preparer was presently working on those additional calculations when the E-mail was received. The preparer posted the entry and completed the template, and it was reviewed and submitted to BFM and the auditors on October 8, 2010. The completed report reduced state ledger encumbrances properly for federal related obligations. There was no auditor proposed adjustment necessary to the BFS, as stated in this preliminary finding. As such, OCO determines this finding is unfounded and not applicable, and should be eliminated.

We also disagree with the finding against OCO that there was no procedure in place for the preparer to monitor and evaluate the impact of old MLF and engineering/ROW expenditures that had not or would not go to construction. Evaluating projects and complying with federal reviewing guidelines is an agency's responsibility. As such, PennDOT determined that certain projects would not go to construction and accordingly entered adjustments in SAP during the latter part of August and during September. The preparer became aware of these adjustments and with diligence entered the accrual for the June 30, 2010 template. Accordingly OCO determines this finding unfounded and not applicable, and should also be eliminated.

Auditors' Conclusion: In an e-mail dated September 29, 2010, the auditors brought to the attention of MLF GAAP template preparer that federal reimbursable projects accounted for in a state ledger were improperly included in the reserve for encumbrances balance. The auditor stated that the reserve for encumbrance balance should include only state ledger encumbrances and questioned why federal funds are being accounted for in a state ledger. The template preparer responded that this issue will be discussed with BFM which indicates that there was no adjustment planned at that time. It was only after discussions with the auditors and BFM's concurrence that the template preparer decided to post an adjustment to remove the federal portion of the encumbrance balance. The adjustment was able to be made in the MLF GAAP template because of the late timing of the completion of the MLF GAAP template.

It is the responsibility of the template preparer to communicate with the agency and determine the impact of any activity occurring at the agency in the preparation of the GAAP template. Although the agency determines which projects would not go to construction, the template preparer should monitor and evaluate the impact of old MLF projects that may require reimbursement to the federal government and could result in the need to report a liability in the BFS.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2010

Finding 10 – 05: (continued)

In its annual preparation of the year-end MLF GAAP template, OCO has never had established procedures in place to ensure that: 1) federal funds are properly excluded from the reserves for Encumbrances in the BFS, and 2) liabilities to the federal government are properly reported in the BFS for old federal projects that do not proceed to construction. As a result of these control weaknesses in preparation of the MLF GAAP template, BFS adjustments were necessary. Internal controls over GAAP template preparation need to be strengthened in the future to provide reasonable assurance that the above MLF amounts are free of error.

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

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

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2010

Finding 10 – 06:

Treasury Comptroller Office

Internal Control Weaknesses in Monitoring of Alternative Investments

Condition: The Treasury Department invests in various alternative investments. Treasury does not have adequate monitoring procedures in place to ensure investment returns on alternative investments are appropriately reported in the basic financial statements. The auditors identified a \$3 million error in the Motor License Fund’s investment balance at June 30, 2010 as a result of investment earnings on alternative investments not being recorded on a timely basis.

Criteria: The AICPA Practice Aid: *Alternative Investments – Audit Considerations* notes that “Taking responsibility for the valuation of the alternative investments will necessitate that the management of the investor entity has a sufficient understanding of the nature of the underlying investments, the portfolio strategy of the alternative investments, and the method and significant assumptions used by the fund manager to value the underlying investments. The nature and extent of management’s process for valuing investments, and the related internal controls, are particularly important when the investor entity invests in securities for which readily determinable fair market values do not exist. In these instances, management should have in place a process and internal control over that process to ensure that its alternative investments are recorded at amounts in accordance with its stated accounting policies. Management’s valuation process need not include recalculation of estimated fair values for alternative investments, but it should ensure that the investor entity’s management has a sufficient understanding of the characteristics of the underlying investments and the alternative investment’s valuation process for investments held as of the investor entity’s balance sheet date.”

Cause: There is a delay in receiving June 30 investment manager statements and supporting information for values of certain investments that are not traded in an active market.

Effect: There was a \$3 million error in the Motor License Fund’s investment balance as of June 30, 2010. Future significant errors may occur if internal controls are not strengthened.

Recommendation: We recommend that the Treasury Department develop an estimate of fair value for investments as of June 30 when complete information is not readily available within a reasonable time period after year end. Typical procedures completed by management to develop these estimates include the following: rolling forward last available statement for known transactions including purchases, sales, and distributions from the investment, review of the latest available underlying investments to develop expectations about returns, comparison to benchmark returns for the period, and discussion and other due diligence with investee company management.

Agency Response: Treasury agrees amounts reported in the Commonwealth’s financial statement must be accurate and correct. Effective internal controls are necessary to detect and correct errors in disclosures.

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, 2010

Finding 10 – 07:

Office of the Budget – Bureau of Financial Management

Internal Control Deficiency Over Reporting of Intangible Assets

Condition: In June 2007, the GASB issued Statement No. 51, “Accounting and Financial Reporting for Intangible Assets.” GASB 51 clarifies pertinent provisions of GASB Statement No. 34 which address capital asset reporting requirements in the basic financial statements. Among other things, the Commonwealth must report such intangible assets as computer software, which were not previously capitalized and amortized. The Commonwealth adopted the provisions of GASB 51 effective July 1, 2009. No restatement of beginning net assets was reported, as the Commonwealth and its component unit organizations either did not own intangible assets or owned only internally generated intangible assets which didn’t require retroactive reporting as of June 30, 2009.

The Commonwealth established a process to identify significant computer development projects working with the Bureau of Information Technology. The information was shared with the departments with the Commonwealth, but adequate follow-up was not done by the Bureau of Financial Management (BFM) and information initially provided to the auditors was incomplete and not provided on a timely basis. Additional intangible assets were discovered as a result of audit procedures performed to substantiate the intangible assets amount recorded by the Commonwealth. The known understatement of \$29.6 million was extrapolated and a projected unrecorded understatement of \$45 million existed as of June 30, 2010 which was included on the auditors’ summary of uncorrected audit differences.

Criteria: The Commonwealth issued Management Directive No. 310.36, dated December 10, 2009 (effective retroactively to July 1, 2009), establishing policy, responsibilities, and procedures for identifying, recording, and reporting certain computer software development and modification costs as capital assets, for the purpose of enabling the Commonwealth to comply with GASB 51. Additionally, the Commonwealth issued Administrative Circular No. 09-18, dated December 10, 2009 establishing due dates for identifying, recording, and reporting intangible capital assets and to otherwise effectively implement Management Directive No. 310.36.

Cause: The deadlines for reporting intangible asset cost to the Bureau of Financial Management (BFM) established in Administrative Circular No. 09-18 were not adhered to by the agencies. Additionally, there was inadequate timely follow-up by BFM.

Effect: The projected understatement of the Commonwealth’s intangible assets was approximately \$45 million as of June 30, 2010. Future significant misstatements may occur if internal controls are not strengthened.

Recommendation: We recommend that BFM complete the process of gathering documentation from all agencies to adequately determine the amount of intangible assets and to adjust the balances accordingly. Additionally, the guidelines for reporting future computer software development and modification costs should be enforced on a timely basis to ensure the completeness and accuracy of the Commonwealth’s capital assets balance.

Agency Response: BFM agrees with this finding and recognizes that improvements are needed to the agencies’ identification, data collection and reporting process for intangible assets. Additional communication with the agencies will be established to reinforce their responsibilities for reporting timely.

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, 2010

Finding 10 – 08:

Bureau of Financial Management – Office of Comptroller Operations Treasury Comptroller Office

Internal Control Weaknesses in Investment Disclosure Reporting (A Similar Condition Was Noted in Prior Year Finding #09-11)

Condition: The Bureau of Financial Management (BFM) is responsible for review of Note D, *Deposits, Investments and Financial Instruments With Off-Balance Sheet Risk*, to the Commonwealth's basic financial statements, based on information prepared by Treasury Comptroller's Office, the Bureau of Commonwealth Accounting and other funds/component units. In comparing information in the detail files used by BFM to prepare the disclosures required under Governmental Accounting Standards Board Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures*, with the information reported in Note D, we detected errors in Note D that required adjustments as follows:

- Nine instances were noted where investments were misclassified in the tables and charts.
- Three instances were noted where investments were inappropriately excluded from the tables and charts.
- Two instances were noted where amounts included in the tables and charts were calculated incorrectly.
- One instance was noted where the Commonwealth did not follow its internal classification policy.

Criteria: Effective internal controls are necessary to ensure that amounts disclosed in the Commonwealth's financial statements are accurate and meet the requirements of GASB 40.

Cause: Internal review procedures at the BFM, Treasury Comptroller's Office, and Bureau of Commonwealth Accounting were not thorough enough to detect and correct the errors noted above by the auditors.

Effect: The misclassification and other errors in the disclosures could impact users of the financial statements evaluating investment risks. Amounts reported in Note D of the Commonwealth's financial statements were misclassified and required auditor adjustments. In addition, because the internal review procedures did not detect these errors during the current audit, similar errors could result in future misstatements.

Recommendation: BFM, Treasury Comptroller Office, and staff in the Bureau of Commonwealth Accounting should re-evaluate the responsibilities, and the process, for the preparation of Note D. Management should evaluate the format and content of the note to make it easier to prepare and should also work with the financial institutions to provide the information necessary for the preparation of Note D on a timely basis. The basic note could be prepared in advance of the final Comprehensive Annual Financial Report (CAFR), and then a reconciliation process could be completed when the CAFR is drafted.

BFM Response: The BFM agrees that the preparation of Note D is not ideal, but does not agree that an internal control weakness exists at BFM. Due to the complexity of the Commonwealth's reporting entity and the time frame for submission of audited statements to GFOA, it is necessary for the BFM to share disclosures and statements with the auditors that have not been completely through managements review process. This course of action is also agreed to by both management and auditors in order to meet deadlines. This does not constitute an internal control weakness. Rather, it only demonstrates that management, in an effort to promote audit efficiencies, has shared disclosures and statements with the auditors before management's final review procedures have been completed. The December 6 and December 14 CAFR draft were both released to the auditors with notice that Note D was not final and still under review by the BFM.

Treasury Response: Treasury agrees with the assessment of Internal Control Weakness in Investment Disclosure Reporting.

Treasury misclassified seven securities in the Note D disclosures. Securities properly disclosed in the stand alone statements were incorrectly reported in the government wide disclosure.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2010

Finding 10 – 08: (continued)

Treasury failed to include certificates of deposit from the INVEST program in the cash and cash equivalent category of the investment by type chart.

Auditors' Conclusion: The misclassifications and other errors noted were not a result of reviewing early drafts of the financial statements, but resulted from review of files prepared to support required disclosures. Timing of the classifications of investments into the required risk disclosures does not require the final financial statements to be completed. Therefore, we do not agree that this does not constitute an internal control weakness. Our finding and recommendation, with the above clarifications, remain as previously stated. We will review any corrective action in the subsequent audit.

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

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2010

Finding 10 – 09:

Treasury Comptroller Office

Internal Control Weaknesses in Accounting for Securities Lending

Condition: The Treasury Department provides a securities lending program in which the various investments under custody of the Treasury Department participate. A contract between the Treasury Department and its custodian, acting as a lending agent, provides that the custodian lends securities owned by the participants to independent brokers, dealers and banks, acting as borrowers in exchange for collateral.

The auditors discovered a \$40 million error impacting the securities lending liability recorded in various funds and noted an inadequate Treasury process to capture and review securities lending collateral as part of the global allocation of the liability to the respective funds.

Criteria: Effective internal controls are necessary to ensure that amounts allocated to those funds and entities that participate in the securities lending program.

Cause: Internal review procedures at the Treasury Comptroller's Office were not thorough enough to detect and correct the errors noted above by the auditors.

Effect: Amounts reported in the Commonwealth's financial statements were misstated and required auditor adjustments. In addition, because the internal review procedures did not detect these errors during the current audit, similar errors could result in future misstatements.

Recommendation: Treasury Comptroller Office personnel should review and enhance the internal review procedures in place to ensure that the data used to prepare entries is complete and accurate to ensure that the Commonwealth's financial statements are accurately reported.

Agency Response: Treasury agrees amounts reported in the Commonwealth's financial statement must be accurate and correct. Effective internal controls are necessary to detect and correct errors in disclosures.

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, 2010

Finding 10 – 10:

Office of the Budget – Bureau of Financial Management

Internal Control Deficiencies Over Financial Reporting in the Preparation of the Basic Financial Statements

Condition: The preparation of the Commonwealth’s basic financial statements requires the selection and application of accounting principles that are in conformity with generally accepted accounting principles (GAAP). We identified several areas where the presentation of the financial information was not in accordance with GAAP, including the following:

- Unsettled trades in the Statutory Liquidator Fund were not appropriately recorded which resulted in an understatement of assets and liabilities amounting to \$152 million. This was included on the auditors’ summary of uncorrected audit differences.
- A “Memorandum of Agreement” (Agreement) between the Commonwealth and the various unions represented by the Pennsylvania Employees’ Benefit Trust Fund (PEBTF) permitted contributions to the PEBTF to be reduced, on a temporary basis, by 20 percent of the applicable employer contribution rate effective with the April 2009 monthly payment and continuing through and including the June 2010 monthly payment. The Bureau of Financial Management (BFM) originally recorded this liability for \$158.7 million only in the entity-wide financial statements. An adjusting entry was necessary and subsequently recorded to report the liability at the fund level.
- The “Reconciliation of the Balance Sheet Governmental Funds to the Statement of Net Assets”, included in the Commonwealth’s basic financial statements, reflects a reconciling amount of \$352 million between two BFS line items. BFM’s description for this reconciling item is “certain receivables are not reported as governmental fund assets because they are not collected during the availability period under the modified accrual basis of accounting”. However, while revenue related to these receivables should not be recognized under the modified accrual basis of accounting in the fund financial statements, it is inappropriate to not gross up the receivable and unearned revenue in the General Fund balance sheet. As such the General Fund balance sheet receivables and unearned revenues were both understated by \$352 million. This was included as a gross-up of assets and liabilities in the General Fund on the auditors’ summary of uncorrected audit differences.
- The Commonwealth established and sponsors two primary plans which provide postemployment benefits other than pensions (OPEB). These two plans are the Retired Employees Health Program (REHP) and the Retired Pennsylvania State Police Program (RPSPP). These two plans are administered by the PEBTF, which acts as a third-party administrator and administers the REHP and RPSPP under an administrative agreement with the Commonwealth. During the fiscal year ended June 30, 2010, the Commonwealth funded \$515 million and \$62 million of annuitant health care claims and administrative costs for the REHP and RPSPP, respectively. BFM did not reflect its funding totaling \$577 million for the REHP and RPSPP as a gross-up to both employer contributions and benefit costs in the Other Postemployment Benefits Investment Pool’s, a Pension (and Other Employee Benefit) Trust Fund, Statement of Changes in Fiduciary Net Assets. This was included as a gross-up to employer contributions (additions) and benefit payments (deductions) on the auditors’ summary of uncorrected audit differences.
- BFM incorrectly reported non-operating revenues within the “cash flows from operating activities” category rather than in “cash flows from non-capital financing activities”. The presentation was subsequently corrected in the issued basic financial statements.
- The Commonwealth accrues a compensated absences liability for employees’ unused annual leave and sick leave. The liability is calculated and adjusted at fiscal year-end. The original entry booked by the Bureau of Financial Management (BFM) did not agree to the supporting schedules provided to the auditors. The auditors determined that the liability was understated and a correcting entry of approximately \$19.3 million was posted to correct the basic financial statements.

Criteria:

- To record investments on a trade-date basis as required by GAAP, unsettled investment trades should be recorded.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2010

Finding 10 – 10: (continued)

- Governmental Accounting Standards Board Interpretation No. 6 (GASBI6), *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, states that “In the absence of an applicable accrual modification, governmental fund liabilities and expenditures should be accrued. Liabilities that governments normally pay in a timely manner and in full from expendable available financial resources (for example, salaries and utilities) should be recognized when incurred, without regard to the extent to which resources are currently available to liquidate the liability.”
- GASB Codification Section 1600.107 states that “Revenues and other increases in governmental fund financial resources that usually can and should be recorded on the accrual basis (“accrued” in this context refers to the modified accrual basis of accounting) include property taxes, regularly billed charges for inspection or other routinely provided services, most grants from other governments, interfund transfers and other transactions, and sales and income taxes where taxpayer liability has been established and collectibility is assured or losses can be reasonably estimated”. Under the modified accrual basis of accounting, such resources also need to be “available” for revenue recognition. As such, an offsetting liability is necessary to reduce an asset for that portion of resources that does not meet the “available” criteria.
- Governmental Accounting Standards Board Statement No. 43, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes reporting requirements for OPEB plans that are administered as trusts (or equivalent arrangements). Reporting requirements for the statement of changes in plan net assets are included in paragraphs 26 through 28 and requires the gross up of the contributions and benefit payments in the OPEB trust fund.
- Governmental Accounting Standards Board Codification 2450.118 indicates cash inflows from noncapital financing activities include:
 - b. Cash receipts from grants or subsidies except (1) those specifically restricted for capital purposes and (2) those for specific activities that are considered to be operating activities of the grantor government.
- To address prior years’ OMB Circular A-133 audit findings related to unallowable payments for unused employee leave, the Commonwealth implemented, effective July 1, 2009, a Leave Payout Benefit Rate Approach to allocate leave payout expense. This approach was implemented to result in a fair and equitable allocation of leave payout costs across both state and federal programs in accordance with the provisions of OMB Circular A-87. This approach was reviewed and approved by the U.S. Department of Health & Human Services, Division of Cost Allocation.

Cause: BFM personnel responsible for the preparation and review of the Commonwealth’s GAAP templates that drive the completion of the Comprehensive Annual Financial Report (CAFR) misinterpreted or were unaware of the accounting and reporting guidance, or the effect of newly implemented accounting practices, noted above. The Commonwealth’s internal control over financial reporting includes a review of the CAFR by a BFM Technical Review Committee; however, this review was not completed by BFM on a timely basis due to delays in the CAFR production schedule. Additionally, the Commonwealth maintains its books and records on a budget basis of accounting throughout the year and the conversion to GAAP for financial reporting is done once per year which results in a process that is not part of the monthly closing, reconciliation and reporting cycle.

Effect: The draft financial statements were not presented in accordance with generally accepted accounting principles thus requiring various adjustments. Future significant misstatements may occur if controls are not strengthened and significant improper misclassifications could impact the decisions made by users of the financial statements.

Recommendation: We recommend that BFM enhance its review procedures when implementing new accounting policies/practices or changes to existing accounting policies/practices. Additionally, training of the template preparers should include more emphasis on the accounting principles behind what is being done in addition to the necessary steps to complete the templates. Lastly, a timely review of the CAFR by the Technical Review Committee should be performed in the future to ensure the CAFR is prepared and presented in accordance with generally accepted accounting principles.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2010

Finding 10 – 10: (continued)

Agency Response: The auditors identified six areas where financial statement adjustments were made or audit differences exist. The two largest audit differences, the third and fourth bullet in **Condition**, were presented to the BFM just hours prior to the Governor’s signature on the Management Representation Letter; the BFM was not afforded appropriate time to respond. The BFM is currently reviewing the auditor’s interpretation of GASB 43 and its application to the Commonwealth’s Other Post Employment Benefit Trust Fund (the fourth bullet.)

The audit of the Commonwealth is complex and the auditors are afforded the opportunity to review different components the CAFR while they are being compiled and prior to completion. This process, while not ideal, is not an internal control deficiency. Instead this process allows both the auditors and management to implement efficiencies. The BFM actively seeks improvements to the CAFR process each year.

Auditors’ Conclusion: We agree that the Commonwealth is complex and we review material throughout the closing and reporting process which is typical for an audit of this size and complexity. The items identified by the audit process described above are collectively a significant deficiency as they were identified in data that was completed by management and ready for audit. We continue to believe to eliminate or minimize the conditions identified above, the year end GAAP conversion closing process and timeline need to continue to be strengthened with timely applied knowledgeable resources.

The finding and recommendation, with the above clarifications, remain as previously stated. We will review any corrective action in the subsequent audit.

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

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2010

Finding 10 – 11:

Office of the Budget Office of Administration

General Computer Controls in Various Commonwealth Agencies Need Improvement (A Similar Condition Was Noted in Prior Year Finding #09-16)

Condition: In 2002, the Commonwealth began implementation of Enterprise Resource Planning (ERP) software SAP to replace its accounting system. SAP was implemented in phases by transitioning the various departments, boards, and commissions into SAP during an approximate four year period. Although the objective of implementing ERP software is to centralize all entity accounting functions, due to the size and complexity of Commonwealth agencies and operations, numerous feeder systems still exist outside of SAP that pass significant financial data to SAP. During audit planning, we learned that a current overall schematic/diagram of SAP that includes all SAP system interfaces does not exist as of June 30, 2010.

We reviewed the IT controls over SAP and the significant financial system interfaces to SAP as part of our general computer controls reviews at various Commonwealth agencies for the fiscal year ended June 30, 2010. As part of our IT controls reviews, we inquired about policies and procedures relevant to end-user computing programs. End user computing programs are defined as spreadsheets, databases, and other customized programs developed to support existing applications in calculating data that may be used to support financial reporting. We found management has not implemented standardized policies to address IT controls related to access, change control, development, and backup of end user computing programs and supporting data.

We also reviewed the annual security assessment performed by an external provider and found that patching of some network servers located at Commonwealth Technology Center was not being performed adequately, or in a timely manner, as of June 30, 2010, to provide sufficient protection for the servers. Since the majority of the vulnerabilities noted were on servers where Commonwealth Technology Center provides only floor space in a controlled environment, various agencies were responsible for the patches that were not current. However, the Chief Technology Office management acknowledged that they will continue appropriate follow-up to ensure all agencies are aware of these vulnerabilities and the need for timely updates.

Our reviews also disclosed the following internal control deficiencies in individual agencies that need to be addressed by Commonwealth management:

Office of the Budget

Bureau of Commonwealth Payroll Operations (BCPO)

1. Errors in hours are identified in the time tracking and attendance system and are automatically generated and posted to a 90-day error report. However, there are no procedures in place to resolve the errors.
2. There were no controls in place by BCPO, Bureau of Integrated Enterprise Systems, or Human Resources (HR), to routinely monitor employees who have access to sensitive information in the payroll system to ensure they are not performing sensitive functions (accessing or modifying sensitive payroll information) outside of their official duties.

Pennsylvania Lottery

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented for the Back Office application.
2. Password requirements for the Back Office application are not configured to enforce adequate complexity settings, i.e., there is no lockout after a certain number of unsuccessful attempts.
3. The Back Office Application has an excessive number of administrators (18). Further, a lack of segregation of duties issue exists in that 10 administrators are also application developers.
4. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.

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5. We noted an excessive amount of users (69) have physical access to the data center housing the server(s) which maintain the Back Office application.

Department of Labor and Industry

1. There is no written system development life cycle established to outline requirements for planning, designing, developing, testing, approving, and implementing new applications and upgrades to existing applications, including vendor-developed software.
2. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.
3. Outside contractors have development responsibilities as well as the ability to change the operations schedule resulting in a lack of segregation of duties in the UC system.

State Workers' Insurance Fund

1. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.
2. There are no formal procedures in place if data migration is performed as a result of new/upgraded application software to perform reconciliations to ensure the data migrated successfully and accurately.

Department of Transportation

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented in the following applications: Multi-Model Project Management System (MPMS) – used in original project setup and coding, Engineering and Construction Management System (ECMS) – processes engineering and construction project activity, Driver License & Control (DL&C) – database and system of all licensed drivers and identification card holders, and Commonwealth Automated Registration and Titling System (CARATS) - records Motor License fund vehicle revenue and motor vehicle sales tax transactions. Additionally, there is no supporting documentation kept to show a periodic access review to determine the appropriateness of users with privileged access has been implemented within the dotGrants application.
2. Password requirements for the dotGrants application are not configured to enforce adequate complexity settings as follows:
 - Passwords can be as long as 20 characters but there is no minimum length
 - Passwords are set to expire every 60 days
 - Passwords can be alphanumeric, but are not required
 - There is no lockout after certain number of unsuccessful attempts
3. Documentation is not retained to show that terminated users are removed in a timely manner in the dotGrants applications.

Department of Public Welfare

1. A regular review of user IDs with access to DPW systems, including IDs with access to perform sensitive system functions and direct database access, is not performed by management to verify that access rights are appropriate and segregation of duties conflicts do not exist.
2. A daily ADI and Server Error Report is used to track and monitor job failures involving DPW servers. A selected report included five job failures for which no follow-up resolution was documented.
3. Shared user IDs are used to move changes into production through OpCon for DPW-maintained applications. Additionally, a complete listing of user IDs and individual users with the ability to promote changes to production was not available for inspection. Therefore, changes promoted to production through OpCon (change management software) are not associated with specific individuals to provide for individual accountability in the event of an error or unauthorized change.
4. Mainframe user accounts for the CIS mainframe system are not required to comply with Commonwealth password policies. Passwords are not configured to require lockout after invalid attempts, character complexity, or to restrict the use of unauthorized passwords.

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The following control deficiencies related to Electronic Benefits Transfer (EBT) were noted as a result of the SAS 70 examination of JP Morgan Treasury Services, the service organization that provides EBT services to DPW:

5. Three of 532 users with EBT access were not included in the annual application access recertification process. In addition, one of the 762 users with access to Case Tracking was not included in the annual application access recertification process. Additionally, one of 50 users sampled was inappropriately recertified to retain application access not commensurate with job responsibilities.
6. Automated notification and reporting of TSS transfers to appropriate management were in place and functioning; however, manual processes related to the review of these reports were not consistently performed to ensure access to operating systems was being amended or revoked, when appropriate.
7. Automated notifications and reporting of GTI transfers to appropriate management was in place and functioning; however, manual processes related to the review of these reports were not consistently performed to ensure access to operating system was being amended or revoked, when appropriate. As of January 1, 2010, through March 31, 2010, the service auditor tested the control and noted four of 25 instances where users access privileges associated with transferred employees were not reviewed by the manager. As of April 1, 2010, additional escalation procedures were implemented to support the transfer process to ensure GTI user access to operating systems was being amended or revoked, as appropriate after a transfer event. For the period April 1, 2010 through June 30, 2010, this control was tested without exception for GTI users.

Department of Health

1. Bureau of Human Resources (HR) does not consistently notify network and application administrators when employees are terminated.
2. Segregation of duties is not enforced between development and implementation into production for system software changes to CORE (central system).
3. The password settings for the CORE system are not required to comply with Commonwealth password policies. Passwords are not configured to enforce password history or invalid password lockout threshold.
4. Requests for access to the WIC application are not required to be submitted in writing. Documentation related to new user access is not consistently applied. Additionally, access to the WIC application at the remote QuickWIC offices is managed at the remote office level by the QuickWIC security officers, and procedures for adding remote users and formally documenting requests for access are not consistently applied.
5. The number of badges (66) with access to the data center appears to be excessive.

Department of Education

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented.
2. End users in the Division of Subsidy and Data Administration use Microsoft Excel to calculate the allocation of the Basic Instructional Subsidy. Policies and procedures have not been established to ensure IT general controls over access to programs and data, program change, program development and computer operations are in place for this application or for any other significant end-user applications.
3. Servers at PDE have machine-level administrator accounts which are accessed by several employees using a shared password. The passwords for these accounts have not been changed since 2009. Additionally, while use of these accounts is logged, the logs do not identify which employee used the account.
4. A network administrator who previously worked as a developer on the FAI project was still listed as a member of the FAI development group causing a lack of segregation of duties.

Department of Revenue

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented with the client/server environment.
2. A lack of segregation of duties exists because programmers can promote changes to production in both the client/server and mainframe environments.

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3. There are no formal procedures in place with both the mainframe and client/server environments if data migration is performed as a result of the new/upgraded application software to perform reconciliations to ensure the data migrated successfully and accurately.

Liquor Control Board:

1. Physical access controls are lacking over the point of sale and warehouse management systems.
2. PLCB did not establish adequate password complexity and logical access rules for the warehouse management application, the point of sale system, and the Oracle applications.
3. Individuals accessing Oracle Retail Management System cannot change their own passwords.
4. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process in the warehouse management system.
5. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented in the Oracle and the point of sale systems.
6. A number of contractors have “administrative” or “super user” access in the Oracle system, and PLCB has no policies or procedures in place to monitor the contractors’ use of these powerful attributes.
7. A post implementation review was not completed for Oracle Wave IV. Oracle Wave IV was titled “Vendor Order Portal”, which enabled licensees to look up information in Oracle before ordering.
8. Monitoring of user activity for access violations in the point of sale and warehouse management system is not conducted.
9. PLCB was unable to provide system-generated evidence of segregation of duties between application developers and those who can promote changes into production in the Oracle, warehouse management, and point of sale systems.
10. PLCB formed a “Change Control Board” (CCB) in August 2009 and developed a “Change Control Procedure” document. However, these change control procedures are not consistently applied to all program changes, e.g., “break/fix”, all application enhancement, and all new system development projects. Further, the actions of the CCB are not consistently documented, approval for Oracle Wave IV “go live” was not documented, and certain changes have been made to the Oracle production environment by the outside vendor without approval by the CCB.

Criteria: For the auditors to conduct the audit with reliance on computer controls, a preliminary requirement is an overall diagram/schematic of SAP that includes all the key financial system interfaces. A well designed system of internal controls dictates that sound general computer controls (which include adequate segregation of duties, access controls to programs and data, and program change controls) be established and functioning to best ensure that overall agency operations are conducted as closely as possible in accordance with management’s intent.

Cause: Although an overall diagram of the Commonwealth’s key financial systems was prepared as part of the implementation of SAP software, it has not been kept current because of other priorities. Management has not addressed the various general computer control deficiencies because of several reasons, but many of the deficiencies are a result of limited staffing and budgets. Some of the deficiencies also are a result of software limitations. Commonwealth management believes that, although strong computer controls are clearly important in agency operations, there are manual compensating internal controls within agency operations that mitigate the impact of the general control deficiencies reported above.

Effect: Without an overall diagram/schematic of SAP that includes all the key financial system interfaces, the auditors are precluded from reliance on computer controls. If general computer control areas are not improved in the various agencies, computer and other agency operations may not be conducted in accordance with management’s intent. Management’s contention that some of the computer control deficiencies are mitigated by manual compensating internal controls has been relevant to date; however, reliance on manual compensating internal controls becomes increasingly problematic as the Commonwealth experiences personnel changes and/or procedural changes that reduce the effectiveness or eliminate the manual controls. Also, the Commonwealth has demonstrated its intention to rely more on

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computer controls and less on manual controls as evidenced by the Finance Transformation initiative, which in part, automated the invoice approval process. Further, Commonwealth management has communicated its intentions to rely more on the capabilities and stability of the SAP Enterprise Resource Planning implementation.

Recommendation: We recommend that Commonwealth management update and maintain a current diagram of SAP and its interfaces. We also recommend that Commonwealth management review the various general computer control deficiencies noted above and take the necessary actions to resolve them.

Office of Administration (OA) Response:

Office for Information Technology, Bureau of Integrated Enterprise System (IES)

IES maintains a diagram of the IES SAP integration architecture that shows the DPH managed servers, network connections to the Commonwealth MAN and Internet, and key integration partners. We also maintain an Excel spreadsheet that contains detailed information for every IES Core R/3 system interface, inbound (delivered to) and outbound (delivered from). Spreadsheet data includes:

- An Object ID that identifies the interface
- IES Functional Team responsible for the interface
- Interface direction – inbound or outbound
- Type of transfer – MQ Series, FTP, or both
- Business partner receiving the interface – Commonwealth agency or external vendor
- Business system or program from which the interface is created or processed by
- A functional identifier that denotes the business requirements to which the interface applies
- A task name describing the purpose of the interface
- Date the Detailed Functional Specifications were approved for development
- Planned development date
- Actual development date
- Planned Functional User Testing
- Actual Functional User Testing

IES also maintains Detailed Functional Specifications for all IES development activity including requirements for the creation of or processing of interface files.

The above information is currently available for audit review and was available on, and before, June 30, 2010.

Office for Information Technology, Chief Technology Office (CTO)

The CTO concurs with the findings that some of the servers were not patched appropriately and understands that of the 35 servers found with vulnerabilities, 30 of them are located in the co-location area and are the responsibility of the agencies who own those servers. The other five servers with vulnerabilities are located in managed services. The CTO management will continue appropriate follow-up to ensure all agencies are aware of these vulnerabilities and the need for timely updates.

Office of the Budget Response:

After internal discussions, it was decided that BQA should respond to item number one instead of BCPO.

Bureau of Quality Assurance (BOA)

1. BQA continues to closely monitor unresolved issues every 90 days. The separated employee process is still in place, whereby any outstanding time and attendance errors are resolved prior to employee separation. Additionally, the Office of Administration has issued policy restricting retroactive processing in accordance

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with the W2 Statute of Limitation guidelines of three years, three months and fifteen days. The agencies are required to process outstanding time adjustments within this timeframe. Based on the policy all outstanding items effective prior to 2008 have been resolved.

Bureau of Commonwealth Payroll Operations (BCPO)

2. BCPO agrees that there are no controls in place to prevent employees who have roles assigned to them access to sensitive payroll information of co-workers, management, friends or family.

Pennsylvania Lottery Response:

1. We will work with Lottery Security to develop a procedure to periodically perform a review of users with privileged access. All requestors are now required to complete an IT Lottery Security Request form to gain access to the Lottery Systems. This was implemented in June 2010. In August, we reviewed all of the Back Office users and ensured that any employees who separated from service where no longer activated. On February 22, 2011, we reviewed and reduced the number of users who had Administrative rights to the system.
2. Lottery's vendor for the MIS application has modified the password requirements to force password complexity and lockout accounts after a predetermined number of unsuccessful login attempts. The change was implemented in the MIS application on February 22, 2011. Change was tested in production on February 23, 2011 by a user and the lockout worked. This issue has been resolved.
3. We have reviewed the number of Administrators in the Back Office System and have reduced the number of administrators to five users who need to have this access.
4. The Lottery will develop and implement a procedure to monitor for unauthorized changes in the production environment.
5. We will work with Lottery Security and review the number of users that have physical access to the computer room and see if this number can be reduced. The current listing we have has 44 users listed, not 69. These users include Security Guards and Security Officials, Building managers who need access to the HVAC and fire systems, Drawing Officials, internal IT professionals and IT BIS professionals from downtown who support the firewalls, routers, phone systems, and various network servers and systems in the computer room.

Department of Labor and Industry (L&I) Response:

1. L&I acknowledges that there is no standard written system outlined for the Department. Coordination between Application Development & Architecture Bureaus is underway to produce a policy to define this standard process for the Department. This process will incorporate the data migration finding outlined in response #2 for SWIF.
2. While a manual process is in place to track these changes, L&I acknowledges that an automated one does not exist for our current mainframe systems. The version of the application change control software (Endevor) does not offer this functionality. With the retirement of this system scheduled prior to the end of this calendar year it is not anticipated that this will be addressed for the legacy systems.
3. Due to the ongoing modernization project for the UC systems, lack of full time staff has led to these duties being assumed by contractor staff. We continue to investigate their actual requirements for the scheduling portions of this application.

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State Workers' Insurance Fund (SWIF) Response:

1. L&I OIT continues to test products that can accommodate this requirement in our client server environment. Due to our various systems we would require automated monitoring on both our Windows & AIX server platforms for our current systems. Since this is also a finding across multiple Departments, we are also anticipating that OA would name a standard product for all agencies to utilize for this function.
2. This will be incorporated into the policy to be defined as per response #1 for L&I.

Department of Transportation (PennDOT) Response:

1. ECMS has implemented written procedures to administer biannual reviews that will manage appropriateness of users with privileged access.

MPMS conducts reviews of its security for ALL users every six months. This was noted as part of the recent review in answer for TAB3 - Process Change - Bi-Annual calendar reminder of security clean up for Kent Smithmyer.pdf. This illustrates the reviews are scheduled and are occurring. As part of the follow up to that review was a copy of our security sheet noting the deletion of a user. This was noted as TAB3 - Program Change - Removal from MPMS docs.pdf. As part of the review each District Office MPMS contact is asked to review their staff for any changes that may have occurred in jobs (someone moved or left the Department). This review takes into account all levels of security, those persons who may have changed job functionality/status and for system inactivity which is followed up on to take action to either change or delete the user, if appropriate.

MPMS, ECMS, DL&C and CARATS support personnel: Periodic reviews of user privileges at the system level, like a system engineer or database administrator, are in place. An effort to examine and clean up RACF accounts was completed.

2. User accounts and password security changes require core functionality changes within the COTS product. This necessitates a sole source contract with the software vendor, Agate, to implement these changes. The sole source contract was scheduled to go to DGS in mid-November. This was delayed due to a scope review between the five Bureaus taking longer than expected to receive approval. The deliverables list was approved in December 2010. A formal Request for Quote is being prepared and a sole source contract request is expected to go to DGS in March 2011. These security changes are identified as our top priority of the contract work items and are to be completed during the first round of changes.
3. This item remains open. A logical access process has been implemented for dotGrants. A monthly review of privileged access accounts has been adopted and is being conducted by the dotGrant IT support manager. Written procedures to formalize this process were created in January 2011. Written procedures to formalize user access accounts are to be completed by February 2011 which will include a Bureau sign-off on a statement that they have verified their internal user base and only appropriate personnel have access to dotGrants.

Department of Public Welfare (DPW) Response:

1. DPW is working to get a User and Access Certification policy implemented. This policy will provide a mechanism to perform a review of User IDS that have access to various DPW systems. The policy should be implemented within 60 days.

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2. The procedure is to document the resolution of all ADI & Server production job failures. The corrective action was that management followed up with staff to re-emphasize current processes and procedures.
3. DPW is upgrading its OpCons application on March 4, 2011. This upgrade will also include the elimination of shared user IDS and anyone that has access to use this application will have their own user account created. At a minimum DPW will be configuring OPCONS to adhere to the current CWOPA password policies.
4. DPW is working on migrating the CIS mainframe over to use CWOPA and Managed domain accounts which comply with the password policies.

The findings issued in the SAS 70 report and responded to by JP Morgan will be monitored through future SAS 70 reports to ensure the issues are corrected. See JP Morgan's corrective action below that addresses items 5-7:

5. Price Waterhouse Coopers (PWC) confirmed through inquires with management and inspection of user job titles, access for these users excluded from the recertification was appropriate based on job responsibilities. No other relevant exceptions were noted.
6. As a compensating control, systems are recertified by appropriate management at regular intervals, as defined by policy guidelines. The approver confirms that access remains commensurate with the individuals' job responsibilities, or requests change/revocation to access.
7. As of January 1, 2011, GTI management enhanced their process related to the review of user access following a transfer event. As of April 1, 2010 additional escalation procedures were implemented to support the transfer process to ensure that GTI users access to operating systems was being amended or revoked, where appropriate, after a transfer event. For the period April 1, 2010 this control was tested without exception for GTI users. No other relevant exceptions were noted.

Department of Health (DOH) Response:

1. The department agrees with the finding, with the following clarification of remediation which was begun during the audit period. During the audit period, the Bureau of Human Resources initiated distribution of a monthly report of separated employees. Bureau of Information Technology computer security staff began a practice in June 2010 of distributing, by e-mail, a quarterly compilation of those reports to the department's Administrative Coordinators. This group manages routine administrative matters for their respective work units, including the assignment of computer access.

The first e-mail and list covered the period of August 2009 through May 2010. Similar emails have been sent twice since the end of the audit period.

The lists are distributed with the following directing text:

"Staff come and go, but data file folder permissions or computer system access accounts are not always updated upon their departure. BIT receives a monthly list of separations from the Human Resources office which we review for data and system access update needs. We've used that list to prepare this attachment. As an example, bureau or division distribution list deletions often get overlooked when employees depart. Computer systems with separate user ids and passwords can be overlooked. I realize that some of the separated staff may have since returned as annuitants. If so, you can certainly continue the account and access permissions. The Human Resources employee separation checklist includes check-offs for similar

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actions; this serves as a double-check reminder and does not take the place of that process. It is our intent to provide this information on a quarterly basis for your review. Please review the attached list. Should you find any changes which require BIT assistance, please submit a Remedy request. Thanks for your help in maintaining our strong computer security profile.”

2. The department agrees with the finding. An Enterprise Release Management Process, which will include CORE systems, is being finalized. This process will centralize and move the responsibility for Production region releases to the Division of Operations and Support, which is a separate Division from Application Development and Support. The Enterprise Release Management process is planned for implementation during the fiscal year 2011 – 2012 timeframe.
3. The department agrees with the finding. The Core application will be changed to comply with Commonwealth password policies. Passwords will be configured to enforce password history and invalid password lockout threshold.
4. The department agrees with the finding, with the following clarification that was discussed during the audit.

Per Program Area policy, user account creation is a Local Agency / Program function and not performed by BIT staff, except when the new user is a member of the IT staff. The majority of users are created by the Local Agency security officer for the QuickWIC system. This is the policy of the WIC Program Office. The WIC Program policy is available for review upon request.

When new user requests are made for IT staff (state and contractor), we will continue to follow the existing IT policy of requiring the request to be submitted in writing. In the audit period, the submittal was performed via e-mail, but we will now use Remedy to submit requests for new IT users of the QuickWIC system.

5. The department agrees with the finding, it is factual. Multiple technical staff have access to the room for their day to day tasks (network staff, database staff, server team staff). Also, administrative and maintenance staff have infrequent access. Senior management have access to provide unplanned, accompanied access during after-hours responses. One area of review is access granted solely for use of a large format plotting printer which was placed in the restricted area several years. With office relocation, it is now possible to relocate that device and reduce the number of staff with room access.

Department of Education (PDE) Response:

1. During the Commonwealth GAAP Audit, year ended June 30, 2010 for the Information Technology review, the PDE, Center for Data Quality and Information Technology (CDQIT) provided the AG Auditors with three (3) files documenting the implementation of privileged user access reviews during the 2009-2010 fiscal year. Additionally, during meetings with the AG Auditors, the CDQIT indicated reviews were being conducted to determine the effectiveness of this process and further reviews would be scheduled for the 2010-2011 fiscal year.
2. The Pennsylvania Department of Education, Bureau of Budget and Fiscal Management, disagrees with this finding. Policies and procedures have been established to ensure IT general controls over access to subsidy calculation files. As documented with the auditor during the audit review, files are stored in a restricted-access network folder and subsidy calculation sheets on the files are password-protected. Written procedures currently exist for the calculation of the final allocations at the end of each year.
3. The PDE, CDQIT agrees with the exceptions as stated in the Preliminary Finding.

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4. The PDE, CDQIT agrees with the exceptions as stated in the Preliminary Finding.

Department of Revenue (DOR) Response:

1. Privileged network access is granted to members of two work units in BIS (The Infrastructure and Operations Division, and the Security and Audit Review Office). The privileged network access is required to perform work responsibilities. When an employee departs from either of these work units, the Security and Audit Review Office immediately disables the privileged network access.

Privileged user access to individual business applications is less straightforward. DOR intends to create and implement a user-access review policy and procedure, as summarized below:

- The Security and Audit Review Office will maintain an inventory of business privileged applications, business owners, and system developers/administrators.
 - On an annual basis, the Security and Audit Review Office will request a current list of application users from the system developers/administrators.
 - The Security and Audit Review Office will send the list of users to the designated business owner.
 - The business owner will approve or reject users and/or groups of users, and return the list to the Security and Audit Review Office.
 - The Security and Audit Review Office will notify the Security Liaisons within the bureaus/offices of the disapproved users.
 - The Security and Audit Review Office will remove access or will instruct the system developers/administrators to remove access, as required.
2. DOR has implemented an interim solution utilizing our System Implementation Document (SID). For each change implemented in production, we now require the programmer to receive management approval prior to moving the change into production. The approval is documented on the internal DOR system approval document (SID) and the document will be stored with the project request information in the Bureau of Information System's online project request system.
Additionally, DOR has contracted with Accenture to implement a SAP-based tax system solution. This integrated tax system will provide role-based functionality and access, and will achieve further segregation of duties once implemented.
 3. Since 2009, DOR has developed and utilized a Quality Assurance (QA) testing methodology that includes data validation, including sign-offs. This process is documented as "BIS Software Testing – Test Plan Guidelines/Procedures."

The QA testing methodology in DOR is a process of checking software to verify that it satisfies identified requirements to support an intended business need, to detect errors/defects and validate data. To accomplish these goals, typical software implementations (mainframe or client/server) will follow the test phases as outlined in the methodology.

At a high level, the following test phases are planned and executed in a typical software implementation:

- Unit test
- Integration test
- System test/regression test
- Regression
- User Acceptance Test
- Post production

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DOR utilizes standard testing scripts throughout the phases. Standardized test script templates provide a standard format for documenting tests, and capturing the results of those tests. Overall, the QA testing methodology provides a framework and provides a standardized approach to DOR's internal testing processes and procedures that support our development activities.

Liquor Control Board (PLCB) Response:

1. Point of Sale (POS) – This will be corrected with the new POS System being rolled out second quarter 2011.

Warehouse Management System (WMS) – Physical access controls were not addressed this year due to the possibility of warehouse consolidation. This is planned prior to the end of Fiscal Year 2010-2011.

2. WMS – The Warehouse Management System incorporates the following criteria for user password standards: 90-day expiration, minimum seven characters, no uppercase, cannot be the same as the last five passwords, five unsuccessful tries in five minutes locks the user's screen for 5 minutes.

POS – Our current password standards are as follows: 90 expiration, must consist of (8) letters and numbers, cannot contain consecutive numbers, spaces or special characters in sequence and the password cannot be the same as the last (6) passwords used. POS will automatically logoff the user after 15 minutes of inactivity. If an individual's password is not known the only way an employee can obtain a new password is to call the help desk. The help desk will delete the employee and assist in adding the employee in Employee Control Maintenance.

Oracle – We need to work within the constraints of the Oracle software product. At present, there is no way for the end user to change their password in RMS, so as a result our Security section sends out new passwords to the end users every 90 days. As far as the rest of the Oracle systems, they function in a similar fashion to CWOPA where by asking the end user to change their password every 90 days. There are however, different application specific password standards in Oracle.

3. Our Oracle RMS software does not currently allow individual users to change their own passwords. We hope this feature will be available in upcoming releases. We do however, change Oracle RMS passwords every 90 days and distribute them to users. The passwords are randomly generated so there is no specific pattern to their makeup.
4. Changes to the Robocom Inventory Management System (RIMS) are managed centrally and pushed out to the warehouses by Tech Support. As with any application system where the servers are remotely managed there is the possibility for changes to be introduced. The PLCB will research ways to better monitor the application servers in the warehouses.
5. Oracle – At the meeting held, February 24, 2011, privileged access was defined as anyone who has the ability to change data, settings or configuration or to access tables directly from the backend. As a result of this audit the PLCB has started to review access by contractors, its own COE and end user community. It is the intent of the PLCB to review this access annually at a minimum.

POS – User access of "Admin" in Point of Sale is only granted to specific users – Help Desk, Second Level Technical Support and Technical Support. This access is only granted by Dee Mayer, Jason Smith or Robin Fears.

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Finding 10 – 11: (continued)

6. At the meeting held, February 24, 2011, “super user” access was defined as administrative or privileged access. There are a series of agency IT specific policies on Production Environment Security Administration, Required Use of Unique Application User IDs, Generic System Admin Level User ID Usage and Granting Access to LCB Systems. In addition, the PLCB has started to review access by contractors, its own COE and end user community. It is the intent of the PLCB to review this access annually at a minimum.
7. The PLCB will be transitioning over the next two years to adopt ITIL standards. As a result the PLCB will be starting to conduct post implementation reviews for all projects over a given number of hours.
8. POS – We currently use Storegazer software to monitor access and user activity, plus we send message and audit log file data to the Central Office on a nightly basis.

WMS – There is an OS level report generated on a daily basis that details user activity and notates those users who had difficulty signing onto the WMS in the last 24 hours.
9. Oracle – The PLCB recognizes that we need to strengthen our monitoring for segregation of duties issues especially as it relates to contractors hired to make system changes. As such, the agency is implementing periodic reviews of all persons with privileged or administrative access on an annual basis at a minimum.

WMS – Currently there is no UNIX based system generated evidence of segregation of duties. Only our Tech Support section has access to the root user profile to make changes to production.

POS – During development and pilot, our vendor SkillNet, has separate application developers vs the database administrators who deploy code to production. It is PLCB’s intention to follow the same methodology internally after rollout.
10. The agency is continuing to evolve its change control process and the IT Steering Committee for prioritization of projects. The Change Control Board is being changed to a Change Advisory Board (CAB). ITIL standards are being introduced into the organization and an OA Remedy Help Desk solution is scheduled to be rolled out in 2011. With an OA Remedy Change Management pilot closely following thereafter. All of this is an effort to make the systems and processes more stable and repeatable. The agency has also recently hired a Quality Assurance Manager and a Testing Manager.

Auditors’ Conclusion: The Office for Information Technology, Bureau of Integrated Enterprise System (IES) indicates in its management response that “... a diagram of the IES SAP integration architecture that shows the DPH managed servers, network connections to the Commonwealth MAN and Internet, and key integration partners ... was available on, and before, June 30, 2010.” However, IES management agreed at the exit conference on March 8, 2011, that the diagram and interface listing are not complete or usable for our purposes because they do not contain key information that would be required to gain a full understanding of all systems interfaced with SAP and the associated data that is being transferred. The integration architecture diagram only includes the key systems managed by DPH. The interface listing is not comprehensive enough to allow an understanding of the applications that are transferring significant financial data into SAP, including the source application name, service providers that may be involved in processing the data, SAP transaction code (for some interfaces), or the SAP document types transferred through the interface. Additionally, multiple interfaces post to the same transaction code using the same document type, and the interface listing does not include details related to the SAP tables that are being populated through the interface; therefore, it is not possible to determine the source of transactions based on SAP data. The interface listing also includes some decommissioned interfaces, and needs to be updated regularly to reflect only current interfaces. IES agreed to coordinate with the audit team to provide complete and updated documentation for future use.

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Finding 10 – 11: (continued)

Regarding PDE’s response that they provided the auditors with “ ... three (3) files documenting the implementation of privileged access reviews during the 2009-2010 fiscal year.”, this documentation appears to be draft policy related to a pilot project during August 2010 (after the audit period). Also, PDE indicates, “Policies and procedures have been established to ensure IT general controls over access to subsidy calculation files.” However, these policies and procedures are incomplete in that they do not include policies to address IT controls related to change control and program development.

Based on the agency response, the finding and recommendation for our current audit period 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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Finding 10 – 12:

Office of Administration – Integrated Enterprise System Office of the Budget

Statewide Weaknesses Within the SAP Accounting System Related to Potential Segregation of Duties Conflicts (A Similar Condition Was Noted in Prior Year Finding #09-15)

Condition: As noted in similar findings for the past seven years since SAP was implemented, our review and testing of the Commonwealth’s automated internal controls over system access for transactions posted to the SAP accounting system again noted internal control weaknesses regarding segregation of duties in the overall SAP computer environment, as follows:

1. Multiple users with segregation of duties conflicts have the system access to develop and promote changes into the production SAP environment. There are no additional computer controls in place designed to provide effective monitoring to prevent or detect, on a timely basis, unauthorized program changes.
2. Users with potential segregation of duties conflicts were not identified by management and analyzed to comply with Management Directive 205.37, “Role Assignment, Security, and Internal Control Maintenance” dated June 13, 2005, which requires additional monitoring of system activity for users with potential segregation of duties conflicts.
3. Management does not conduct a periodic review of individuals with access to SAP and the supporting Oracle databases to determine that access is appropriate according to job responsibilities.

Management Directive 205.37 “Role Assignment, Security, and Internal Control Maintenance” dated June 13, 2005 recognizes that business purposes may exist to allow for SAP role conflicts. The Directive also clearly recognizes that appropriate documentation must be maintained to justify the need for the conflicting role assignments, and requires certain levels of approval. This documentation must include safeguards developed to deter and detect errors or inappropriate transactions. This Directive also contains a critical monitoring component which was not performed during the period under audit. Management indicated in its agency response to prior year Finding #09-15 that the policy was under revision and would be acted upon following completion to ensure management was following the Directive. Revisions to the Directive were not completed, nor were the users with potential segregation of duties conflicts examined by management during the current audit period.

Our testing resulted in identification of multiple users, including IT department employees, with user accounts that allow them to perform specific sensitive functions, with no compensating controls in the computer environment to prevent or detect unauthorized transactions.

Criteria: Proper segregation of duties within SAP System, access, including effective monitoring where management determines that business purposes require roles being assigned which could compromise segregation of duties standards is critical in minimizing and mitigating the risks of inappropriate transactions or inappropriate programming changes occurring. Segregation of duties should always be routinely enforced between individuals who can make programming changes and individuals responsible for implementing changes to the production environment. Where user-level segregation of duties conflicts are determined to be necessary, compensating controls and adequate documentation should be maintained in accordance with Management Directive 205.37 to demonstrate proper review, as well as to justify user conflicts as appropriate in the circumstances.

Cause: It appears that some of these roles and conflicts were created for practical reasons in order to provide IES staff and others within individual agencies with the ability to assist in multiple situations during the SAP implementation process, and to overcome problems noted during the transition from the old ICS accounting system to SAP. However, requisite revocation and refinement of roles has not occurred. Also, it was noted that additional potential conflicts were created after the SAP implementation for various business reasons. The procedures established by the Directive to monitor role conflicts were not performed, at least partially, because of configuration issues with role conflict software purchased to help in identifying and remediating role conflict issues.

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Finding 10 – 12: (continued)

Effect: Potential segregation of duties conflicts in SAP role assignments increase the potential risk of misappropriation of assets, inappropriate changes to data or files, and unauthorized activity, and could be a significant weakness if manual controls outside of SAP are not effective. Further, such situations increase the need for additional documentation, outside monitoring, manual review, and external verification of SAP activities and transactions.

Furthermore, since the Commonwealth's statewide SEFA is recorded on and reported out of the SAP system, and all major federal programs/clusters in our current-year Single Audit utilize the SAP system to record federal revenues and expenditures, the above IT general controls weaknesses impacts all the major programs/clusters in the Commonwealth's Single Audit.

Recommendation: We recommend:

1. Monitoring procedures be fully implemented to detect unauthorized program migration into the production environment.
2. Separate individuals be assigned roles to make programming changes and migrate changes into production. Instances in which one individual is granted access to program change and migration functions must be significantly restricted to one-time limited usage and fully monitored by an independent party to ensure that changes were authorized.
3. Complete implementation and regular usage of segregation of duties analysis tools (GRC) to identify all users with segregation of duties violations.
4. Revoking access for all IT department employees who currently have access to perform sensitive user functions within SAP, or implementing a monitoring process to ensure no unauthorized transactions occurred.
5. The monitoring portion of Management Directive 205.37 be updated to require clear documentation from management to provide justification for all segregation of duties conflicts and to provide evidence of regular review and monitoring of transaction activity by all users with segregation of duties conflicts.

Agency Response: The Bureau of Financial Management (BFM), the Bureau of Quality Assurance (BQA) and the Office of Administration – Integrated Enterprise System (IES) have been working together to implement role conflict software – SAP GRC Access Control. This is on target to be implemented in March of 2011. BFM agrees that the security of SAP roles and functions should be monitored in accordance with Management Directive 205.37. The Directive is currently under review.

Auditors' Conclusion: Based on the agency response, the finding and recommendation for our current audit period 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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Finding 10 – 13:

Department of Treasury

General Computer Controls in the PA Department of Treasury Need Improvement

Condition: Our review of general computer controls at the Department of Treasury (Treasury) during the fiscal year ended June 30, 2010 disclosed the following internal control deficiencies that need to be addressed by Treasury management:

The following deficiencies relate to the mainframe, which hosts the Treasury Automated Bookkeeping System (TABS) and Active Directory (network):

1. Mainframe passwords for the TABS system are automatically assigned when a new user is created, but users are not required to change them. Passwords are also retained by the IT department in a password spreadsheet. Additionally, the domain password settings for one domain are inadequate to provide sufficient protection. Passwords are required to have a minimum password length of six characters, but passwords are not required to meet any complexity requirements.
2. Bureau of Human Resources and Training (HR) does not consistently notify network and application administrators via e-mail when a Treasury department employee is terminated. Based on a limited selection of one terminated user, documented HR notification could not be provided.
3. A regular review of network and application users, including those with access to sensitive functions and application data, was not performed.

The OnBase application is used for unemployment compensation card benefit payments. The system sends enrollment files for eligible recipients to a contract vendor for card production and also sends ACH files to the bank to make funds available to card users. The application is used and maintained by Treasury. The following deficiencies relate to the OnBase application:

4. HR does not consistently notify OnBase administrators when an OnBase user is terminated. Additionally, a regular review of OnBase users, including those with access to sensitive functions, was not performed.
5. The manager account for the OnBase System was shared by multiple users. This reduces the ability to provide for individual accountability in the event of an error or unauthorized modification. Additionally, the default Administrator account was still active on the OnBase system, and access rights retained by the account appear excessive.
6. Written standards to establish control requirements for changes to OnBase application software were not documented.
7. Documentation of successful testing results for OnBase application changes was not consistently applied for all changes.
8. Windows patches and updates for the OnBase server were not applied in a timely manner in accordance with the criticality of the updates.
9. The number of badges with access to the data center where the OnBase system is hosted appears excessive. 158 users have access to the data center.
10. The password settings for the OnBase application are inadequate to provide sufficient protection. Passwords are required to have only a minimum password length of 6 characters.

Criteria: A well designed system of internal controls dictates that sound general computer controls be established and functioning to best ensure that overall agency operations are conducted as closely as possible in accordance with management's intent.

Cause: Management is aware of deficiencies and system limitations related to inadequate password settings. The additional deficiencies related to mainframe and Active Directory are due to manual processes requiring HR to notify IT of employee terminations and manual review of system users. OnBase control weaknesses related to access and change control can be attributed to limited resources to implement adequate controls.

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Finding 10 – 13: (continued)

Effect: If general computer control areas are not improved in Treasury, computer and other department operations may not be conducted in accordance with management's intent.

Recommendation: We recommend that Treasury management review the various general computer control deficiencies noted above and take the necessary actions to resolve them.

Agency Response:

1. Treasury is aware of the finding related to expiration of mainframe passwords. This functionality is not intrinsic to our mainframe environment. The alternatives include IT staff maintaining physical lists of passwords which are manually updated on a periodic basis or investing in additional software. Treasury in the process of moving functionality from the mainframe to distributed computing environments where this control exists.
2. Treasury agrees the Bureau of Human Resources and Training (HR) does not consistently notify network and application administrators via e-mail when a Treasury department employee is terminated.
3. Treasury's Bureau of Information Technology agrees detection controls to monitor user privileges are not employed.
4. Although HR may not give BUCD notification in a timely manner, the Bureau Director is aware of all personnel changes. This is a relatively small office with all employees in the same secured area. The administrators are in constant communication with the Director, thereby mitigating the risk. Additionally, the small staff is static in BUCD with assigned roles. Changes are made as necessary. For the year, there were only 6 instances of change and more than half were due to Treasury furloughs and recalls.
5. A shared manager account exists, but is not the primary access point for the administrators. The vendor established this account for vendor upgrades and maintenance. There are certain limited functions necessary in this system that can only be accomplished through this account. Treasury will take steps to deactivate accounts that are not in use.
6. Standards for change control are not documented on a formal schedule, but there is documentation for all changes.
7. OnBase is an enterprise content management system with strong inherent internal controls. Treasury BUCD relies on the system generated documentation for successful testing changes.
8. Unemployment Compensation reached record volumes in the audit period. The system was operating at near capacity many days 24 hours, to meet the payment processing requirements. Windows patches and updates were applied as time permitted.
9. It is the policy of the Department of Labor and Industry to provide police and fire personnel access to all areas of the building. As Treasury BUCD resides in the Labor and Industry Building, we are obliged to follow those procedures. The access to the data center includes all Capitol Police and fire officials. While this is not ideal, it is not our policy. Treasury will eliminate any unnecessary users periodically
10. Passwords procedures were established at time of implement of the OnBase application. However, prior to accessing OnBase, a user must log on to the unique BUCD domain using both user name and an eight character

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Finding 10 – 13: (continued)

alpha numeric password. This password is changed at sixty day intervals. The domain name must match the pre-established user account.

Auditors' Conclusion: Based on the agency response, the finding and recommendation for our current audit period 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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Finding 10 – 14:

Office of the Budget Office of Administration

Lack of Documentation to Support Proper Contracting and Procurement (A Similar Condition Was Noted in Prior Year Finding #09-13)

Condition: During prior audit periods, the Commonwealth awarded numerous statewide technology contracts to modernize and upgrade the Commonwealth's information systems technology, to outsource agency data center computer operations, and to consolidate the acquisition of telecommunications services. The contracts awarded for these types of technology services involve all major agencies in the Commonwealth. In our prior-year audits for the fiscal years ended June 30, 2000 to June 30, 2009, (for ten 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 deficiencies 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, 2010, disclosed that management has resolved all but one of the prior-year scope limitations by now providing copies of losing vendor proposals; original detailed scoring sheets used by evaluation committee members for each proposal submitted for review; and original contract documentation to support the overall scoring and selection process, including assigned point values and committee recommendations for vendor selection. However, auditee management has not resolved one major issue from prior years since they continue in their flawed policy of refusing to provide us with the names of proposal evaluation committee members in order for us to verify that the committee members were appropriately qualified and had no conflicts of interest or independence impairments in order to fairly evaluate submitted proposals. Furthermore, without the names of proposal evaluation committee members, this affectively prohibits us from interviewing these contract evaluators to confirm their scoring or other contract evaluation issues which an interview with them may bring to light. Therefore, we cannot ascertain whether proper controls are in place to prevent potential conflicts of interest, fraud, abuse, or other inappropriate activity from occurring during the contract procurement process.

We also noted no significant improvement in management's procurement procedures in the current year and that the following significant prior-year internal control deficiency still existed during SFYE June 30, 2010: management does not have adequate standard procedures in place to ensure contract forms and documentation include clear and valid support that Commonwealth management properly verified prospective vendor cost proposals as reasonable to avoid additional subsequent contract amendments that significantly increase costs. We noted this occurrence in prior-year audit periods which called the accuracy of the original contract cost proposals into question, especially in the procurement of the large-dollar information technology (IT) contracts mentioned above. We also noted this internal control weakness most recently in IT contract procurements both at PLCB and at DPW for computer systems development and maintenance, in which inadequate documentation existed to support reasonable evaluations of proposed vendor costs by Commonwealth management. The PLCB IT contract was originally awarded for \$25.8 million to develop and implement a new agency-wide ERP accounting system, but later increased (by more than 150 percent) to \$66.6 million due to subsequent large-dollar contract amendments. In the case of DPW, separate IT contracts for development/maintenance of DPW's various computer systems (i.e., PACSES, HCSIS, PELICAN, and iCIS) used in managing different federal programs were extended and combined (or "bundled") into one large-dollar IT contract extension for approximately \$100 million for the current SFYE June 30, 2010, but DPW provided no documentation to support any analysis that the new \$100 million total in IT contract extensions was reasonable.

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 II, 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

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Finding 10 – 14: (continued)

demonstrate that proper purchasing procedures are reasonably followed and contracts are properly awarded. Regarding procurement duties, specific sections of Chapter 7 state:

8. Evaluation Committee

- a. Performs preliminary technical submittal evaluations.

9. Agency

- a. Scores cost submittals.

11. Agency

- a. To the extent necessary or desired, conducts discussions with responsible offerors who submit proposals determined to be reasonably susceptible of being selected for award to assure full understanding of responsiveness to the solicitation requirements and for the purpose of obtaining best and final offers.

12. Evaluation Committee

- a. Performs final technical submittal evaluations after discussions/best and final offers have been completed/received.

14. Agency

- a. Re-scores Best and Final Cost submittals.

Management should not restrict availability of procurement information to the Auditor General since this is clearly 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)*

Cause: In responding to our prior-year findings on this issue, management has recognized and acknowledged the need for the auditors to verify the propriety of its contracting procedures and, as mentioned above, is now providing additional procurement documentation to the auditors. However, management has asserted that they believe providing the names of committee members is not necessary in our review of whether the committee and the agency acted in accordance with procurement laws and practices and that its disclosure as a general matter will have a chilling effect upon employee participation on procurement committees. Management further stated that this does not mean that they will prohibit the Auditor General from obtaining that information in all cases. If the Auditor General makes a request to interview an individual committee member or members and provides a compelling reason for such an interview in light of the audit, management will review each such request separately and determine if they agree that such reasons are compelling and that such an interview is necessary. If management agrees, interview access will then be provided. However, management has only agreed to this once. We believe that this policy violates the procurement code quoted above and inappropriately restricts our auditing procedures.

Effect: Management's policy prevents 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)

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Finding 10 – 14: (continued)

Furthermore, management’s policy of refusing to provide the names of the evaluation committee for procurement to our department is a violation of the Commonwealth Procurement Code as quoted above. (62Pa.C.S.A. § 563) Management has taken the position that the invocation of confidentiality supersedes these constitutional and statutory directives.

It should be further noted that management’s policy 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 we cannot fully audit the Commonwealth’s compliance with procurement regulations in certain federal programs as a result.

Without the necessary documentation, we could not verify that management adhered to Commonwealth procurement standards and laws, or were independent in evaluation and awarding the contracts disclosed above. We also could not verify that management awarded contracts to the most qualified vendors or that Commonwealth officials conducted proper fiscal reviews of original contracts and/or contract amendments that substantially increase 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.

Recommendation: We recommend that management alter its policy of withholding the above 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. We also recommend that management strengthen its control procedures to better evaluate and more thoroughly document the reasonableness of vendor cost proposals to lower the risk of subsequent contract amendments that significantly increase contract costs.

Agency Response: We disagree with this finding. In response to this finding as issued in prior years, the Commonwealth has reviewed its policies and significantly expanded the procurement-related documentation available to the auditors. As noted in the Condition above, effective for the June 30, 2010 Basic Financial Statement audit the auditors were provided, upon request, the following additional procurement documentation beyond the executed contracts:

- Copies of losing vendor proposals.
- Detailed scoring sheets showing the scores of each committee member by category with committee member names redacted.
- Summary information regarding the procurement as contained in the “Recommendation for Contractor Selection” memorandum required to be completed by each committee. Among other detailed information, this memorandum includes: information regarding the reasonableness of cost and minority participation; the list of agencies that had representatives on the evaluation committee; the indication of Department of General Services & Comptroller participation; the results of the evaluation conducted by the committee; the overall scoring results; the evaluation committee recommendations; and the signed agency head approval/disapproval of recommendation.

In addition to the aforementioned documentation, the auditors were informed in writing that they could initiate requests to interview individual evaluation committee members if they identified compelling reasons to do so within the scope of specific audits and Commonwealth representatives concurred with the compelling reasons put forth by the auditors. We believe this is a reasonable approach specific to evaluation committee members given the balance necessary to ensure willing participation of evaluation committee members in the Commonwealth’s procurement process while also ensuring the auditors have access to necessary documentation. The importance of evaluation committee member confidentiality is demonstrated in the Commonwealth’s Right to Know Law. In accordance with Act 3 of 2008, §708 – Exceptions for public records, (b)(26), the “identity of members, notes and other records of agency proposal evaluation committees established under 62 Pa. §513 (relating to competitive sealed proposals).” are exempt from requestors access. The Commonwealth also recognizes the importance of internal controls related to conflicts of interest within the procurement process and has a longstanding policy of requiring evaluation committee members to review/acknowledge and sign an RFP Evaluation Committee Certification of Confidentiality and No Conflict of Interest Form (Procurement Handbook

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Finding 10 – 14: (continued)

11/10, Pt. II, Chpt.7). These forms are reviewed by the agency coordinators and referred to the Department of General Services' Office of Chief Counsel Legal Purchasing Unit if there are any questions or disclosures by the evaluation committee members.

In an effort to alleviate the auditors' remaining issues with the Commonwealth's procurement audit disclosure policy, the Commonwealth will initiate conversations with audit staff to discuss potential alternate compromises to releasing evaluation committee member names. We recognize the importance of audit staff's ability to properly test our internal controls and want to work cooperatively to ensure audit staff understands our desire to provide each Commonwealth employee who agrees to serve as a committee member the opportunity to evaluate procurements candidly.

We disagree with the auditors' contention that the Commonwealth "does not have adequate standard procedures in place to ensure contract forms and documentation include clear and valid support that Commonwealth management properly verified prospective vendor cost proposals as reasonable to avoid additional subsequent contract amendments that significantly increase costs." The Commonwealth's Department of General Services (DGS) has developed comprehensive procurement policies and procedures designed to incorporate uniform procedures and result in maximum value to the Commonwealth. The contract review and approval process includes the contracting agency, DGS, Office of General Counsel, Comptroller's Office, and Attorney General's Office. In order to ensure complete transparency in procurements, DGS publishes an RFP Scoring Category Guide which details percentage weighting recommendations for the technical, cost, and disadvantaged business for both service and materials procurements. Additionally, DGS publishes a standard cost formula that is applied for competitive sealed proposals. The instances cited with the PLCB and DPW by the auditors are outliers from the standard procurement process and are addressed in detail by the agencies in response to the specific audit findings published by the auditors on each issue.

Auditors' Conclusion: No new information was provided in the agency response to mitigate or resolve the finding for our current year under audit. Management's reference to the Right to Know Law is inappropriate for this finding since the provisions of the Right to Know Law clearly do not apply to our audit of the Commonwealth. We request the identity of RFP evaluation committee members to allow us to verify that the No Conflict of Interest, and Ethics Forms were properly completed and reviewed. Without knowing the identity of committee members, we cannot test for the existence of any conflicts of interest. Also, we need to know the identity of committee members in order to have the opportunity to interview the participants to confirm management's statements that these individuals actually participated in the RFP evaluation and to confirm/verify that summary scoring sheet as provided to us by management accurately reflects how the evaluator scored the contract or discuss any other related issues that either party wishes. Regarding verification of vendor cost proposals, no new information or documentation has been provided to demonstrate improvement in management's internal controls. Our finding and recommendation, with the above clarifications, remain as previously stated, and we will review any corrective action in the subsequent audit.

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

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Finding 10 – 15:

Office of the Budget – Office of Comptroller Operations Office of the Budget – Bureau of Payable Services

Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System and Inappropriate Role Assignments (A Similar Condition Was Noted in Prior Year Finding #09-18)

Condition: Our test work of SAP invoice processing during the fiscal year ended June 30, 2010 disclosed the following internal control deficiencies over one-time vendor accounts that need to be addressed by Commonwealth management:

1. Some Comptrollers' Offices are using "Refund per" as the person's name or department or program for the explanation on SAP for a number of vendor refunds, which does not explain or justify why a refund is being made. The transactions could not always be traced to the original documents because the descriptions on SAP were inadequate and did not reference original documents. The refunds should reference the original document number so that the documents can be traced through the system to demonstrate proper recording.
2. Severe overuse of the one-time vendor accounts with agency non-SAP transactions interfacing with SAP (600000 and 600001) appears to exist, without adequate documented justification or monitoring by management. The 20 most overused one-time vendors all had over 1,000 transactions, and there were over 15,000 transactions for the most overused one-time vendor. The Comptroller Office needs to better document and monitor the use of one-time vendor invoices included in the interface packages.
3. One-time vendor account transactions need adequate reason for the refund included in the text on SAP, such as the original document number. This includes the refunds for items that were not originally processed through SAP but in a legacy system that posts to SAP in summary (60000, 600001).
4. The one-time vendor analysis should continue to be run periodically by management. Any time a name shows up more than six times, it should be researched to see if a vendor account should be created. Over 6,500 examples of one time vendor were used more than six times during the fiscal year.
5. No explanation is included in text/description fields on SAP. There should be some meaningful description or reference in these fields for tracking purposes.
6. Commonwealth employees are being paid out of the one-time vendor accounts, and they are being paid more than once, without documented monitoring or justification by management.
7. Comptroller's Office supervisors, without adequate documented justification, have the ability to both enter and approve a one-time vendor invoice, and the system does not require additional approval.

The total costs charged to one-time vendor accounts on SAP during SFYE June 30, 2010, was \$494 million, and total refunds charged to these accounts on SAP was \$692 million.

Criteria: Limiting and restricting the use and access to one-time vendor accounts and proactive monitoring of one-time vendor account activity are vital to protecting the Commonwealth from potential undetected improper payments. Management Directive 310.28, "Use of One-Time Vendor Records in SAP" defines the types of payments and refunds of expenditures that should be made and the processes that should be followed when using the SAP one-time vendor functionality.

Cause: No policy exists for guidance on recording vendor names and documenting explanations for one-time vendor payments in SAP. Also, users are not following the policies in Management Directive 310.28. Further, inappropriate access role assignments exist because of the Financial Transformation initiative, which resulted in the changing of positions, shifting of responsibilities, and a need for training. The formal process for establishing/maintaining vendor accounts in SAP can be an extensive and cumbersome process. Therefore, there may be legitimate business needs to make timely payments to certain businesses and individuals without going through the process of setting them up as a vendor in the master file. Although the Office of Budget admitted that Management Directive 310.28 was not always followed, they did not document and provide specific reasons. Since the Financial Transformation initiative has centralized the Comptrollers' Offices responsibilities, some of the deficiencies noted above may be corrected as the shifting of responsibilities and assignment of tasks stabilizes, and documented justifications are improved.

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Finding 10 – 15: (continued)

Effect: The lack of complete, effective, and documented one-time vendor policies and procedures increases the risk of unauthorized activity. The deficiencies noted above clearly increase the need for additional policies and procedures, and additional monitoring, review, and documented verification of one-time vendor activities and transactions. Further, the built-in SAP functionality (and that in Treasury) to identify duplicate payments is very limited for one-time vendor accounts, making the detection of duplicate payments to one-time vendors more difficult.

Recommendation: We recommend that Commonwealth management review the various deficiencies noted above and take the necessary actions to resolve them. Specifically, we recommend that Commonwealth management communicate the importance of and require Commonwealth staff to comply with Management Directive 310.28. Commonwealth management should provide applicable training to all employees involved in the processing and review of one-time vendor payments. Further, a procedure that continually monitors and documents compliance with this directive should be developed and implemented. Finally, Commonwealth management should periodically review sensitive SAP access role assignments, particularly after a large reorganization such as part of Financial Transformation.

Office of the Budget Response:

After internal discussions, it was decided that BCA should respond to item number one instead of BPS.

Bureau of Commonwealth Accounting (BCA) Response:

1. The Office of Comptroller Operations (OCO) does not agree with this item in that it is not applicable or feasible for all refunds. There are a number of refunds that are processed by the Revenue and Cash Management unit that are for groups of checks. Examples include, but are not limited to, LIHEAP and TPL for the Department of Welfare. These can number from 2 to 500 checks per refund. These groups of checks are not input individually into SAP as this would create an unnecessary inefficiency, but are posted as one item per code in SAP. These refunds are posted to one-time vendor accounts since they are refunds for programs that are processed by agency system applications rather than through SAP. As a result, the name identified on the one-time vendor account reflects the program that is being refunded rather than an individual name. For these transactions, an original SAP document is not applicable and non-SAP system payment cannot be easily matched to the SAP summary VT posting, nor would it provide the detail information behind it. Relative to all refunds processed, the OCO refunds to the code where the program expenses originally posted. Where the original document is known, it is either referenced on the SAP posted entry or is included in the attachments linked to the SAP posted entry via DocFinity.

Bureau of Payable Services (BPS) Response:

2. BPS agrees with this item and is drafting a corrective action plan to address the issue.
3. BPS agrees with this item and is drafting a corrective action plan to address the issue.
4. BPS agrees with this item. Analysis of the issue is currently being done by the Bureau of Quality Assurance.
5. BPS disagrees with this item. Based on the detail of the auditor's work papers, these are all refunds, which are processed through the BCA and this issue appears to relate to item one of this Finding.
6. BPS disagrees with this item. Based on the specific examples provided, the majority of these payments are workers' compensation payments where the interface has been designed to use a one-time vendor number.
7. BPS agrees with this item. Although we recognize role conflicts currently exist and we are presently reviewing all roles, Comptroller Office supervisors should not normally be entering invoices in SAP. They do have the

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Basic Financial Statement Findings - June 30, 2010

Finding 10 – 15: (continued)

SAP role in case of an emergency, however, with the exception of those invoices outside of the Finance Transformation Project, which should not be one-time vendor payments, supervisors only enter an invoice at the direction of an Assistant Director or the Director of Payable Services.

Auditors' Conclusion: The deficiencies noted above are accurate as stated. Management's disagreements related to deficiencies 1, 5, and 6 address the feasibility of compensating for these weaknesses, and do not indicate disagreement with the accuracy of the auditor's statements. Regarding the items that BPS indicated agreement with, we will review any corrective actions in the subsequent audit.

Specifically related to management's responses to deficiencies 1, 5, and 6, the auditors note the following:

1. As noted by BCA, the refunds in SAP that do not have identifying information, whether a single payment or multiple payments, cannot be traced back to the original program or an original document and therefore cannot be substantiated within SAP. Also as noted by BCA, it is possible to attach detailed information to the SAP entries to provide the level of detail required to link the payments to an original document; however, there is no procedure in place to require this.
5. See response related to item #1 above. This finding specifically includes items that had no explanatory information in the text/description fields. Items noted in #1 above referenced "refund per..." in the text field.
6. Although many (but not all) of the employee payments are processed via interface where the individual payments are tracked in a separate system, these employees are being paid through the one-time vendor process, which does not provide specific information to allow for tracking and compilation of these payments to determine appropriateness. Additionally, many of the repeat payments occurred more than six (6) times, which violates the management directive that requires repeat payees to be paid using their established vendor number. Instead of using the one-time vendor process, employees should be provided a specific vendor number in SAP that is linked to their employee data in order to provide accurate reporting of all payments that are made to Commonwealth employees.

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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Basic Financial Statement Findings - June 30, 2010

Finding 10 – 16:

Office of the Budget – Bureau of Payable Services

Office of the Budget – Bureau of Financial Management

Weaknesses in Invoice Processing Procedures and Maintenance of Vendor Master Data and General Ledger Account Master Data

Condition: Our review of SAP invoice processing procedures during the fiscal year ended June 30, 2010 disclosed the following internal control deficiencies that need to be addressed by Commonwealth management:

1. For direct pay transactions (FB-60) entered by Comptroller's Office, an employee who enters the invoice for payment can also approve the payment resulting in a potential lack of segregation of duties on SAP.
2. One individual retained access to maintain vendor master data following a change in job responsibilities and no longer required such access to perform his duties.
3. Call center employees have access to add/change/delete vendor records and should not have the role based on their job responsibilities. This role should be restricted to only the four Vendor Data Maintenance Unit (VDMU) manager and staff who are responsible for performing these functions on a regular and substantial basis.
4. Two employees had the Account Code Custodian role to maintain SAP master data and should not have it based on their current job responsibilities.
5. Sixteen employees had the BFM-Reviewer-Commonwealth-Wide-Reporting role and should not have it based on their job responsibilities.
6. Comptroller roles were assigned to users who did not require this access based on their job responsibilities. These roles allow the users to approve invoices for payment, among other actions.
7. One reversal document out of a sample of 28 reviewed was not reversed correctly. The reversal was not posted to the correct account.
8. The amount of invoice processing errors causing nonpayments has increased by approximately 50 percent from last year. There were 5,417 more errors this year than last year. These errors occurred out of a total of 10,045 redlines, rejections and reversal codes (arrived at by combining the "Address", "Amount", "Error", "Payee", "Wrong PO" and "Misc" codes together).
9. Multiple IT department employees have access to perform sensitive user functions in SAP, including invoice processing functions.
10. There was a potential lack of segregation of duties for advancement account transactions. The same person can process the transaction, access the key for the check printer, and obtain the blank check stock; thereby printing the check without intervention from another individual.
11. The Advancement Account Directives and Manual were not updated to cover the current advancement account procedures.

Criteria: Proper control over roles in SAP that allow individuals to perform invoice processing and vendor maintenance activities is critical in providing assurance that only authorized and accurate transactions occur. Access should be restricted and segregated according to individuals' job responsibilities, and management oversight and proper approvals of sensitive transactions should be strictly enforced by the system.

Cause: A proper and effective tool for evaluating and enforcing segregation of duties within SAP has not yet been implemented, as the prior tools were determined to be ineffective. The SAP GRC tool, which assists with evaluating potential segregation of duties conflicts, is currently being implemented. Some current segregation of duties conflicts are a result of the configuration of the invoice entry/processing procedures. SAP was expected to be the original source of invoice entry/processing; however, not all Agencies or Comptroller's Offices enter invoices directly into SAP. These agencies send interfaced data to SAP for payment or require manual intervention to enter invoices and approvals based upon pre-approved invoices outside of SAP. This arrangement results in invoices being entered and approved in SAP by individuals who are not directly responsible for the invoices, with no system-based segregation of duties in place.

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Basic Financial Statement Findings - June 30, 2010

Finding 10 – 16: (continued)

Effect: Segregation of duties conflicts in SAP role assignments increase the potential risks of unauthorized activity, and could be a significant deficiency if manual controls outside of SAP are not effective. Further, such situations create a need for increased documentation, outside monitoring, manual review, and external verification of SAP activities and transactions.

Recommendation: Potential segregation of duties conflicts among invoice processing and vendor maintenance roles should be eliminated or mitigated through adequate monitoring controls. Access to sensitive functions should be removed for individuals who are not responsible for performing these sensitive functions as part of their daily job responsibilities, including IT department employees.

Office of the Budget Response:

Bureau of Payable Services (BPS)

1. BPS disagrees with this item. For those invoices outside of the Finance Transformation Project, a paper invoice, approved by the agency and any supporting documentation is sent to our office to be entered into SAP using FB60. Our invoice processors are entering the information and attaching the approved invoice and supporting documentation to the transaction in SAP. It is the agency approving the invoice, not our staff.
2. BPS agrees with this item and is drafting a corrective action plan to address the issue.
3. BPS agrees with this item and is drafting a corrective action plan to address the issue.
6. BPS agrees with this item. The Bureau of Quality Assurance is coordinating a project to review all SAP roles.
7. BPS agrees with this item and is drafting a corrective action plan to address the issue.
8. BPS agrees with this item and is drafting a corrective action plan to address the issue.
10. BPS disagrees with this item. Although we recognize that SAP roles would allow for this, for those advancement accounts where Payable Services employees are creating the SAP transaction and then printing the checks the duties are separated. The same individual who creates the transaction is not printing the check. The Supervisor of the unit is currently maintaining the key to the printer to assure there is a separation of duties.
11. BPS agrees with this item and is drafting a corrective action plan to address the issue.

Bureau of Financial Management (BFM)

4. BFM agrees that there were two individuals that had the account code custodial role during the audit period and those individuals did not need that role based on their job responsibilities. Currently, that role has been removed from those two individuals.
5. BFM disagrees with the number of employees that erroneously have the BFM Reviewer – Commonwealth-wide Reporting Role. Instead the finding should be changed to reflect that there are 14 employees that no longer need the role, not 16. The role will be removed from those 14 employees.
9. BFM, the Bureau of Quality Assurance (BQA) and the Office of Administration – Integrated Enterprise System (IES) have been working together to implement role conflict software – SAP GRC Access Control. This is on target to be implemented in March of 2011. We have also noted that this same issue is being addressed twice, as it is included in finding 10-12.

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Basic Financial Statement Findings - June 30, 2010

Finding 10 – 16: (continued)

Auditors' Conclusion: The deficiencies noted above are accurate as stated. Regarding the items that BPS indicated agreement with, we will review any corrective actions in the subsequent audit. Regarding management's disagreements related to deficiencies 1, 5, and 10, the auditors note the following:

1. As noted in BPS' response, management acknowledges the control deficiency by indicating that it is possible for Comptroller's Office employees to enter and approve invoices directly in SAP. Therefore, this lack of SAP-based segregation of duties remains a control weakness. Additionally, management does not indicate that there are any compensating controls in place to review every transaction to ensure that an original approved invoice from the agency is attached to these payments.
5. Although BFM noted that the number of individuals with inappropriate access to the BFM Reviewer role should be noted as 14 instead of 16, the deficiency remains that an excessive number of users had inappropriate access to this role.
10. Management did not document disagreement with the accuracy of this deficiency. As indicated in the management response above, it is not their practice to allow this lack of segregation; however, the potential for one individual to process an advancement payment and print the check does exist. During our audit observation procedures, we witnessed a Payable Services employee in the Advancement Account Unit create an SAP advancement transaction and print the associated check. The supervisor provided the key to the printer; however, did not witness the printing of the check or monitor the amount of blank check stock utilized. Additionally, management did not identify any procedures in place to monitor the usage of blank check stock or to monitor that the advancement account transactions are reviewed for appropriateness.

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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Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
10-17**	10.551	Supplemental Nutrition Assistance Program (including ARRA)	Internal Control Deficiencies Exist at DPW Over Procurements for Various Federal Programs	ND	DPW	115	468
	10.561	State Administrative Matching Grants for the SNAP					
	93.558	Temporary Assistance for Needy Families					
	93.563	Child Support Enforcement (including ARRA)					
	93.568	Low-Income Home Energy Assistance Program					
	93.575	Child Care and Development Block Grant					
	93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund					
	93.658	Foster Care – Title IV-E (including ARRA)					
	93.659	Adoption Assistance (including ARRA)					
	93.667	Social Services Block Grant					
	93.713	ARRA-Child Care and Development Block Grant					
	93.714	ARRA-Emergency Contingency Fund for TANF State Programs					
	93.778	Medical Assistance Program (including ARRA)					
10-18**	10.551	Supplemental Nutrition Assistance Program (including ARRA)	Internal Control Deficiencies at DPW Related to Returned EBT Cards (Prior Year Finding #09-21)	ND	DPW	121	468
	93.558	Temporary Assistance for Needy Families					
	93.575	Child Care and Development Block Grant					
	93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund					
	93.713	ARRA-Child Care and Development Block Grant					
	93.714	ARRA – Emergency Contingency Fund for TANF State Programs					

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* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

CAP - Corrective Action Plan

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Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
10-19**	10.551	Supplemental Nutrition Assistance Program	Weaknesses in DPW IT Systems Used for TANF, CSE, Foster Care and Adoption Assistance, DPW Monitoring of CSE County Subrecipient IT User Controls, and Internal Control Deficiencies and Material Noncompliance Related to SNAP IT Systems	None	DPW OIG	123	469
	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program					
	93.558	Temporary Assistance for Needy Families					
	93.563	Child Support Enforcement (including ARRA)					
	93.658	Foster Care – Title IV-E (including ARRA)					
	93.659	Adoption Assistance (including ARRA)					
10-20**	10.551	Supplemental Nutrition Assistance Program (including ARRA)	Internal Control Deficiencies at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #09-22)	ND	DPW	128	470
	93.558	Temporary Assistance for Needy Families					
	93.575	Child Care and Development Block Grant					
	93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund					
	93.713	ARRA-Child Care and Development Block Grant					
	93.714	ARRA-Emergency Contingency Fund for TANF State Programs					
	93.778	Medical Assistance Program (including ARRA)					
10-21**	10.553	School Breakfast Program	PDE Did Not Specify Required Federal Award Information in Subrecipient Award Documents	ND	PDE	139	470
	10.555	National School Lunch Program					
	10.556	Special Milk Program for Children					
	10.558	Child and Adult Care Food Program					

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* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

CAP - Corrective Action Plan

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Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
10-22**	10.553	School Breakfast Program	Deficiencies in Information Technology Controls Over the Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (CN-PEARS) (Prior Year Finding #09-23).	None	PDE	141	471
	10.555	National School Lunch Program					
	10.556	Special Milk Program for Children					
	10.558	Child and Adult Care Food Program					
	84.027	Special Education – Grants to States					
	84.391	ARRA – Special Education Grants to States					
10-23**	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Weaknesses in Department of Health Monitoring of WIC Local Agencies (Prior Year Finding #09-24)	ND	DOH	143	471
10-24*	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Noncompliance and Internal Control Weaknesses Related to Rebates Resulting in Questioned Costs of \$310,230	\$310,230	DOH	146	471
10-25**	10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Noncompliance and Internal Control Weaknesses Related to Voided Food Instruments (Prior Year Finding #09-25)	None	DOH	148	472
10-26**	10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Various Weaknesses and Noncompliance Noted in a Separate Bureau of Audits Performance Audit of the WIC Program Including Questioned Costs of \$15,000.	\$15,000	DOH	150	473
10-27*	10.558	Child and Adult Care Food Program	Internal Control Weakness Resulting in Questioned Costs of \$2,780	\$2,780	PDE	155	474
10-28**	10.558	Child and Adult Care Food Program	Lack of Staffing Resources Results in For-Profit Subrecipients Not Being Properly Audited	ND	PDE OB/OCO	157	475
10-29**	10.558	Child and Adult Care Food Program	Internal Control Deficiencies in PDE Monitoring of CACFP Subrecipients	ND	PDE	160	475

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* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

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Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
10-30**	10.561 93.558 93.714	State Administrative Matching Grants for Supplemental Nutrition Assistance Program Temporary Assistance for Needy Families ARRA – Emergency Contingency Fund for TANF State Programs	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Results in Questioned Costs of at Least \$27,429 (Prior Year Finding #09-26)	\$27,429	DPW	162	476
10-31**	12.400	Military Construction, National Guard	Deficiencies in Internal Control Over Compliance With Allowability and Matching Requirements (Prior Year Finding #09-27)	None	DMVA	175	479
10-32**	12.400	Military Construction, National Guard	Internal Control Deficiencies in Federal Reporting and Cash Management (Prior Year Finding #09-27)	None	DMVA	176	480
10-33**	12.400	Military Construction, National Guard	Lack of Documentation to Support Contracting and Procurement	ND	DGS	178	480
10-34**	12.401	National Guard Military Operations and Maintenance Projects (including ARRA)	Equipment Management Internal Control Deficiencies and Noncompliance	ND	DMVA	181	481
10-35**	12.401	National Guard Military Operations and Maintenance Projects (including ARRA)	Reporting, Cash Management, and Period of Availability Weaknesses Cause Noncompliance and Result in Questioned Costs of \$331,073	\$331,073	DMVA OB/OCO	183	482
10-36*	14.228 14.255	Community Development Block Grant Cluster (including ARRA)	Internal Control Deficiency Over Period of Availability Requirement	None	DCED	186	482
10-37**	14.228 14.255	Community Development Block Grant Cluster (including ARRA)	Noncompliance and Internal Control Deficiencies in DCED's Section 3 Summary Report (Prior Year Finding #09-30)	None	DCED	188	483
10-38**	14.228 14.255	Community Development Block Grant Cluster (including ARRA)	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #09-29)	ND	DCED	192	483

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* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

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Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
10-39**	17.225	Unemployment Insurance (including ARRA)	A Material Weakness Exists Over Expenditure Information Reported on the SEFA by L&I and Comptroller Operations Personnel (Prior Year Finding #09-34)	None	L&I OB/OCO	195	485
10-40*	17.225 17.258 17.259 17.260 84.126 84.390	Unemployment Insurance (including ARRA) Workforce Investment Act Cluster (including ARRA) Vocational Rehabilitation Cluster (including ARRA)	Deficiencies in Information Technology Controls at the Department of Labor & Industry (Prior Year Finding #09-35)	None	L&I	197	485
10-41**	17.258 17.259 17.260	Workforce Investment Act Cluster (including ARRA)	Control Weaknesses Exist in Eligibility Determinations for Individuals	ND	L&I	200	486
10-42**	17.258 17.259 17.260	Workforce Investment Act Cluster (including ARRA)	Internal Control Weaknesses Exist Over Financial System Reconciliations and Information Reported on the ETA-9130 Financial Status Reports	None	OB/OCO	203	487
10-43**	17.258 17.259 17.260 93.714	Workforce Investment Act Cluster (including ARRA) Emergency Contingency Fund for TANF State Programs (ARRA)	Control Weaknesses at L&I and Noncompliance Regarding Subrecipient Expenditures Resulting in Questioned Costs of at Least \$80,924	\$80,924	L&I	206	487
10-44**	17.259	WIA Youth Activities (ARRA)	Inaccurate Reporting on the ETA-9149 "Youth Served with WIA Recovery Act Resources Monthly Report"	None	L&I	213	493
10-45**	20.205 20.219 23.003	Highway Planning and Construction (including ARRA) Recreational Trails Program Appalachian Highway Development System (including ARRA)	Material Weaknesses Exist Due to the Lack of Reconciliations Between SAP and PADOT's ECMS System and Poor IT General Controls	None	PDOT OB/OCO	216	494

* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

CAP - Corrective Action Plan

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Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
10-46**	20.205 20.219 23.003	Highway Planning and Construction (including ARRA) Recreational Trails Program Appalachian Highway Development System (including ARRA)	Internal Control Deficiencies Related to Buy American ARRA Provisions	ND	PDOT	221	496
10-47**	20.205 20.219 23.003	Highway Planning and Construction (including ARRA) Recreational Trails Program Appalachian Highway Development System (including ARRA)	Internal Control Weaknesses Related to Monitoring of Locally Sponsored Subrecipient Projects	ND	PDOT	224	496
10-48*	20.205 20.219 23.003	Highway Planning and Construction (including ARRA) Recreational Trails Program Appalachian Highway Development System (including ARRA)	Internal Control Deficiencies in PADOT's Monitoring of Locally Sponsored ARRA Projects	ND	PDOT	228	497
10-49**	66.458	Clean Water State Revolving Fund (including ARRA)	PENNVEST Did Not Specify Required Federal Award Information in Subrecipient Award and Disbursement Documents Resulting in Noncompliance With OMB Circular A-133	ND	Pennvest	232	497
10-50**	66.458	Clean Water State Revolving Fund (including ARRA)	Material Weaknesses Cause Errors in the CWSRF Annual Report Submitted to EPA (Prior Year Finding #09-37)	None	Pennvest	235	497
10-51**	66.458	Clean Water State Revolving Fund (including ARRA)	Misinterpretation of Regulations Resulted in Noncompliance With ARRA Requirements	ND	Pennvest OB/OCO	239	498
10-52**	66.458	Clean Water State Revolving Fund (including ARRA)	Control Deficiencies Exist in PENNVEST's Subrecipient Audit Resolution Process	ND	Pennvest	241	498
10-53*	66.458	Clean Water State Revolving Fund (including ARRA)	Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (Prior Year Finding #09-38)	None	Pennvest	243	498

* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

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Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
10-54**	81.042 93.568	Weatherization Assistance for Low Income Persons (including ARRA) Low-Income Home Energy Assistance Program	Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of Weatherization Subrecipients (Prior Year Finding #09-39)	ND	DCED	245	499
10-55**	81.042 93.568	Weatherization Assistance for Low Income Persons (including ARRA) Low-Income Home Energy Assistance Program	Noncompliance and Internal Control Deficiencies at DCED Result in Questioned Costs of \$260,668 in the Weatherization Assistance Program and \$19,308 in the Low Income Home Energy Assistance Program	\$279,976	DCED	250	500
10-56**	81.042	Weatherization Assistance for Low Income Persons (including ARRA)	Noncompliance With ARRA Regulations and Inadequate Controls Over ARRA Payments	ND	DCED OB/OCO	258	503
10-57**	84.010 84.389	Title I – Grants to Local Educational Agencies ARRA – Title I Grants to Local Educational Agencies	Noncompliance and Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #09-41)	None	PDE	261	503
10-58**	84.010 84.027 84.173 84.367 84.389 84.391 84.392 84.394	Title I Grants to Local Education Agencies Special Education - Grants to States Special Education – Preschool Grants Title II Improving Teacher Quality State Grants ARRA – Title I Grants to Local Education Agencies ARRA – Special Education – Grants to States ARRA – Special Education – Preschool Grants ARRA – State Fiscal Stabilization Fund	PDE Did Not Specify Required Federal Award Information in Subrecipient Award Documents and at the Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133	ND	PDE	266	504

* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

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Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
10-59**	84.010 84.027 84.173 84.367 84.389 84.391 84.392 84.394	Title I Grants to Local Education Agencies Special Education - Grants to States Special Education – Preschool Grants Title II Improving Teacher Quality State Grants ARRA – Title I Grants to Local Education Agencies ARRA – Special Education – Grants to States ARRA – Special Education – Preschool Grants ARRA – State Fiscal Stabilization Fund	Internal Control Deficiencies in PDE Monitoring of Subrecipient Cash Management (Prior Year Finding #09-40)	ND	PDE OB/OCO	271	505
10-60**	84.010 84.367 84.389	Title I Grants to Local Education Agencies Title II Improving Teacher Quality State Grants ARRA – Title I Grants to Local Education Agencies	Internal Control Deficiencies in PDE During-the-Award Monitoring of Title I and Title II Subrecipients (Prior Year Finding #09-42)	ND	PDE	273	506
10-61**	84.027 84.391	Special Education – Grants to States ARRA – Special Education – Grants to States	Noncompliance and Internal Control Deficiencies in PDE Monitoring of IDEA-B Subrecipients (Prior Year Finding #09-43)	ND	PDE	276	506
10-62**	84.126 84.390	Vocational Rehabilitation Cluster (including ARRA)	A Material Weakness Exists in L&I’s Procurement System Related to Debarment and Suspension (Prior Year Finding #09-46)	None	L&I	278	507
10-63**	84.126 84.390	Vocational Rehabilitation Cluster (including ARRA)	A Material Weakness Exists Over the Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA (Prior Year Finding #09-45)	\$6,434	L&I	281	507
10-64*	84.126 84.390	Vocational Rehabilitation Cluster (including ARRA)	Noncompliance Exists Due to the Lack of Federal Review and Approval of the Hiram G. Andrews Center Cost Allocation Plan	None	L&I	283	508

* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

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Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
10-65**	84.126 84.390	Vocational Rehabilitation Cluster (including ARRA)	A Material Weakness Exists in L&I's Procedures for Performing Eligibility Determinations (Prior Year Finding #09-47)	None	L&I	286	508
10-66**	84.126 84.390	Vocational Rehabilitation Cluster (including ARRA)	A Material Weakness Exists Over the Preparation and Submission of the Annual RSA-2 Report	None	L&I	288	509
10-67**	84.367	Title II – Improving Teacher Quality State Grants	Noncompliance and Internal Control Deficiencies in PDE's Review and Approval of Title II Subrecipient Applications Resulting in Questioned Costs of \$1,268,363	\$1,268,363	PDE	290	509
10-68**	84.394	State Fiscal Stabilization Fund - ARRA	Noncompliance and Internal Control Deficiencies in PDE Monitoring of State Fiscal Stabilization Fund Subrecipients	ND	PDE	292	509
10-69**	84.394	State Fiscal Stabilization Fund - ARRA	Internal Control Deficiency Results in Inaccurate ARRA Section 1512 Reporting	None	OB/OCO	294	510
10-70	84.397	State Fiscal Stabilization Fund – Government Services - ARRA	Noncompliance With Allowability Requirements Results in \$111,548 In Questioned ARRA Costs	\$111,548	DGS	296	510
10-71**	84.397	State Fiscal Stabilization Fund – Government Services - ARRA	Noncompliance and Weaknesses in DOC Procedures for Recording of Payroll Expenditures and Retention of Payroll and Attendance Records Leads to \$29,526 in Questioned Costs	\$29,526	DOC	300	511

* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

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Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
10-72**	93.044	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	Material Weaknesses Exist in PDA Procedures for the Awarding and Disbursement of Subrecipient Funding Resulting in Noncompliance with OMB Circular A-133	None	Aging	302	511
	93.045	Special Programs for the Aging – Title III, Part C – Nutrition Services					
	93.053	The Nutrition Services Incentive Program					
	93.705	ARRA – Aging Home – Delivered Nutrition Services for States					
	93.707	ARRA – Aging Congregate Nutrition Services for States					
10-73**	93.044	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	PDA Monitoring of AAA Subrecipients Needs Improvement (Prior Year Finding # 09-49)	ND	Aging	305	512
	93.045	Special Programs for the Aging – Title III, Part C – Nutrition Services					
	93.053	The Nutrition Services Incentive Program					
	93.705	ARRA – Aging Home – Delivered Nutrition Services for States					
	93.707	ARRA – Aging Congregate Nutrition Services for States					
10-74*	93.268 93.712	Immunization Grants Immunization Grants (ARRA)	Unsupported Payroll Charges Results in \$2,513,164 in Questioned Costs	\$2,513,164	DOH	307	512
10-75**	93.268 93.712	Immunization Grants Immunization Grants (ARRA)	Internal Control Deficiency at DOH and the Commonwealth Comptroller Office Over SEFA Reporting	None	DOH OB/OCO	308	513

* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

CAP - Corrective Action Plan

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Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
10-76**	93.558 93.575 93.596 93.667 93.713	Temporary Assistance for Needy Families Child Care and Development Block Grant Child Care Mandatory and Matching Funds of the Child Care and Development Fund Social Services Block Grant ARRA – Child Care and Development Fund	Weaknesses Exist in DPW’s Contracting and Program Monitoring of Child Care Subgrantees (Prior Year Finding #09-52)	ND	DPW	309	513
10-77**	93.558 93.563 93.575 93.596 93.658 93.659 93.667 93.713 93.714 93.778 93.959	Temporary Assistance for Needy Families Child Support Enforcement (including ARRA) Child Care and Development Block Grant Child Care Mandatory and Matching Funds of the Child Care and Development Fund Foster Care – Title IV-E (including ARRA) Adoption Assistance (including ARRA) Social Services Block Grant ARRA – Child Care and Development Fund ARRA – Emergency Contingency Fund for TANF State Programs Medical Assistance Program (including ARRA) Substance Abuse Prevention and Treatment Block Grant	DPW Did Not Specify CFDA Number and Other Required Award Information in Subrecipient Award and Disbursement Documents, Resulting in Noncompliance With OMB Circular A-133 (Prior Year Finding #09-50)	ND	DPW	312	514
10-78**	93.558	Temporary Assistance for Needy Families	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #09-59)	None	DPW	316	514

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* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

CAP - Corrective Action Plan

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Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
10-79**	93.558 93.658 93.659	Temporary Assistance for Needy Families Foster Care – Title IV-E (including ARRA) Adoption Assistance (including ARRA)	Weaknesses in DPW Office of Children, Youth and Families Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients (Prior Year Finding #09-53)	ND	DPW	321	514
10-80**	93.558 93.563 93.568 93.575 93.596 93.658 93.659 93.667 93.713 93.714 93.778 93.767	Temporary Assistance For Needy Families Child Support Enforcement (including ARRA) Low Income Home Energy Assistance Child Care and Development Block Grant Child Care Mandatory and Matching Funds of the Child Care and Development Fund Foster Care (including ARRA) Adoption Assistance Program (including ARRA) Social Services Block Grant ARRA – Child Care and Development Fund ARRA – Emergency Contingency Fund for TANF State Programs Medical Assistance Program (including ARRA) State Children’s Health Insurance Fund	HHS-Required ADP Risk Analysis and System Security Review Was Not Performed for Various DPW and Insurance Department Systems (A Similar Condition Was Noted in Prior Year Finding #09-76)	None	DPW	324	515
10-81**	93.563	Child Support Enforcement – ARRA	Material Internal Control Deficiencies Over \$24.7 Million in Federal ARRA CSE Incentive Payments Result in Noncompliance With Matching and Supplanting Requirements and Questioned Costs of \$6,861,313	\$6,861,313	DPW	326	515
10-82**	93.568	Low-Income Home Energy Assistance Program	Internal Control Deficiencies in DPW’s Administration of LIHEAP Cash and Crisis Benefits (Prior Year Finding #09-56)	None	DPW	330	515

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* - Significant Deficiency

** - Material Weakness

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CAP - Corrective Action Plan

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Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
10-83	93.568	Low-Income Home Energy Assistance Program	Noncompliance With Contract Terms and Unallowable Contract Expenditures Result in \$478,157 In Questioned Costs	\$478,157	DPW	339	516
10-84**	93.568	Low-Income Home Energy Assistance Program	Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$64,781 in LIHEAP (Prior Year Finding #09-57)	\$64,781	DPW	344	516
10-85**	93.568	Low-Income Home Energy Assistance Program	DPW Failed to Adequately Monitor the Processing of LIHEAP Cash and Crisis Applications (Prior Year Finding #09-54)	ND	DPW	351	517
10-86**	93.569 93.710	Community Services Block Grant ARRA – Community Services Block Grant	Noncompliance and Internal Control Weakness Over Subgrantee Payments at DCED (Prior Year Finding #09-61)	ND	DCED	360	517
10-87**	93.569 93.710	Community Services Block Grant ARRA – Community Services Block Grant	Noncompliance and Internal Control Weakness in Subrecipient Monitoring	ND	DCED OB/OCO	362	517
10-88**	93.569 93.710	Community Services Block Grant ARRA – Community Services Block Grant	Noncompliance and Internal Control Weakness Over Financial Reporting	None	OB/OCO	364	518
10-89*	93.575 93.596	Child Care and Development Block Grant Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Internal Control Weaknesses Exist Over DPW's Subrecipient Expenditures Claimed For Federal Earmarking Requirements	None	DPW	366	518
10-90*	93.575 93.596	Child Care and Development Block Grant Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Internal Control Weaknesses Exist Over DPW's Charging of Costs Not Approved in The CCDF State Plan Resulting in Noncompliance and Questioned Costs of \$282,546 (Prior Year Finding #09-62)	\$282,546	DPW	368	519
10-91**	93.667 93.959	Social Services Block Grant Substance Abuse Prevention and Treatment Block Grant	Weaknesses in DPW Program Monitoring of SSBG and SAPT Subgrantees (Prior Year Finding #09-64)	ND	DPW	370	519
10-92**	93.667	Social Services Block Grant	Inadequate Controls Over Charging of YDS Personnel Costs	ND	DPW	373	519

* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

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Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
10-93*	93.713	ARRA – Child Care and Development Fund	DPW Did Not Utilize Available ARRA Grant Award Funds While Significant Waiting Lists Existed For Child Care Assistance For Low-Income Families (Prior Year Finding #09-65)	None	DPW	375	520
10-94**	93.714	ARRA – Emergency Contingency Fund for TANF State Programs	DPW Failed to Adequately Support a Transfer of LIHEAP Funds Charged to TANF ARRA Resulting in \$20,907,200 in Questioned Costs (Prior Year Finding #09-58)	\$20,907,200	DPW	377	520
10-95**	93.767	State Children’s Insurance Program	Lack of Documentation to Support Subrecipient Contracting and Procurement	ND	Ins	381	520
10-96**	93.778	Medical Assistance Program (including ARRA)	DPW Failed to Obtain an Outside Service Auditor’s Report for a Third Party Drug Rebate Processor (Prior Year Finding #09-67)	ND	DPW	384	521
10-97**	93.778	Medical Assistance Program (including ARRA)	Lack of Timely Periodic Reconciliations of the PROMISe Provider Payment System to the SAP General Ledger Accounting System	None	OB/OCO	386	521
10-98	93.917	HIV Formula Care Grants	Weaknesses in Internal Controls Over Eligibility Determinations and Administration of Third Party Contractor Results in Questioned Costs of \$37,185 (Prior Year Finding #09-69)	\$37,185	DPW	388	521
10-99**	93.959	Substance Abuse Prevention and Treatment Block Grant	Inadequate Program Monitoring of Department of Health SAPT Subrecipients (Prior Year Finding #09-70)	ND	DOH	393	523
10-100	93.994	Maternal and Child Health Services Block Grant	Noncompliance and Internal Control Weaknesses Result in \$16,520 in Questioned Personnel Costs (Prior Year Finding #09-71)	\$16,520	DOH	395	523

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* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

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<u>Finding No.</u>	<u>CFDA No.</u>	<u>CFDA Name</u>	<u>Finding Title</u>	<u>Questioned Costs</u>	<u>Impacted State Agency</u>	<u>Finding Page</u>	<u>CAP Page</u>
10-101**	Various	Various CFDA Numbers – See Finding	Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (Prior Year Finding #09-72)	ND	DPW	397	524
10-102**	Various	Various CFDA Numbers – See Finding	Noncompliance and Control Deficiencies Exist in the Commonwealth’s Subrecipient Audit Resolution Process (Prior Year Findings #09-73 and #09-74)	None	BOA Various	399	524
10-103	Various	Various CFDA Numbers – See Finding	Unallowable Payments for Unused Employee Leave Result in \$453,533 in Questioned Costs (Prior Year Finding #09-75)	\$453,533	BFM OCO	405	526
10-104**	Various	Various CFDA Numbers – See Finding	Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$767,220 Known Understatement of the CMIA Interest Liability (Prior Year Finding #09-77)	\$767,220	OCO	408	526
Total Questioned Costs				<u>\$34,844,902</u>			

* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

CAP - Corrective Action Plan

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Finding 10 – 17:

- CFDA #10.551 – Supplemental Nutrition Assistance Program (including ARRA)**
- CFDA #10.561 – State Administrative Matching Grants for the SNAP**
- CFDA #93.558 – Temporary Assistance for Needy Families**
- CFDA #93.563 – Child Support Enforcement (including ARRA)**
- CFDA #93.568 – Low-Income Home Energy Assistance Program**
- 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 (including ARRA)**
- CFDA #93.659 – Adoption Assistance (including ARRA)**
- CFDA #93.667 – Social Services Block Grant**
- CFDA #93.713 – ARRA-Child Care and Development Block Grant**
- CFDA #93.714 – ARRA-Emergency Contingency Fund for TANF State Programs**
- CFDA #93.778 – Medical Assistance Program (including ARRA)**

Internal Control Deficiencies Exist at DPW Over Procurements for Various Federal Programs

Federal Grant Numbers: 0902PATANF, 1002PATANF, 0904PA4004, 0904PA4002 (ARRA), 1004PA4004, 10B1PALIEA, 09B1PALIEA, 0901PALIE2, 0901PACCDF, 1001PACCDF, 0901PA1401, 1001PA1401, 0901PA1402, 0901PA1403, 0901PA1407, 1001PA1407, 0901PASOSR, 1001PASOSR, 0905PA5028, 5-0905PAARRA, 5-1005PAARRA 1005PA5028, 0901PATAN2, and 1001PATAN2

Condition: Out of \$165.73 million in expenditures reported on the Commonwealth's SEFA for the CSE program during SFYE June 30, 2010, which includes \$24.65 million in ARRA expenditures, \$11.31 million (or seven percent) and \$6.86 million in ARRA (or four percent) was expended by DPW on outside contractors working on DPW's Statewide Collections and Disbursement Unit (SCDU) and Pennsylvania Child Support Enforcement System (PACSES) utilized by the 67 counties in the state to run the CSE programs at the subrecipient level. Within the population of \$11.31 million, \$7.60 million was expended on the PACSES IT vendor, \$2.39 million was expended on the SCDU IT vendor, and \$1.10 million was expended on the PACSES Infrastructure IT vendor. Within the ARRA population of \$6.86 million \$1.94 million was expended on the PACSES IT vendor, \$4.92 million was expended on the SCDU IT vendor. Our testing of the procurement of these vendors disclosed the following:

For the PACSES IT vendor we noted that contract #SP4000011443 was for PACSES application maintenance, and monthly project and implementation support reports. Based on the contract DPW was invoiced the amount of \$1,002,930 each month during SFYE June 2010 which was charged to CSE at the applicable FFP rate of 66 percent resulting in a Federal claim of \$661,934 per month. We also noted that \$1.94 million of costs for the PACSES IT vendor related to contract #SP4000011443 were charged to the CSE ARRA grant. Our review of the contractor's invoices and the work order for these charges disclosed that they were not based on actual hours spent by the contractor on the project, but a fixed price as negotiated by DPW.

Our follow up to determine if the fixed price was reasonable disclosed the PACSES work order for the SFYE June 30, 2010 was a one-year extension for a contract awarded from an RFP during 2007. As a result, we requested that DPW provide us with analysis of the fixed price award which documented that the costs of the PACSES contract were reasonable. However, DPW provided no detailed cost analysis showing the reasonableness of the costs either prior to, during, or after the awarding of this contract in 2007, or the work order extension in 2010. DPW personnel responded by providing a two-page summary of costs for all work performed at DPW by the IT contractor (Deloitte) for SFYE June 30, 2009 which reported a total of \$105.9 million expended on multiple DPW systems for different federal programs, including the HCSIS, PELICAN, iCIS and PACSES systems. (See federal programs listed below.) DPW personnel indicated that instead of issuing a new RFP for these IT services, they claimed that they negotiated a lower

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Finding 10 – 17: (continued)

cost by “bundling” the sole IT contractor’s pricing for all these systems at a total price of \$96.7 million a year for a two-year period. However, there was no detailed analysis of individual system costs to support cost savings, and none of the purported savings as a result of “bundling” were applied to the PACSES contract/work order we selected for testing, since the documentation provided just extended the PACSES maintenance and project reporting for one year at the same cost as the prior year with no analysis showing the reasonableness of the costs.

In a further attempt to support the reasonableness of the PACSES costs, the Office of the Budget (OB) and DPW provided an attestation report on compliance with the PACSES contract with Deloitte for the SFYE June 30, 2010 from an independent accountant which stated that contractor Time & Material (T&M) tasks, as invoiced to DPW, are fully supported by employee timecards, and contract labor rates agree to personnel classification rates incorporated in the contract. However, as noted above the contract is not T&M, but a fixed price contract, and neither OB nor DPW followed up to connect the T&M tasks included in the attestation report to the amount of the fixed price contract. Further, if the contractor actually maintained T&M documentation for this contract/work order and the auditor verified it, DPW failed to obtain this documentation to make a judgment on the reasonableness of contractor costs.

Also, we noted that DPW’s IT procurements related to HCSIS, PELICAN, iCIS and PACSES systems were tested as part of a special audit of IT procurement contracts with Deloitte for the period from January 1, 2004 to December 31, 2007 performed by other auditors in another engagement by the Department of the Auditor General, and released on October 21, 2009. This separate audit detailed the following prior-year weaknesses at DPW for which no documented corrective action (in accordance with Commonwealth Management Directive 325.10) was provided by DPW:

- DPW had no formal methodology for selecting the evaluation committee members, including documenting each member’s qualifications.
- Evaluation scoring sheets were missing signatures of evaluators, and in some cases did not have final scores or consistent justifications of original and adjusted scores.
- DPW evaluation committee meetings were not formally documented.
- DPW did not have written policies and procedures for RFP review and approval process, and RFP approvals were not formally documented.
- For RFQ contracts DPW was unable to provide documentation to determine if a pre-proposal conference was conducted, if vendors were provided at least 30 days to submit their proposals, and if disadvantaged business evaluations were performed.
- Unreasonable justifications for emergency procurements.
- Change orders lacked various approvals, justification and were issued after the contract expired.
- DPW did not have any written policies and procedures for review and approval of IT invoices.
- DPW does not review IT facilities charges to ensure they are reasonable and are not costs for the use of the same facilities over multiple contracts.

As a result of the exceptions noted above, we consider DPW’s internal controls over HCSIS, PELICAN, iCIS and PACSES IT contractor procurements and costs to be deficient, especially since they do not adequately document the reasonableness of IT contract amounts during and subsequent to the procurement process. The systems involved in these procurements are used in the administration of the following major Federal programs:

HCSIS: CFDA #93.778 – Medical Assistance Program (including ARRA). Projected HCSIS costs for SFYE June 30, 2010 were \$24.4 million.

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PELICAN: 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 #93.667 - Social Services Block Grant, CFDA #93.713 – ARRA-Child Care and Development Block Grant. Projected PELICAN costs for SFYE June 30, 2010 were \$17.2 million.

iCIS: CFDA #10.551 – Supplemental Nutrition Assistance Program (including ARRA), CFDA #10.561 – State Administrative Matching Grants for the SNAP, CFDA #93.558 –Temporary Assistance for Needy Families, CFDA #93.563 – Child Support Enforcement (including ARRA), CFDA #93.568 – Low-Income Home Energy Assistance Program, 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 (including ARRA), CFDA #93.659 - Adoption Assistance (including ARRA), CFDA #93.667 - Social Services Block Grant, CFDA #93.713 – ARRA-Child Care and Development Block Grant, CFDA #93.714 – ARRA-Emergency Contingency Fund for TANF State Programs, CFDA #93.778 – Medical Assistance Program (including ARRA). Projected iCIS costs for SFYE June 30, 2010 were \$32.4 million.

PACSES: CFDA #93.563 – Child Support Enforcement (including ARRA). Total SFYE June 30, 2010 costs paid were \$14.5 million (\$7.6 million federal, \$1.9 million ARRA, \$4.9 million state match).

Our audit also covered testing of contracts with other vendors utilized by DPW in its major federal programs during SFYE June 30, 2010. The results of this additional testwork are as follows:

- For the SCDU IT vendor procurement, mentioned above, DPW stated that only one vendor submitted a bid and DPW did not provide us with the following: 1) a list of proposal evaluation committee members, 2) original detailed scoring sheets used by evaluation committee members for the proposal submitted for review, 3) original contract 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, 4) original contract documentation to support that evaluation committee members verified that the prospective vendor cost proposal was reasonable.
- For the PACSES Infrastructure IT vendor procurement, mentioned above, no procurement documentation was provided.
- Within the Adoption Assistance program for the Statewide Adoption Network (SWAN) procurement DPW did not provide us with the following: 1) a list of proposal evaluation committee members, 2) original detailed scoring sheets used by evaluation committee members for each proposal submitted for review, 3) original contract 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, 4) original contract documentation to support that evaluation committee members verified that prospective vendor cost proposals were reasonable. SWAN Federal expenditures for SFYE June 30, 2010 were \$13.9 million, or 11.4 percent, of total Adoption Assistance program Federal expenditures of \$118.4 million. No ARRA funds were paid to the SWAN contractor.
- Within the Medical Assistance program DPW did not provide us a list of proposal evaluation committee members for HMO procurements and all scoring sheets provided had committee member names redacted. HMO Federal expenditures for SFYE June 30, 2010 were \$5.352 billion, which included \$748.1 million in ARRA funding. Total Medicaid Cluster Federal expenditures for SFYE June 30, 2010 are \$12.3 billion of which \$1.9 billion is ARRA funding.

In our prior-year Single Audits of the Commonwealth for the fiscal years ended June 30, 2000 to June 30, 2009, and in the current year Single Audit (or for 11 fiscal years in a row) we could not test the Commonwealth's compliance with procurement regulations because management refused to provide us with the names of proposal evaluation committee members as all detail scoring sheets provided had the evaluator names redacted. Without the names of proposal

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Finding 10 – 17: (continued)

evaluation committee members, we could not fully test for compliance, nor could we ascertain if proper controls are in place to prevent potential conflicts of interest, fraud, abuse, or other inappropriate activity from occurring during the contract procurement process.

Criteria: 45 CFR 92.36 applicable to HHS programs, states in part:

(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 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 II, 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:

8. *Evaluation Committee*

a. *Performs preliminary technical submittal evaluations.*

9. *Agency*

a. *Scores cost submittals.*

11. *Agency*

a. *To the extent necessary or desired, conducts discussions with responsible offerors who submit proposals determined to be reasonably susceptible of being selected for award to assure full understanding of responsiveness to the solicitation requirements and for the purpose of obtaining best and final offers.*

12. *Evaluation Committee*

a. *Performs final technical submittal evaluations after discussions/best and final offers have been completed/received.*

14. *Agency*

a. *Re-scores Best and Final Cost submittals.*

Management should not restrict availability of procurement information to the Auditor General since this is clearly 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)*

Further, good internal control practices dictate that evaluation committee members document that they verified that prospective vendor cost proposals were reasonable.

Cause: DPW personnel indicated that contract #SP4000011443 was a fixed price contract for PACSES system maintenance and operational support services. However, DPW provided no explanation as to why there was no

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Finding 10 – 17: (continued)

documented analysis showing the reasonableness of the costs at the outset of the procurement. Neither OB nor DPW explained why no documented corrective action was available for the separate special performance audit of Deloitte IT procurement contracts for the period from January 1, 2004 to December 31, 2007.

Regarding the list of proposal evaluation committee members, DPW was originally willing to provide us with this documentation until OB-BFM intervened and imposed a scope limitation on our audit procedures. However, BFM management stated that BFM requests that agencies implement policies in accordance with their responsibilities, and that BFM does not have the authority to “order” agencies or agency personnel to implement specific actions.

Regarding the PACSES Infrastructure IT vendor procurement, DPW management stated that DGS procured this contact as DGS would not delegate the procurement authority to DPW. DGS management stated that DPW was responsible for procuring this contract.

For other procurement documents not provided, DPW stated they were in the process of trying to obtain and provide the documents.

Effect: Internal controls over DPW procurements are weak and do not ensure compliance with state procurement requirements or federal regulations.

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.

We have requested that DPW identify the RFP evaluation committee members to us and allow us to verify that RFP Evaluation Committee Certification of Confidentiality, No Conflict of Interest, and Ethics Forms were properly completed and reviewed. Without knowing the identity of current procurement committee members, we cannot test for the existence of any conflicts of interest in the Federal programs at DPW for the current year. Also, we need to know the identity of committee members in order to have the opportunity to confirm DPW management’s statements that these individuals actually participated in the RFP evaluation and to confirm/verify that each scoring sheet as provided to us by DPW management accurately reflects how the evaluator scored the contract. However, these requests were denied by management. Therefore, due to management not providing documentation to allow us to test for compliance and that proper controls are in place to prevent conflicts of interest, fraud, abuse, or other inappropriate activity from occurring during the contract procurement process. In short, management imposed scope limitations on our compliance 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 DPW improve their controls over procurement of contractor costs to document and ensure these contract amounts are reasonable in accordance with state procurement requirements and federal regulations.

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Finding 10 – 17: (continued)

Also, we recommend that management alter its practice of withholding procurement 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: The DPW wants to provide some clarification in regards to the PACSES Client Infrastructure Network Maintenance procurement (PACSES Infrastructure IT vendor procurement). The most recent procurement that went into effect in 2011 was not delegated and was managed by DGS; the preceding procurement (RFP 02-05 effective January 1, 2006) was delegated and managed by DPW. The delegated procurement (RFP 02-05 effective January 1, 2006) managed by DPW is the procurement in question as the one falling within the audit’s timeframe.

The contract #SP4000011443 for PACSES application maintenance and monthly project and implementation support reports was fixed price deliverable based which is considered to be the “best practice” for this type of procurement. This type of contract not only decreased the cost to the Commonwealth but ensured that specified deliverables were satisfactorily completed before payment was released to the vendor.

In determining reasonableness, DPW considered the various market prices which were proposed in the competitive bids, of which active negotiations brought down costs even further. In the PACSES cost submittal scoring process, vendor cost submittals were scored based on a pre-determined calculation according to each vendor’s total price in relation to the lowest total price bid. The lowest priced cost submittal received the highest number of cost evaluation points, the second lowest priced submittal received the second highest number in proportion to the difference, and so on.

So the reasonableness of vendors’ cost submittals was indicated partly by the independence of their relative bids. Each vendor’s cost submittal was required to use a format provided by DPW to enable ready apprehension and comparison of pricing, including rates, hours, position titles, and deliverables. In addition, as with any IT procurement, the independent reviews of DGS and the Governor’s Office of Administration were conducted in order to ensure appropriate and adequate practices were implemented during the procurement process.

In regard to the DPW not supplying the list of proposal evaluation committee members, DPW was adhering to the “Guidelines for Providing Procurement Information to CAFR/Single Auditors for the June 30, 2010 Audit Period” which was created and distributed by the Bureau of Financial Management (BFM) within the Governor’s Office of Comptroller Operations. While BFM does not have the authority to “order” DPW to comply as implied in the finding, BFM does set Commonwealth policy regarding the information to be provided for the GAAP and Single Audit process.

Auditors’ Conclusion: DPW’s response only addressed the multiple Deloitte contracts and the PACSES Infrastructure IT contract, but DPW has provided no documentation to support its claims in the agency response about contract costs. Regarding the PACSES Infrastructure IT procurement DPW did not provide any of the requested procurement documents for the contract in effect during our audit period. Regarding the rest of the procurement issues noted in the finding and in DPW’s response, no new information was provided.

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

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 18:

CFDA #10.551 – Supplemental Nutrition Assistance Program

CFDA #10.551 – ARRA – Supplemental Nutrition Assistance 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 #93.713 – ARRA – Child Care and Development Block Grant

CFDA #93.714 – ARRA – Emergency Contingency Fund for TANF State Programs

Internal Control Deficiencies at DPW Related to Returned EBT Cards (A Similar Condition Was Noted in Prior Year Finding #09-21)

Federal Grant Numbers: 0902PATANF, 1002PATANF, 0901PATAN2, 1001PANTAN2, 0901PACCDF, and 1001PACCDF

Condition: As part of our audit of SNAP, we evaluated the security over Electronic Benefits Transfer (EBT) cards, which includes both the physical security of EBT cards during the issuance process at County Assistance Offices (CAO) as well as the handling of EBT cards returned from the United States Postal Service as undeliverable or those returned that have been lost or stolen.

Through site visits of fourteen CAO locations, selected based on their volume of EBT card issuances, we reviewed the physical security over EBT cards. We noted exceptions at five of the 14 locations tested. These exceptions included lack of maintenance of logs, lack of security of logs, excess personnel authorized to grant PIN numbers, visibility/accessibility of client-sensitive data, and lack of a witness during destruction of logs and/or EBT cards. These exceptions represent a material weakness in internal controls over EBT card security at CAO locations.

Undeliverable, lost or stolen EBT cards are returned directly to DPW's central office in Harrisburg, PA. During our audit for the year ended June 30, 2010, we noted that there were no policies or procedures in place for the handling of returned EBT cards. This is considered a material weakness. Additionally, for our sample of 65 days, we noted there were not adequate records or documentation of the processing and destruction of returned cards.

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 – Part 4, N.3 EBT Security, states:

The State is required to maintain adequate security over, and documentation/records for, EBT cards (7 CFR section 274.12(h)(3)), to prevent their: theft, embezzlement, loss, damage, destruction, unauthorized transfer, negotiation, or use (7 CFR sections 274.7(b) and 274.11(c)).

Cause: Having various CAO locations decentralizes the processes, including the security over EBT cards. Although there are formal, documented policies and procedures for CAO processing of EBT cards, inconsistencies occurred.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 18: (continued)

There were no formal, documented policies and procedures related to the processing and destruction of returned EBT cards, and the related documentation thereof was not performed on a consistent basis.

Effect: There was not adequate security over EBT cards and their handling at certain CAOs and there was not adequate security over EBT cards returned to DPW's central location.

Recommendation: We recommend that DPW monitor CAO EBT card security on a regular basis to improve consistency in execution of documented policies and procedures. In relation to the handling of returned EBT cards, we noted that policies and procedures were documented and formalized subsequent to the period ended June 30, 2010. We recommend that these policies and procedures be followed on a consistent basis and that appropriate documentation of processing and destruction of EBT cards be maintained.

Agency Response:

Returned EBT Cards

There was no documented policy and procedure that addressed the actions and responsibilities for the control and destruction of EBT cards returned to the central office during the audit period. On August 4th, 2010, an "Electronic Benefits Transfer (EBT) Returned Cards" policy and procedure was initiated that addressed the central processing of undeliverable and returned EBT cards. It identified the procedures to be followed for the return of EBT cards to the Office of Income Maintenance (OIM), tracking and shredding of these cards, and notification to the applicable County Assistance Office (CAO) for appropriate actions. This policy has been updated twice since initially being issued.

EBT Card Security at CAOs

Based on card issuance volumes, the auditors did site visits at fourteen CAOs, and identified specific issues. Fourteen issues were identified, ranging from alleged deficiencies (PC terminals may be visible to clients) to factual deficiencies (shipment logs were not maintained). The CAOs responded to each of these issues and disagreed with eight of the fourteen issues. It is the auditors' position that the CAO responses do not provide a sufficient basis to "clear" this finding. But based on follow-up visits, the auditors believe sufficient corrective actions have been taken and, therefore, this finding will not be repeated for 2010/11.

The Dept. of Public Welfare (DPW) continually evaluates and updates its security policies and procedures. To reinforce the importance of EBT card security, DPW initiated CAO training and developed an E-Learning presentation for EBT Security Procedures in March of 2010.

DPW works diligently to accomplish its mission and provide services to the people of the Commonwealth, while maintaining effective operational efficiencies. In addition, DPW constantly monitors and adapts its policies and procedures to enhance performance and effectiveness.

Auditors' Conclusion: Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action during our 2010/2011 subsequent audit, and conclude in our subsequent audit on the adequacy of DPW's corrective action and the need to report this finding.

Questioned Costs: The amount of questioned costs cannot be determined for cards not adequately handled.

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, 2010

Finding 10 – 19:

CFDA #10.551 – Supplemental Nutrition Assistance Program (SNAP)

CFDA #10.561 – State Administrative Matching Grants For The Supplemental Nutrition Assistance Program

CFDA #93.558 – Temporary Assistance for Needy Families

CFDA #93.563 – Child Support Enforcement (including ARRA)

CFDA #93.658 – Foster Care – Title IV-E (including ARRA)

CFDA #93.659 – Adoption Assistance (including ARRA)

Weaknesses in DPW IT Systems Used for TANF, CSE, Foster Care and Adoption Assistance, DPW Monitoring of CSE County Subrecipient IT User Controls, and Internal Control Deficiencies and Material Noncompliance Related to SNAP IT Systems

Federal Grant Numbers: Commodities, 0902PATANF, 1002PATANF, 0904PA4004, 0904PA4002 (ARRA), 1004PA4004, 1004PA4002 (ARRA), 0901PA1401, 0901PA1402 (ARRA), 1001PA1401, 1001PA1402 (ARRA), 0901PA1407, 0901PA1403 (ARRA), 1001PA1407 and 1001PA1403 (ARRA)

Condition: The automatic data processing (ADP) systems used by the Department of Public Welfare (DPW) to process transactions related to eligibility and overpayments for the SNAP program do not have adequate general IT controls in place to ensure that the systems are meeting the requirements to: (1) accurately and completely process and store all case file information for eligibility determination and benefit calculation; (2) automatically cut off households at the end of their certification period unless recertified; and, (3) provide data necessary to meet Federal issuance and reconciliation reporting requirements.

DPW's inadequate general IT controls also impact the Foster Care, Adoption Assistance and TANF programs which provide funds to the 67 counties in the state to run child welfare programs in County Children and Youth Agencies. In order to obtain reimbursement for services provided counties are required to submit invoices to DPW through the Title IV-E Validation System. The Title IV-E Validation System is an automated system designed to ensure that Foster Care and Adoption Assistance claims invoiced by counties are valid, claimed at the correct rate, and are not duplicate claims, etc. Other key systems used within the validation process are the Case Worker Visitation System, used to compile information from counties regarding child welfare visits, AFCARS (Adoption & Foster Care Analysis Reporting System) used to collect case level information on all children in foster care for whom State child welfare agencies have responsibility for placement, care or supervision and on children who are adopted, and iCIS the DPW Client Information System.

The DPW Pennsylvania Child Support Enforcement System (PACSES) is an outsourced IT system utilized by the 67 counties in the state to run the CSE programs at the subrecipient level, and by DPW to monitor subrecipient activity. While DPW obtained a SAS #70 Report for PACSES, we noted that the SAS #70 did not cover, and DPW did not perform adequate monitoring of, IT user controls at county subrecipients. Examples of IT controls at the subrecipient level not reviewed or monitored include authorization of user's access and security level, password controls, physical access controls, termination of accounts, accuracy of data entered into the system, etc.

DPW's inadequate general IT controls also impact the Statewide Collections and Disbursement Unit (SCDU) system utilized to process the collection and disbursement of child support payments, and iCIS, the Client Information System which interfaces with PACSES and is utilized to track the disbursement of child support payments to TANF recipients and assist in determining the amount of collections to be returned to the Federal government related to TANF recipients. Also, PACSES is utilized to report collections amounts on the OCSE-34A Report submitted to HHS and to monitor County subrecipient activities.

The following general IT control weaknesses resulted in the determination of the above conditions:

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 19: (continued)

General IT control weaknesses at DPW (as noted in Basic Financial Statements (BFS) Audit Finding #10-11):

1. A regular review of user IDs with access to DPW systems, including IDs with access to perform sensitive system functions and direct database access, is not performed by management to verify that access rights are appropriate and segregation of duties conflicts do not exist.
2. A daily ADI and Server Error Report is used to track and monitor job failures involving DPW servers. A selected report included five job failures for which no follow-up resolution was documented.
3. Shared user IDs are used to move changes into production through OpCon for DPW-maintained applications. Additionally, a complete listing of user IDs and individual users with the ability to promote changes to production was not available for inspection. Therefore, changes promoted to production through OpCon are not associated with specific individuals to provide for individual accountability in the event of an error or unauthorized change.
4. Mainframe user accounts for the CIS mainframe system are not required to comply with Commonwealth password policies. Passwords are not configured to require lockout after invalid attempts, character complexity, or to restrict the use of unauthorized passwords.

Additional IT control weaknesses related to overpayment processing systems:

5. A regular review of user IDs with access to the ARRCs (Automated Restitution Referral and Computation System) system is not performed by DPW management to verify that access rights are appropriate and segregation of duties conflicts do not exist.
6. Programmers have access to make changes to production code in the OIG's OARS (Overpayment Avoidance and Recovery System) system, which is a conflict of duties that can result in unauthorized programming changes.

Criteria: According to 7 CFR sections 272.10 and 277.18, State agencies are required to automate their SNAP operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP. This includes: (1) processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration; (2) providing an automatic cutoff of participation for households which have not been recertified at the end of their certification period by reapplying and being determined eligible for a new period (7 CFR sections 272.10(b)(1)(iii) and 273.10(f) and (g)); and (3) generating data necessary to meet Federal issuance and reconciliation reporting requirements.

In order to support a conclusion that the audit objective is achieved, adequate IT general controls should be in place to prevent unauthorized access and programming changes.

Additionally, 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: This finding was caused by weaknesses in the IT general controls environment related to the SNAP systems utilized to process eligibility and overpayment processing transactions, and TANF, CSE, Foster Care and Adoption Assistance systems utilized in the payment process, subrecipient monitoring, collections and the reporting of collections. Management is aware of the deficiencies and has defined a remediation plan.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 19: (continued)

Effect: We noted no errors resulting from IT controls weaknesses in our current year audit of the above major programs. However, the IT general controls weaknesses could result in inaccurate processing of data and unauthorized access to the systems. As a result of the control weaknesses related to access and change control for the eligibility and overpayment processing systems, the systems may not accurately process and store all case file information necessary for eligibility determination and benefit calculation; may not consistently identify specific elements that affect eligibility; and may not accurately provide notification to the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration. Additionally, individuals with inappropriate access to make programming changes can intentionally or unintentionally introduce programming errors that prevent the system from automatically functioning as expected, including providing an automatic cutoff of participation for households which have not been recertified at the end of their certification period by reapplying and being determined eligible for a new period. Inappropriate access to make programming changes and inappropriate users with access to enter data into the systems can also result in inaccuracies in the data being reported to meet Federal issuance and reconciliation reporting requirements.

Without adequate IT general controls, the DPW Title IV-E Validation System, Case Worker Visitation System, AFCARS and iCIS systems could be inappropriately accessed by DPW personnel which could allow unauthorized or erroneous entries into systems without DPW knowledge or oversight. Also, without adequate IT general controls, and without proper DPW monitoring of IT controls at CSE county subrecipients, the DPW PACSES, SCUDU and iCIS systems could be inappropriately accessed by DPW or county subrecipient personnel which could allow unauthorized or erroneous entries into systems without DPW knowledge or oversight.

Recommendation: We recommend that DPW and agencies supporting the systems that are used for the SNAP, TANF, CSE, Foster Care and Adoption Assistance programs implement adequate general IT controls to address the system weaknesses noted. Management should implement controls to:

1. Regularly review user IDs with access to DPW systems, including IDs with access to perform sensitive system functions and direct database access.
2. Track and monitor job failures involving DPW servers.
3. Implement a process to segregate the ability to promote changes into production from the individuals with programming responsibilities and provide individualized tracking of the actions by individuals implementing code into production.
4. Implement a regular review of programming code by management to determine that no unauthorized programming changes were made to production code without prior authorization and adequate documentation of testing .
5. Ensure that all DPW systems meet Commonwealth password policies.
6. Perform a risk analysis and system security review of all DPW applications to ensure that IT risks are documented and analyzed for compliance with applicable regulations and general best practices.

Department of Public Welfare’s Response: Below are specific comments on the individual deficiencies contained in this finding:

Finding: A regular review of user IDs with access to DPW systems, including IDs with access to perform sensitive system functions and direct database access, is not performed by management to verify that access rights are appropriate and segregation of duties conflicts do not exist.

Response: DPW is currently working to get a User and Access Certification policy implemented. This policy will provide a mechanism to perform a review of User IDs that have access to various DPW systems. The policy is currently in review status, and should be published in the next 2 weeks.

Finding: A daily ADI and Server Error Report is used to track and monitor job failures involving DPW servers. A selected report included five job failures for which no follow-up resolution was documented.

Response: The current procedure is to document the resolution of all ADI & Server production job failures. Management has followed up with staff to re-emphasize current processes and procedures.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 19: (continued)

Finding: Shared user IDs are used to move changes into production through OpCon for DPW-maintained applications. Additionally, a complete listing of user IDs and individual users with the ability to promote changes to production was not available for inspection. Therefore, changes promoted to production through OpCon are not associated with specific individuals to provide for individual accountability in the event of an error or unauthorized change.

Response: DPW upgraded its OpCons application on March 4, 2011. This upgrade included the elimination of shared user IDs. At a minimum we configured OpCons to adhere to the current CWOPA password policies. The issue has been resolved with the new OpCons software installation. Unique users IDs are now required for all users.

Finding: Mainframe user accounts for the CIS mainframe system are not required to comply with Commonwealth password policies. Passwords are not configured to require lockout after invalid attempts, character complexity, or to restrict the use of unauthorized passwords.

Response: DPW is working on migrating the CIS mainframe over to use CWOPA and Managed domain accounts which comply with the password policies. The project is currently in process. It's been slowed due to budgetary issues.

Finding: A regular review of user IDs with access to the ARRCs (Automated Restitution Referral and Computation System) system is not performed by management to verify that access rights are appropriate and segregation of duties conflicts do not exist.

Response: Access to ARRCs is granted, changed and deactivated based on automated feeds received from Human Resources. The level of access that is granted is defined by security codes that are assigned to staff based on their employment classifications. The Bureau of Information Systems will extract information regarding users that have access to the ARRC system. The access codes will be reviewed for access rights and any exceptions will be provided to Operations to review on an annual basis.

Finding: Programmers have access to make changes to production code in the OARS (Overpayment Avoidance and Recovery System) system, which is a conflict of duties that can result in unauthorized programming changes.

Response: The Office of Inspector (OIG) will maintain a log of changes that a developer creates. Changes on the production server will be implemented by a designated OIG staff member (who is not a developer or the backup in this person's absence) in the OIG Bureau of Information Systems. The OIG will implement this procedure as a corrective action by June 30, 2011.

Office of Inspector General's Response: The Office of Inspector (OIG) will maintain a log of changes that a developer programs. Then another designated OIG staff (who is not a developer), or the backup in this person's absence, in the OIG Bureau of Information Systems will implement the changes on the production server. The OIG will implement this procedure as a corrective action by June 30, 2011.

Also the OIG will review the following guidance from the auditors for implementation in the future, if possible:

The best solution would be to implement a migration tool that would provide an automated workflow based on roles. This solution is geared at preventing unauthorized changes in the production environment. The goal of this solution is to lock out programmers from making direct changes to production code, and requires a supervisor-level employee to log into the workflow tool and approve any code changes before the change can be scheduled for implementation. Using this model, all affected code should be validated and tested and automatically scheduled for implementation using the migration tool.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 19: (continued)

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.

Questioned Costs: None

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, 2010

Finding 10 – 20:

- CFDA #10.551 – Supplemental Nutrition Assistance Program**
- CFDA #10.551 – ARRA-Supplemental Nutrition Assistance 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 #93.713 – ARRA-Child Care and Development Block Grant**
- CFDA #93.714 – ARRA-Emergency Contingency Fund for TANF State Programs**
- CFDA #93.778 – Medical Assistance Program**
- CFDA #93.778 – ARRA-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 #09-22)

Federal Grant Numbers: G-0902PATANF, G-0802PATANF, G-0905PA5028, 5-0905PAARRA, G-0805PA5028, 0901PACCDF, 0801PACCDF, and 0901PACCD7

Condition: In connection with our audit of the TANF, MA and SNAP Programs for SFYE June 30, 2010, 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 MA 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 6/30/10), we noted for the fourth year in a row for MA audits, that the other auditors identified significant 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 that CAO personnel failed to make the proper eligibility determinations for recipients of Medicaid which resulted in improper payments being made to both managed care organizations (MCOs) and individual providers on behalf of these recipients. These improper eligibility determinations for Medicaid recipients were a result of the following control deficiencies cited by the other auditors:

- 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. Certain information is required to be reviewed and compared with information in the case file when making eligibility determinations and re-determinations. However, the CAO management is not monitoring to ensure that the CAOs are properly reconciling the information in IEVS to the income information in the case file. Also, the CAO management is not monitoring to ensure that wage information from a new or additional employer provided by IEVS alerts is timely and/or properly reconciled to reported income. 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 renewal or semi-annual review.
- The CAO management did not monitor to ensure that recipients met the age limitation requirements, were disabled and/or that they met the family relationship requirement which are all criteria for the various Medicaid categories of assistance.
- The CAO management did not monitor to ensure that citizenship and identity of the recipients were verified during the application process and renewal process.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 20: (continued)

- The CAO management did not monitor to ensure that income amounts were properly entered on the Client Information System (CIS) which maintains benefit information based on eligibility status and category of aid.
- The CAO management did not monitor to ensure that annual renewals and/or semi-annual reviews to determine continued eligibility for benefits took place on the date they should have been completed.

With respect to the payments made by DPW on behalf of ineligible recipients, the other auditors also stated that they found no evidence that recoveries for Medicaid are pursued by DPW or referred for collection to the Office of Inspector General. The absence of DPW follow up procedures is significant since these payments cannot be recouped from the MCOs or individual providers.

In a prior year audit, the other auditors mentioned above also issued CAO audit reports on public assistance payments for the TANF and SNAP programs. Our review of the findings in these audit reports and discussions with the other auditors in the prior year, identified internal control deficiencies with respect to the eligibility determinations made by the CAOs for TANF and SNAP recipients. Our current year follow up indicated that DPW has not fully implemented the necessary corrective action to resolve the deficiencies cited in the findings. Therefore, for the ninth year in a row, these control deficiencies existed during our audit period as follows:

- The CAOs 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.
- Because of poor monitoring and follow up by TANF and SNAP caseworkers, DPW has internal control deficiencies which fail to ensure recipients' participation and enrollment in employment and training programs, as required.
- 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 CAOs are not monitoring special allowance payments to ensure the payment is being used for its intended purpose and to recoup special allowances that were not used for their intended purpose.

In prior year, we 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.

The prior year testing disclosed that eight percent of the CSRs or TSRs were not completed. In addition, we became aware that the performance of CSR/TSRs was suspended for an entire month in the prior year to enable a system upgrade to the database used in this process. We did not test a specific sample for the current year based upon our inquiries and follow up with DPW personnel on the prior-year control weakness. Although DPW central office personnel in the Office of Income Maintenance (OIM) verbally indicated that they were not aware of any specific CAO that did not perform the required CSRs or TSRs, DPW OIM provided no documentation to support its central office corrective action to follow up with the CAOs on this prior year internal control weakness.

As part of the Welfare-to-Work program under TANF, DPW employed individuals receiving cash and SNAP assistance. In a separate investigation conducted by DPW and the Pennsylvania Inspector General's Office, we were informed during a 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 SNAP benefits authorization system; as a result, these individuals had the ability to fraudulently grant themselves and other family members additional cash and SNAP benefits for which they were not eligible. Since DPW had no overall policy in place restricting the access of these benefit recipients within the

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 20: (continued)

benefits authorization system, an internal control deficiency is present. In a prior year, DPW personnel indicated that Operations Memorandum 050705, dated July 7, 2005, and the Security Process Overview self-assessment tool to be used by CAO management staff resolved the issues related to Welfare-to-Work individuals employed by DPW; however, neither the Operations Memorandum, nor the Security Process Overview self-assessment tool address IT security issues related to Welfare-to-Work employees. As of June 30, 2010 DPW has not implemented adequate corrective action for this deficiency.

Criteria: 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, "Criminal History Desk Guide" states in part:

Ineligibility may result if an applicant/recipient has been sentenced for a felony/misdemeanor offense and the penalty established by the court is not satisfied. Satisfied the penalty includes paying all fines, costs and/or restitution or complying with an approved payment plan for payment of fines, costs and/or restitution.

Cash Assistance Handbook, Section 135.6, "Special Allowances for Supportive Services" states:

Supportive services are items or services needed by an individual in order to participate in an Employment and Training (E&T) program. A special allowance is the payment for the required items or services. Special allowances for supportive services can be provided as necessary, to help individuals prepare for, seek, accept or maintain education, training or employment. The CAO will assist the participant in obtaining supportive services and issue special allowances necessary to participate in approved activities.

Further, Section 135.63 of the Cash Assistance Handbook, "Verification", states in part:

Before authorizing the payment of a SPAL (special allowance) for a supportive service, the CAO will determine:

- *Whether the supportive service or item requested is required to enable the participant to engage in an approved education or training activity or to apply for employment;*
- *The actual charge for the service or item requested;*
- *The date the service or item is needed by the participant; and*
- *The date that payment for the service or item is required under the provider's usual payment policy or practice;*
- *That there is a job offer or participation in an approved E&T activity, the scheduled hours and the length of the activity.*

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

The Road to Economic Self-Sufficiency through Employment and Training (RESET) is designed to help individuals prepare for employment to attain long-term success by offering job related activities, education, job skills training and support in order to progress toward a job earning wages that lead to self-sufficiency for themselves and their families.

Eligibility for RESET is open to Temporary Assistance to Needy Families (TANF), General Assistance (GA), and Extended TANF recipients who have not elected to receive a lump sum Diversion payment.

Under federal regulations, each state is required to meet a work participation rate (WPR) of 50%. In order to meet the WPR individuals who are enrolled and participate in RESET have specific core and non-core activity requirements along with hourly participation requirements.

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Finding 10 – 20: (continued)

NOTE: An individual who receives only food stamps must participate in the Food Stamp Employment and Training Program unless they are exempt. See [FSHB Chapter 535, Employment and Training Requirements](#).

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:

- *Citizenship or nationality, if not in the case record;*
- *Alien status, if inconsistent;*
- *Identity, if not in the case record;*
- *Gross, nonexempt income, including deemed income;*
- *Child support (incoming);*
- *Income expense deductions;*
- *Resources, unless the applicant, the applicant's spouse, the applicant's children or stepchildren, who are living in the same household, are under age 21 or the applicant is exercising care and control of a child living in the same household under age 21.*

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: The CAOs are not following established DPW policies and procedures for monitoring recipients to ensure participation and enrollment in employment and training programs. Based on our discussions with the other auditors, the errors are primarily the result of caseworkers not being adequately trained and monitored in the performance of their duties. Regarding the Welfare-to-Work program, there is no overall policy in place restricting the access of benefit recipients within the benefits authorization system.

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

With respect to the CSRs and TSRs, we were not provided with documentation to support corrective action in the current year to ensure that CSRs or TSRs were being completed by CAO supervisors.

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 and managed care capitation payments, are being made in accordance with federal regulations. Also, errors are occurring in eligibility determinations for MA, TANF and SNAP and not being detected by DPW on a timely basis.

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

Additionally, we recommend that DPW's OIM central office and its CAOs monitor to ensure the 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 stop payment of Medicaid benefits immediately upon identification of ineligible recipients and follow up with the Office of Inspector General to see if Medicaid overpayments made on behalf of ineligible recipients can be recouped.

Agency Response:

Medical Assistance

Deficiency

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 renewal or semi-annual review.

DPW Response

The AG's claim that the Department has failed to ensure that eligibility requirements were met based on review of the information received from the Income Eligibility Verification System (IEVS) are based on the assumption that Department policy for review of IEVS is flawed. While the Auditor General may make recommendations for future policy changes, findings must be based on whether or not Department policy was followed per 55 Pa Code §109.1(b) which states in part "The Department of the Auditor General is responsible for the auditing of these decisions against the rules and regulations of the Department."

Deficiency

- The CAO management did not monitor to ensure that recipients met the age limitation requirements, were disabled and/or that they met the family relationship requirement which are all criteria for the various Medicaid categories of assistance.
- The CAO management did not monitor to ensure that citizenship and identity of the recipients were verified during the application process and renewal process.
- The CAO management did not monitor to ensure that income amounts were properly entered on the Client Information System (CIS) which maintains benefit information based on eligibility status and category of aid.
- The CAO management did not monitor to ensure that annual renewals and/or semi-annual reviews to determine continued eligibility for benefits took place on the date they should have been completed.

DPW Response

DPW monitors all eligibility factors including age, disability, family relationships, citizenship/identity and income. Age alerts are issued by the system prior to specific key ages for caseworker review. Alerts are also generated for overdue annual renewals and semi-annual reviews as well as expiration of disability documentation. Additionally, all alerts are

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Finding 10 – 20: (continued)

available via Dashboard for the supervisor, management and headquarters to review. Dashboard allows a view from the individual worker level to the operational area level. In June 2010, DPW began an automated process of receiving electronic verification of citizenship and identity from the Social Security Administration. The caseworker only needs to request verification from the client if the automated process does not produce a match. DPW also notes that as identification and U.S citizenship do not change, it is not required to be re-verified at renewal. If an individual has a citizenship status subject to change, it must be reviewed.

While failure to monitor may be a cause, it is not a deficiency or a finding. Per 55 PA Code §109.3(a)(3) an exception is “misapplication of the rules and regulations of the Department.”

Temporary Assistance for Needy Families (TANF) and Supplemental Nutrition Assistance Program (SNAP)

Deficiency

The CAOs 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.

DPW Response

DPW reviews compliance with court ordered fines/costs at application, renewal and whenever the county office receives pertinent information per policy established by the Department. The AG may disagree with this policy and can recommend a change; however, a deficiency does not exist if Department policy is being followed.

Deficiency

Because of poor monitoring and follow up by TANF and SNAP caseworkers, DPW has internal control deficiencies which fail to ensure recipients’ participation and enrollment in employment and training programs, as required.

DPW Response

The AG’s review of cash assistance cases incorrectly applied work requirements as an eligibility criterion for TANF. It is correct that recipients of cash assistance are required to participate in work or work related activities; however, noncompliance does not automatically confer total ineligibility for any cash assistance for the family. Regulations regarding work requirements are based on federal TANF regulations as specified in 45 CFR 261.31(a). Regulations at 55 Pa. Code §165 specify the procedure and penalties for noncompliance with work requirements.

55 Pa. Code §165.51(a) requires a compliance review for work requirements:

- (a) *Need for compliance review.* A compliance review will be conducted when information indicates that a recipient may be out of compliance with RESET participation requirements, as specified in § 165.31 (relating to RESET participation requirements).

55 Pa. Code §165.61(b) and (c) detail imposition of a sanction on individuals not meeting work requirements:

- (b) The sanction period shall be:
 - (1) For the first occurrence, ineligibility for cash assistance for 30 days, or until the recipient is willing to comply, whichever is longer.
 - (2) For the second occurrence, ineligibility for cash assistance for 60 days, or until the recipient is willing to comply, whichever is longer.
 - (3) For the third occurrence, permanent ineligibility for cash assistance.
- (c) Applicability of the sanction is as follows:
 - (1) During the first 24 months, the sanction is imposed only on the individual who failed to comply.
 - (2) After 24 months, the sanction is imposed on the entire budget group.

A finding that recipients were ineligible for TANF cash assistance must be based upon following applicable sanction procedures, and not a total ineligibility for TANF based on noncompliance with work requirements.

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In addition, the AG applied cash assistance work requirements to determine SNAP work requirements. SNAP employment and training requirements are submitted to and approved by FNS on an annual basis. The Department outlines the components that will be offered to individuals in the state plan. Work requirements for SNAP recipients can be found at 7 CFR 273.7(e)(1) and state in part:

7 CFR 273.7(e)(1) Components. To be considered acceptable by FNS, any component offered by a State agency must entail a certain level of effort by the participants. The level of effort should be comparable to spending approximately 12 hours a month for two months making job contacts (less in workfare or work experience components if the household's benefit divided by the minimum wage is less than this amount). However, FNS may approve components that do not meet this guideline if it determines that such components will advance program goals.

The CFR also outlines the individuals exempt from work requirements. Exemptions are found at 7 CFR 273.7(f). Exemptions include:

- A person younger than 16 years of age or a person 60 years of age or older
- A person subject to and complying with any work requirement under title IV of the Social Security Act
- A parent or other household member responsible for the care of a dependent child under 6 or an incapacitated person
- A person receiving unemployment compensation. A person who has applied for, but is not yet receiving, unemployment compensation is also exempt if that person is complying with work requirements that are part of the Federal-State unemployment compensation application process
- A regular participant in a drug addiction or alcoholic treatment and rehabilitation program.
- An employed or self-employed person working a minimum of 30 hours weekly or earning weekly wages at least equal to the Federal minimum wage multiplied by 30 hours.
- A student enrolled at least half-time in any recognized school, training program, or institution of higher education. Students enrolled at least half-time in an institution of higher education must meet the student eligibility requirements listed in §273.5. A student will remain exempt during normal periods of class attendance, vacation, and recess.

In addition to the Federal exemptions there are some state exemptions. These are outlined in 55 Pa Code §501.6 and in the SNAP employment and training state plan for the year being reviewed. State exemptions include:

- A person who is homeless
- A person expected to return to work within 60 days
- A woman who is pregnant if it has been medically verified that the child will be born within the 6 months immediately following the month when registration would otherwise be required
- A person who is remote from an employment and training site. Remoteness is defined as residing in a location which is more than 2 hours in round trip commute by reasonably available public or private transportation from an Employment and Training Program site.
- A person who is a full-time volunteer serving in the Volunteers in Service to America (VISTA) Program.

When an individual fails to cooperate, sanction policies for SNAP apply as outlined in 7 CFR 273.7(f)(i). Sanctions may not be applied to individuals who meet another exemption as outlined in 7 CFR 273.7(f)(7)(ii). The process includes both conciliation and at least a 10 day notice. The sanction cannot be applied until the first month following the expiration of the notice [7CFR 273.7(f)(ii)]. Sanctions only apply to the individual not complying [7 CFR .7(f)] and the overpayment should not be calculated at a household level as has been reported in the audit findings.

Deficiency

Special allowances are paid to TANF recipients for items such as transportation, clothing, and childcare so the recipients can participate in approved work-related activities. The CAOs are not monitoring special allowance payments to ensure the payment is being used for its intended purpose and to recoup special allowances that were not used for their intended purpose.

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Finding 10 – 20: (continued)

DPW Response

Effective August 4, 2009 the Department implemented changes including the requirement for clients to provide a receipt for the item purchased with the special allowance. Failure to return the receipt within 14 days results in an overpayment.

Childcare payments are made directly to the provider of the childcare services through the Office of Child Development and Early Learning (OCDEL). All providers must be approved by OCDEL and must enroll in the automated payment system. No receipts are available as no direct payments are made to recipients.

Welfare-to-Work Program

Deficiency

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. In a prior year, DPW personnel indicated that Operations Memorandum 050705, dated July 7, 2005, and the Security Process Overview self-assessment tool to be used by CAO management staff resolved the issues related to Welfare-to-Work individuals employed by DPW; however, neither the Operations Memorandum, nor the Security Process Overview self-assessment tool address IT security issues related to Welfare-to-Work employees.

DPW Response

DPW grants access to the benefits authorization system based on security role. Security roles are assigned to personnel employed by the Commonwealth. As no recipient is an employee of the Department, they do not have access to the benefits authorization system. The Department has reviewed all individuals who participated in this project during the SFYE June 2010 and none had 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 there is no evidence that a security breach has occurred. OIM contends that this finding is unfounded.

Comprehensive Super. Reviews (CSRs) and Targeted Super. Reviews (TSRs)

Deficiency

With respect to the CSRs and TSRs, we were not provided with documentation to support corrective action in the current year to ensure that CSRs or TSRs were being completed by CAO supervisors.

DPW Response

DPW continues to use the automated CSR and TSR that focus on problematic areas identified through audit reviews, internal data reviews and effective management strategies. The CSR is used to comprehensively review and focus on all program areas. The TSR serves as a major component of the set of performance metrics for the Effective Management Program. A memo was issued on April 24, 2008 instructing all CAOs to complete CSRs and TSRs in the Rushmore system on a monthly basis.

When supervisors identify a problem in a record, they are directed to work with the caseworker to ensure that individual has a thorough knowledge and understanding of the policies and procedures. When trends are identified in a county, managers are directed to implement training for corrective action purposes.

While DPW believes that self monitoring is a key element of program integrity, per 55 Pa Code §109.1(b) “The Department of the Auditor General is responsible for the auditing of these decisions against the rules and regulations of the Department.” As CSRs and TSRs are procedural in nature, they are not subject to audit by the auditor general.

Audit Recommendations

The following six recommendations are given by the auditors in this year’s findings, of which all are repeated from the prior year. Below are the recommendations from the current year finding:

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Finding 10 – 20: (continued)

1. **Ensure the CAOs continue to receive additional training and are more thoroughly supervised to follow established DPW policies and procedures regarding eligibility determinations and re-determinations.**

DPW Response

DPW has ensured that the caseworkers have and continue to receive additional training by utilizing e-learning modules offered through the Staff Development Program. Continuous improvements are part of DPW's ongoing Effective Management Program established in calendar year 2008. Management regularly reinforces to staff the importance of following established DPW policies and procedures regarding eligibility determinations and re-determinations. As a further corrective action, supervisors continue to complete TSRs and are now completing Rushmore reviews. The Rushmore Case Review Database is a corrective action tool which assists supervisors in identifying trends and helps counties determine where training is needed as well as identifies procedural deficiencies.

2. **Evaluate existing procedures to ensure that recipients are complying with reporting requirements relative to maintaining welfare eligibility.**

DPW Response

DPW cannot ensure recipients report information. Per 62 P.S. §432.14(b) "Each applicant for or recipient or payee of such assistance shall be responsible for reporting accurately and within a reasonable specified period those facts required of him pursuant to the explanation provided by the department". All information known to the department is acted on according to policy.

DPW continues to revise paper and online applications, SAR and renewal forms to ensure that clients and CAOs clearly understand changes that must be reported to maintain welfare eligibility. Reporting requirement time frames are aligned with other programs as much as possible for simplification. Clients increasingly use Customer Service Centers to report changes. IEVS is an integral tool to ensure non-reported changes are reviewed and acted on according to department policy.

3. **Strengthen systems access controls for Welfare-to-Work participants employed at the CAOs.**

DPW Response

Participants in the Welfare-to-Work programs, if employed at the CAO, are not granted 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 there is no evidence that a security breach has occurred. OIM contends that this finding is unfounded.

4. **Establish procedures to ensure DPW's compliance with Act 1996-35 and ensure recipient compliance with court-order payment plans.**

DPW Response

DPW uses the Income Eligibility Verification System (IEVS) which 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. 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.

5. **Monitor to ensure the 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.**

DPW Response:

DPW continues to use the automated CSR and TSR that focus on problematic areas identified through audit reviews, internal data reviews and effective management strategies. The CSR is used to comprehensively review and focus on all program areas. The TSR serves as a major component of the set of performance metrics for the Effective Management Program. A memo was issued on April 24, 2008 instructing all CAOs to complete CSRs and TSRs in the Rushmore system on a monthly basis.

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Finding 10 – 20: (continued)

When supervisors identify a problem in a record, they are directed to work with the caseworker to ensure that individual has a thorough knowledge and understanding of the policies and procedures. When trends are identified in a county, managers are directed to implement training for corrective action purposes.

6. **Stop payment of Medicaid benefits immediately upon identification of ineligible recipients and follow up with the Office of Inspector General to see if Medicaid overpayments made on behalf of ineligible recipients can be recouped.**

DPW Response

DPW respectfully disagrees with this recommendation as it would be contrary to both state and federal law. Recipients must be given due process prior to reduction or termination of benefits according to the provisions at 55 PA Code 133.4(b)(3)(ii) - Timing and effect on decision. "The Advance Notice shall be mailed at least 10 days before the proposed action is taken. For MA or medical services, the Advance Notice shall be sent at least 10-calendar days before the effective date for the proposed action". Advance notice is also required under Title 42 Public Health: 435.919 Timely and adequate notice concerning adverse actions - (a) "The agency must give recipients timely and adequate notice of proposed action to terminate, discontinue, or suspend their eligibility or to reduce or discontinue services they may receive under Medicaid".

DPW refers potential overpayments to the OIG through the Automated Restitution Referral and Computation (ARRC) System. The CAO enters the information pertaining to an overpayment in the ARRC system, which then goes to the OIG. The OIG determines if a recoupment should be taken, contacts the client, makes payment arrangements, and enters the repayment into the ARRC system if necessary. The OIG is responsible for concluding the overpayment process. This recovery process is set forth in the 55 PA Code §255.

DPW Concern

While DPW understands and appreciates the efforts put forth by the AG in performing the CAO audits, we question the relevance of some of the deficiencies identified in this audit. The CAO audits referred to in this finding **relate to audits issued in the audit period**, while in reality most of these audits cover prior years, some even going back to May of 2004. As DPW revises its policies and procedures to ensure eligibility is properly determined according to current rules and regulations, we question the relevance and timeliness of these audits.

Auditors' Conclusion: Although DPW monitors eligibility, the number of deficiencies disclosed in the other auditor's reports, covering audit periods up through June 30, 2010, demonstrates that monitoring continues to be inadequate to ensure that age limitation, disability, family relationship, citizenship and identity requirements, and compliance with court ordered payment plans are met. In addition, adequate monitoring is needed to ensure that income is properly entered and that annual renewals and semi-annual reviews are performed timely.

Work requirements are a condition of continued eligibility for the individual for whom the work requirements are applicable. The other auditor reports disclosed that recipients did not participate or were not enrolled in training or work activity as required for TANF eligibility under state and federal regulations. The other auditors determined that the individual and not the entire family was ineligible in accordance with the requirements of CFR 273.7(e)(1) and not cash assistance requirements to determine SNAP eligibility.

With respect to the Welfare-to-Work recommendation, we issued a separate finding in the current year citing an information technology (IT) general controls deficiency regarding the logical access to CIS which increases the risk of unauthorized access to CIS by these clients.

The Department indicated that changes have been implemented effective August 4, 2009, with respect to substantiation of special allowances by recipients. In addition, the Department remits all child care payments directly to child care providers and not to recipients. The other auditors will follow-up to determine if the Department has addressed these deficiencies related to special allowances in the audits currently being performed. In the meantime, there is a separate more detailed Single Audit finding in the current year disclosing continuing weaknesses at DPW over special allowances.

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Finding 10 – 20: (continued)

Regarding all our recommendations, DPW did not provide any additional documentation or information during our audit or with its response that would change our auditor conclusions, and we believe DPW needs to follow these recommendations, working with applicable federal program officials in the process of resolving these issues.

As a result, our finding and recommendations, with the above clarifications, remain as previously stated and we will review any further corrective action in the subsequent audit.

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 21:

CFDA #10.553 – School Breakfast Program

CFDA #10.555 – National School Lunch Program

CFDA #10.556 – Special Milk Program for Children

CFDA #10.558 – Child and Adult Care Food Program

PDE Did Not Specify Required Federal Award Information in Subrecipient Award Documents

Federal Grant Numbers: 2009-1PA300305, 2008-1PA300305, and 2007-1PA300305

Condition: For the major federal programs listed above, PDE failed to identify required information in all subrecipient award documents provided to their subrecipients. In particular, PDE failed to inform subrecipients of the required federal award name and federal grant number at time of award. This failure represents an internal control weakness which causes subrecipients to be improperly informed of federal award information, and can also cause the omission or improper identification of program expenditures on the subrecipient's Single Audit SEFAs. Therefore, the major programs listed above run the risk of not being properly administered or audited at the subrecipient level in accordance with program regulations or OMB Circular A-133, further requiring PDE 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 and number; if the award is research and development, and 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: PDE informs subrecipients of their federal award information through sponsor applications and agreements. PDE management stated they provide sponsors with the required information by providing CFDA name and numbers on the sponsor applications. PDE believed that the award information historically provided was sufficient.

Effect: Failing to include the Federal grant award name and grant number in sponsor award documents may cause subrecipients and their auditors to be uninformed about specific program and other regulations that apply to the funds they receive. There is also potential for PDE's subrecipients to include incorrect SEFAs in their OMB Circular A-133 Single Audit reports submitted to the Commonwealth, and federal funds may not have been properly audited at the subrecipient level in accordance with the Single Audit Act and Circular A-133.

Recommendation: PDE should identify all required federal award information to all subrecipients at the time of award to ensure subrecipient compliance with applicable federal regulations and OMB Circular A-133.

Agency Response: The Pennsylvania Department of Education, Division of Food and Nutrition (DFN) disagrees with the Audit Finding. The DFN has provided the auditors with information from USDA indicating that a policy, implementation memo, or regulation has never been communicated to USDA or to the State Agencies requiring a grant award number and name be provided to the Subrecipient.

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Finding 10 – 21: (continued)

Auditors' Conclusion: Auditors' were provided with the USDA's communication mentioned above; however, per the Criteria included above, the OMB A-133 compliance supplement requires that this information be included by PDE in the subaward documents; therefore, the finding and recommendation remain as previously stated. In addition, we recommend that Commonwealth management consider the feasibility of issuing statewide guidance (e.g., Management Directive) to inform all state agencies of the OMB A-133 requirements quoted above.

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 22:

CFDA #10.553 – School Breakfast Program

CFDA #10.555 – National School Lunch Program

CFDA #10.556 – Special Milk Program for Children

CFDA #10.558 – Child and Adult Care Food Program

CFDA #84.027 – Special Education – Grants to States

CFDA #84.391 – ARRA – Special Education Grants to States

Deficiencies in Information Technology Controls Over the Department of Education’s Child Nutrition Program Electronic Application and Reimbursement System (CN-PEARS) (A Similar Condition Was Noted in Prior Year Finding #09-23).

Federal Grant Numbers: 1PA300305, H027A080093, and H391A090093

Condition: CN-PEARS is custom child nutrition program software developed as a joint effort by an outside vendor and the Pennsylvania Department of Education (PDE). During the prior year Single Audit for FYE June 30, 2009, we performed information technology (IT) general controls testing of the CN-PEARS system and noted control deficiencies. During the current year audit, we found that PDE management was taking steps to correct the control deficiencies noted in the prior year; however, the following weaknesses continued to exist as of June 30, 2010:

- A lack of segregation of duties continued to exist because the outside contractor employee with the ability to promote programs to production also had the ability to develop and maintain programs. However, after fiscal year end, the contractor implemented a policy to prohibit the employee charged with promoting programs into production from performing development.
- A monitoring process had not been implemented over the production environment to detect changes moved into production that did not follow the standard change management process.
- Various system parameter settings did not comply with the Commonwealth’s standards for user IDs and passwords.

Further, during current year compliance testing of the Child and Adult Care Food Program (CACFP), we noted that PDE program staff have the ability to make unauthorized changes to key electronic certifications in the subrecipients’ applications for program funding, which should only be made by subrecipients. We learned for one of our sampled test items that, although the CACFP payment met allowability and other federal requirements and was therefore appropriate, a PDE employee because of a lack of appropriate logical access controls made such an unauthorized change to a subrecipient principal’s certification on CN-PEARS in the current year.

Criteria: A well-designed system of internal controls dictates that sound general computer controls be established and functioning to best ensure that federal programs are administered in accordance with management’s intent. Also, Information Technology Bulletin (ITB) SEC007 – Minimum Standards for User IDs and Passwords, specifies detailed requirements for all network systems operating under the governor’s jurisdiction. The policy, in part specifies the following requirements for passwords: 1) must be a minimum of eight characters, 2) must be composed of at least three of the following types of characters: upper case, lower case, letters, numbers, special characters, 3) may not reuse any of the last ten previously used passwords, 4) may neither contain the user ID, nor any part of the user’s full name, 5) will expire after sixty days, requiring the creation of a new password, 6) may not be changed more than once every fifteen days. Further, users are locked out after three consecutive failed log-on attempts and require administrator-level access to unlock them. In addition, once a user is logged in, the system will be locked after fifteen minutes of inactivity, requiring the user to re-enter the password to regain access to the system.

Logical access controls are essential to prevent PDE from altering subrecipient certifications of federal program requirements on subrecipient applications in the CN-PEARS.

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Finding 10 – 22: (continued)

Cause: The CN-PEARS system was developed as part of an agreement between the Division of Food and Nutrition (DFN) and the outside contractor. At the end of the audit period, DFN and the contractor worked together to begin implementation of the following corrective actions:

- As of July 2010, the contractor implemented a policy that requires a segregation of duties between program development and promotion into production.
- The contractor has implemented a change control log that tracks all changes made to the CN-PEARS system. However, PDE has not implemented a system to monitor the Virtual Private Network connection to ensure the contractor properly enters all changes into the log.

DFN management indicated that they have entered into a new contract with the vendor, which includes a security upgrade to CN-PEARS that will allow the system to comply with password and user account standards of the Commonwealth detailed in ITB SEC007. However, certain aspects of PDE's planned configuration settings for passwords in CN-PEARS will not comply with the ITB. Specifically, the system specifications provided to the auditors included the following nonconforming security settings: 1) minimum password length of six characters instead of eight; 2) passwords composed of numbers rather than a mix of character types; 3) password expiration ninety days instead of sixty days; and 4) and the user lock out after five consecutive failed log-on attempts instead of three.

PDE management indicated that system design limitations within CN-PEARS did not allow creation of proper controls to restrict PDE's ability to access and change key electronic fields that should only be changed by subrecipients.

Effect: The deficiencies noted above in IT general controls could result in inappropriate system access and unauthorized changes to the software and key compliance documents.

Recommendation: We recommend that PDE management:

- Implement a log of the Virtual Private Network connection and ensure all changes made by the contractor are included on the deployment log.
- Review the deployment log regularly to ensure only authorized contractor personnel have made changes to the CN-PEARS system, to ensure that all the changes were properly approved, and to ensure that proper segregation of duties was maintained between development and deployment into production.
- Update the system requirements in the new system upgrade to comply with Commonwealth ITB SEC007.
- Update security and implement logical access controls over key electronic fields in CACFP subrecipient applications and other key compliance electronic documents to prevent or detect inappropriate changes to key certifications/fields.

Agency Response: The Pennsylvania Department of Education, Division of Food and Nutrition (DFN) is in the process to develop a solution to resolve the identified issues of this Finding. The upgrade to the CN-PEARS is presently in the middle of a two-year plan.

The DFN would like to provide further clarification regarding the security module presented to the auditors at the time of review. The screen shot provided was merely an example of the fields that will be included in the security module. The security module allows the DFN to set the number of expiration days and log-on attempts.

Auditors' Conclusion: We recognize that the DFN has begun upgrades to the CN-PEARS application. Any upgrades have occurred subsequent to our audit period. Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

Questioned Costs: None

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, 2010

Finding 10 – 23:

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

Weaknesses in Department of Health Monitoring of WIC Local Agencies (A Similar Condition was Noted in Prior Year Finding #09-24)

Federal Grant Numbers: 2010IW100641, 2010IW100341, 2010CW500341, 2010IW500341, 2009IW100341, 2009IW100641, 2009IW500341, and 2008CW500341

Condition: DOH contracts with 24 local agencies to provide WIC services to eligible women, infants, and children in Pennsylvania. These local agencies are responsible for enrolling participants and providing them with nutritional services, WIC checks, and nutrition and breast feeding education. DOH performs during-the-award monitoring of WIC local agencies through on-site program review visits and through fiscal reviews conducted on a cyclical basis. DOH performs both an on-site program review and a fiscal review of each local agency over a two-year period. As part of our audit of the WIC program, we performed procedures to determine if DOH's during-the-award monitoring procedures were adequate. However, our testing and inquiry revealed DOH's monitoring procedures do not include review of information technology (IT) controls related to the local agencies' heavily automated financial management and food delivery systems, known as Quick WIC. Examples of IT controls include authorization of user's access and security level, password controls, termination of accounts, accuracy of data processed by the system, etc. DOH stated that corrective action has been implemented to address prior year finding 09-24 to include monitoring of IT controls of the local agencies during their on-site program reviews; however, these procedures were not implemented until the FFY 2011 monitoring review cycle beginning October 1, 2010. Therefore, these procedures were not in effect during SFYE June 30, 2010.

Additionally, DOH performed on-site program reviews of 14 of the 24 local agencies during SFYE June 30, 2010. We reviewed DOH's program monitoring files for 4 of the 14 local agencies reviewed by DOH. Our review of the program monitoring files revealed that for all four local agencies, WIC participant personnel data forms (PDF) were not consistently being signed by the WIC participant or authorized clinic personnel. We found that 24 out of 81, or 30 percent, WIC participants files reviewed had at least one PDF that was not properly signed by both the WIC participant and the authorized clinic personnel. These instances indicate noncompliance with both federal regulations and DOH policy.

Local agencies' expenditures were \$45.8 million, or 24.6 percent, of total WIC expenditures of \$186.3 million during SFYE June 30, 2010.

Criteria: In regard to state agency responsibilities for monitoring and review of WIC Local Agencies, 7 CFR Section 246.19 (b) states that:

- (1) *The State agency shall establish an on-going management evaluation system which includes at least the monitoring of local agency operations, the review of local agency financial and participation reports, the development of corrective action plans to resolve Program deficiencies, the monitoring of the implementation of corrective action plans, and on-site visits. The results of such actions shall be documented.*
- (2) *Monitoring of local agencies must encompass evaluation of management, certification, nutrition education, participant services, civil rights compliance, accountability, financial management systems, and food delivery systems. If the State agency delegates the signing of vendor agreements, vendor training, or vendor monitoring to a local agency, it must evaluate the local agency's effectiveness in carrying out these responsibilities.*

Additionally, 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.

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Finding 10 – 23: (continued)

Regarding WIC participant personal data forms, WIC Policy and Procedure 2.01, section B.1 states that at the time of participant certification the local agency clinic must:

- (1) *Include in the participant's file a Personal Data Form (PDF) signed by the participant and staff conducting the certification.*
- (2) *Several staff at the clinic site may be involved in screening an applicant, collecting the necessary information, and entering data into QuickWIC. However, the signature and title of the CPA who is responsible for making the final eligibility determination and assigning the appropriate priority code, nutritional risk code(s), and the food package prescription is required on the PDF.*

In addition 7CFR §246.7(i)(9) states that certification forms must include:

- (9) *The signature and title of the competent professional authority making the nutritional risk determination, and*
- (10) *A statement of the rights and obligations under the Program and be signed by the applicant, parent, or caretaker after the statement is read.*

Cause: DOH management stated that as part of its program review procedures in effect during SFYE June 30, 2010, WIC local agencies are asked to provide a typed list of all staff, levels of security assigned in DOH's QuickWIC computer system, and names of the local agency security administrator and backup security administrator. However, DOH does not review this list to ensure that all registered users are authorized and have appropriate security levels. Additionally, our testing of the program review files of local agencies revealed that the monitoring checklist used by the DOH reviewers did not include steps to perform review of any other IT controls at the local agencies.

DOH stated that corrective action has been implemented to address prior year finding 09-24 to include monitoring of IT controls of the local agencies during their on-site program reviews; however, these procedures were not implemented until the FFY 2011 monitoring review cycle beginning October 1, 2010. Therefore, these procedures were not in effect during SFYE June 30, 2010.

In regard to the PDFs not properly signed, it appears that DOH includes procedures in its program monitoring tool/checklist to review for the signature of the authorized clinic personnel and the WIC participant; however, the lack of signatures was not addressed in the corrective action plans of the local agencies approved by DOH.

Effect: Without proper monitoring of IT controls at the WIC local agencies, DOH's QuickWIC computer system could be inappropriately accessed at the local agencies which could allow unauthorized approval of eligibility of WIC participants, approval of WIC benefits, printing of WIC checks, etc. without DOH's knowledge or oversight. Additionally, the lack of proper signatures on the PDF's is in noncompliance with both federal regulations and DOH policy, and could allow improper determination and approval of eligibility of WIC participants.

Recommendation: DOH should ensure during its on-site program reviews of WIC local agencies that IT controls of the local agencies are being monitored to ensure the risk of any unauthorized or inappropriate access to DOH's QuickWIC computer system is minimized. Additionally, DOH should ensure that PDFs are properly signed by both authorized clinic personnel and WIC participants in compliance with federal regulations and DOH policy. Corrective action to prior year finding 09-24 implemented after June 30, 2010 will be reviewed and evaluated during our subsequent year Single Audit.

Agency Response: As mentioned in the Recommendation above, the corrective action for this finding has already been implemented. USDA's Food and Nutrition Service accepted the corrective action for prior year finding 09-24 and resolved the finding via their letter to DOH dated March 3, 2011.

Auditors' Conclusion: We will review DOH's corrective action in the subsequent audit. However, corrective action to prior year finding 09-24 only addresses ensuring that that DOH's on-site program review of WIC local agencies include reviewing the IT controls of the local agencies; however, this corrective action would not address the new issue included

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Finding 10 – 23: (continued)

in the current year finding that DOH should ensure that PDFs are properly signed by both authorized clinic personnel and WIC participants. DOH's agency response did not address this issue. Therefore, the finding and recommendation remain as previously stated.

In addition, we would further point out that although the lack of required signatures in case files causes ineligible participants at the subrecipient level, the dollar amounts associated with these exceptions were not included in DOH's monitoring reports, so any associated questioned costs cannot be determined in our state-level audit. Therefore, we further believe that DOH should follow-up on all those types of specific monitoring/audit exceptions by obtaining appropriate signatures, if possible, and for those eligibility exceptions that cannot be corrected, DOH should pursue appropriate settlement for ineligible questioned costs with USDA officials.

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 24:

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

Noncompliance and Internal Control Weaknesses Related to Rebates Resulting in Questioned Costs of \$310,230

Federal Grant Numbers: 2010IW100641 and 2009IW100641

Condition: DOH contracts with food manufacturers to receive a rebate on each unit of the manufacturer's product purchased with Food Instruments (FIs) redeemed by WIC program participants. DOH has a contract with Nestle to receive rebates on infant formula and with Gerber to receive rebates on infant juice and cereal. Each month DOH prepares a rebate invoice which is submitted to each manufacturer in order to receive the rebate. Generally, the QuickWIC system generates the rebate invoice by identifying all FIs redeemed from the preceding month which included rebate items. The total number of rebate units from each FI redeemed is multiplied by the respective rebate rate and the total rebate amount to be received is calculated. These monthly rebate invoices are reviewed and signed by the DOH Division of WIC Director. The invoices are then submitted to the respective food manufacturer to receive the rebate. Total WIC rebates received by DOH for SFYE June 30, 2010 were \$57,123,612.

We reviewed rebate invoices for our test months of January 2010 totaling \$4,136,176 and February 2010 totaling \$3,801,049. As part of our review we compared the number of units billed on the invoices to the number of units from FIs redeemed for the respective period included on the QuickWIC system. Our investigation disclosed that FIs redeemed on January 15, 2010 and February 9, 2010 were not included on the rebate invoices. DOH management confirmed that FIs redeemed on these two dates were never billed on any rebate invoices. We calculated the number of rebate units and amounts included on redeemed FIs included in the QuickWIC system for these two dates and determined the amounts not billed for January 15, 2010 totaled \$163,259 and for February 9, 2010 totaled \$146,971. These rebates are treated as credits against prior expenditures for food costs made during the month in which the rebate was earned, and therefore, we question costs for these two dates totaling \$310,230. It should be noted that this amount does include an unknown amount of partial FI redemptions. A partial FI redemption occurs when a WIC participant redeems an FI for less than the full quantity of the item printed on the check. Partial FI redemptions are not billed on rebate invoices; however, this amount is minimal and is typically less than one percent in a given month.

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 246.16a states:

(k) *What are the requirements for infant formula rebate invoices? A State agency must have a system in place that ensures infant formula rebate invoices, under competitive bidding, provide a reasonable estimate or an actual count of the number of units purchased by participants in the program.*

Cause: According to DOH, information for FI redemptions on January 15, 2010 and February 9, 2010 was received from the local financial institution processing the FIs after the rebate reports were run for the respective months. Therefore, rebate amounts for these dates were excluded from the rebate invoices. Additionally, the rebate amounts for these two dates were never included on any subsequent monthly rebate invoices. Furthermore, the WIC Director's review of the monthly rebate invoices did not detect the exclusion of these dates.

Effect: Without an adequate system in place to ensure rebate invoices are properly prepared and without adequate management review and reconciliation controls in place to ensure the rebate invoices are complete and accurate, the rebate invoices could contain errors and exclusions, such as those found in our testwork, which is noncompliance with federal regulations. These errors and exclusions from the rebate invoices resulted in \$310,230 in questioned costs. Our audit follow up on these two exceptions disclosed no other dates in the current year in which redeemed FIs were erroneously not included on rebate invoices, so no additional questioned costs were noted for our current audit.

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Finding 10 – 24: (continued)

Recommendation: DOH should pursue appropriate settlement of the \$310,230 in questioned costs with FNS. DOH should ensure that its system to prepare the rebate invoices includes all redeemed FIs. Additionally, we recommend that DOH implement adequate review and reconciliation controls to review the rebate invoices to ensure that the invoices are complete and accurate.

Agency Response: DOH will pursue settlement of the \$310,230 in questioned costs with USDA/FNS. The query in QuickWIC which produces the rebate report was revised to include days posted after the original report. All rebates will be included on future invoices. The missed January 15, 2010 and February 9, 2010 days will be invoiced.

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.

Questioned Costs: \$310,230

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, 2010

Finding 10 – 25:

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

Noncompliance and Internal Control Weaknesses Related to Voided Food Instruments (A Similar Condition Was Noted in Prior Year Finding #09-25)

Federal Grant Numbers: 2010IW100641 and 2009IW100641

Condition: Our review and testing of DOH compliance with federal regulations related to voided WIC food instruments (FIs) disclosed material noncompliance and material internal control weaknesses for the fourth year in a row in DOH's WIC database system (known as Quick WIC) and in DOH's procedures for reviewing voided FIs as follows:

As part of our review of erroneous or questionable FIs, we obtained DOH's report called the "10 Percent Random Sample of Voided FI's with Void Code Other than 'R' Monthly Reports" and DOH's report called the "Redeemed/Voided, Lost or Stolen FI Monthly Reports" for the three sampled months of September 2009, October 2009, and December 2009. These reports included a total of 167 redeemed FIs with void codes other than 'R' totaling \$5,604 for the three months reviewed. Our review of these 167 FIs sampled by DOH revealed that for 70 of these FIs totaling \$2,302, or 42 percent, we could not determine the date of DOH's follow-up to ensure that it occurred within the required 120-day timeframe. For 59 of these 70 FIs, we found dates on faxes of the review sheets and/or dates on other supporting documentation which occurred after the 120-day timeframe including many which were dated after the auditors requested the documentation. For the other 11 FIs, we found no dates at all on DOH's follow-up review sheets, and therefore, could not determine when DOH's review occurred.

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

(2) *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:

(1) *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.*

Cause: In regard to DOH's follow-up of erroneous and questionable FIs not occurring within the required 120-day timeframe, DOH was not documenting the date of review and follow-up on the review sheets and, in many cases, we found dates on faxes of the review sheets and supporting documentation to be after the date the auditors initially requested the documentation. These dates were significantly after the required 120-day timeframe for review and follow-up of questionable FIs. As a result of prior year finding 09-25, DOH stated that it implemented procedures in June 2010 for DOH staff to initial and date any actions taken on the FI follow-up reports. However, these procedures were not in effect during our current SFYE June 30, 2010 audit period.

Effect: No unallowable costs were noted in our testing of DOH's review, investigation, and follow up on questionable FIs or vendor overcharges. However, without adequate controls related to the WIC system and DOH review, investigation and follow-up on voided food instruments and vendor overcharges, 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.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 25: (continued)

Recommendation: WIC should 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, properly investigated, and appropriate corrective action is taken. We also recommend that DOH ensure this process is adequately documented, including the date of the review and follow-up.

Agency Response: Some of the documentation for the redeemed and voided FI's did show dates on faxes of the review sheets and/or dates on other supporting documentation that were after the auditors request. There has been difficulty in the past with receiving documentation from some local agencies. As of January 3, 2011, the state agency is keeping a monthly log to track local agency compliance with supplying documentation for the 10 Percent Random Sample of Voided FI's with Void Code Other than 'R' Monthly Report. If any local agency does not supply the necessary documentation, they will be contacted and appropriate action (up to and including the withholding of funding) will be taken to assure the documentation is received by the state agency.

The audit finding also indicates that the date of receipt for some of the documentation could not be determined. The auditors were given copies of the documentation, all of which is date stamped on the back of the original documents. Unless the auditors get a copy of the back of the documents, they will not know the date of receipt.

The corrective actions described above have already been implemented to address prior year finding 09-25. USDA's Food and Nutrition Service accepted the above-described corrective actions for prior year finding 09-25 and resolved the finding via their letter to DOH dated March 3, 2011.

Auditors' Conclusion: We will review DOH's corrective action in the subsequent audit. In regard to the documentation in which the auditors could not determine when the date when DOH's review occurred, a date stamp on the back of the documentation would indicate a date of receipt from the local agencies, but this would not indicate the date of the actual review and of any follow-up action taken. Also, we did find dates on the review and follow-up documentation for 59 of 167 FIs sampled by DOH which occurred after the required 120-day timeframe. Therefore, based on the agency response, the finding and recommendation remain as previously stated.

Questioned Costs: None

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, 2010

Finding 10 – 26:

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

Various Weaknesses and Noncompliance Noted in a Separate Bureau of Audits Performance Audit of the WIC Program Including Questioned Costs of \$15,000.

Federal Grant Numbers: 2010IW100641, 2010IW100341, 2010CW500341, 2010IW500341, 2009IW100341, 2009IW100641, 2009IW500341, 2008IW500341, and 2008CW500341

Condition: The Pennsylvania Office of the Budget Bureau of Audits (BOA) conducted a performance audit of the WIC Program at DOH covering the period July 1, 2008 through December 31, 2009. BOA's audit report released on October 21, 2010 included six findings which are summarized below:

- Finding #1 The QuickWIC system is a separate statewide computer system used by DOH to process all Food Instrument (FI) payments. All 24 WIC local agencies (LAs) use this system to record eligible participants, and to process and issue FI's for redemption. Various internal control weaknesses in DOH's QuickWIC database system were disclosed by BOA through testing of DOH's control over logical access to the QuickWIC system as follows:
- QuickWIC users remained active on the system for 120 days after their last logon. DOH is not notified when a LA or clinic employee separates.
 - An LA was re-using one user-id for multiple interns.
 - Some QuickWIC users have the ability to create, edit, and delete FIs and certification and eligibility information. There are no controls in the system to preclude the user from creating a false applicant and producing FIs for the false applicant.
 - DOH does not require the LA or clinic personnel to sign a QuickWIC user agreement or confidentiality agreement before acquiring access to the system.
 - A clinic employee had his/her QuickWIC password taped to his/her computer where it could easily be compromised.
- Finding #2 BOA found WIC participant Personal Data Forms (PDFs) are not consistently being signed by the WIC participants and clinic personnel. (Note: We found the same issue in our testing of DOH program monitoring of LAs, with a separate WIC single audit finding regarding weaknesses in DOH's monitoring of WIC LAs addressing this issue.)
- Finding #3 BOA discovered that WIC participants have been improperly selling WIC items on the internet.
- Finding #4 BOA found in 3 of 6 clinics visited that there appears to be no segregation of duties between determining applicant eligibility, food prescription, and issuing of FIs along with no supervisory review of eligibility determinations. Additionally, check paper was not properly safeguarded.
- Finding #5 FIs are not being voided within 120 days of the first valid date for participant use of the FI, as is required by Federal regulations.
- Finding #6 BOA discovered overbillings of \$15,000 for FIs processed by WIC's Special Formal Distribution Center. DOH did not have procedures in place to review these FIs and corresponding billings. These costs are questioned.

Criteria: Related to internal control weakness in DOH's WIC database system noted in Finding #1:

Regarding the reuse of a user ID's Information Technology Bulletin (ITB) SEC007 references RFD-SEC007A which states:

- *User IDs: Are permanent. They may be disabled and retired, but they are not to be reused.*

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Finding 10 – 26: (continued)

Regarding conflicting user roles within the QuickWIC system, Management Directive 205.37 states:

- 5.d *Roles should be assigned to ensure segregation of duties and avoid role conflicts. If it is determined that it is operationally necessary to assign roles in a manner that creates a role conflict, approval must be obtained from the Agency Head or appropriate designee with agency authority.*

In addition ITB-SEC007 states:

In accordance with the current Commonwealth and/or agency PC/LAN Acceptable Use Policy, review and require users to sign a user security agreement that:

- *Lists, or refers to the Commonwealth employee's responsibilities relative to the use of the password,;*
- *Indicates that passwords and data are confidential;*
- *Includes a signature line for the user. All users are to sign the disclaimer(s) to acknowledge their responsibilities.*

Regarding user ID and password security, the DOH's WIC Policy and Procedure 8.02 states:

- A *User IDs and passwords are an important aspect of computer security. As such, all Commonwealth employees, contractors, subcontractors, grantees and any other temporary staff person or person(s) with access to the Commonwealth system are responsible to maintain security of their Quick WIC user IDs and passwords.*

- B.3 *Passwords must be kept confidential and should not be written down or inserted into email messages or other forms of electronic communication.*

Regarding internal control over WIC expenditures 7 CFR §246.13 (b) states (note that this criteria relates to Findings #1, 4, and 6):

- (b) *Internal control. The State agency shall maintain effective control over and accountability for all Program grants and funds. The State agency must have effective internal controls to ensure that expenditures financed with Program funds are authorized and properly chargeable to the Program.*

Related to issue noted in Finding #3, 7 CFR 246.12 (u) states the following regarding food delivery systems:

- (u) *The State agency must establish procedures designed to control participant violations. The State agency also must establish sanctions for participant violations. Participant sanctions may include disqualification from the Program for a period of up to one year.*

In addition, DOH's Policy and Procedures 1.06 states:

10(c) Receiving cash, credit and/or other goods and/or services for WIC food, formula, and/or FIs shall result in a mandatory one-year disqualification unless the local agency requests and is granted a waiver by the State Agency Planning and Monitoring Section.

Regarding the segregation of duties and unsecured check paper issues noted in Finding #4, DOH WIC Policy and Procedure 4.04(A) states:

- 2 *The LA shall ensure that all FIs that have been taken out of locked storage during the business day and those that have not been issued, are returned to locked storage at the end of the business day.*

- 4 *When there is no routine separation of duties, Local Agency Directors or designed staff shall review the Separation of Duties Report to explain why separation of duties did not occur, and verify the records of select participants. The report will be available quarterly under the Local Agency Directors Reports. Completed reports shall be reviewed by State Agency staff as part of the annual program review process.*

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Finding 10 – 26: (continued)

Additionally, 7 CFR §246.12 (p) states:

- (p) *Food instrument and cash-value voucher security. The State agency must develop standards for ensuring the security of food instruments and cash-value vouchers from the time the food instruments and cash-value vouchers are created to the time they are issued to participants, parents/caretakers, or proxies. For EBT and print-on-demand food instruments and cash-value vouchers, the standards must provide for the accountability and security of the means to manufacture and issue such food instruments and cash-value vouchers.*

Related to issue noted in Finding #5, 7CFR 246.12(q) states the following regarding food delivery systems:

- (q) *The State agency must account for the disposition of all food instruments and cash-value vouchers as either issued or voided, and as either redeemed or unredeemed. Redeemed food instruments and cash-value vouchers must be identified as validly issued, lost, stolen, expired, duplicate, or not matching valid enrollment and issuance records. This process must be performed within 120 days of the first valid date for participant use of the food instruments and must be conducted in accordance with the financial management requirements of Section 246.13.*

Related to the issue noted in Finding #6, DOH's WIC Policy and Procedure 4.23 (B) states the following regarding the Special Formula Distribution System:

- 4 *The S/A will:*
- a. *Conduct inventory and review of the Distribution Center records at least twice a year.*
 - b. *Provide guidance to Distribution Center staff and LAs on any problems or concerns relating to the operations of the Special Formula Distribution Center.*
 - c. *Annually meet with Distribution Center management to review finances of the Distribution Center and determine an agreeable administrative fee for the following year.*

Cause: The following is a summary of the causes related to each of BOA's findings:

- Finding #1 In regard to the various internal control weaknesses in DOH's QuickWIC system, DOH does not require a user access form, signed by the employee, to grant access to the QuickWIC system. Additionally, there is no audit trail for the request for access to the system and DOH is unable to track separated users because this is the responsibility of the LA. There is no centralized control over granting access to the Quick WIC system. DOH indicates that each LA is responsible for user access and is under contract with DOH. In regard to conflicting user roles, DOH stated that if a separation of duties at the LAs cannot be achieved due to staffing levels, then regular monitoring is requested of them.
- Finding #3 In regard to WIC participants selling WIC items on the internet, DOH's monitoring procedures do not include a review of internet sales of WIC items. Instances of fraud are reported through LAs and there are little or no procedures to detect these types of abuses.
- Finding #4 Lack of segregation of duties was due to staffing limitations at the respective clinics. Additionally, the lack of proper security over the check paper was due to the clinics being unaware of DOH's policy and procedures.
- Finding #5 In regard to FIs not being voided within 120 days of the first valid date for participant use, DOH choose to void unredeemed FIs after the 120 day regulatory period so that the FIs were more accurately shown as issued and unredeemed during the 120 day period. However, BOA determined that by doing this an FI could be redeemed after the 120 day timeframe for determining FI disposition in noncompliance with WIC regulations.

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Finding 10 – 26: (continued)

Finding #6 In regard to the overbilling by WIC's Special Formula Distribution Center, the Distribution Center found an error in its system that caused the inaccurate billing of special formula FIs. The vendor stated it will reimburse DOH the overbilled amount and has developed a corrective action plan to avoid further billing errors.

Effect: The following is a summary of the effects related to each of BOA's findings:

Finding #1 In regard to the various internal control weaknesses in DOH's QuickWIC system, if a user has the capability to create, edit, and delete FIs and certifications and eligibility information, then there are no controls in the system to prevent the user from creating a false applicant and producing FIs for the false applicant which could be sold or used by the employee. Additionally, without a centralized control over who has access to QuickWIC or the roles assigned to users, there is a potential for abuse at the LA or clinic level where the potential for unauthorized activity could occur.

Finding #3 Without adequate controls related to the WIC system and DOH's review, DOH is not in compliance with WIC regulations and inappropriate redemptions could occur without DOH's knowledge which could lead to unallowable costs being charged to the federal WIC grants.

Finding #4 In regard to the lack of proper segregation of duties combined with the lack of supervisory review, the potential exists for program abuse or fraud by clinic personnel.

Finding #5 If an FI is not voided within 120 days of the first valid date for participant use of the FI, the FI could be redeemed after the 120 day timeframe for determining FI disposition, and therefore, DOH would not be in compliance with WIC regulations.

Finding #6 The billing error by WIC's Special Formula Distribution Center resulted in the overbilling and questioned costs of \$15,000.

Recommendation: In regard to the respective findings, we and BOA recommend that:

Finding #1 DOH perform centralized review of the granting of QuickWIC user access of the roles assigned to individual users. DOH should implement the use of a signed user access form and confidentiality agreement in connection with QuickWIC user access. Also, DOH should better enforce and educate local agencies on QuickWIC policies and procedures.

Finding #3 DOH fully implement procedures to detect and prevent WIC participant abuse. DOH should ensure that abuse is properly identified, timely followed-up, properly investigated, and appropriate corrective action taken.

Finding #4 DOH ensure proper segregation of duties exists at all clinics and that user performance is monitored regularly. BOA also recommended that DOH provide training and enforce established policies and procedures at the clinic and LA levels regarding safeguarding the check paper.

Finding #5 DOH set up the QuickWIC system to automatically void FIs within 120 days of the first valid date for participant use of the FI.

Finding #6 DOH establish procedures to review special formula FIs and corresponding billings on a regular basis to ensure the accuracy of the amounts being paid to the Distribution Center.

Agency Response: The following responses are excerpted from DOH's updated response dated March 18, 2011 to BOA's performance audit of the WIC program:

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Finding 10 – 26: (continued)

- Finding #1 The DOH WIC program has many IT controls currently in place that affect local agency operations. There is an equipment password that the clinic staff use to sign into any WIC equipment. This password is computer generated and reset every 90 days. Also, local agencies must comply with policies and procedures specific to user IDs and passwords. Quick WIC passwords are reset every 60 days and the system inactivates these passwords after 30 days of non-use. User IDs are created by each local agency security officer based upon a standard policy. The system will inactivate these user IDs after 120 days of non-use.
According to WIC policy, security officers are to inactivate user IDs and passwords no later than 48 hours after staff have terminated their employment.
- Each local agency has a biannual clinic review. As of October 1, 2010, the reviews include the assurance that local agency security officers inactivate user IDs according to policy. As part of the WIC local agency program reviews the list of current clinic employees is cross referenced to the active QuickWIC users. Necessary action is taken to correct any discrepancies.
- Training was conducted at the January 2011 WIC Local Agency Director’s meeting to ensure all WIC local agencies are aware of IT security policies and their requirement of policy implementation. The entire Policy and Procedure 8.02 QuickWIC Password Security including the security controls for equipment passwords, was discussed at the meeting. Further, the DOH developed a user access form and confidentiality agreement which requires the signature of all authorized users of the QuickWIC system. The form was approved by USDA.
- Finding #3 The DOH has had policy in place to follow up on instances of potential fraud. The policy was revised in July 2010 to reinforce detection and prevention of fraudulent activities. The DOH also launched an educational campaign in WIC clinics to make participants aware of the restrictions on selling or trading their WIC benefits and the possible consequences of such actions. Posters were placed in all WIC clinics as part of this campaign.
- Finding #4 The DOH has a current WIC Policy in place regarding segregation of duties. The DOH reinforced that policy during training at the January WIC Director’s Meeting. Additionally, the DOH began review of segregation of duties procedures during Program Reviews conducted on or after January 1, 2011.
- Finding #5 The DOH concurs. This system change was implemented September 15, 2010.
- Finding #6 The DOH has investigated this finding and found that there was a programming error in the software of the Special Formula Distribution Center (SFDC). All Billings were reviewed and the SFDC has reimbursed the DOH for any overbillings. The SFDC has worked with their software provider and fixed the error that caused the overbillings. Both the SFDC and the DOH put controls in their respective systems to identify potential overbillings.

Auditors’ Conclusion: Based on the agency response, we also recommend that DOH pursue appropriate settlement with USDA for the \$15,000 in questioned costs. As a result, the finding and recommendations, with this additional clarification, remain as previously stated. We will review DOH’s corrective active in the subsequent audit.

Questioned Costs: \$15,000

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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Finding 10 – 27:

CFDA #10.558 – Child and Adult Care Food Program (CACFP)

Internal Control Weakness Resulting in Questioned Costs of \$2,780

Federal Grant Number: 2010 1PA300305

Condition: In the course of our testing of the CACFP, we disclosed an instance where a subrecipient was reimbursed for \$2,780 in CACFP meals subsequent to the subrecipient being terminated from the program.

PDE terminated the subrecipient from the CACFP on April 30, 2010. On June 8, 2010, the terminated subrecipient submitted a claim for CACFP meals served during May 2010 and was reimbursed by PDE for these meals on June 10, 2010; causing them to be reimbursed for unallowable meals served.

Criteria: OMB Circular A-133, Section E.3.a, *Eligibility of Subrecipients* states:

Administering agencies may disburse CACFP funds only to those organizations that meet the eligibility requirements stated in the following program requirements: (1) generic requirements for all institutions at 7 CFR section 226.15 and 42 USC 1766(a)(6) and (d)(1); (2) additional requirements for sponsoring organizations at 7 CFR section 226.16; (3) additional requirements for child care centers (whether independent or sponsored) at 7 CFR section 226.17

Regarding program payments for centers, 7 CFR 226.11(a) states:

Payments must be made only to institutions operating under an agreement with the State agency for the meal types specified in the agreement served at approved child care centers, at-risk afterschool care centers, adult day care centers, emergency shelters, and outside-school-hours care centers.

Regarding claims against institutions, 7 CFR 226.14(a) states:

State agencies shall disallow any portion of a claim for reimbursement and recover any payment to an institution not properly payable under this part.

Cause: The CACFP is a reimbursement program which allows enrolled subrecipients to receive reimbursement for eligible meals claimed. PDE cannot terminate a subrecipient from the program until their last claim is entered into the Program Electronic Application and Reimbursement System (PEARS). Subrecipients have 60 days to enter claims and revisions into the PEARS system. During the 60 day period, the subrecipient submitted a claim for May 2010, even though they were terminated from the program in April 2010.

The PEARS system allows PDE to control the months which subrecipients can claim for meal reimbursement. However, PDE had no procedures established to prevent terminated subrecipients from claiming meals served after they were terminated from the program. There is a weakness in PDE's procedures for terminating subrecipients which allowed a subrecipient to receive \$2,780 for unallowable meals claimed.

Effect: Unallowable CACFP costs of \$2,780 are questioned. In addition, without adequate controls established to prevent terminated subrecipients from claiming CACFP meals, terminated subrecipients can claim unallowable CACFP meals for up to 60 days after they are terminated from the program. As a result, there is the potential for unallowable payments to occur in the future.

Recommendation: PDE should implement effective controls to prevent CACFP subrecipients from claiming unallowable meals after they are terminated from the program. In addition, PDE should monitor these controls to ensure they are functioning properly to ensure terminated subrecipients are not inappropriately reimbursed for CACFP meals.

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Finding 10 – 27: (continued)

Agency Response: The PDE, Division of Food and Nutrition (DFN) implemented procedural changes to be initiated when sponsors are terminated both for convenience and for cause. This process, effective October 1, 2010, allows the terminating sponsor to claim meals during the sixty day period after the last claim month without allowing for meals to be claimed beyond the date of termination.

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.

Questioned Costs: \$2,780

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, 2010

Finding 10 – 28:

CFDA #10.558 – Child and Adult Care Food Program (CACFP)

Lack of Staffing Resources Results in For-Profit Subrecipients Not Being Properly Audited

Federal Grant Numbers: 2007 1PA300305 and 2008 1PA300305

Condition: PDE utilizes the Commonwealth Office of the Budget's Bureau of Audits (BOA) to conduct audits of CACFP for-profit subrecipients which are not covered by OMB Circular A-133. For-profit subrecipients receive a material amount of CACFP funding each year. During current state fiscal year ended June 30, 2010, payments were made to 477 for-profit subrecipients, totaling \$23.3 million, or 28.4 percent of total CACFP expenditures of \$81.7 million on the current-year SEFA. According to federal CACFP regulations, PDE must develop its own state policy to audit its for-profit entities. PDE has adopted a federally-approved policy of auditing all for-profit subrecipients receiving \$100,000 or more in any federal fiscal year (October 1 to September 30). Out of the 477 for-profit subrecipients receiving CACFP funds in the current state fiscal year, 33 of these subrecipients were each paid over \$100,000 in the most recent state fiscal year ended June 30, 2010, and these 33 subrecipients received a total of \$10.7 million during our current audit period ended June 30, 2010, or about 13.1 percent of the total CACFP program.

Our audit disclosed an exception in that BOA does not actually audit all for-profit subrecipients receiving over \$100,000 in CACFP funds every year since the audits are conducted on a two-year cycle, not every year. Therefore, BOA only schedules about 50 percent of its for-profit audits each year. In addition, during SFYE June 30, 2010, BOA issued only eight for-profit audit reports, seven of which covered the prior two-year audit period October 2006 to September 2008 and one report covering the more current two-year audit period October 2007 to September 2009. These audits were not performed in a timely manner since reports were issued up to three years after the time funding was received, which allowed potential unallowable costs and noncompliance to go undetected and uncorrected for an excessive period of time. Also, we found an additional eight audits that were in-process, but not completed during our current audit period.

Based on the small number of for-profit audits actually issued, the old federal fiscal years covered, and the number of audits still in progress during our current audit period, we noted an overall internal control weakness since BOA has fallen significantly behind schedule and is not following its policy of auditing all subrecipients receiving over \$100,000 in each federal fiscal year in a timely manner.

Criteria: Regarding Audits, 7 CFR 226.8(a) states:

Unless otherwise exempt, audits at the State and institution levels must be conducted in accordance with Office of Management and Budget circular A-133 and the Department's implementing regulations at part 3052 of this title. State agencies must establish audit policy for for-profit institutions. However, the audit policy established by the State agency must not conflict with the authority of the State agency or the Department to perform, or cause to be performed, audits, reviews, agreed-upon procedures engagements, or other monitoring activities.

PDE's federally-approved Audit Policy for For-Profit Organizations is as follows:

If the Child and Adult Care Food Program (CACFP) sponsor is a for-profit organization and receives \$100,000 or more of reimbursement during the CACFP program year of October 1 through September 30, from the Child and Adult Care Food Program, the Child and Adult Care Food Program sponsor is required to have a performance audit conducted in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States, and in accordance with the laws and regulations governing the Child and Adult Care Food Program. The selected financial and program compliance requirements will consist of the following four compliance areas, Eligibility, Meal Counts, Financial Management and Meal Pattern/Planning. The Department may in addition to four compliance areas require, as circumstances warrant, other financial and/or program compliance requirements to be tested. For-Profit Child and Adult Care Food Program centers or sponsors participating in the Child and Adult Care Food Program that are required to have this performance audit performed will have the audits conducted by auditors retained by the state Child and Adult Care Food Program office at no cost to them.

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Finding 10 – 28: (continued)

If a For-Profit Child and Adult Care Food Program center or sponsor receives total federal awards of less than \$100,000 from the Child and Adult Care Food Program, during the CACFP program year of October 1 through September 30, it is exempt from these audit requirements. The sponsor is, however, required to maintain auditable records of expenditures, federal awards, and any state funds, which supplement such awards, and to provide access to such records by federal and state agencies or their designees.

Cause: The BOA has been assigned the responsibility of auditing for-profit entities receiving CACFP funding. According to BOA management, time and staff constraints have caused BOA to schedule its CACFP for-profit audits two years at a time. Currently, BOA does not have adequate staffing resources to audit all for-profit subrecipients receiving \$100,000 in CACFP every year or a reasonably timely manner.

Effect: BOA's schedule for auditing CACFP for-profit subrecipients is inadequate to ensure that for-profit audits are properly and timely performed and subrecipient non-compliance is being detected and corrected in a timely manner. Instances of non-compliance at the for-profit subrecipient level can exist for multiple years without detection and corrective action being implemented.

Recommendation: We recommend BOA and PDE jointly develop a workable solution to ensure a greater number of for-profit audits are performed more timely in accordance with CACFP audit policy. We recommend that BOA and PDE devote adequate resources to conduct subrecipient audits to comply with PDE's written audit policy for auditing all for-profit subrecipients receiving over \$100,000 each year. This will help ensure CACFP for-profit subrecipients are audited in a timely manner and any misuse of CACFP funding is promptly detected and corrected.

Office of Comptroller Operations Response: We agree that the facts presented in the finding are accurate.

Five of the eight audits issued during state fiscal year ended June 30, 2010 were started by LECS Comptroller's Office prior to the comptroller's office financial transformation. The issuing of these audits was delayed by the financial transformation as staffing assignments were shifted, audit priorities changed, and new staff was being trained to perform the audits. Audits completed during the current state fiscal year have been issued approximately 100 days sooner than the audits issued FYE June 30, 2010.

PDE's federally-approved Audit Policy requires a performance audit for each for-profit CACFP sponsor receiving \$100,000 or more during the program year. When this policy was developed for federal FYE September 30, 2006, only 12 sponsors met this criterion. As mentioned in the finding, currently 33 sponsors meet the audit criteria. This number has become unmanageable from an audit staffing standpoint. Effective for audits of federal FYE September 30, 2011, the audit policy was changed. BOA will now perform a risk analysis of all sponsors receiving over \$75,000 during the federal fiscal year. Higher risk sponsors will be selected for audit. The number of audits will be determined by available staff. This new audit policy has been approved by USDA.

Two-year audits are performed because they are more efficient and cost effective. However, they do result in a delay from the beginning of the audit period to the issue date of the report. Audits for the period October 1, 2008 to September 30, 2010 cannot begin until final reimbursement is made to the sponsor. The initial audits are scheduled to begin around December 2010. However, audits are scheduled throughout the fiscal year. Therefore, some audits may not begin until September 2011, almost three years from the start of the audit period. This is just the nature of our audit work. This does not necessarily mean that instances of non-compliance go undetected. Each sponsor must undergo a regulatory compliance review performed by PDE every two to three years.

Department of Education Response: The Pennsylvania Department of Education, Division of Food and Nutrition (DFN) disagrees with this Audit Finding.

The Finding is not related to a lack of resources for For-Profit Subrecipients being audited properly. As identified in the Criteria Section of the Finding, "State Agencies must establish audit policy for for-profit institutions." Federal regulations do not specify how many or the time cycle for these audits. A State Agency may choose to exceed regulatory monitoring requirements. Policy until October 1, 2010, stated that For-Profit Institutions receiving over

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Finding 10 – 28: (continued)

\$100,000 annually in federal reimbursement would be audited annually on a two year cycle. According to the state established policy, 28 audits were to be performed over a two year period based on the federal fiscal year (October 1 through September 30); 33 stated in Finding is based on the state fiscal year (July 1 through June 30). The subject of the Finding should be regarding that the issuance of reports were delayed; the subject should not include issues regarding the lack of resources for properly monitoring For-Profit Subrecipients. Furthermore, the timing of the audit reviews and the release of the reports is not at the discretion of DFN. Regardless, the Condition of the Finding states, a delay in the issuance of these reports “allowed potential unallowable costs and noncompliance to go undetected.” This is incorrect because Administrative Reviews monitor for program compliance.

The DFN is currently investigating alternative Audit Policies for For-Profit Institutions. The Office of Budget, Bureau of Audits (BOA) will be engaged in these discussions. However, since the State Agency is not required to exceed Federal regulatory minimums and the US Department of Agriculture recommends that resources be used to ensure compliance with State Agency responsibilities for managing the Child and Adult Care Food Program (CACFP), the State Agency will not provide funding for a greater number of audits to be performed or adequate resources to perform these additional responsibilities. We welcome BOA to conduct additional audits however they will not be at the expense of CACFP. The DFN/CACFP will be dedicating resources to hire additional staff due to increased regulatory requirements.

Auditors’ Conclusion: Based on the responses, there is no change to our conclusion that an overall internal control weakness exists in audits of CACFP for-profit subrecipients, so our finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

Questioned Costs: The amount of questioned costs cannot be determined.

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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Finding 10 – 29:

CFDA #10.558 – Child and Adult Care Food Program (CACFP)

Internal Control Deficiencies in PDE Monitoring of CACFP Subrecipients

Federal Grant Numbers: 2007 1PA300305, 2008 1PA300305, and 2009 1PA300305

Condition: During our audit of the CACFP administered by PDE, we found internal control deficiencies in PDE’s on-site-monitoring of its subrecipients. PDE does not approve corrective action plans submitted by subrecipients in a timely manner. We also noted instances where errors made by the on-site monitors were not detected and corrected during the Regional Supervisors’ reviews. Total subrecipient expenditures on the SEFA were \$81.2 million out of total CACFP expenditures of \$81.8 million, or 99 percent.

PDE performs on-site monitoring of subrecipients to ensure compliance with program regulations. PDE uses standardized monitoring reports to document their review of each subrecipient noting findings and areas for improvement. Subrecipients must develop and submit a Corrective Action Plan (CAP) to address the deficiencies. PDE reviews all CAPs submitted and evaluates them for adequacy. If the corrective action submitted is not sufficient or more information is needed, PDE will contact the subrecipient and request additional information. Based on a 2008 Management Evaluation, USDA established 120 days as an appropriate period of time for PDE to approve CAPs and close each administrative review.

We sampled 66 of PDE’s on-site reviews out of a population of about 340 reviews conducted during Program Year 2009 (October 2009 – September 2010) and found 13 instances (19.7 percent of our sample) where the subrecipient’s CAP was not approved within the 120 day period. Of the 13, five CAP approvals exceeded the 120 day period by less than one month, two CAP approvals exceeded the 120 day period by at least two months, two CAP approvals exceeded the 120 day period by at least four months, and four CAP approvals were not finalized as of the date of our testwork, or April 2011, ranging from three months to over seven months past the 120 day period.

During our testing, we also found three instances where the on-site monitoring document contained errors that were not detected by the Regional Supervisor. Two on-site monitoring documents contained questions that were incorrectly marked as “not applicable” when the question was applicable. We found one instance where the subrecipient received reimbursements of \$111 in excess of supported program expenditures, yet the monitoring document inappropriately noted that the subrecipient was maintaining a “non-profit status”. All of these instances should have been detected, addressed, and corrected by the Regional Supervisor.

Criteria: OMB A-133 Compliance Supplement Section M. (4-10.558-14) regarding subrecipient monitoring for CACFP states:

The administering agency is required to assess institutional compliance by performing on-site reviews of independent centers, sponsoring organizations of centers, and sponsoring organizations of day care homes, including reviews of new organizations.

Federal Regulation 7 CFR 226.6(o) regarding child care standards for compliance states:

The State agency shall, when conducting administrative reviews of child care centers, and day care homes approved by the State agency under paragraph (d)(3) of this section, determine compliance with the child care standards used to establish eligibility, and the institution shall ensure that all violations are corrected and the State shall ensure that the institution has corrected all violations. If violations are not corrected within the specified timeframe for corrective action, the State agency must issue a notice of serious deficiency.

As a result of this monitoring issue being disclosed in USDA’s 2008 Management Evaluation, USDA agreed that PDE should be permitted 120 days to receive, review and approve corrective action plans.

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Finding 10 – 29: (continued)

Cause: According to PDE management, approval for CAPs can take a long time because it is PDE's policy to give subrecipients three opportunities to provide requested information before seeking the next level of sanction. For example, if the subrecipient does not submit the requested information by PDE's deadline the subrecipient is asked to submit the information again and the deadline is extended. In addition, Regional Supervisors have a heavy workload and can take many months to review and approve CAPs submitted by the subrecipient.

Additionally, the heavy workloads caused Regional Supervisors to miss detecting errors made by the on-site monitors.

Based on our discussions with PDE management, it appears that on-site monitors and Regional Supervisors do not have a clear understanding of the monitoring documents and review procedures which contributed to the monitoring issues noted above.

Effect: When CAPs are not reviewed and approved timely, subrecipients may continue to operate in noncompliance with program regulations.

Also, if Regional Supervisors do not detect and correct errors on the monitoring documents, on-site reviewers may continue to perform inadequate monitoring, and allow non-compliance to go undetected. If the subrecipient is unaware the non-compliance exists, they may not take the necessary actions to correct the issues; which allows the non-compliance to continue.

Recommendation: We recommend PDE review its procedures for approving CAPs to ensure they are received, reviewed and approved within the 120 day period prescribed by USDA.

Also, we recommend that PDE evaluate the procedures used by on-site monitors and Regional Supervisors to ensure they have a complete understanding of the monitoring documents and that Regional Supervisors review is adequate to detect and correct errors.

Agency Response: The Pennsylvania Department of Education, Division of Food and Nutrition (DFN) is in the process of identifying a procedure that will address the finding and the auditors' recommendations. However, the DFN would like to clarify that although the Finding Cause states, "...that on-site monitors and Regional Supervisors do not have a clear understanding of the monitoring documents and review procedures," in actuality the three isolated instances noted by the auditors were limited to one on-site monitor and the respective Regional Supervisor. This is not a systemic issue across all reviews as indicated in the finding. Both individuals were relatively new and the instances have been resolved accordingly.

Auditors' Conclusion: We acknowledge PDE's response, but we cannot conclude that the control deficiency associated with the three exceptions in our sample of 66 on-site monitoring documents is isolated within CACFP. We believe the potential impact is program-wide, and considered in the aggregate with the other weakness in on-site subprogram monitoring over resolving CAPs, and the fact that subrecipient costs represent over 99 percent of the CACFP program, is significant within PDE's on-site monitoring function for CACFP and the program as a whole. Our finding and recommendation, with the above clarifications, remain as previously stated and we will review PDE's corrective action in our subsequent audit.

Questioned Costs: The amount of questioned costs cannot be determined.

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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Finding 10 – 30:

CFDA #10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

CFDA #93.558 – Temporary Assistance for Needy Families

CFDA #93.714 – ARRA – Emergency Contingency Fund for TANF State Programs

Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Questioned Costs of at Least \$27,429 (A Similar Condition Was Noted in Prior Year Finding #09-26)

Federal Grant Numbers: 0902PATANF, 1002PATANF, 0901PATAN2, and 1001PATAN2

Condition: Within the TANF and Supplemental Nutrition Assistance Program (SNAP) Admin programs, DPW pays participants special allowances for clothing, books/supplies, emergency shelter, transportation, equipment, automobile related expenses, child care, etc. to assist the participant in their employment and training activities. Also, since DPW transitioned the payment of most child care allowances to its Child Care Information Services (CCIS) subrecipients under TANF and the CCDF Cluster (CFDA #93.575/93.596), only an insignificant amount of child care special allowances are paid directly by DPW. We noted a total of \$32.2 million in total federal and state-funded special allowances posted to the statewide SAP System by DPW for SFYE June 30, 2010, which consisted of the following amounts (in millions):

<u>Special Allowance</u>	<u>TANF</u>	<u>SNAP Admin</u>	<u>Total</u>
Federal	\$13.1	\$7.45	\$20.55
State	4.2	7.45	11.65
Total	<u>\$17.3</u>	<u>\$14.9</u>	<u>\$32.2</u>

It should be noted that the state-funded totals above represent special allowances paid to meet federal TANF Maintenance of Effort (MOE) requirements, and state matching requirements for SNAP. 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 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 or match amounts, is posted to DPW's CIS System as one combined total.

As part of our SFYE June 30, 2010 Single Audit, we followed-up on our prior-year finding on TANF and SNAP Admin special allowance payments which was based on a separate 2009 audit report issued by other auditors (from the Department of the Auditor General – Bureau of Departmental Audits) who performed separate compliance and internal control testing which was similar to the federally-required testing in our Single Audit. That separate stand-alone audit and related report, which we reviewed and utilized in our prior year Single Audit, tested TANF and FS Admin (now SNAP Admin) special allowance payments for the period July 1, 2006 to December 31, 2007, and included follow-up procedures performed and concluded on up through February 12, 2009. Our follow-up on the four significant findings from the other prior year audit related to TANF and SNAP Admin special allowance payments in our current year Single Audit disclosed the following:

- 1) DPW's Lax Oversight Promotes an Environment That is Conducive to Potential Fraud and Abuse of Special Allowance Payments to Recipients by County Assistance Offices**

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Finding 10 – 30: (continued)

During prior years the other auditors reported that DPW's special allowances were not based on the recipients' actual needs. In particular, DPW did not: 1) require recipients to provide receipts for what was actually purchased, or 2) require recipients to pay special allowance funds back if they were not used for their intended purpose. Per the other auditors, case workers who authorized special allowances did not question the adequacy of supporting documentation or the reasonableness of the payment. The other auditors also raised concerns about potential fraud and abuse for the following specific types of special allowances:

- Automobile purchases (maximum \$750) and repairs (maximum \$400) with no supporting documentation found in the client case files, excessive or unreasonable repair bills, or clients not purchasing or using the intended or approved vehicles.
- Books/Supplies (maximum \$500 per semester) and Registration Fees (maximum \$250) with no supporting documentation found in the client case files, including two recipients whose special allowances for books/supplies appeared excessive; also, management at one CAO tested was not aware of the \$500 maximum limit on books/supplies.
- Equipment/Tool Purchases (maximum \$2,000 per job) with no supporting documentation found in the client case files; also, multiple special allowance payments were made to two clients for equipment when one client no longer had a need for the special allowance and the other client had enrolled in a new program without completing the first program with no accountability for the unused or unneeded equipment.
- Clothing Allowance (maximum \$150 per activity) is automatically given when requested with no verification of actual need or supporting documentation found in the case files; also, multiple clothing payments to two clients' cases (11 and 8 payments, respectively) without properly documenting one allowance per activity. In October 2007, DPW began a program called "PA Workwear" to eliminate the need for recipients (predominantly females) to obtain clothing via purchases. DPW contracts and pays various vendors across the state to provide recipients with necessary clothing. The other auditors noted the following weaknesses exist in this new program: DPW does not reconcile the vendors' monthly participant tracking forms to the referral forms provided by the CAOs; CAOs do not maintain a copy of the referral forms, or require the referral form to be maintained in the recipients' case files; and CAOs do not maintain or compile a log of approved referrals.
- Instances of potential fraud related to beauty school tools and supplies, and child care expenses, along with potential fraud, abuse, or duplicate payments involving similar special allowances issued by L&I's employment and training contractors that DPW CAO caseworkers are not made aware of.

In our current year, during August of 2009, as a result of our prior audit findings, DPW issued Operations Memorandums and policy changes to strengthen the verification process, including requirements that:

Individuals requesting special allowances for supportive services must verify that the item or service is required by the employer or training provider in order for the individual to participate, and the CAO caseworker must complete a Special Allowance (SPAL) Verification Form to document the need for the item or service.

A receipt verifying that the special allowance was used for its intended purpose must be provided by the individual within 14 days of receiving the benefit. If a receipt is not received within 14 days, then the CAO must recoup special allowance payment.

In order to test the functioning of the new controls established by DPW, DPW's Bureau of Financial Operations (BFO) set up a series of internal audits of CAO and contracted Employment Advancement and Retention Network (EARN) centers special allowance issuances during the period October 1, 2009 to December 31, 2009. As of May 2011, four internal audits were issued covering various CAOs, and audit results were as follows:

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Finding 10 – 30: (continued)

- The audit of Lancaster County CAO disclosed that the SPAL Verification Form was not used in 88 percent of the items sampled, receipts were not available for 79 percent of the items sampled and overpayments to clients were not received timely and were not received at all, 111 of 172 sampled items were missing receipts from the client with 54 overpayments being unresolved.
- The audit of Area 1 CAOs in Philadelphia contained eight findings including: 48 of 135 sampled items were missing the SPAL Verification Form, 81 percent were missing receipts, overpayments took over 200 days to process and an additional 14 overpayments were not processed, 18 percent of SPALs tested were issued in error, 15 SPALs issued exceeded dollar limits set by DPW resulting in overpayments of \$7,415, and duplicate SPALs were issued to six clients and 10 education/training payments were issued to one client in one month totaling \$6,822.
- The audit of eight CAOs within Area 2 disclosed that the need for a SPAL was not documented in 16 of 135 cases and costs estimates were not available for 15 cases, a SPAL Verification Form was not completed for 24 percent of cases tested, receipts were not available for 48 of 135 cases and overpayments were not processed for those 48 cases, and for 6 cases the documentation did not support the need for the SPAL and 2 SPALs were issued in error.
- The audit of 20 CAOs within Area 6 disclosed that 26 of 32 overpayments were unresolved and 15 percent of the costs of all SPALs sampled were overpayments. Further, BFO stated that the DPW SPAL guidelines are complex, require frequent clarifications, and are subject to misinterpretation.

Also, a BFO internal audit of special allowances issued by a contracted EARN center, which is a subrecipient of one of L&I's LWIAs, in Philadelphia disclosed the following: 7 of 79 SPALs tested were issued for amounts in excess of guidelines, 10 were issued for unallowable items, nine checks written for SPALs were not picked up by clients for up to six months with no follow up as to why the checks were not used, nine cases did not contain adequate documentation and 10 did not use the SPAL Verification Form. Also, an additional BFO audit of special allowances issued by a contracted EARN center in Berks County for the period January 1, 2010 to March 31, 2010 disclosed that the EARN center had difficulties determining how many SPALs were issued which limited the scope of the BFO audit. Further, the audit disclosed that the EARN center was issuing gift and gas cards without following procedures and did not have monitoring procedures for client eligibility, appropriateness of payments and fiscal accountability and did not have access to the DPW CIS system to determine if the CAO already issued a SPAL to a client for the same item or service, which increases the risk of duplicate payments.

As a result of our review of the six issued BFO audit reports mentioned above (four reports for DPW's CAOs and two reports for L&I's EARN centers), we determined that unallowable special allowance payments of at least \$27,429 were identified by BFO's internal auditors during our current year and are, therefore, questioned. Two BFO audit reports for Lancaster CAO and Area 2 CAOs did not include specific dollars for the exceptions listed in their reports, so we could only report questioned costs for four of the six BFO reports issued for our current audit period. As a result, for these two CAO audits, questioned costs clearly exist but cannot be determined in our Single Audit. Furthermore, BFO did not indicate which federal program their exceptions related to (TANF or SNAP), nor could we ascertain if the exceptions related to federal dollars, state match dollars for SNAP, or MOE dollars for TANF. As a result, the actual questioned costs related to the TANF and SNAP programs from BFO's six audits could not be determined.

2) Weaknesses Found in DPW's Accounting, Processing, and Controlling of EBT Cards Used to Purchase Special Allowance Items and Withdraw Cash From ATM Machines

During prior years the other auditors reported inadequate accountability over EBT cards between receipt of blank cards at the CAOs and distribution to recipients, including: inadequate physical security over blank cards; lack of card accountability and inadequate card inventory; EBT cards activated but not immediately distributed; recipients not required to show photo ID to pick up EBT cards; damaged cards not destroyed timely and card destruction is not verified; reconciliation of daily card usage is not documented; lack of standard written procedures over EBT cards. Also reported were inadequate segregation of duties in the CAOs over data entering of EBT special allowances,

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printing/activation of EBT cards, and pinning of EBT cards, along with inadequate monitoring and resolution at the CAOs of excessive EBT card usage by recipients who, in certain noted cases, have received over 90 EBT cards per individual (with some referrals to the OIG for investigation).

DPW indicated that an Operations Memorandum was issued on May 13, 2010 to the County Assistance Offices (CAOs) by OIM's Bureau of Operations to provide guidance and direction regarding EBT Security to include system access, card inventory and card issuance. This directive sets forth standard operating procedures for the accountability, distribution and destruction of EBT cards. However, based on internal audit testing performed by OB-BOA weaknesses over EBT card security still exist. BOA testing disclosed that not all EBT clients tested were able to be traced from the EBT card issuance log to a PW 764 form in four out of six CAO's visited. Twenty-six clients were selected at each CAO (156 total) and only 98 (or 63 percent) PW 764 forms were provided. The number of EBT card makers at one selected CAO exceeded the approved number of card makers. The CAO was found to have 11 personnel with the ability to make EBT cards; however, the CAO was only approved to have a total of nine card makers. There was no formalized training for EBT administrative users with access to administrative terminals and PIN-selection terminals during BOA's audit period from July 1, 2009 through April 8, 2010, at which time the new e-Learning program was implemented. DPW does not have a process for monitoring available EBT reports to detect potential fraud. Also, in another finding we noted exceptions such as lack of maintenance of logs, lack of security of logs, excess personnel authorized to grant PIN numbers, visibility/accessibility of client-sensitive data, and lack of a witness during destruction of logs and/or EBT cards.

Finally, the other auditors in the Department of Auditor General were denied access by DPW to an EBT card data file in another audit engagement of recipient activity and information that includes the SFYE June 30, 2010 period, and as a result the other auditors could not perform any testing of EBT card transactions which might have detected additional weaknesses and misuse, fraud, waste or abuse related to special allowance and TANF ARRA EBT transactions. Because this access was denied, we could not determine the total dollars for EBT special allowances issued in the current year, and as a result, an additional undetermined amount of special allowance costs are questioned.

3) Significant Systemic Management Control Weaknesses Exist Throughout DPW's County Assistance Offices

The other auditors reported four significant systemic control weaknesses that affected special allowances processed at all the CAOs as follows:

- Lack of adequate case file documentation, as indicated above.
- Lack of adequate supervisory review and oversight: Not approving special allowances paid via EBT cards, not verifying accuracy of data entry, not identifying errors regarding exceeding policy maximums, no routine special allowance monitoring by caseworker supervisors.
- Weaknesses over recurring special allowance payments (e.g., monthly bus passes), including no supervisor review, no separate tracking on CIS, and inadequate monitoring to justify continuance.
- Insufficient written policies and procedures established related to authorizing special allowances at the CAOs cause inconsistencies in applying and interpreting DPW's policies.

As mentioned above DPW issued Operations Memorandums and policy changes to strengthen the verification process; however, internal audits by DPW, BFO disclosed that CAOs did not adequately implement controls and DPW SPAL guidelines are complex, require frequent clarifications, and are subject to misinterpretation.

4) DPW's Division of Quality Control (QC) Failed to Adequately Monitor Special Allowance Payments

The other auditors reported multiple deficiencies in prior years within DPW QC's monthly internal review and monitoring of special allowance payments, including: an inadequate sample selection process that fails to include non-TANF recipients such as SNAP-only cases, fails to ensure minimum sampling coverage for special allowance

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selected for review, and fails to target special allowance payments that appear questionable; inadequate review procedures that do not verify that the need was valid and sufficiently documented, amount was appropriate, and the request was properly authorized, approved, and posted to CIS; untimely supervisory review and reporting of monthly results by QC staff, with a backlog of four months; DPW does not routinely prepare and disseminate a report summarizing the results of QC's monthly special allowance reviews for evaluation and decision-making purposes. In response to our prior audit findings, DPW management stated that numerous improvements in its Division of Quality Control functions were implemented, including forming a Special Allowance Corrective Action Committee (or SPARC) to help resolve system weaknesses. However, when we asked DPW for any documentation to support the SPARC's QC activities, such as SPARC reports or SPARC meeting minutes or other documents to support implementation, no documentation could be provided to support SPARC's QC improvements during our current audit period ended June 30, 2010.

It should also be noted that special allowance payments were paid to TANF and SNAP participants by employment and training (E&T) entities under contract with the 23 Local Workforce Investment Act (LWIA) subrecipients that DPW funds through another state agency, the Pennsylvania Department of Labor and Industry (L&I). The 23 LWIA subrecipients were paid \$136.7 million (\$89.8 Federal and \$46.9 State) and \$5.7 million (\$3.0 Federal and \$2.7 State) in total TANF and SNAP Admin funding, respectively, through L&I during SFYE June 30, 2010; however, the Commonwealth (DPW and L&I) did not break out and record on SAP or CIS how much of the \$136.7 and \$5.7 million totals was for special allowance payments to TANF and SNAP participants. While the Commonwealth performed on-site monitoring of LWIAs during SFYE June 30, 2010 such monitoring did not include testing of special allowances issued by LWIAs. Also, two E&T contractors in Philadelphia were referred to the PA Attorney General for fraud related to prior year inappropriate E&T expenditures which may have included special allowance expenditures.

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. . .

To carry out a program's objectives and ensure compliance, management must develop policies and procedures and a system of controls for ensuring that the program functions efficiently and effectively. Sufficient documentation must be maintained in the case file in order to support or account for the payment, as well as the decision to authorize and approve the payment. Adequate checks and balances, such as obtaining receipts when payments are authorized based on estimates, reconciliations, supervisory review, and monitoring techniques, must be included in management's policies and controls to provide a level of assurance that fraud, waste, and abuse are not occurring or are detected and to ensure that the program is functioning as designed

According to DPW's Supplemental Handbook Section 810.1, DPW is required by Federal regulations to maintain procedures for providing security, accuracy, and accountability of controlled documents, such as EBT cards.

According to the other auditor's report:

As part of administering special allowance payments, a strong system of management controls, including sufficient policies, written procedures, and adequate supervisory oversight, must exist to ensure that the CAOs issue special allowances that are necessary and appropriate to recipients who are eligible and participating in training or work activities.

DPW's special allowances monitoring procedures should provide reasonable assurance that only eligible recipients who have a valid need for a specific item or service relating to their employment or training activity are receiving the

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appropriate amount of funds within the established timeframes. Sampling is an effective monitoring tool that can produce reliable results while saving resources and time. However, sampling methods must be properly designed to ensure the reliability and representation of the monitoring results. Additionally, data analysis should be used to monitor special allowance payments to assess whether any patterns or trends of suspicious, questionable, or abusive transactions are occurring. If the data analysis reveals a concern, QC should request and review the appropriate information to determine if the condition is valid and to assess the magnitude of the issue. Furthermore, timely review, compilation, and distribution of the monitoring results are critical to ensure that inappropriate conditions are identified and corrective actions taken to maximize program efficiency and effectiveness.

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: As noted in prior year audits, management's emphasis is in getting the special allowances processed timely rather than clearly determining whether the payment should be made in the first place. While DPW management had issued new Operations Memorandums and policy changes to strengthen the verification process BFO audits have demonstrated controls over the issuance of special allowances were not functioning during SFYE June 30, 2010.

Regarding the oversight with respect to the safeguarding and accountability of EBT cards DPW management did not issue new Operations Memorandum on EBT card accountability until mid-May of 2010, as a result many of the weaknesses noted in the prior year were not corrected during SFYE June 30, 2010.

According to management, the documents that the auditors were unable to find in the recipients' case files for their selected special allowance payments existed but could not be located. Management stated that having an efficient filing system for the enormous volume of paperwork generated has been a problem for a long time. Management indicated this problem will be resolved with the implementation of a new eCIS system during 2009-10. However, as BFO audits have disclosed many documents were not obtained or were not completed during SFYE June 30, 2010.

Management previously acknowledged that written standard operating procedures for authorizing and processing special allowance payments do not exist for each CAO. CAOs rely on program policies that outline recipient eligibility and program parameters in DPW's Cash Assistance Handbook and Food Stamp Handbook. However, these handbooks do not provide daily operational procedures such as document flow and supervision review requirements to ensure that special allowances are appropriately and accurately processed. While management indicated they issued Operations Memorandums and policy changes to strengthen the special allowance verification process, as noted above, BFO stated that the DPW SPAL guidelines are complex, require frequent clarifications, and are subject to misinterpretation.

According to DPW's QC management, due to a court decision regarding the timeliness of DPW issuing special allowance payments to a TANF recipient, DPW management made it a priority for QC to monitor the timeliness of special allowance issuances to TANF recipients. QC management indicated that CAO management has the responsibility to monitor special allowances at a more detailed level.

Effect: While DPW's management started to issue new policies and procedures in an effort to implement management controls during SFYE June 30, 2010, BFO internal audits disclosed that a significant percentage of recipients are receiving special allowance payments that they do not need or are not eligible for, which is a violation of federal

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regulations and indicate potentially abusive and fraudulent activity, which negatively affects the integrity of the program, as well as of the program's management. Further, there is limited assurance that special allowances have been appropriately authorized and approved, and have been spent for their intended purpose in accordance with regulations.

Additionally, DPW's failure to record documentation related to special allowances issued by E&T contractors on SAP or CIS resulted in DPW and auditors not being able to determine if potential abuse of duplicate payments was occurring between the CAOs and E&T contractors.

Failing to properly control and secure EBT cards and impose proper segregation of duties increases the risk that EBT cards could be stolen, and potentially fraudulent special allowance payments or other fraudulent card activity may exist. In fact, DPW has acknowledged that potentially fraudulent employee activity has been detected in Philadelphia related to circumventing and taking advantage of weak EBT and special allowance controls during a prior audit. DPW management indicated that these cases were forwarded to the Office of Inspector General. Further, the BFO audit of the Philadelphia CAO during SFYE June 30, 2010 that sampled 135 SPAL payments disclosed duplicate SPALs were issued to 6 clients and 10 education/training payments were issued to one client in one month totaling \$6,822. Additionally, failing to provide requested EBT card data file documentation to the auditors reduced their ability to conduct a complete audit.

As a result, we noted at least \$27,429 in questioned costs for inappropriate and undocumented special allowance payments made by DPW CAOs during SFYE June 30, 2010 in the TANF and SNAP programs. There may also be an undetermined amount of additional questioned costs for special allowances administered and paid out by L&I's subrecipient LWIAs.

Recommendation: We recommend that DPW pursue appropriate settlement with federal awarding agencies for the \$27,429 in unallowable and questioned costs, plus any additional questioned costs that cannot be determined by us, from the BFO audits that were charged to TANF and SNAP Admin funds in our current year under audit. 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 SNAP Admin special allowance payments, including receipts. DPW's strengthened procedures should address the following:

- Provide proactive leadership, risk assessment evaluations, policies, procedures and training to CAOs to ensure that the CAOs are effectively operating the program, including monitoring special allowances issued by employment and training contractors to avoid duplication;
- Provide specific direction and sufficient oversight with respect to all aspects of EBT cards, including maintaining adequate inventory and issuance records, securing cards in locked safes or storage areas, prohibiting card printing when recipients are not on location, prohibiting clerks that are card makers from entering special allowances data, requiring CAOs to develop and implement standard operating procedures for detailed daily operations for the accountability, distribution, and destruction of EBT cards, adequately monitor and resolve inappropriate activity of EBT card usage by recipients, and cooperate fully with government audits and provide the auditors with all requested information in a timely manner;
- Ensure that CAO supervisors approve all special allowance payments and verify that they are accurately data-entered, supported with appropriate documentation, and ensure that policies are sufficiently written to eliminate their inconsistent application by CAOs; and
- Require its QC to develop and implement an effective special allowance sampling methodology to include cases that appear to be suspicious, questionable, or abusive, based on data analysis and to develop and implement review procedures to verify that the special allowance payments were valid, appropriate, and properly authorized.

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Agency Response:

1) DPW's Lax Oversight Promotes an Environment That is Conducive to Potential Fraud and Abuse of Special Allowance Payments to Recipients by County Assistance Offices.

In response to the Special Performance Audit of the Special Allowance (SPAL) Program published by the Auditor General (AG) in August 2009, the Department of Public Welfare's (DPW) Deputy Secretary for the Office of Income Maintenance (OIM) requested the Bureau of Financial Operations (BFO), Division of Audit and Review (DAR), perform a series of state-wide audits of SPALs for supportive payments processed through the County Assistance Offices (CAOs). Separate audits were requested to be performed for each of the six DPW Operational areas. **The goal of the audits was to gain an understanding, and examine the application, of the policies and procedures used at the CAOs to process SPALs.**

In addition, DPW requested DAR perform several audits of the contracted Employment Advancement and Retention Network (EARN) centers that issue SPAL payments. **These audits were primarily directed to assess the centers' compliance with the DPW Bureau of Employment and Training Programs (BETP) Master and Program Guidelines related to the issuances of SPALs.**

Audits have been issued for CAOs in five operating areas and several EARN centers. As a result of the CAO audits, OIM has taken actions to strengthen policies and procedures to increase controls and eliminate waste, such as:

- Additional training to clarify the need and requirement of the SPAL verification form.
- A review of changes in the Operations Memorandum-Employment & Training, OPS090801 for processing overpayments in cases where clients failed to provide receipts for SPALs that were issued by the CAO.
- A review of the policy for recovering over-payments as detailed in the OIM Supplemental Handbook, Chapter 910-Overpayment and Recovery.
- A review of the limits and coding for SPALs.
- Requiring supervisors and managers to review special allowance requests using a checklist to ensure SPALs are verified and documented prior to issuance.
- Operations Memorandum-Employment & Training OPS110504 was issued on May 19, 2011. The Memorandum discontinues the issuances of SPALs to SNAP only participants for Operator Fees, Vehicle Purchase, Personal Computers, Relocation Expenses, Union Dues and Professional Fees, and Vehicle Insurance by CAOs and E&T contractors. The policy became effective May 23, 2011.

To address contractor issues with SPALs at the EARN centers, BETP will issue revised Master and Program Guidelines for the period July 1, 2011 through June 30, 2012. The anticipated release date for the Guidelines is July 2011.

As a result of these audits, several EARN centers and a Commonwealth employee are under investigation. Where applicable, DPW will recover funds identified by these audits.

DPW has implemented several policy and procedural changes to strengthen the administration and improve the integrity of special allowance payments:

- The Master Guidelines that govern contractor issuances of supportive services were refined and simplified in order for contracted services providers to more easily interpret and understand the necessary steps to increase the integrity of their supportive services payments in coordination with CAO special allowances. The Master Guidelines and contractor training addressed the following issues:
 - Contractors cannot pay for the supportive service authorized by the CAO even if the client needs it prior to its receipt. The contractor must work with CAO to resolve any supportive service conflicts with CAO before authorizing an issuance to the client.
 - Supportive services must be paid to the client in advance of the need. If the client has the resources to cover the cost up front, then generally, they do not meet the eligibility criteria for "need".

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- Contractors cannot give clients a set amount in anticipation of the mileage requirement. If anticipated mileage is exceeded, policy allows for reimbursement of the additional amount since the need was unforeseen (appropriate when the client has to borrow, use credit card, etc. for the unexpected need). If mileage does not achieve the anticipated amount, then the CAO proceeds with an overpayment for the mileage paid that was not verified.
- Verification Form:
 - Contractors issuing the supportive services must have a completed verification form within the case record.
 - Use collateral contacts to verify the requirement and, whenever necessary, to ensure payment is made in advance of the date it is required by the provider of the service or item.
 - Assist the client in obtaining the verification, when necessary.
 - Contractors will begin over-payment and collection processes if a client fails to document proper use of the supportive services.
- Contractors are required to data enter supportive services into the Comprehensive Workforce Development System (CWDS) as outlined in CWDS training and in the CWDS manual.
- Contractors must establish a written special allowance management plan that addresses how they will assist CAOs to ensure compliance with CAO SPAL issuance requirements:
 - The completed plan must be submitted annually by the CAO to the Bureau of Operations area manager and by the contractor to BETP. For contractors, the plan is due as part of the annual budget submission process.
 - Contractors serving more than one CAO may have multiple CAOs sign off on its plan. However, if the coordination procedures are different across counties, then a Special Allowance Management Plan must be separately submitted for each.

To ensure that contractors are adhering to the supportive services and special allowance procedures, a new effort is underway to integrate monitoring and technical assistance. The intent of this effort is to ensure that contractor management staff is taking an active role in overseeing compliance with special allowance and supportive services requirements. Self-monitoring guides focus on this area of program operation and are sent to contractors for completion throughout the course of the year. The completed guides will be submitted to the DPW/BETP's monitoring and technical assistance staff for review.

Subsequently, as part of intensive, ongoing monitoring efforts, BETP staff will confirm that assessments made during contractor self-monitoring were accurate and that aggressive steps were taken to correct problems uncovered. They may also target additional areas of program operations for review.

This two-pronged strategy will ensure that contractors are honestly evaluating themselves and are taking actions when deficiencies are found, prior to their annual, detailed monitoring by the Bureau.

- November 2006 - initiated child care unification; CAOs no longer issue child care payments to individuals; payments are made by CCIS agencies directly to child care providers.
- October 2007 – began implementation of PA WORKWEAR (PAWW) which is now operational in 65 counties. In these counties, CAOs no longer issue special allowance payments for work/training clothing to individuals; instead, the participant is referred to PAWW which assists in selecting and providing appropriate work/training attire.
 - Each PAWW provider keeps an in-house spreadsheet called a “Client Referral Tracking List” to record every referral received by the CAO and E&T contactor. This list also tracks client appointments, the show rate, and how follow-up with the individual who did not show was made
 - PAWW providers are required to attend Local Management Committee meetings at least quarterly to report the number of individuals referred and served. Policy is being revised to ensure that PAWW providers proactively reconcile their tracking list with CAO offices monthly.

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- January 2008 – eliminate issuance of recurring special allowances for transportation; CAOs verify participation and issue a monthly allowance only if the individual is participating as required.
- June 2008 - in non-PAWW counties, participants must present proof of need and proof of purchase for work/training appropriate clothing. This resulted in a 38 percent reduction in CAO-issued clothing special allowances in non-PAWW counties.
- August 2008 - implemented system changes to improve accuracy in coding and tracking special allowances; updated and consolidated special allowance policies and guidance for CAOs.
- September 2008 - issued policy clarifications that a special allowance cannot be issued for a second vehicle in the household, and that CAOS are to issue restricted endorsement checks for books and supplies.

Revised special allowance regulations were promulgated in November 2010, with a July 2011 implementation date, that will significantly improve accountability and integrity. Examples of key changes:

- Assures that policy is clear that only items actually needed for job or training are purchased by replacing the word “needed” with the word “required” throughout the package.
- Assures that special allowances are issued only for actual costs by eliminating set amounts and allowing payment only for actual cost.
- Reduces instances of multiple purchases by changing frequency from “as required” to a limited amount within a 12 month period (in the case of vehicles it has been limited to once in a lifetime).
- Establishes recoupment of payments from recipients if payments are not used for the intended purpose or where other instances of fraudulent activity are found.

2) Weaknesses Found in the Accounting, Processing, and Controlling of EBT Cards Used to Purchase Items and Withdraw Cash from ATM Machines.

DPW recognizes that Electronic Benefits (EBT) cards are controlled documents that must be secured. EBT cards are governed by procedures that have been promulgated to ensure compliance with Federal Regulation 7CFR274.12(i)(3) and 277.18(p)(2)(E) regarding EBT System Security. Adherence to these procedures is mandatory. An Operations Memorandum was issued on May 13, 2010 to the CAOs by OIM’s Bureau of Operations to provide guidance and direction regarding EBT Security to include system access, card inventory and card issuance. This directive sets forth standard operating procedures for the accountability, distribution and destruction of EBT cards. E-Learning training and detailed guidance is provided around maintaining inventory records, performing weekly physical inventories, securing cards in a locked location, and prohibiting the printing of cards without the client present in the office.

The Bureau of Program Evaluation (BPE) conducts announced or unannounced on-site reviews to comply with the EBT security procedures. The Division of Quality Control (DQC) conducts pre-arranged on-site EBT reviews in conjunction with the monthly QC random sample SNAP eligibility client interviews completed by QC in the CAO offices. Additionally, staff from BPE makes random unannounced visits as part of other on-site reviews. The review is conducted by office observation and staff interview.

If any deficiencies are noted in the EBT review, the CAO receives an EBT Review Findings Memo. Findings are discussed and finalized at the Error Review Committee Meetings and CAOs are requested to provide a Corrective Action response to the Area Manager with a copy of the plan to the Division of Corrective Action (DCA) for all final findings. BPE staff is responsible for the monitoring of the CAO implementation of the Corrective Action Plan (CAP). BPE assigns and tracks the reviews to ensure all CAOs are visited for an EBT review once every year.

DPW is strengthening its monitoring of EBT transactions by creating an EBT Fraud and Abuse Analyst position to analyze internal and external vendor data to identify patterns and trends to help identify potential fraudulent and abusive activity.

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This finding claimed several internal control weaknesses surrounding EBT card security at some CAOs. Follow-up visits by the auditors indicated that many of the claimed weaknesses were addressed and this would not be repeated as a finding in 2010/11.

The AG did make a request for client/merchant/retailer information under an EBT Special Performance Audit which covered the period July 1, 2007 through the end of their field work. And DPW is currently awaiting a response from the Federal Government on the legality of providing merchant/retailer information before proceeding with this request. But **the AG did not request this information as part of the 2009/10 Single Audit.**

3) Significant Systemic Management Control Weaknesses Exist Throughout County Assistance Offices.

As noted previously, Operations Memorandum 09-08-01 *Special Allowances for Supportive Services – Policies and Procedures* was issued August 5, 2009 and updated July 19, 2010. This memorandum was issued to reinforce policy and procedures for special allowances to ensure program integrity:

- A full review of the current special allowance policy was conducted in every CAO with all Income Maintenance Caseworker (IMCW) staff.
- Emphasis of the client's responsibility to demonstrate the requirement for the special allowance was re-emphasized throughout the organization.
- In order to document the requirement of the special allowance, a Self-Reliance Check List was developed for completion by the IMCW with the client.
- Each CAO was required to establish a written special allowance management plan that complied with current policy and provide a copy to the Bureau of Employment Training (BETP).
- Recurring special allowances for supportive services are no longer available for use.

To further strengthen the verification process, the following requirements have been established:

- Individuals requesting special allowances for supportive services must verify that the item or service is required by the employer or training provider in order for the individual to participate.
- A receipt verifying that the special allowance was used for its intended purpose must be provided by the individual within 14 days of receiving the benefit.

DPW has taken the initiative to expand and improve the scanning and imaging of case file information including required verification. This will assist in ensuring that documents to justify special allowances are available.

BETP has updated policy and procedures in recent memoranda and is currently in the process of statewide CAO training to ensure understanding and compliance with updates.

OIM's Bureau of Program Evaluation (BPE), Division of Corrective Action (DCA) continues to conduct SPAL reviews. If any deficiency is noted in the review, the CAO receives a SPAL Review Finding Memo. Findings are discussed and finalized at the Error Review Committee meetings held weekly. CAOs are required to provide a Corrective Action response to DCA.

The CAO is the primary source for special allowances, while contractor supportive services are used to supplement rather than duplicate CAO special allowances. This policy limits the opportunity for duplicate issuances and fraud. Also, the Master Guidelines direct contractors to meet regularly with CAO staff to discuss special allowances and other client program needs.

In order to reduce duplicative issuances, recent special allowance policy refinements direct CAOs to verify the type of contractor supportive services that have been issued to clients prior to approving special allowances.

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4) DPW's Division of Quality Control (QC) Failed to Adequately Monitor Special Allowance Payments

The Bureau of Program Evaluation (BPE) is responsible for monitoring payment accuracy for benefit programs, including SPALS. BPE conducts two separate SPAL reviews: a monthly review of all SPALs contained in cases selected in the TANF and SNAP eligibility random samples by the Division of Quality Control (DQC), and a special monthly targeted review by the Division of Corrective Action (DCA) of 50 TANF and 50 SNAP cases and all of the SPAL issuances that were authorized for those cases in the sample month. Allowances reviewable by BPE include allowances for supportive services that were issued by the CAO to the TANF or SNAP recipient.

During the period July 2009 through June 2010, a total of 604 TANF cases and 572 SNAP cases were reviewed by BPE, which totaled well over 1,000 individual SPAL issuances statewide.

Staff in three BPE areas are responsible to complete Special Allowance Reviews as part of their regularly assigned work. The following 11 factors are part of each SPAL review completed by BPE staff:

- Determine if accurate data entry and coding of SPAL authorizations are entered into the Client information System (CIS).
- Determine if appropriate and adequate documentation of expenses are obtained prior to SPAL authorizations.
- Determine if the need and requirement for SPALs are being adequately verified.
- Determine if all required supervisory or management approvals are obtained for SPAL authorizations.
- Determine if the amount of the SPAL issuances are reasonable, accurate, and within allowable limits and timeframes.
- Determine if all required authorization forms are completed and notifications issued regarding SPAL authorizations.
- Determine if there is adequate recording of SPAL authorizations in the case record narratives.
- Determine if work participation activity is occurring during the period of the SPAL authorizations.
- Determine if the SPAL authorizations are spent for their intended purpose and if the actual expenditures equaled the amounts of the SPAL authorizations.
- Determine if the SPALS are returned or overpayments filed when it is discovered that the SPALS were not used for their intended purpose and when expenditures were not verified.
- Determine if duplicate SPALs (i.e. SPALs for supportive services) are being issued by E&T contractors for the same purpose as the CAO SPAL authorizations.

DQC began a SPAL review in May 2009. The review encompasses special allowances paid to recipients of TANF and SNAP benefits and the reviews are conducted in accordance with State and Federal policies, procedures and deadlines. QC reviews all SPALs contained in cases selected in the TANF and SNAP eligibility random samples that were issued in the review month, as well as the prior and following months. QC selects a random sample representative of the recipient population so that results can be extrapolated. Targeting QC's focus would create bias in the results. A questionable SPAL payment is considered a payment error and a findings memo is issued to the CAO and the appropriate Area Manager.

For the period July 2009 through June 2010, QC selected a random sample of TANF cases, resulting in the review of 133 TANF cases with 182 issuances from each of the six Office of Income Maintenance Operational Areas. Findings memos were sent to the CAO, Executive Director and Area Manager. BPE will begin issuing a comprehensive quarterly report beginning in September 2011 to the CAOs, Area Managers and OIM Executive Management.

Since July 2009, DCA has conducted a monthly targeted review of SPAL payments in individual counties/districts. Each month, 50 SNAP and 50 TANF cases with a SPAL payment are selected for review, and all issuances are reviewed for the sample month. For the period July 2009 through June 2010, 471 TANF and 572 SNAP cases were sampled with over 1,000 payments reviewed. SPAL findings are reported to the CAO and appropriate Area Manager.

The findings discovered during the DQC and DCA reviews are discussed at the Special Allowance Review Committee (SPARC). SPARC meetings are led by BPE and are held as needed based on the volume of errors. The purpose of SPARC is to increase communication with all internal stakeholders. The group discusses SPAL error findings and

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causal factors with Headquarters Operations Staff including Staff Development, CAO Executive Directors and management staff via conference phone, Bureau of Policy, Bureau of Program Support's Division of Automated Planning and Support, and Bureau of Employment and Training. Appropriate SPARC members address training, policy and procedure, and systems issues. The presence of these participants facilitates the development of "Best Practices" which can be used statewide as strategies to increase the accuracy of special allowances issued. A compilation of all SPARC findings is put into an easily readable format and included with reports currently posted for ease of analysis by CAOs and Headquarters Bureaus and units. BPE issues SPAL Reports to the CAOs and their respective Area Managers upon completion of a SPAL Review; however aggregate reports are not issued statewide or by area.

For every error found during either a DQC or DCA review, the CAO is required to develop and submit an Error Prevention Plan (EPP) to DCA. The SPAL EPP requires the CAO to identify the data sources used to determine the magnitude of the deficiencies; describe the activity they will take to resolve the deficiencies; the steps, timeframes, and persons responsible for implementing their plan; and how those items will be monitored by their office. DCA monitors compliance with the EPP at thirty days to determine if any required overpayments have been processed, as well as at six and twelve months to determine if changes are needed to the EPP to improve SPAL accuracy.

Listed below are examples of corrective actions CAOs have implemented:

- Development of internal SPAL checklists
- Development of internal SPAL narrative templates
- Use of in-house SPAL tracking databases
- Use of SPAL form packets
- Implementation of internal SPAL procedures clearly defining for staff the SPAL issuance process
- Supervisory monitoring of SPAL issuances and follow up
- Training to review proper narration, completion of CIS screens and SPAL policy
- Use of additional work items created on eCIS Workload Dashboard to track SPAL receipts

All SPALs issued by contractors are monitored by the Bureau of Employment and Training.

OIM believes that the multi-faceted review strategy and Error Prevention Action activities outlined above will result in improved SPAL accuracy.

Auditors' Conclusion: We recognize and acknowledge DPW's continuing efforts to correct the prior-year weaknesses and improve its internal controls over special allowance payments. However, based on our current-year test results and the agency response, the internal control weaknesses and potential improper payments remained significant in our current-year ended June 30, 2010, so our finding and recommendations remain as previously stated. We will review any further corrective action implemented by DPW in the subsequent audit.

Questioned Costs: \$27,429 plus additional questioned costs that cannot be determined.

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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Finding 10 – 31:

CFDA #12.400 – Military Construction, National Guard

Deficiencies in Internal Control Over Compliance With Allowability and Matching Requirements (A Similar Condition Was Noted in Prior Year Finding #09-27)

Federal Grant Numbers: DAHA 36-00-2-2001, DAHA 36-01-2-2001, DAHA 36-01-2-2003, DAHA 36-01-2-2002, W912KC-05-2-2001, W912KC-06-2-2009, W912KC-06-2-2020, W912KC04-2-2005, W912KC-06-2-2014, W912KC-06-2-2017, W912KC-06-2-2010, W912KC-06-2-2015, W912KC-06-2-2012, W912KC-08-2-2001, W912KC-06-2-2011, W912KC-07-2-2001, W912KC-06-2-2007, W912KC-06-2-2005, W912KC-06-2-2006, W912KC-06-2-2003, W912KC-06-2-2012, W912KC-06-2-2008, W912KC-06-2-2016, W912KC-06-2-2019, W912KC-04-2-2002, W912KC-06-2-2018, W912KC-06-2-2004, W912KC-06-2-2002, and W912KC-09-2-2004

Condition: For the period July 1, 2009 through November 9, 2009, we were unable to review documentation for nine of the 40 construction payments tested supporting the control procedures performed by the Department of Military and Veterans Affairs (DMVA) to ensure that construction costs charged to the MCNG program were allowable and reviewed and approved. In addition, for two of the five SAP postings tested, there was no review documentation to support DMVA determination that the federal and state match allocations of costs were accurate in accordance with the construction budget.

Criteria: Internal controls should be documented and in place to review the allowability of costs charged to the federal program and to review the accuracy of the federal and state allocation of costs to ensure that matching requirements are met.

Cause: As the result of the turnover of a key employee, from July 1, 2009 through November 9, 2009, DMVA did not document review procedures for costs charged to the Military Construction, National Guard program for allowability and to ensure that matching requirements were met.

Effect: The DMVA was unable to provide any valid support or evidence that review procedures were performed over allowability and matching for the period July 1, 2009 through November 9, 2009. No questioned costs were identified through our substantive audit procedures since adequate documentation was provided to support compliance with allowability and matching requirements.

Recommendation: We recommend that the DMVA perform and document its review and approval of all MCNG costs, and follow state record retention requirements to verify that only allowable costs are charged to the federal program and the federal and state match allocation of costs is accurate.

Agency Response: DMVA transitioned MCCA review and oversight of allowable costs and state match requirements to the Accountant 2 position in the Bureau of Budget and Finance immediately following the turnover of the employee listed in the “cause” above. The Accountant 2 verifies expenditures and then recommends approval to the Director, Bureau of Budget and Finance. The Director, Bureau of Budget and Finance then implements approval of the cost allocation to the Office of the Budget Cost Allocation unit for processing. All procedures are in place; however, the email chains containing the approvals were not retained. Corrective Action, retain email chains.

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.

Questioned Costs: None

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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Finding 10 – 32:

CFDA #12.400 – Military Construction, National Guard

Internal Control Deficiencies in Federal Reporting and Cash Management (A Similar Condition Was Noted in Prior Year Finding #09-27)

Federal Grant Numbers: DAHA 36-00-2-2001, DAHA 36-01-2-2001, DAHA 36-01-2-2003, DAHA 36-01-2-2002, W912KC-05-2-2001, W912KC-06-2-2009, W912KC-06-2-2020, W912KC04-2-2005, W912KC-06-2-2014, W912KC-06-2-2017, W912KC-06-2-2010, W912KC-06-2-2015, W912KC-06-2-2012, W912KC-08-2-2001, W912KC-06-2-2011, W912KC-07-2-2001, W912KC-06-2-2007, W912KC-06-2-2005, W912KC-06-2-2006, W912KC-06-2-2003, W912KC-06-2-2012, W912KC-06-2-2008, W912KC-06-2-2016, W912KC-06-2-2019, W912KC-04-2-2002, W912KC-06-2-2018, W912KC-06-2-2004, W912KC-06-2-2002, and W912KC-09-2-2004

Condition: The Department of Military and Veterans Affairs (DMVA) has Military Construction Cooperative Agreements (MCCAs) under the Military Construction, National Guard program (MCNG) to construct facilities for the state's Army National Guard. Costs for MCCA projects are initially paid and recorded in SAP by the Department of General Services (DGS) with state funds, due to state policies that all construction projects be centrally managed by DGS. In order for the costs to be subsequently transferred to the DMVA and to initiate the Request for Federal Reimbursement (SF-270 Form), the DGS prepares a General Invoice for Cost Allocation (Pre-Note). The Pre-Note is then forwarded to the Cost Allocation Unit in OB Comptroller Operations to record the transfer in SAP. Once the transfer is complete, Federal Accounting in the Comptroller Operations prepares a SF-270 Form to bill the applicable federal share of the incurred costs of each MCCA project.

The DMVA had 29 MCCAs for which costs were incurred during the period under audit. For nine out of nine SF-270s sampled, we noted the underlying costs included in the SF-270s were delayed for periods ranging from 83 days to 317 days. The time lag between the last date costs were incurred for each SF-270 and the date that the SF-270 was prepared and submitted ranged from 30 days to 84 days. Accordingly, incurred costs, although allowable, were not reported on SF-270 Forms accurately on a monthly basis as specified in the MCCAs, and the funds were not drawn down timely. This results in SEFA and SF-270 expenditure totals being based on the timing of when reimbursement is requested by DGS not when costs are actually incurred by DGS.

In addition, we were unable to review documentation for nine out of nine SF-270s sampled to support any control procedures performed to ensure that cash payments were made to vendors prior to the request for reimbursement being submitted.

Criteria: Article V, Section 501, *Payments by Reimbursement Method*, contained in each of the MCCAs states:

- a. *Each month (at a minimum, if costs have been incurred) the State shall provide to the USPFO a certified statement itemizing costs incurred during the preceding month and the corresponding accounting classification to be charged.*

31 CFR Part 205, Subpart B, *Rules Applicable to Federal Assistance Program Not Included in a Treasury-State Agreement*, states:

- 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 must be as close as administratively feasible to a State's actual cash outlay for direct program costs.*

Cause: The DMVA indicated that the delays in preparing and submitting the SF-270s was a result of staffing limitations at the DGS, which is responsible for preparation of the Pre-Notes.

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Finding 10 – 32: (continued)

Effect: The DMVA did not have procedures in place to ensure that costs incurred were reported to the Federal government in compliance with Section 501 of the MCCAs, and submitted for federal reimbursement in a timely manner. DMVA also failed to ensure that the time elapsing between the drawdown of Federal funds and payments was minimized as required by federal regulations. In addition, we noted that Federal reimbursements were not received on a timely basis. At June 30, 2010, DMVA reported expenditures of \$119.4 million on the SEFA, of which \$110.4 million had not yet been reimbursed by the Feds. As of April 30, 2011, the open receivable related to these same expenditures was still \$37.5 million.

Recommendation: We recommend that the DMVA implement procedures to ensure that the time elapsing between the drawdown of Federal funds and payments is minimized and project costs paid by the DGS are accumulated on a monthly basis and submitted for federal reimbursement as required by the MCCAs. We further recommend that the DGS explore the feasibility of coding the MCNG expenditures to DMVA directly in order to reduce delays by eliminating the need for the DGS to transfer costs to the DMVA.

Agency Response: DMVA is in agreement that cost allocation documents are not prepared timely due to staffing limitations at DGS. DMVA has made an inquiry with the USPFO to change the contract documents to quarterly billings. DGS would be able to create the cost allocation documents quarterly.

Auditors' Conclusion: We acknowledge the agency's response. We encourage the agency to formalize a corrective action plan to ensure that reports are prepared and submitted in accordance with the requirements of the contract documents and that cash payments were made to vendors prior to submission of the SF-270s. In addition, DMVA should implement corrective action to documents its control procedures performed to ensure that cash payments were made to vendors prior to the SF-270 request for reimbursement is submitted. Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

Questioned Costs: None

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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Finding 10 – 33:

CFDA #12.400 – Military Construction, National Guard

Lack of Documentation to Support Contracting and Procurement

Federal Grant Numbers: DAHA 36-00-2-2001, DAHA 36-01-2-2001, DAHA 36-01-2-2003, DAHA 36-01-2-2002, W912KC-05-2-2001, W912KC-06-2-2009, W912KC-06-2-2020, W912KC04-2-2005, W912KC-06-2-2014, W912KC-06-2-2017, W912KC-06-2-2010, W912KC-06-2-2015, W912KC-06-2-2012, W912KC-08-2-2001, W912KC-06-2-2011, W912KC-07-2-2001, W912KC-06-2-2007, W912KC-06-2-2005, W912KC-06-2-2006, W912KC-06-2-2003, W912KC-06-2-2012, W912KC-06-2-2008, W912KC-06-2-2016, W912KC-06-2-2019, W912KC-04-2-2002, W912KC-06-2-2018, W912KC-06-2-2004, W912KC-06-2-2002, and W912KC-09-2-2004

Condition: In our prior-year Single Audit of the Commonwealth for the fiscal year ended June 30, 2009, we reported that we could not test the Commonwealth's compliance with procurement regulations because management refused or was unable to provide us with key procurement documentation to enable us to audit the awarding of procurement contracts and to verify compliance with Commonwealth procurement regulations. This was reported as an overall scope limitation in our "Report on Compliance With Requirements Applicable to Each Major Program and an Internal Control Over Compliance in Accordance with OMB Circular A-133" as it specifically related to compliance with procurement regulations, and included reference to MCNG construction contracts.

The procurement process for Military Construction, National Guard is managed by the Department of General Services (DGS) and includes a requirement that interested contractors submit an Application for Qualification (AFQ). The AFQs are then evaluated by a team of individuals and each contractor is ranked. Those contractors whose AFQs are approved are then required to submit a Letter of Interest and Project Preference Form indicating which projects they are interested in bidding on. Based on the contractors' ranking scores, as determined by the evaluation team, and their Project Preference Forms, between five and seven contractors are selected to receive an Invitation to Bid for each Military Construction, National Guard project. For the current year under audit, DGS stated they were unable to provide the AFQs and Project Preference Forms submitted by any MCNG contractors. Additionally, DGS would not provide us with the names of the evaluation team members or the individual evaluation forms prepared by team members. Without the AFQs, the Project Preference Forms, the names of the AFQ evaluation team members and the individual evaluation forms, we could not evaluate any of the seven procurements we selected in the amount of \$64.78 million for compliance testing, nor could we ascertain if proper controls are in place to prevent potential conflicts of interest, fraud, abuse, or other inappropriate activity from occurring during the Military Construction, National Guard contract procurement process. As part of our audit procedures, we also identified and attempted to test the controls over the compilation of the final scores assigned to the contractors. However, DGS was unable to provide documentation of the review of the contractor scoring for six of the seven contracts we tested.

Criteria: Part 3 of the A-133 Compliance Supplement states, in part:

(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 Commonwealth established procurement policy and procedures in the "Field Procurement Handbook" (M215.3 as Amended). Good internal controls require management to maintain sufficient documentation to demonstrate that proper purchasing procedures are reasonably followed to prevent conflicts of interest, etc., and contracts are properly awarded.

Cause: Management has maintained that the identity of evaluation committee members is considered confidential information that auditors are not entitled to review. Management has also maintained that these documents are not within the scope of the Single Audit. Management stated they were unable to locate the Application for Qualification documents, the Letters of Interest and Project Preference Forms submitted by interested contractors.

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Effect: By refusing to provide the requested documentation, management has prevented the auditors from testing internal controls and compliance with procurement regulations.

Without the necessary documentation, we could not verify that management adhered to Commonwealth procurement standards and laws, or exercised due diligence in awarding the MCNG contracts mentioned above. More specifically, we could not verify that management had proper controls in place to prevent conflicts of interest, fraud, abuse, or other inappropriate activity from occurring during the contract procurement process. In short, management imposed scope limitations on our compliance 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 procurement documentation in order to allow the auditors to test compliance and internal control for procurement for the Military Construction National Guard Program. In addition, we recommend that management implement policies and procedures to ensure that documentation of procurement records be maintained as required by the Commonwealth Procurement Code.

Agency Response: *“For the current year under audit, DGS stated they were unable to provide the AFQs and Project Preference Forms submitted by any MCNG contractors.”*

“However, DGS was unable to provide documentation of the review of the contractor scoring for six of the seven contracts we tested.”

DGS agrees with these statements in the finding. As a result of staff attrition and retirements, DGS did not ensure proper internal controls were in place to properly retain procurement records from individuals separating from Commonwealth employment. Commonwealth records retention policy states that all procurement and contract documents that result in a contract must be maintained for four (4) years following the contract end date. According to this policy, the records requested as part of this audit should have been available. DGS has improved internal controls and processes to ensure that all procurement and contract documents are retained and disposed of in accordance with Commonwealth records retention policy.

“Additionally, DGS would not provide us with the names of the evaluation team members or the individual evaluation forms prepared by team members.”

DGS maintains that the evaluation committee member names are not necessary in an auditor's review of whether the committee and the agency acted in accordance with procurement laws and practices. In addition, we have asserted that disclosure of these names as a general matter will have a chilling effect upon both our employees' willingness to participate and on their candor during the evaluation process. This does not mean, however, that we will prohibit audit staff from obtaining related information. In fact, as part of this audit, DGS offered several alternatives to the committee members' names, including an Affidavit from the AFQ chairperson, indicating evaluators had completed required Confidentiality and No Conflict of Interest forms and describing the qualifications of the members. Redacted summary score sheets were also offered. Unfortunately, audit staff did not accept either alternative for their review.

As a result of this finding and others relative to the provision of evaluation committee member names, DGS has initiated conversations with Commonwealth and outside audit staff to discuss potential compromises to releasing evaluation committee member names. We recognize the importance of audit staff's ability to properly test our internal controls and want to work cooperatively to ensure audit staff understands our desire to provide each Commonwealth employee who

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agrees to serve as a committee member the opportunity to evaluate candidly. Our first meeting resulted in an action plan to continue to collaborate on ideas for alternative information which would allow for thorough compliance testing while maintaining the anonymity of the evaluation team members.

Auditors' Conclusion: Compliance testing without permitting auditors access to interview evaluation committee members to confirm and validate such issues as their participation, scoring, or any other related matters that either party wishes to discuss would not be considered either thorough or adequate. Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

Questioned Costs: The amount of questioned costs cannot be determined.

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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Finding 10 – 34:

CFDA# 12.401 – National Guard Military Operation and Maintenance Projects

CFDA# 12.401 – ARRA – National Guard Military Operation and Maintenance Projects

Equipment Management Internal Control Deficiencies and Noncompliance

Federal Grant Numbers: DAHA360251002, DAHA360321021, DAHA360351021, DAHA360361002, DAHA360421021, DAHA360621001, DAHA360721001, DAHA360721005, DAHA360721007, DAHA360721021, DAHA360721023, DAHA360721041, DAHA360735001, DAHA360751002, DAHA360751003, DAHA360751004, DAHA360751005, DAHA360751021, DAHA360751023, DAHA360751024, DAHA360761002, DAHA360771021, DAHA360821021, DAHA360825001, DAHA360851004, DAHA360921001, WK912DY-08-2-0006, W912KC-05-2-3054, W912KC-06-2-1001, W912KC-09-2-1010, W912KC-10-2-1001, W912KC-10-2-1002, W912KC-10-2-1003, W912KC-10-2-1004, W912KC-10-2-1005, W912KC-10-2-1007, W912KC-10-2-1010, W912KC-10-2-1021, W912KC-10-2-1023, W912KC-10-2-1024, W912KC-10-2-1041, and W912KC-10-2-5001

Condition: The PA Department of Military and Veterans Affairs (DMVA) purchases equipment using National Guard Military Operations and Maintenance (NGMO) federal funding (from U.S. Department of Defense, or DOD) for use in maintaining and operating facilities for the program. Under the program regulations in the NGR 5-1, title for such equipment is vested with the Commonwealth. In our testing of two equipment purchase transactions under the NGMO appendices, we found that one piece of equipment with an acquisition cost of \$29,343 purchased during the period of our audit was not added to the fixed asset accounting system as a capital asset as required by the Commonwealth's Fixed Asset Accounting and Reporting policy. Our testing also disclosed that the DMVA did not provide a report to the Army National Guard U.S. Property and Fiscal Officer (USPFO) in the current year, of property acquired in full or in part using NGMO funds as required by NGR 5-1.

Criteria: 33 CFR 33.32, states:

(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.

Commonwealth Management Directive 310.14, states:

c. General Capital Assets....For GAAP reporting purposes for the Commonwealth of Pennsylvania, General Capital Assetsare required to be set up in SAP with Asset Master Records.

Based on Management Directive 310.14, machinery and equipment with an acquisition cost of \$25,000 and up is subject to the requirement above.

The NGR 5-1, Chapter 8, section 2, c states:

(1) Equipment property records will be maintained and reported to the USPFO. Reports will 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: For machinery and equipment above the capitalization threshold purchased with State funds, procedures have been established whereby a fixed asset number is assigned at the time of purchase. For machinery and equipment purchased with federal funds, equipment meeting the threshold for capitalization must be added to the fixed asset system via a manual entry. This is due to a system limitation in the SAP accounting system: the field used to identify the purchase as the acquisition of an asset is the same field used to identify the purchase as being funded by a federal grant. Only one entry can be made in the field. In the case of the item described above, the manual entry was not made. Although the DMVA does have controls in place regarding the reviews of purchase orders for equipment required to be added to the fixed asset accounting system, the controls were not adequate to ensure that this was done in the case of the equipment above.

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The DMVA currently records equipment purchases using Asset Tracker, a commercial software system. This system, however, does not provide sufficient flexibility to enable the DMVA to separately identify the source of funds used to acquire the equipment. Based on our discussions with the DMVA, they are currently in the process of developing a system which will enable them to generate the report required by the federal regulations.

Effect: The DMVA did not capitalize equipment in the amount of \$29,343 purchased under the federal grant as required by Commonwealth policy and to meet federal requirements. Additionally, the DMVA has not provided the USPFO with property reports related to equipment.

Recommendation: The DMVA should strengthen its internal control procedures to ensure that equipment purchased with NGMO funds that meets the criteria for capitalization is added to the Commonwealth's fixed asset accounting system. Additionally, the DMVA should establish procedures to ensure that the required reports on NGMO equipment are provided to the USPFO on a regular basis.

Agency Response: DMVA is in agreement and a corrective action plan is being prepared

Auditor's Conclusion: We acknowledge the agency's response. The finding and recommendation remain as previously stated. We encourage the agency to formalize a corrective action plan to ensure that equipment meeting the capitalization threshold that is purchased with federal funds is added to the Commonwealth's fixed asset accounting system and that the required equipment reports are provided to the USPFO. We will review any corrective action in the subsequent audit.

Questioned Costs: The amount of questioned costs cannot be determined.

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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Finding 10 – 35:

CFDA# 12.401 – National Guard Military Operations and Maintenance Projects

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

Reporting, Cash Management, and Period of Availability Weaknesses Cause Noncompliance and Result in Questioned Costs of \$331,073

Federal Grant Numbers: DAHA360251002, DAHA360321021, DAHA360351021, DAHA360361002, DAHA360421021, DAHA360621001, DAHA360721001, DAHA360721005, DAHA360721007, DAHA360721021, DAHA360721023, DAHA360721041, DAHA360735001, DAHA360751002, DAHA360751003, DAHA360751004, DAHA360751005, DAHA360751021, DAHA360751023, DAHA360751024, DAHA360761002, DAHA360771021, DAHA360821021, DAHA360825001, DAHA360851004, DAHA360921001, W912DY-08-2-0006, W912KC-05-2-3054, W912KC-06-2-1001, W912KC-09-2-1010, W912KC-09-2-9025, W912KC-10-2-1001, W912KC-10-2-1002, W912KC-10-2-1003, W912KC-10-2-1004, W912KC-10-2-1005, W912KC-10-2-1007, W912KC-10-2-1010, W912KC-10-2-1021, W912KC-10-2-1023, W912KC-10-2-1024, W912KC-10-2-1041, and W912KC-10-2-5001

Condition: The Department of Military and Veterans Affairs (DMVA) has a Master Cooperative Agreement with the National Guard Bureau to provide support to the Army and Air National Guard in minor construction, maintenance, repair or operation of facilities. Costs for each appendix (or grant) under the Master Cooperative Agreement are initially paid and recorded in SAP with state funds since the Commonwealth is using the reimbursement method for this program as described in the NGR 5-1, Chapter 11. To draw down NGMO funds each month, Federal Accounting in the Comptroller Operations prepares a SF-270 Form for the applicable federal share of the incurred costs for each of the grants under the Master Cooperative Agreement. The DMVA had 43 grants for which costs were incurred during the period under audit and for which SF-270s were submitted each month in which expenditures were incurred for drawdown. For one of the 40 SF-270s sampled, we noted one instance where an underlying cost in the amount of \$46,614 was not paid by the State Treasury prior to the monthly request for reimbursement being submitted. We also noted the reimbursement for this cost was received from the United States Property and Fiscal Officer (USPFO) prior to the cash being paid by the State Treasury resulting in an advance being received. In addition, we were unable to review documentation for 40 out of 40 SF-270s sampled to support any control procedures performed to ensure that cash payments were made to vendors prior to the monthly request for reimbursement being submitted.

Within 90 days after the end of each Federal fiscal year, DMVA must provide to the USPFO a Master Cooperative Agreement closing figures report for each appendix. This report should include all un-disbursed obligations under the Master Cooperative Agreement at December 31 and must include a written request to keep the agreement appendix funding open. For 6 of the 80 items we sampled from a download of expenditures posted during and subsequent to the period of availability of the applicable grants, which totaled \$331,073 out of a total of \$2,348,230 tested, we noted the costs were un-liquidated by the State Treasury within 90 days after the Federal fiscal year, and were not included on the listing provided to the USPFO as of December 31, 2009, as required. Since these six payments were made after December 31, 2009 but were not included as required on the December 31, 2009 report to the USPFO to keep the federal grants open, \$331,073 in costs were incurred outside the period of availability for each grant and are, therefore, questioned.

Criteria: 31 CFR Part 205, Subpart B, *Rules Applicable to Federal Assistance Program Not Included in a Treasury-State Agreement*, states:

- 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 must be as close as administratively feasible to a State's actual cash outlay for direct program costs.*

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 35: (continued)

NGR 5-1, Chapter 11-10, *Final Accounting and Settlement*, states:

- c. *If un-liquidated claims and un-disbursed obligations arising from the grantee's performance of the agreement appendix will remain 90 days or more after the close of the fiscal year, the grantee shall provide to the USPFO (NLT 31 Dec) a written request to keep the agreement appendix funding open. The request will include a consolidated, detailed listing of all un-cleared obligations and a projected timetable (date) for their liquidation and disbursement. The USPFO shall then set an appropriate new timetable for the grantee to submit final accounting and settlement. Subsequent requests will be submitted by the grantee every 90 days or so thereafter as long as there are un-liquidated claims or un-disbursed obligations. The USPFO, with proper justification, can choose to not extend the timetable and require that the remaining agreement appendix funding be de-obligated.*

Cause: The Bureau of Federal Accounting, Comptroller Operations prepares the SF-270 Forms using a report pulled by SAP posting date rather than State Treasury pay date. By using this report all expenditures that are incurred for this program are captured on the SF-270 report whether or not the vendor was paid by the State Treasury. There are no procedures in place to ensure the cash is paid to the vendor by Treasury prior to submitting the SF-270 to the USPFO for reimbursement.

DMVA prepares the detailed listing of un-disbursed obligations using an “Open Commitments by Document Number” report from SAP. Based on this report as soon as an invoice receipt is entered into SAP, the expenditure shows as being liquidated in SAP and does not appear on the report regardless of whether or not the State Treasury paid the vendor. This caused four of the six items to be omitted from the listing.

At the Willow Grove Air Base, the Navy paid the water, sewage and electricity costs during the period under audit. The Navy then requested reimbursement from DMVA for the Air Guard portion of these expenditures. Due to a delay in these requests for reimbursement from the Navy, DMVA was unaware of the amount and, therefore these items were not included on the listing of un-cleared obligations at December 31. This caused two of the six items to be omitted from the listing.

Effect: The Bureau of Federal Accounting, Comptroller Operations and DMVA did not have procedures in place to ensure that expenditures were paid prior to the request for reimbursement (SF-270) being submitted for payment. This resulted in one instance where reimbursement was received from the Federal government prior to the vendor being paid by the State Treasury.

As a result of DMVA's failure to include \$331,073 in expenditures that were incurred/obligated but not yet paid on the December 31, 2009 report of unliquidated obligations submitted to the USPFO, these costs, which were not liquidated within the 90 day liquidation period, are questioned.

Recommendation: We recommend that the Bureau of Federal Accounting, Comptroller Operations prepare the SF-270 Forms using a report which captures expenditures actually paid by the State Treasury during the month for which reimbursement is being requested rather than using a report which is pulled by posting date. This would ensure that all expenditures for which reimbursement is being requested were actually paid prior to forwarding the request for payment to the USPFO.

We further recommend that when preparing the listing of un-cleared obligations at December 31, a separate procedure be put in place to ensure all items are included if cash payments have not been made to the vendor by the State Treasury.

In regards to the Navy billings for the Willow Grove Air Base, we recommend that DMVA request the Navy bill on a monthly basis. If this cannot be done, procedures should be put in place where DMVA would follow up with the Navy for an amount, or estimate of the amount, that will be owed so this un-cleared obligation is properly reported on the listing at December 31.

Finally, we recommend that DMVA discuss the \$331,073 in questioned costs with the federal awarding agency.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 35: (continued)

DMVA Response: National Guard regulations are clear that an agreement cannot be closed until all funding is disbursed. The un-liquidated document is meant to be a pre-closing document; however, extensions can be granted. In this case, the federal program manager for the Willow Grove Air Base was well aware of the cause for this situation. When the Department of Military and Veterans Affairs Bureau of Budget and Finance prepares the listing of un-cleared obligations at December 31 of each year, we run the SAP report of open commitments. Because the invoice in question was a direct billing, it would not have been included on the pre-closing document. The case referred to in the audit finding was unique in that the Willow Grove Air base was included on the most recent list of BRAC closings and was in litigation with the federal government. The Department of the Navy, who was the owner of the utilities at Willow Grove, failed to send an invoice to DMVA for utilities used for the Air National Guard Base at Willow Grove. The federal program manager at the Willow Grove Air Base obligated the federal funds for these utilities and had tried on numerous occasions to obtain an invoice with the amount of federal funding due. The invoice arrived from the Department of the Navy unexpectedly; however, the federal program manager authorized the payment of these utility bills.

Comptroller Response: The Bureau of Federal Accounting, Comptroller Operations prepares SF-270 Requests for Reimbursement as close as administratively feasible to the State's Actual cash outlay for the program costs. SF-270 Requests for Reimbursement are prepared on an accrual basis. Per the SF-270 Requests for Reimbursements Instructions it states "for requests prepared on an accrued expenditure basis, outlays are the sum of the actual cash disbursements, the amount of indirect expenses incurred, and the net increase (or decrease) in the amounts owed by the recipient for goods and other property received and for services performed by employees, contracts, subgrantees and other payees." The \$46,614 of underlying costs as identified by the auditors was included on the SF 270 Claim for Reimbursement because at the time of preparation, this amount was owed by the recipient for goods and services performed by a payee. Therefore it is a reasonable expectation that a submitted SF-270 include an owed amount that has yet to be paid by the State Treasury.

Auditors' Conclusion: We acknowledge the agency and comptroller responses. The finding and recommendation remain as previously stated. We note that we were able to review supporting evidence that federal program manager had reviewed the Willow Grove invoices for payment by approving the SF-270s on which they were included; however, DMVA should have procedures in place to estimate these costs and include them on the closing figures report. We further note that there is no control documented and in place when preparing the SF-270 to ensure that the time between the payment of invoices and the preparation of the SF-270 is minimized. We further recommend that the agency and comptroller seek clarification from the Department of Defense and the National Guard Bureau on cash management requirements for the National Guard Maintenance and Operations program. We encourage the agency to formalize a corrective action plan to ensure that all unliquidated obligations, including estimated obligations, be included on the closing figures report. In addition, we encourage the comptroller to formalize a corrective action plan to ensure that cash payments are made prior to the submission of the request for reimbursement. We will review any corrective action in the subsequent audit.

Questioned Costs: \$331,073

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, 2010

Finding 10 – 36:

CFDA #14.228 – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii (State-Administered Small Cities Program)

CFDA #14.255 – ARRA – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii – (State-Administered Small Cities Program)

Internal Control Deficiency Over Period of Availability Requirement

Federal Grant Numbers: B-03-DC-42-001, B-04-DC-42-001, B-05-DC-42-001, B-06-DC-42-001, B-07-DC-42-001, B-08-DC-42-001, and B-09-DC-42-001

Condition: DCED is required to maintain internal controls that insure grant funds are utilized within the period of availability. This is accomplished by appropriate monitoring of grant status and by the timely closing of grants in the Department of Housing and Urban Development’s (HUD) Integrated Disbursement and Information System (IDIS) system.

Audit procedures revealed a total of 77 open subrecipient CDBG grants for the award years 2000-2004, which should have been closed. Of those grants, 17 had unused grant balances which total \$50,837. Our audit procedures did not reveal any funds spent outside of the period of availability.

Criteria: The OMB Circular A-133 Compliance Supplement, Part 3, H. Period of Availability states:

Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, unobligated balances may be carried over and charged for obligations of a subsequent funding period. Obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-Federal entity during the same or a future period (A-102 Common Rule, §__.23; OMB Circular A-110 (2 CFR section 215.28)).

Non-Federal entities shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation). The Federal agency may extend this deadline upon request (A-102 Common Rule, §__.23; OMB Circular A-110 (2 CFR section 215.71)).

The Commonwealth has an eight year contract with HUD for CDBG funds for each award year, and the Commonwealth contracts with subrecipients who are required to utilize funds within a five year period.

The deadline for CDBG-R funds originally set as September 30, 2012 has been waived per the June 2010 Compliance Supplement.

The Neighborhood Stabilization Program funds must be utilized by March 20, 2013.

Cause: DCED grant managers perform periodic reviews of grant project status through use of system-generated reports from HUD’s IDIS system. Based on these reviews, which identify ending periods, final close-out procedures are initiated to close out the grants in the IDIS system to prevent utilization of funds after the established period of availability.

Due to increased demands on existing personnel related to grant awards received under new Federal stimulus programs in 2009 as well as personnel vacancies, the agency reports that regular, timely, documented reviews of the status of grants and the timely closing, thereof, did not occur.

Effect: As a result of grants not being closed timely within the IDIS system, grant funds have the potential to be utilized outside of their period of availability.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 36: (continued)

Recommendation: We recommend that DCED insure the performance of regular, timely, documented reviews of grant status and that grants are closed timely to prevent use of grant awards outside of the period of availability.

Agency Response: DCED acknowledges that staff has not been able to perform regular reviews of financial data on expired contracts and have not been able to address the close out of the older grants. Increased demands on existing personnel related to grant awards received under new Federal stimulus programs (HERA and ARRA), as well as personnel vacancies, inhibited staff from the regular, timely, documented reviews of the status of grants and the timely closing of these contracts.

Auditors' Conclusion: We acknowledge the agency's response. The finding and recommendation remain as previously stated. We encourage the agency to formalize a corrective action plan to ensure contracts are closed timely once the period of availability has expired. We will review any corrective action in the subsequent audit.

Questioned Costs: None

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, 2010

Finding 10 – 37:

CFDA #14.228 – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii (State-Administered Small Cities Program)

CFDA #14.255 – ARRA – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii – (State-Administered Small Cities Program)

Noncompliance and Internal Control Deficiencies in DCED’s Section 3 Summary Report (A Similar Condition Was Noted in Prior Year Finding #09-30)

Federal Grant Numbers: B-03-DC-42-001, B-04-DC-42-001, B-05-DC-42-001, B-06-DC-42-001, B-07-DC-42-001, B-08-DC-42-001, B-09-DC-42-001, and B-09-DY-42-001

Condition: Annually, and for the calendar year, DCED is required to submit a performance report *Performance and Evaluation Report (OMB No. 2506-0085)* which includes the HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons, (OMB No. 2529-0043)*. The report for the period January 1 through December 31, 2009 was tested.

Due to the absence of formal procedures for compilation and maintenance of supporting documentation of reported amounts, and as a result of the lack of formal procedures for managerial review and approval of the report, our audit testwork revealed 12 exceptions where reported amounts did not agree to the supporting documentation. There was no documented evidence of managerial review and/or approval of the report. Material weaknesses in internal controls over reporting resulted in non-compliance with Federal reporting requirements.

Page 6:

Section A: 2009 CDBG Program Administration

Line 1 under Obligated Funds:

2009 Entitlements and Program Income contracted through 12/31/09: \$29,796,500

Exception noted: Documentation provided was not sufficient to verify the amount and the existence of a valid calculation process, and, as a result, we were unable to confirm the accuracy of this amount.

Page 8:

Section D: 2009 CDBG Program Income Summary.

Status of CDBG Competitive Funds Table PA-1.

Line 3:

Recaptured Funds from 2008 Allocation: \$1,109,057

Exception noted: The support provided detailed the amount should be \$1,067,764.

Line 4:

Total Balance Available for Competitive funding in 2009: \$8,427,271

Exception noted: A correct sum of lines 1, 2, 3 is \$8,468,564.

Line 5:

Total CDBG Competitive Funds Approved for 2009: \$4,664,286

Exception noted: The amount reported was “to date” and not for the period ended which should have been zero as no projects were contracted at that time.

Line 6:

Balance Available as of December 31, 2009: \$3,762,785

Exception noted: See exceptions for lines, 3, 4, 5. As a result, the total balance available that should have been reported is \$8,468,564.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 37: (continued)

Page 10 & 11:

Section F: Training and technical assistance paragraph (p.10), also Table PA-3 (p.11)

Exception noted: DCED's expenditure amount of \$112,122. Not enough evidence/support was provided to conclude on the accuracy of the reported amount. A stack of invoices provided did not include client's summary schedule to cross check reported totals in Table PA-3.

Page 13:

Section H: CDBG Disaster Recovery Grant Program. Table PA-5.

Exceptions noted:

1. Allegheny County :
 - a) Acquisition of Relocation Properties: reported amount \$15,217; correct amount \$18,243
 - b) Admin Costs: reported amount \$9,366; correct amount \$6,340
2. Lawrence County:
 - a) Grant Award: reported amount \$143,275; correct amount \$93,275
 - b) Admin costs: reported amount \$50,000; correct amount \$0.00
3. Bangor Borough:
 - a) Grant Award: reported amount \$33,648; correct amount \$22,304

Appendix C:

Section 3 Summary Report.

Exception noted: Number of new hires that are section 3 residents (column 3, line 1) is reported as five; correct amount is zero (0) per supporting documentation.

Criteria: The OMB Circular A-133 Compliance Supplement Part 4, L. Reporting , states:

Performance and Evaluation Report (OMB No. 2506-0085) – This report is due from each CDBG grantee within 90 days after the close of its program year in a format suggested by HUD. HUD encourages the submission of the report in both paper and computerized formats. Among other factors, the report is to include a description of the use of funds during the program year and an assessment of the grantee's use for the priorities and objectives identified in its plan. The auditor is only expected to test the financial data in this report (24 CFR sections 91.520 (a) and (c)).

HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons, (OMB No. 2529-0043) – For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a), 135.90, and 570.487(d)).

Key Line Items –

a. 3. Dollar Amount of Award

b. 8. Program Code

c. Part I, Column C – Total Number of New Hires that are Sec. 3 Residents

d. Part II, Contracts Awarded, 1. Construction Contracts

- (1) A. Total dollar amount of construction contracts awarded on the project*
- (2) B. Total dollar amount of construction contracts awarded to Section 3 businesses*
- (3) D. Total number of Section 3 businesses receiving construction contracts*

e. Part II, Contracts Awarded, 2. Non-Construction Contracts

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 37: (continued)

- (1) A. Total dollar amount of all non-construction contracts awarded on the project/activity
- (2) B. Total dollar amount of non-construction contracts awarded to Section 3 businesses
- (3) D. Total number of Section 3 businesses receiving non-construction contracts

HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*, is included in the *Performance and Evaluation Report (OMB No. 2506-0085) (PER)* as Appendix C.

Cause: Due to a system upgrade to the Department of Housing and Urban Development's (HUD) Integrated Disbursement and Information System (IDIS), the Commonwealth was unable to generate some of the necessary reports for compilation of the 2009 PER. HUD acknowledges this circumstance in a letter dated November 15, 2010 from Brenda M Laroche, Deputy Regional Administrator. These system limitations were a hindrance in compilation of the report.

However, regardless of system issues, there was no evidence that there are formal procedures in place to compile and maintain supporting documentation of reported amounts or that there is managerial review and approval of the report prior to submission.

Effect: The lack of internal controls over the compilation of documentation of reported amounts and over managerial review of reports to insure their completeness and accuracy represents a material weakness and resulted in noncompliance since an inaccurate report was submitted to HUD.

There were no questioned costs related to this finding.

Recommendation: We recommend that DCED contact HUD regarding the discrepancies noted in the condition to determine if a revised Section 3 Summary Report should be submitted to HUD. We also recommend that DCED establish formal procedures for report compilation that includes the generation of supporting schedules and documentation of reported amounts. This documentation should be maintained centrally and should be utilized as part of a formal, documented managerial review prior to submission of the report. Establishing these internal controls will strengthen the process to help insure the completeness and accuracy of reports.

Agency Response: DCED disagrees with part of this finding; however, the remainder of the finding, we concur.

DCED acknowledges that several errors in the reporting for the PER and CAPER occurred. However, we respectfully disagree with some of the issues raised.

Page 6 – Section A: 2009 CDBG Program Administration

DCED maintains that the figure provided for the Entitlement contracts and Program Income through December 31, 2009 is correct. This number is generated from the Community Development Federal Tracking System in ESA. A report entitled, Activities For PER database was used to generate this figure (see attached). The selected filter criteria for the report includes: Program (CDBG Grant) + Appropriate FY; the report is exported into an Excel spreadsheet and filtered by "Approved Date" for all contracts approved in 2009. The "Budget" column is totaled to provide the dollar amount allocated to Entitlements before and after December 31, 2009.

These figures are obtained from the certification sheets entered into the system by staff based on each municipality's allocation. See PER report dated July 30, 2010.

Total CDBG Contracts for 2009 = \$35,370,033

- \$41,509 (Activity Codes 20 - Planning State Admin. Funds)
- \$5,825,295 (CDBG General Program Administration funds)
- + \$293,271 (Program Income Project Only)
- = \$29,796,500 for 2009 Entitlements & Program Income contracted through December 31, 2009.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 37: (continued)

Page 8 – Line 3

DCED maintains that the figure provided for the amount of recaptured funds is correct and should read \$1,109,057. The difference being reported is \$41,293 which happens to be the amount that Cameron County's allocation was reduced for 2009 due to ineligible cost. The amount should have been included in the amount of recaptured funds available.

Page 8 – Line 4

DCED concurs that lines 1, 2, and 3 were not added correctly and the figure should be \$8,468,564.

Page 8 – Line 5

DCED concurs that no competitive funds were contracted as of December 31, 2009. Due to the late submission of the report, staff included competitive awards after December 31, 2009. Future reports will reflect the correct reporting period.

Page 8 – Line 6

DCED concurs.

Section F: Training and Technical Assistance paragraph, Page 10

Section F: Training and Technical Assistance Table PA-3, Page 11

DCED concurs that the figures included here are incorrect. DCED plans to reflect this change in the final 2009 CAPER to be revised and submitted to HUD in July 2011.

Page 13:

Section H: CDBG Disaster Recovery Grant Program, Table PA-5

DCED concurs that the figures included in the table are incorrect. This new information will be reflected in the 2005 Disaster Recovery Grant Summary - Table PA-5 in the Final 2009 CAPER document to be submitted to HUD in July 2011.

Appendix C:

Section 3 Summary Report

DCED concurs that the number of Section 3 residents (column 3, line 1) hired as Professionals should be zero instead of five. This new information will be reflected in the Final 2009 CAPER document to be submitted to HUD in July 2011.

Auditor's Conclusion: We acknowledge the agency's response, and note the following related to their disagreements:

Page 6 - Documentation to support the calculated amount was not available to the auditors in order to verify the accuracy of the reported amount.

Page 8, line 3 - Documentation provided to the auditors did not support the reported amount. As noted in the finding, the support provided detailed the amount of \$1,067,764.

The finding and recommendation, with the above clarifications, remain as previously stated. We encourage the agency to formalize a corrective action plan to establish procedures for report compilation that includes the generation and maintenance of supporting schedules and documentation of reported amounts. We will review any corrective action in the subsequent audit.

Questioned Costs: None

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, 2010

Finding 10 – 38:

CFDA #14.228 – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii (State-Administered Small Cities Program)

CFDA #14.255 – ARRA – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii – (Recovery Act Funded) (State-Administered Small Cities Program)

DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (A Similar Condition Was Noted in Prior Year Finding #09-29)

Federal Grant Numbers: B-03-DC-42-0001, B-04-DC-42-0001, B-05-DC-42-0001, B-06-DC-42-0001, B-07-DC-42-0001, B-08-DC-42-0001, B-09-DC-42-0001, B-09-DY-42-0001, and B-08-DN-42-0001

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

As part of our audit of the CDBG Program, we performed procedures to review DCED’s during-the-award on-site monitoring procedures. Based on our review of the DCED Monitoring Schedule, we noted that, for prior and current years, out of 490 monitoring visits actually scheduled, there exists a backlog of 254 uncompleted visits, which is excessive. From our sample of 40 subrecipients, we noted that out of 14 scheduled visits in the current year, only three visits were completed. Our sample included two ARRA grants that were scheduled for current-year monitoring and no monitoring was completed.

For completed visits, we noted that, if applicable, corrective action required by the subrecipient was outlined in correspondence subsequent to the on-site visit. However, there was no evidence that DCED followed-up to insure corrective action was actually taken by the subrecipient.

During the year ended June 30, 2010, DCED reported subrecipient expenditures for the CDBG Program of \$61,684,767, which represented approximately 97 percent of total CDBG cluster expenditures on the SEFA. There were a total of 178 subrecipients with current year expenditures for the CDBG Program.

DCED’s during-the-award monitoring of its subrecipients was not adequate to provide reasonable assurance the subrecipient administers the Federal awards in compliance with laws, regulations, and the provisions of contracts and/or grant agreements.

Within our testing of A-133 subrecipient audits, we found that a material amount of subrecipient expenditures are expended by subrecipients that, individually, expended less than \$500,000 in total federal awards from the Commonwealth during SFYE June 30, 2009, and would not have been required to submit an A-133 Single Audit to the Commonwealth during SFYE June 30, 2010. As a result, we consider inadequate during-the-award monitoring to be a material weakness in this program.

Criteria: Regarding subrecipient monitoring, HUD regulation 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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 38: (continued)

Cause: DCED indicated that the DCED personnel workload increased significantly in 2009 as a result of grant awards that DCED received under new federal stimulus programs, including ARRA. These federal awards greatly expanded the number of subrecipient applications that the DCED personnel needed to review and required additional training of applicants by DCED in order for these applicants to understand the new programs' requirements. In addition, the program has experienced personnel vacancies. As a result, there was little or no time left for DCED personnel to conduct monitoring of the regular program activities.

Effect: DCED did not adequately perform during-the-award monitoring of the CDBG subrecipients to insure the subrecipient administers the Federal awards in compliance with laws, regulations, and the provisions of contracts and/or grant agreements. Further, the CDBG Program subrecipients draw funds down directly from the Federal government through the Integrated Disbursement and Information System which does not require DCED approval, and, as a result, DCED's subrecipient monitoring is the only mechanism to verify that the expenditures were in compliance with grant requirements.

Additionally, the program has a material amount of subrecipient expenditures each year that are not subject to the audit requirements of OMB Circular A-133. 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, including the new ARRA regulations, and that DCED is fulfilling its responsibilities under OMB Circular A-133 with respect to subrecipient monitoring.

Based on the results of our testwork, 46 percent of current-year cluster expenditures on the SEFA were not subject to the monitoring process.

Recommendation: We recommend that DCED ensure that all on-site visits are completed along with all required documentation, within the scheduled monitoring cycle, to provide reasonable assurance that subrecipients administer the Federal awards in compliance with laws, regulations, and the provisions of contracts and/or grant agreements. We also recommend that DCED insure the results of all monitoring visits are communicated to the subrecipients in a timely manner and that DCED perform follow-up procedures to insure appropriate corrective action is implemented by the subrecipients.

Agency Response: DCED respectfully disagrees with this finding. Staff is required to monitor approximately 150 grant contracts each year. If this year's progress for monitoring was looked at alone, DCED staff did monitor an adequate number of grantees this year to meet the annual goals.

If you review the chart below, you will see that staff completed more than 150 contracts, adding 58 additional HERA and ARRA contracts to their workload. It is our contention that adequate monitoring did take place, however the backlog has not been completed as of this date.

	Proposed	Completed	% Completed
CDBG	334	162	48.50%
CDBG-C	33	16	48.48%
CDBG-R	117	52	44.44%
CDBG-RC	4	4	100.00%
NSP	2	2	100.00%
	490	236	48.16%

DCED would submit that the auditors follow the Federal Cognizant Agency's (HUD's) pattern and reduce the level of concern regarding the backlog of monitoring. HUD acknowledged DCED's progress in monitoring performed by DCED when HUD monitoring DCED in the fall of 2010. At that time, HUD removed the long-standing finding regarding DCED's monitoring of local grantees because a full-year's amount of monitoring was accomplished during the prior year.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 38: (continued)

Auditors' Conclusion: We acknowledge the agency's monitoring efforts and its response, but there is no change to the facts as they are presented in the finding, nor to our auditor conclusions. Therefore, the finding and recommendation remain as previously stated. We encourage the agency to formalize a corrective action plan to ensure timely on-site monitoring of subrecipients, including a plan for elimination of the backlog of visits. We will review any corrective action in the subsequent audit.

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 39:

CFDA #17.225 – Unemployment Insurance (including ARRA)

A Material Weakness Exists Over Expenditure Information Reported on the SEFA by L&I and Comptroller Operations Personnel (A Similar Condition Was Noted in Prior Year Finding #09-34)

Federal Grant Number: UI-21122-11-55-A-42

Condition: Our testing of the SEFA for the UI program for the SFYE June 30, 2010 disclosed numerous SEFA reporting errors related to benefit expenditures, including ARRA benefits, which necessitated auditor-proposed adjustments. Our inquiry of L&I and Office of Comptroller Operations (OCO) personnel revealed that they did not properly report federal withholdings and interstate benefits, which are paid directly out of the Federal Trust Fund since they relate to regular benefits, nor did they properly report Trade Benefits (TRA) expenditures in the UI program on the SEFA.

The exclusion of the federal withholdings, interstate benefits, and TRA benefits resulted in a total understatement of expenditures reported on the SEFA for CFDA #17.225 of \$695,205,857. ARRA expenditures comprised \$394,563,450 of this understatement. 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 OMB Circular A-133, Section 105 regarding internal control states in part that:

“Internal control over Federal programs means a process—effected by an entity's management and other personnel—designed to provide reasonable assurance regarding the achievement of the following objectives for federal programs:

- (1) *Transactions are properly recorded and accounted for to:*
 - (i) *Permit the preparation of reliable financial statements and Federal reports;*
 - (ii) *Maintain accountability over assets; and*
 - (iii) *Demonstrate compliance with laws, regulations, and other compliance requirements*

Cause: L&I and OCO personnel stated that the understatement of the SEFA was due to an oversight. L&I and OCO SEFA preparation and review procedures were not thorough enough to detect and correct the understatement noted above.

Effect: The expenditures reported by L&I on the SEFA under CFDA #17.225 for the year under audit were understated by \$695,205,857. As a result, adjustments to the SEFA were necessary for the SFYE June 30, 2010. Also, without adequate internal controls in place, the SEFA may continue to be misstated in the future.

Recommendation: We recommend that L&I and OCO personnel improve internal controls over the preparation and review of SEFA expenditures in the future. This would help to ensure that proper amounts are used to report expenditures on the Commonwealth's SEFA.

Agency Response: We agree with the finding.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 39: (continued)

Auditors' Conclusion: Based on the agency response, it appears that L&I and OCO are in agreement with the auditors' finding and recommendation. The finding and recommendation remain as stated. We will review any corrective action in the subsequent audit.

Questioned Costs: None

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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Finding 10 – 40:

CFDA #17.225 – Unemployment Insurance (including ARRA)

CFDA #17.258, # 17.259 and #17.260 – Workforce Investment Act Cluster (including ARRA)

CFDA #84.126 and #84.390 – Vocational Rehabilitation Cluster (including ARRA)

Deficiencies in Information Technology Controls at the Department of Labor & Industry (A Similar Condition Was Noted in Prior Year Finding #09-35)

Federal Grant Numbers: Various grant numbers per each CFDA listed above.

Condition: As part of our audit of the L&I major programs for the year ended June 30, 2010, we performed certain testing of information technology (IT) general controls for the significant applications identified for these major programs, and noted the following deficiencies that need to be addressed by Commonwealth management:

Commonwealth Workforce Development System (CWDS) – Twenty-six individuals have been granted the Central Office Fiscal Administrator (COFA) role, which gives them the ability to approve invoices, as well as maintain the OVR Service Catalogue (also known as the Fee Schedule), resulting in a lack of segregation of duties. Further, there is no separation of duties between approving changes to and changing the Fee Schedule. Any one of these 26 individuals can make a change to fees without supervisory approval. In addition, our review of these 26 individuals with the COFA role revealed that seven individuals had separated from OVR but never had their access removed, and an additional two of these 26 individuals should not have been granted the COFA role.

In addition to the weaknesses related to the OVR Fee Schedule, other testing revealed that there are inconsistent procedures for removing separated non-Commonwealth staff users' access within WIA, which may lead to untimely removal of terminated non-Commonwealth staff users from the system. Further, monitoring of non-Commonwealth staff user activity for access violations is not conducted. Finally, periodic access reviews to determine the appropriateness of users with privileged access were not conducted during the audit period.

Unemployment Compensation (UC) – As noted in our previous audit, four outside contractors have application development/maintenance responsibilities and have the ability to change the computer operations job schedule resulting in a lack of segregation of duties.

Financial Management System (FMS) – Prior audits of FMS (used for WIA) disclosed numerous weaknesses in general computer controls. These control weaknesses no longer exist because FMS was decommissioned in July 2010; therefore, they are not being cited individually in the current year audit. However, the previously identified control weaknesses were not corrected during our audit period.

Criteria: A well-designed system of internal controls dictates that sound general computer controls be established and functioning to best ensure that federal programs are administered in accordance with management's intent.

Cause: The Office of Vocational Rehabilitation (OVR) has not developed a strategy for maintaining the Fee Schedule and ensuring an appropriate segregation of duties between approving changes in fees paid to providers, making the changes in the system, and approving invoices for payment. Further, a strategy for role assignments in CWDS (particularly the COFA role) has not been developed to ensure proper segregation of duties. OVR does not have effective procedures to promptly remove access to the COFA role when users separate, and there are no procedures to ensure that only the proper individuals are granted access.

Concerning the other IT general controls weaknesses in CWDS, there are two different systems for granting access: Commonwealth employees are granted access through the CWOPA domain and non-Commonwealth staff users are granted access to CWDS directly by L&I security. The Office of Administration provides certain controls over logical access for Commonwealth employees through their management of the CWOPA domain and through Commonwealth Human Resources policies. However, similar controls have not been developed by L&I for contractors and other

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Finding 10 – 40: (continued)

non-Commonwealth staff users. L&I management began periodic reviews of users with privileged access to CWDS in August 2010 (after the end of the audit period); however, certain offices instituted a review of only a random sample of users.

The Department of Labor & Industry is currently developing the Unemployment Compensation Modernization System (UCMS) which will eventually decommission the old mainframe system and allow for proper segregation of duties.

Effect: The deficiencies noted above in IT general controls could result in inappropriate system access, unauthorized changes to the applications, fraudulent payments, and noncompliance with federal regulations (including ARRA). Further, the lack of segregation of duties over the OVR Fee Schedule and invoice approval could allow the same individual to change the Fee Schedule and then authorize a payment using the changed amount. Finally, the prior year audit disclosed that documentation of OVR client eligibility determinations transitioned from a manual process to a computer-dependent process in CWDS. Since a control deficiency exists for CWDS general controls, eligibility determinations may not be reliable.

Recommendation: (CWDS) We recommend that OVR management develop a strategy and written procedures for maintaining the Fee Schedule, including procedures to separate approval of fee changes from actual data entry of the fee changes into the system. We recommend that management analyze the current role assignments in CWDS, especially the COFA role, to ensure proper segregation of incompatible duties. At a minimum, role assignments should not allow the same person to change the Fee Schedule and approve invoices for payment. We also recommend OVR management periodically review access to the COFA role (and other powerful roles) to ensure that continued access is consistent with management intent. Further, we recommend that management develop procedures to monitor access violations by non-Commonwealth staff users and to ensure timely removal of separated users from the system. Finally, management should require a periodic access review of all privileged users, not just a random sample of users.

(UC) We recommend that management ensure the new UCMS system includes proper segregation of duties in information technology functions and responsibilities.

Agency Response:

CWDS

The COFA role allows a user to change the amount of a fees schedule item. It also allows for many other permissions including sending invoices for payment. However, all staff associated to the COFA role are Central Office Employees. Central Office Employees are not able to create a Service Authorization. Only staff associated to a local office with funds available can create a Service Authorization. The OVR program office feels the level of control is satisfactory and does not wish to impose additional levels of approvals.

When a user separates from the Commonwealth their ID is deactivated which prevents them from accessing CWDS. OVR has monitored this issue in the past year and as a result has sent out additional instructions in the spring of 2011 reminding local system administrators to be diligent in their requests to remove staff who have transferred or separated from the commonwealth. Updated guidance and request forms were posted to the OVR T Drive for use.

OVR does not agree that 2 staff were inappropriately given the COFA role. The role was provided to staff as appropriate, however, it may not have been removed in a timely manner, which is something that we have attempted to address and will continue to address in the future.

In the future, OVR will implement a specific review of all users with Superuser and COFA abilities to ensure the users remain appropriate.

With regard to review of user access, BWDP has implemented a bi-annual review of a sample of users both Commonwealth and non-Commonwealth to ensure proper access to CWDS (appropriate documentation of business need, office/location, role(s), and timeliness of access being granted and removed.) In addition, BWDP will conduct a similar review of **ALL** privileged users to ensure that such access is warranted.

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Finding 10 – 40: (continued)

The auditors have reviewed the IT current process and determined that a full review of anyone with privileged access must be completed. Privileged access is defined as anyone who can add, change, delete user access or users who can directly change data or configuration changes. IT will continue to create the staff access review listings to be passed to the program area and we will need some documentation back that the review was completed to be retained for next year's audit. IT access will be conducted by one of the OIT management staff.

UC

L&I anticipates the new UCMS system includes segregation of duties in IT functions and responsibilities.

FMS

Since FMS was decommissioned July, 2010 and the control weaknesses were corrected, no further comment is necessary.

Auditors' Conclusion: The management response indicates that "... all staff associated to the COFA role are Central Office Employees. Central Office Employees are not able to create a Service Authorization." However, these employees with the COFA role are able to create and approve invoices, which results in a lack of segregation of duties. We confirmed this in a telephone call with the Bureau of Vocational Rehabilitation Services (BVRS) Director subsequent to receipt of the management response. Although OVR management represented segregation of duties are maintained procedurally, they admitted that the COFA role allows these employees to perform all activities associated with creating, reviewing, and approving invoices; managing the Fee Schedule; managing the CWDS Fiscal Subsystem; and managing providers. We continue to recommend, at a minimum, that role assignments should not allow the same person to change the Fee Schedule and approve invoices for payment. We also continue to recommend that OVR management develop a strategy and written procedures for maintaining the Fee Schedule, including procedures to separate approval of fee changes from actual data entry of the fee changes into the system.

The management response states, "When a user separates from the Commonwealth their ID is deactivated which prevents them from accessing CWDS." Our recommendation refers to timely removal of non-Commonwealth staff users and also to developing procedures for monitoring access violations by non-Commonwealth staff users. Non-Commonwealth staff users' access is not being deleted timely as noted during our current audit. This is not addressed in the management response; therefore, we continue to recommend that non-Commonwealth staff users' access be deleted timely, and procedures should be developed to monitor access violations by non-Commonwealth staff users.

Regarding the statement in the management response, "OVR does not agree that two staff were inappropriately given the COFA role.", we learned in a telephone call with the BVRS Director subsequent to receipt of the management response that one of the two individuals was appropriately given the COFA role. However, the BVRS Director agreed that the other individual was inappropriately given the COFA role.

L&I management agrees with the remaining recommendations. Based on the agency response, the finding and recommendation, with the above clarifications, remain as previously stated. We will review any corrective action in the subsequent audit.

Questioned Costs: None

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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Finding 10 – 41:

CFDA #17.258 – WIA Adult Program (Including ARRA)

CFDA #17.259 – WIA Youth Activities (Including ARRA)

CFDA #17.260 – WIA Dislocated Workers (Including ARRA)

Control Weaknesses Exist in Eligibility Determinations for Individuals

Federal Grant Numbers: AA-15502-06-55, AA-16051-07-55, AA-17144-08-55 (includes ARRA), EM-17478-08-60, AA-18664-09-55, and AA-20216-10-55

Condition: Eligibility determinations of individuals for the WIA Programs Cluster are performed at the local workforce level through Career Link offices, which are subrecipients, not state-level facilities. Either a local case counselor or data entry clerk will enter WIA participant information into L&I's statewide Commonwealth Workforce Development System (CWDS). The participants' physical case file including source documentation supporting the eligibility determinations is maintained at the local level. We obtained a data file from L&I which included all WIA participant applications active throughout the state during SFYE June 30, 2010. The file contained a total population of 194,674 WIA applications that were active during SFYE June 30, 2010. From this population of active WIA applications, we selected a random sample of 65 applications in order to determine that the participant was eligible based on the documents within their physical case file. While we noted all sampled participants to be eligible, we found 51 of the 65 participant files, or 78 percent, did not have any documentation that a local supervisor review of the eligibility determination was performed.

In addition to not monitoring supervisor reviews at the local level, L&I stated that it does not monitor participant eligibility determinations but does annually perform a statewide Data Element Validation in which a sample of over 1,200 WIA participants is extracted from CWDS using a software program provided by the U.S. Department of Labor Employment and Training Administration (ETA). L&I staff obtain the participants' case files and verify a list of data elements within CWDS. The data elements that could not be verified are summarized in a report by funding stream. This information is uploaded to the federal ETA site for federal review. According to L&I management, the ETA has never established any benchmarks or maximum error rates to date. However, if the ETA finds the error rate unacceptable, they will contact L&I for an explanation. L&I does not review or follow-up on the results in order to address significant weaknesses with the local workforces even though it appears that examples of significant error rates are found during L&I's data verification.

Criteria: Eligibility criteria of the adult and dislocated worker programs for core services include age and U.S. citizenship requirements and are found in 20 CFR Sections 663.110 and 663.115 and for intensive and training services are found in Sections 663.220 and 663.310. Eligibility criteria for youth services are found in 20 CFR Section 664.200. Additionally, age eligibility for youth services funded by the American Recovery and Reinvestment Act (ARRA) is increased from 21 to 24 years of age as per ARRA Title VIII(2), 123 Stat 173.

Additionally, in regard to the oversight roles and responsibilities of recipients and subrecipients, 20 CFR 667.410 states:

- (a) *Roles and responsibilities for all recipients and subrecipients of funds under WIA title I in general. Each recipient and subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors in order to:*
- (1) *Determine that expenditures have been made against the cost categories and within the cost limitations specified in the Act and the regulations in this part;*
 - (2) *Determine whether or not there is compliance with other provisions of the Act and the WIA regulations and other applicable laws and regulations; and*
 - (3) *Provide technical assistance as necessary and appropriate.*

Furthermore, as part of administering WIA programs, good business practices dictate that L&I should have adequate controls in place, including proper reviews/approvals, to ensure applicants requesting WIA services are eligible.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 41: (continued)

Adequate written procedures, training, and documented supervisory review and approval are essential to ensure that applicant information and documentation are sufficient and maintained to determine eligibility in compliance with applicable regulations.

Cause: According to L&I management, L&I does not dictate how local workforces enter WIA participant data into CWDS and L&I does not require a supervisor to document their reviews of the participant eligibility determinations. Each local workforce has unique policies and procedures regarding WIA activities. Also, L&I stated that it does not specifically monitor participant eligibility determinations.

Effect: Without an adequate review process over eligibility determinations, it is possible that WIA services would be provided to individuals who are ineligible according to federal regulations, resulting in misuse of WIA funds and unallowable costs.

Recommendation: We recommend that L&I establish a supervisory review monitoring and control process at the subrecipients and perform monitoring/oversight to ensure that eligibility is properly determined by subrecipients and this determination is adequately documented.

Agency Response:

1. **“L&I does not review or follow-up on the results in order to address significant weaknesses with the local workforces even though it appears that examples of significant error rates are found during L&I’s data verification.”** It should be noted that Data Element Validation (DEV) as prescribed by USDOL’s Employment and Training Administration (ETA) is **not** intended as an eligibility review. It is intended to validate data elements (determined by ETA) used in the compilation of performance reporting. While some of the items are eligibility-related (date of birth) others related to eligibility are not even included in the review (selective service) and most have nothing to do with eligibility (dates of service.) L&I wants to point out that the results of the data element validation available from ETA’s software does NOT provide individual breakout reports for each Local Workforce Investment Area (LWIA) included in the review. The software only provides a state-level report which is what the auditors reviewed. However, the Bureau of Workforce Development Partnership (BWDP) staff who conduct the on-site data element validation reviews usually conduct a basic “exit review” with each local workforce investment area before leaving the site if local representatives are available. During these informal meetings, BWDP staff will provide feedback regarding the overall results. For example, staff will share results of potential problems areas such as date of birth (DOB) validation if the number of records failing the DOB data element seems high. The determination of whether an item “seems high” will be relative to the overall number of records reviewed. In addition, a follow-up e-mail is sent to each of the LWIAs included in the sample to provide specific feedback regarding the results of our review of their records. A sample of one these e-mails from a previous review is included below. Current e-mails for PY 2009 are still in the review/approval process. Also, keep in mind that the feedback from results may not yield improvements for more than a year after the data element review takes place.
2. **“L&I should have adequate controls in place, including proper reviews/approvals, to ensure applicants requesting WIA services are eligible.”** As shared with the auditors and stated in the findings, L&I does not prescribe to LWIAs how data entry is to be completed by LWIAs, nor do we prescribe the process by which participant eligibility determinations must be made. LWIAs are required to use the Commonwealth Workforce Development System (CWDS) to enter **all** WIA participant data with respect to the application, eligibility, service record and outcomes. CWDS is the system of record for data collection, participant tracking and reporting. Each local area can establish their own process for capturing, entering and verifying the data entered into CWDS. This includes any policy related to eligibility reviews, whether conducted by a supervisor, manager or through the LWIA monitoring process. All LWIAs are familiar with and try to adhere to the documentation requirements of the DEV policy. In addition, CWDS will indicate the eligibility for each participant based on the data entered.

Auditors’ Conclusion: L&I stated in its agency response that the Data Element Validation is not intended as an eligibility review, and therefore, L&I does not review or follow-up on the results in order to address significant weaknesses related to eligibility with the local workforces. L&I stated that it does conduct informal meetings with the

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Finding 10 – 41: (continued)

local workforces at the time of the review and sends a follow-up email to the local workforces summarizing the results, although these emails have not been sent for the Program Year 2009 Data Element Validation which was completed by February 1, 2011. L&I, in response to our finding, provided an example email from Program Year 2007, or two years prior, which showed that these emails are for informational purposes only and do not require subrecipient corrective action for significant weaknesses. We noted that there were significant error rates found during L&I's current year data verification which could impact eligibility of participants.

Additionally, L&I had previously stated to the auditors during a meeting regarding participant eligibility that L&I does not specifically monitor participant eligibility; however, it does perform the above mentioned Data Element Validation which relates in some aspects to eligibility. With no monitoring of participant eligibility and no follow-up of their Data Element Validation as it relates to eligibility, we believe that weaknesses exist in L&I's oversight procedures to ensure that participant eligibility determinations by subrecipients are proper and in accordance with federal regulations.

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

Questioned Costs: The amount of questioned costs cannot be determined.

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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Finding 10 – 42:

CFDA #17.258 – WIA Adult Program (including ARRA)

CFDA #17.259 – WIA Youth Activities (including ARRA)

CFDA #17.260 – WIA Dislocated Workers (including ARRA)

Internal Control Weaknesses Exist Over Financial System Reconciliations and Information Reported on the ETA-9130 Financial Status Reports

Federal Grant Numbers: AA-15502-06-55, AA-16051-07-55, AA-17144-08-55 (includes ARRA), EM-17478-08-60, AA-18664-09-55, and AA-20216-10-55

Condition: The Office of the Budget Comptroller Operations performs monthly reconciliations of expenditures and revenue between L&I's Financial Management System (FMS), the statewide SAP Accounting System, the Federal Payment Management System (PMS) and the statewide Commonwealth CMIA Drawdown System (CDS) for each WIA funding stream. Note that in July 2010, L&I's FMS system was decommissioned and replaced by the Commonwealth Workforce Development System (CWDS). We initially selected the months of December 2009 and June 2010 to test these reconciliations. However, after our inquiry with management, we learned that the reconciliations for the months of May and June 2010 were never performed. Consequently, we selected the additional month of March 2010 to test the reconciliations. We tested a total of 18 reconciliations for the various WIA funding streams for the months of December 2009 and March 2010.

During our review of the sampled monthly reconciliations, we found that the reconciliations for the ARRA WIA Adult Program, ARRA WIA Youth Activities, and ARRA WIA Dislocated Workers funding streams for the month of December 2009 were due by January 22, 2010 according to the Comptroller Operations control docket review sheet. However, these three reconciliations were not performed until two months after this due date. Therefore, reconciliations related to the WIA ARRA funds were not performed timely. Additionally, three of the 18 reconciliations tested, or 17 percent, which were related to the WIA Dislocated Workers funding streams, were never reviewed by a supervisor.

Furthermore, each quarter Comptroller Operations submits the ETA-9130 Financial Status Report to the U.S. Department of Labor for each of the WIA funding streams. Comptroller Operations utilizes a Federal Reporting Control Docket for each report to track when the report was completed and reviewed and the employees who performed these functions. We tested 32 reports for the quarter ended June 30, 2010 and found that the control dockets were not utilized for any of these reports. A supervisor did initial and date the report itself for 24 of the 32 reports tested; however, 8 reports tested, or 25 percent, were not initialed by the supervisor.

We also tested the final ETA-9130 Financial Status Reports for the 13 WIA funding streams within the WIA grants that closed during our audit period to ensure the WIA administrative cost limitations were not exceeded. We found two close-out reports that contained administrative expenditure amounts which appeared to exceed the earmarking limitations. Our investigation revealed that these two reports contained errors with the administrative costs that were reported. The close-out report for the WIA Dislocated Workers National Emergency Grant Number EM174780860A42 erroneously included \$1,073,158 of administrative expenditures which should have been reported as program expenditures. Additionally, the close-out report for Federal Grant Number AA160510755A42 WIA Adult Program Second Increment erroneously included \$19,717 of administrative expenditures which should have been reported as program expenditures. When these reporting errors were taken into account the administrative cost limitations were not exceeded for either grant. Comptroller Operations revised both of these close-out reports after the auditor's inquiry to reflect the proper amounts. We believe the weaknesses noted above including the lack of supervisory review over preparation and accuracy of the ETA-9130 Reports contributed to these errors not being detected. Furthermore, these close-out reports were not being reviewed to ensure that administrative cost limitation requirements were being met.

Criteria: In regard to roles and responsibilities for recipients, 20 CFR Section 667.41 states:

(a) Roles and responsibilities for all recipients and subrecipients of funds under WIA title I in general. Each recipient and subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors in order to:

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Finding 10 – 42: (continued)

- (1) *Determine that expenditures have been made against the cost categories and within the cost limitations specified in the Act and the regulations in this part.*

In regard to administrative costs limits that apply to WIA Title I formula grants to states, 20 CFR Section 667.210(a) states:

- (1) *As part of the 15 percent that a State may reserve for Statewide activities, the State may spend up to five percent (5%) of the amount allotted under sections 127(b)(1), 132(b)(1) and 132(b)(2) of the Act for the administrative costs of Statewide workforce investment activities.*
- (2) *Local area expenditures for administrative purposes under WIA formula grants are limited to no more than ten percent (10%) of the amount allocated to the local area under sections 128(b) and 133(b) of the Act.*

Furthermore, as part of administering WIA programs, good business practices dictate that Comptroller Operations should have an adequate system of controls in place to ensure proper accountability and reporting of expenditures and revenue, including that federal program requirements have been met.

Cause: Regarding the monthly reconciliations, Comptroller Operations management explained that the individual who performed the reconciliations retired in December 2009 and the position had not yet been filled. Being short staffed caused a delay in the performance and oversight of the reconciliations. For May and June 2010, the lack of staff caused the system reconciliations to not be performed at all. Comptroller Operations management also cited a lack of adequate staffing as the reason for the lack of supervisory review and why the control dockets were not utilized for the ETA-9130 Financial Status Reports.

Regarding the reporting errors on the ETA-9130 Financial Status close-out reports, management stated that the reporting error of administrative costs totaling \$1,073,158 was an isolated incident caused by a miscommunication of report preparation procedures, and the reporting error of administrative costs totaling \$19,717 was a coding error made by a local workforce when reporting subrecipient expenditures on its close-out report. Additionally, we believe that the weakness regarding the lack of supervisory review over the preparation and accuracy of the ETA-9130 reports contributed to these errors not being detected.

Effect: Due to the control deficiencies in Comptroller Operations noted above, there is limited assurance that a proper reconciliation and review process is occurring in a timely manner and effectively detecting errors. Therefore, inaccurate financial information could be recorded on accounting systems and submitted to the federal government.

Recommendation: We recommend the Office of the Budget Comptroller Operations perform all monthly system reconciliations to correct the deficiency noted above, improve the timeliness of its WIA financial reconciliations, and strengthen its oversight of the expenditure reporting on the ETA-9130 Financial Status Reports. Comptroller Operations should also ensure supervisory reviews are timely performed and adequately documented to make certain the reports are accurate and administrative earmarking requirements are met.

Agency Response: Comptroller Operations disagrees with the condition that the reconciliations were not done timely. The date that is being referenced was chosen by management as a target to when they should be completed. However, due to other operational needs the reconciliations were performed at a later date. There are no federal requirements that stipulate that a reconciliation must be done by a specific date. In addition, there are no criteria provided by the auditor that would indicate we failed to perform a function timely. This part of the finding should be eliminated.

Comptroller Operations disagrees with the condition that references the lack of “Control Dockets” being used. These “Control Dockets” are not a federal requirement. The Control Docket was an internal tool developed by the previous supervisor and not a federal requirement. This should not be a part of this finding since it is not a federal requirement to maintain this docket. In addition, the auditors state that 8 reports tested were not initialed by the supervisor. When these reports are submitted to the federal government, they must be “certified” by the supervisor. To certify a report, the supervisor must use a unique pin number. All reports are reviewed prior to certifying them. Therefore, just because the reports are not initialed does not mean they were not reviewed. This portion of the finding should be eliminated.

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Finding 10 – 42: (continued)

Comptroller Operations agrees with the remaining portions of the finding.

Auditors' Conclusion: In the agency response, Comptroller Operations disagrees that the reconciliations were not completed timely due to the fact that there are no federal requirements that stipulate that reconciliations must be done by a specific date. It is important to note that we are not citing noncompliance with federal regulations, but we are citing significant deficiencies and material weaknesses with management controls. Adequate controls would dictate that accounting reconciliations be performed prior to federal reports being submitted, including draw down requests and ETA-9130s. The purpose of the reconciliations is to assist management in ensuring proper accountability and reporting of revenue and expenditures, including timely and effective detection and correction of errors. It is reasonable that for a monthly reconciliation to be considered timely it should be completed before the end of the following month. Otherwise, a backlog of reconciliations which are not completed would develop. This is exactly what we found to be happening, noting that reconciliations for the months of May and June 2010 were never performed. Moreover, as disclosed in the finding, reporting errors were found by the auditors on two ETA-9130 close-out reports. Untimely reconciliations and reconciliations not completed contribute to these types of reporting errors not being detected.

Additionally, Comptroller Operations disagrees with the lack of control dockets and the lack of supervisory review over the preparation of the ETA-9130 Financial Status Reports in part because the control dockets are not a federal requirement. Again, we are not citing noncompliance with federal regulations, but we are citing significant deficiencies and material weaknesses with management controls. Comptroller Operations states that there is evidence that a supervisor certified the ETA-9130 Reports when the reports were submitted to USDOL. However, we cannot determine whether the person certifying the report also prepared the report or whether a different person prepared the report. The control docket which is no longer being utilized included who prepared the report and who reviewed the report along with the dates these functions were performed. Lack of adequate management controls including adequate supervisory review increases the risk of undetected reporting errors. Since we found two ETA-9130 close-out reports with reporting errors which were undetected by Comptroller Operations, we believe that Comptroller Operations should improve its supervisory review and reconciliation processes.

Therefore, our finding and recommendation remain as previously stated.

Questioned Costs: None

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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Finding 10 – 43:

CFDA #17.258 – WIA Adult Program (Including ARRA)

CFDA #17.259 – WIA Youth Activities (Including ARRA)

CFDA #17.260 – WIA Dislocated Workers (Including ARRA)

CFDA #93.714 – ARRA – Emergency Contingency Fund for TANF State Programs

Control Weaknesses at L&I and Noncompliance Regarding Subrecipient Expenditures Resulting in Questioned Costs of at Least \$80,924

Federal Grant Numbers: AA-15502-06-55, AA-16051-07-55, AA-17144-08-55 (includes ARRA), EM-17478-08-60, AA-18664-09-55, AA-20216-10-55, and 0901PATAN2

Condition: Local Workforce Investment Boards (LWIB's) submit requests for funding to the Department of Labor and Industry (L&I) in order to be reimbursed for their WIA expenditures. Each request for funding contains the amount of the request and identifies the funding stream. There is no other detailed documentation provided to L&I to support the expenditure request. L&I ensures the proper amount of funding is available to the LWIB and approves the request which authorizes payment.

L&I payments to WIA subrecipients totaled \$146.4 million during SFYE June 30, 2010. From this population of subrecipient expenditures, we randomly selected and tested 65 expenditures totaling \$2.3 million. Of these 65 expenditures tested, 16 included American Recovery and Reinvestment Act of 2009 (ARRA) funds totaling \$886,308. We obtained detailed invoices from the LWIB subrecipient to validate the expenditure was an allowable cost and within the period of availability for the grant. The detail provided by each LWIB was either in the form of a direct invoice from a vendor or a cost allocation from pooled expenditures. For the cost allocations we requested the invoices to support the total amount of the expenditure as well as the portion of the expenditure allocated to the funding stream and the methodology used to allocate the expenditure. We found the following issues:

- For two expenditures, the LWIB requested more funds than the total of the supporting invoices provided. This results in questioned costs of \$42,772.

LWIB/Subrecipient	Document Number	Date	Total Expenditure	Unsupported Expenditure	ARRA Funds
A	2204975584	4/14/2010	\$24,867	\$686	No
B	2204371812	7/13/2009	\$91,304	\$42,086	No

- For three expenditures, the LWIB could not provide the invoices to support the total amount of the cost allocated portion of the expenditure. Only invoices supporting direct costs were provided. This results in questioned costs of \$20,283.

LWIB/Subrecipient	Document Number	Date	Total Expenditure	Unsupported Expenditure	ARRA Funds
B	2204867698	2/26/2010	\$10,000	\$5,521	No
B	2204452453	8/17/2009	\$2,939	\$1,686	No
B	2204371812	7/13/2009	\$91,304	\$13,076	No

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- For three expenditures, the LWIB provided the total invoices which it then allocated to various funding streams. However, the LWIB did not provide its methodology and support as to how it allocated the charges to the various WIA funding streams. This results in questioned costs of \$17,858.

LWIB/Subrecipient	Document Number	Date	Total Expenditure	Unsupported Expenditure	ARRA Funds
C	2204720531	12/18/2009	\$28,479	\$16,766	No
D	2205093559	06/04/2010	\$10,000	\$938	No
D	2204677219	11/30/2009	\$15,000	\$154	No

- One expenditure invoice included the purchase of alcohol, an unallowable cost, for \$11. After our audit discovered and questioned this unallowable cost, the subrecipient reimbursed the Commonwealth for this amount.

LWIB/Subrecipient	Document Number	Date	Total Expenditure	Unallowable Expenditure	ARRA Funds
E	2204884358	3/3/2010	\$26,175	\$11	No

- For one Recovery Act expenditure, the LWIB could not provide a drawdown explanation form as required by L&I policy.

LWIB/Subrecipient	Document Number	Date	Total Expenditure	ARRA Funds
F	2204981059	4/16/2010	\$2,268	Yes

- For all 16 Recovery Act expenditures tested, at the time of the subrecipient request for reimbursement and resulting payment, L&I did not provide the subrecipient certain information including the federal grant number and CFDA number, as required by federal ARRA regulations.

In addition, during our audit period, two audits of WIA subrecipients were performed by the Pennsylvania Office of the Budget Bureau of Audits which resulted in similar audit exceptions as above. These audits included a performance audit of LWIB G released on July 8, 2010, covering the period February 17, 2009 through December 31, 2009, and a performance audit of LWIB H released on November 30, 2010, covering the period July 1, 2006 through June 30, 2009. Both audits included findings citing unsupported cost allocation methodologies. Additionally, the LWIB H audit had a finding questioning costs totaling \$10,396 due to unsupported/unallowable expenditures. Note that these questioned costs were all incurred by the subrecipients prior to our audit period beginning July 1, 2009.

Further, our test of one TANF ARRA payment of \$7.8 million out of \$11.8 million in TANF ARRA expended at L&I during SFYE June 30, 2010 disclosed that at the time of the subrecipient request for reimbursement and resulting payment, L&I did not provide the subrecipient certain information including the federal grant number and CFDA number, as required by federal regulations.

Criteria: In regard to fiscal controls, the Workforce Investment Act of 1998 Section 184 states:

(a) *Establishment of Fiscal Controls by States.*—

(1) *In general.*--Each State shall establish such fiscal control and fund accounting procedures as may be necessary to assure the proper disbursement of, and accounting for, Federal funds allocated to local areas under subtitle B. Such procedures shall ensure that all financial transactions carried out under subtitle B are conducted and records maintained in accordance with generally accepted accounting principles applicable in each State.

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(2) *Cost principles.*—

(A) *In general.*--Each State (including the Governor of the State), local area (including the chief elected official for the area), and provider receiving funds under this title shall comply with the applicable uniform cost principles included in the appropriate circulars of the Office of Management and Budget for the type of entity receiving the funds.

Additionally, in regard to record keeping the Workforce Investment Act of 1998 Section 185 states:

(a) *Reports.*—

(1) *In general.*--Recipients of funds under this title shall keep records that are sufficient to permit the preparation of reports required by this title and to permit the tracing of funds to a level of expenditure adequate to ensure that the funds have not been spent unlawfully.

In regard to oversight roles and responsibilities of recipients and subrecipients, 20 CFR 667.410 states:

(a) *Roles and responsibilities for all recipients and subrecipients of funds under WIA title I in general.* Each recipient and subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors in order to:

(1) *Determine that expenditures have been made against the cost categories and within the cost limitations specified in the Act and the regulations in this part*

In regard to cost principles for non-profit organizations, 2 CFR 230 (OMB Circular A-122) Appendix A states:

2. *Factors affecting allowability of costs.* To be allowable under an award, costs must meet the following general criteria:

g. *Be adequately documented.*

Additionally, 2 CFR 230 Appendix B states:

3. *Costs of alcoholic beverages are unallowable.*

In regard to ARRA expenditures, L&I ARRA Guidance Memo #3 states:

Providing accurate and detailed information on all Recovery Act expenditures cannot be overemphasized. All drawdown of funds must include an explanation.

In regard to Single Audit information for recipients of Recovery Act funds, 2 CFR 176.210 states:

(c) *Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program.*

Cause: L&I management stated that they do not review detailed invoices at the time of reimbursement because the federal government does not require it. L&I does have the opportunity to request detailed invoices to support an expenditure if needed. However, management stated that this support has never been requested at the time of payment. As long as the LWIB has funds available for the respective program according to the notice of obligation, L&I approves the request and authorizes payment.

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Furthermore, management from one LWIB stated that providing all of the invoices for the total cost allocation is too voluminous and would take too much time. Management from another LWIB agreed that providing all the invoices for the total allocation would be too time consuming and stated that she would only provide a sample of invoices.

Effect: The lack of invoice review by L&I promotes a lax internal control environment at the LWIBs which leads to the payment of expenditures that are unallowable or not within the period of availability. Additionally, LWIBs could be requesting reimbursement for services that were not performed or for allowable costs that a prudent person would deem unreasonably extravagant. For the first five bullet points in the condition above, the improper and undocumented payments by L&I are not allowable and result in \$80,924 in questioned costs.

Recommendation: L&I should pursue appropriate settlement of the \$80,924 in questioned costs with USDOL. Also, L&I should ensure that the \$10,396 in questioned costs at PWDC is appropriately resolved with USDOL. In addition, L&I should improve its monitoring process to ensure expenditures are allowable and adequately supported. Furthermore, L&I should continue to document the required information for the Recovery Act at the time of subaward and ensure the same information is documented at the time of disbursement.

Agency Response: BWDP has formulated its response using the guidelines for preparing agency responses to initial audit findings with the objective to eliminate, or at least minimize, the effects of the finding(s) as outlined in Management Directive 325.7 Amended.

BWDP respectfully refutes the finding of the audit as it pertains to the lack of invoice review by BWDP. In Pennsylvania, there are 23 Local Workforce Investment Areas (LWIAs) with 22 Workforce Investment Boards (WIB) that set policy and provide oversight to the LWIAs. Each LWIA has a Fiscal Agent and a Title I Operator(s). It should be noted that the WIB can also function as the Fiscal Agent. The Fiscal Agents are responsible for the LWIA funds. The Title I Operator(s) are responsible for providing training to the programs within the LWIA. The Fiscal Agent determines a need for funds in a particular funding stream. Based on BWDP review of the request, Fiscal Agents may be required to submit additional information. If BWDP approves the request, a Notice of Obligation (NOO) will be issued. Issuance of the NOO will serve as the official notification that the Request for Funds (RFF) has been approved.

BWDP maintains that we adhere to all federal regulations and, in particular, to WIA Section 184; OMB Circulars A-102 and A-110. The Commonwealth's financial management system sufficiently provides information for federally required records and reports that are uniform in definition, accessible to authorized Federal and State staff, and verifiable for monitoring, reporting, audit, program management, and evaluation purposes. In addition, the system provides for internal control and accounting procedures that:

- Are in accordance with generally accepted accounting principles including:
 - Provision of information pertaining to subgrant and grant awards, obligations, unobligated balances, assets, liabilities, expenditures and income;
 - Effective internal controls to safeguard assets and assure their proper use;
 - Assessment of actual expenditures with budgeted amounts for each subgrant and grant;
 - Source documentation to support accounting records; and
 - Proper charging of costs and cost allocation; and
- Are sufficient to:
 - Permit preparation of required reports;
 - Permit the tracing of funds to a level of expenditure adequate to establish that funds have not been spent unlawfully; and
 - Permit the tracing of program income, potential stand-in costs, and other funds that are allowable.
- Comply with applicable uniform cost principles included in appropriate OMB circulars for the type of entity receiving funds.

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Beginning July 10, 2010 BWDP began, as further evidence, strengthening internal controls regarding the draw down of funds by grantees by requiring that the RFF in CWDS is accompanied with a corresponding line item allocation by cost category. While there are no federal requirement for this, BWDP believes this is one step in the right direction of ensuring funds are being drawn for their intended use. Additionally, all grantees are bonded in accordance with [OMB Circular A-87 \(revised 5/10/2004\) Attachment B](#); [2 CFR 225, Appendix B](#); [2 CFR 230, Appendix B](#) to safeguard assets.

The Commonwealth adheres to cash management regulations at 31 CFR Part 205 in addition to the requirements of 29 CFR 97.21.

Furthermore, Fiscal Agents and subrecipients, including local governments, non-profit, and commercial-for-profit organizations receiving Federal financial assistance during their fiscal year, either directly from the Federal government or indirectly from a recipient of Federal funds, must have an audit conducted. Entities that expend \$500,000 or more in Federal awards, received either directly from the Federal government or indirectly through a recipient of Federal funds, shall have an audit conducted in accordance with the provisions of OMB Circular A-133, Audits of States, Local Governments and Nonprofit Organizations and 29 CFR 99.105. Each recipient and subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors in order to determine whether or not there is compliance with provisions of the Act and applicable laws and regulations and provide technical assistance as necessary and appropriate (20 CFR section 667.400(c)).

As a requirement by OMB Circular A-133, BWDP conducts an annual on-site monitoring review of each local area's compliance with the Department Of Labor uniform administrative requirements, including the appropriate administrative requirements and cost principles for subrecipients and other entities receiving WIA funds. BWDP ensures that prompt corrective action be taken if any substantial violations are identified and impose the sanctions provided in WIA section 184(b) and (c) if a subrecipient fails to take required corrective action.

Detailed invoices from the LWIAs and/or their subrecipients/vendors were provided during this audit to validate the expenditures as an allowable cost within the period of availability for the grant. Additional cost allocations were requested by the Auditor and provided, displaying the amount from the invoices that tied to a particular RFF amount, in order to show how the amount for the RFF was obtained.

BWDP respectfully requests what specific information or documentation the auditor's would deem necessary in relation to the unsupported expenditure list, so we can develop a comfort level regarding these transactions.

LWIB A respectfully request additional information and time in order to comply with the auditor's comments.

LWIB B respectfully request additional time in order to comply with the auditors' comments. As stated previously, there is a certain amount of time needed to reconstruct details of draws, especially from 12 – 18 months ago. Files need to be pulled, researched/reviewed, copied, and a detail explanation provided. When they replied back in February/March regarding the time element needed, their organization looked much different. In late March, they laid off 1/3rd of our employees. The amount of time needed to piece this together will be much longer now, as everyone's daily responsibilities has increased, leaving minimal time for special projects like this.

LWIB C provided the FSR's for Nov 2009 for contracts 015093001(WIA Adult 1st increment) and 015093011(WIA Adult 2nd increment) along with their allocation worksheet for WIA Adult for the month of November. LWIB C uses a FIFO method for charging expenses between the two funding increments. The total WIA Adult expenses for Nov 2009 were \$32,861, of which \$28,479 were FIFO'd to contract 015093001 to expend the remaining balance on the contract. The remainder of the expenses, \$4,382, was charged to the 015093011 contract. All documentation supporting the \$32,861 expenditures were submitted previously. The attachments are available upon request.

LWIB D provided the Job Training for Beaver County's cost allocation plan. The charges for Southwest Training Services, Inc. are direct charges based on participant eligibility and can be found on the CWDS system.

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In regard to the \$11 unallowable cost, BWDP disagrees that this finding needs to be incorporated into the final audit. This unallowable cost has been identified and returned to the Commonwealth on March 14, 2011. This information was provided to the auditors.

BWDP policy is to only have WIA formula allocated funds to incorporate a drawdown explanation form. Therefore, BWDP disagrees that LWIB F is in violation of L&I policy. As a result, BWDP believes this finding does not need to be incorporated into the final audit report.

BWDP does provide all grantees the federal grant number and CFDA number on the NOO, which serves as the official binding agreement between the Commonwealth and the grantee.

BWDP would like to indicate that along with these audits, USDOL ETA Region 2 conducted monitoring reviews of both LWIB G and LWIB H. To date, both these USDOL monitorings and BOA audits have been fully resolved. All corrective actions have been implemented, reviewed, and approved. Furthermore, all questioned costs relating to the LWIB G and LWIB H audit have been refunded back to the Commonwealth and letters of final determination have been issued. Additionally, USDOL and BWDP find that the current cost allocation methodologies for LWIB H and LWIB G are sufficient in their corrective action and have been approved. BWDP believes these findings do not need to be incorporated into the final audit.

It would be financially unfeasible and counter-productive to review every single invoice submitted for L&I for approval. Therefore, according to the Workforce Investment Information Notice 2-04, BWDP Grant Procedures, grants awarded by the Bureau, to carry out PA Workforce Development System activities will be issued under an agreement between the Department of Labor & Industry and the grant recipient. All grantees are required to sign an agreement that will be fully executed before any funds are made available for draw down. Within the grant agreement contains Grant Provisions that state “Funds provided under this grant agreement must be expended in accordance with the applicable statutes, regulations and policies and procedures of the State and Federal government and any applicable Local Plan” as well as Assurances and Certifications that state grantees will, “comply with all applicable fiscal laws, regulations, policies and procedures required of any entity administering a federal program including, but not limited to, OMB Circular A-110, OMB Circular A-122, and OMB Circular A-133.”

All grant agreements make mention and are covered under BWDP’s Workforce Information Investment Notices (WIINs). Of particular interest is WIIN 2.00 Change 2: This Financial Management Technical Assistance Guide has been designed for the Commonwealth’s workforce development system to provide operational guidance, strengthen fiscal accountability and provide necessary information for analysis, monitoring, and evaluation as it pertains to the Workforce Investment Act (WIA) and WIIN 3.00 Change 2: intended to provide guidance to Local Workforce Investment Boards (LWIBs) and their Youth Councils regarding the minimum requirements for monitoring, oversight and evaluation necessary to ensure compliance with the Workforce Investment Act of 1998, federal regulations, and state policies. Continuous improvement and the provision of technical assistance, as needed, will result from instituting the policy in this WIIN.

Auditors’ Conclusion: In its response L&I states that its Bureau of Workforce Development Program (BWDP) approves and issues a Notice of Obligation (NNO) to the LWIB, LWIA, and/or local Fiscal Agent and states this NOO serves as the review and approval for the request for funds. We disagree because the review and approval for the NNO is at the time of the award, not at the time of payment. L&I does not review any detail documentation from the subrecipients at the time of payment. In addition, L&I states that the Commonwealth’s financial management system provides for internal control and accounting procedures to ensure that source documentation supports accounting records; however, we disagree. The results of testing disclosed that for 8 of 65 expenditures tested, or a 12 percent error rate, the expenditure amount was not fully supported by source documentation. In addition, we found one expenditure which included the purchase of alcohol which is unallowable. Based on the questioned costs disclosed in our testing of 65 expenditures, extrapolated questioned costs are material over the entire population of subrecipient expenditures. Based on these results we do not believe that the Commonwealth’s financial management system including reliance on subrecipient audits and annual on-site monitoring of subrecipients is functioning effectively to ensure that subrecipient expenditures are adequately supported by source documentation and are allowable.

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In L&I's response, BWDP and the local work forces in question asked for additional information and time in order to comply with the auditors' comments. It should be noted that we originally requested the expenditure invoices and related supporting documentation on December 20, 2010. After reviewing the documents provided, we requested follow-up documentation for unsupported expenditures on March 3, 2011. L&I asked for additional clarification which was provided on March 15, 2011 to explain what documentation we were specifically requesting. L&I's response to this finding was received on May 19, 2011. L&I stated that there is a certain amount of time needed to reconstruct details of expenditures. However, we disagree that after approximately five months time and three separate requests, L&I had ample opportunity to provide the requested information. For each expenditure reimbursement request, the LWIBs, LWIAs, or Fiscal Agents should have sufficiently recorded, organized, and maintained supporting documents.

After receiving L&I's response to this finding we again provided L&I with further explanation as to our request for documentation and L&I provided additional documentation on June 3, 2011. Based on our review of this additional documentation, some unsupported expenditures reported in our draft finding were then adequately supported. We removed these questioned costs from our finding accordingly. However, there remain unsupported expenditures as reported in this final finding. L&I should address these issues with the LWIBs and resolve questioned costs with the USDOL.

In regard to the \$11 unallowable purchase of alcohol, L&I stated that this issue should be removed from the finding because the funds were already returned to the Commonwealth. We disagree because this was an unallowable cost found by the auditors during our testing of a random sample of subrecipient expenditures. The funds were returned to the Commonwealth after questioned by the auditors.

In regard to the LWIB not providing a drawdown explanation form for ARRA expenditures, L&I stated that its policy for requiring a drawdown explanation form for ARRA expenditures only applies to WIA formula funds, and therefore, LWIB F is not in violation of L&I policy. However, L&I ARRA Guidance Memo #3 states "*Providing accurate and detailed information on all Recovery Act expenditures cannot be overemphasized. All drawdown of funds must include an explanation.*" We believe that all ARRA expenditures should have a detail of the drawdown of funds and that the L&I policy clearly states the same.

Regarding the fact that L&I is not providing the subrecipient certain information including the federal grant number and CFDA number at the time of payment, as required by federal ARRA regulations, in its response L&I states that it provides this information in the NOO at the time of the award. However, this does not satisfy the federal ARRA requirement which states this information must also be provided at the time of payment.

L&I stated that the additional audits performed of the WIA programs have been fully resolved, all corrective actions have been implemented, and all the questioned costs have been refunded to the Commonwealth. We will review any corrective action in our subsequent single audit. However, weaknesses found in these audits similar to the weaknesses stated in our finding provides further evidence that L&I oversight procedures should be strengthened.

In addition, OB or OA should have issued overall guidance to all Commonwealth agencies (e.g., Management Directive) to inform them of the federally-required information at the time of ARRA disbursements to subrecipients.

Therefore, our finding and recommendation, with modifications made based on L&I's response and additional documentation provided on June 3, 2011, remain as previously stated.

Questioned Costs: \$80,924

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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Finding 10 – 44:

CFDA#17.259 – WIA Youth Activities – ARRA

Inaccurate Reporting on the ETA-9149 “Youth Served with WIA Recovery Act Resources Monthly Report”

Federal Grant Number: AA-17144-08-55 (ARRA)

Condition: Within the WIA program, the PA Department of Labor and Industry (L&I) is required to submit the supplemental ETA-9149 report titled “Youth Served with WIA Recovery Act Resources Monthly Report” to the U.S. Department of Labor (USDOL) on a monthly basis. The ETA-9149 report provides information regarding the youth served with WIA Recovery Act resources, including the number of participants in summer employment, services received, attainment of a work readiness skill, and completion of summer youth employment. Local Workforce Investment Boards (LWIB’s) enter the data regarding youth participants served into L&I’s Commonwealth Workforce Development System (CWDS). The LWIBs maintain the source documentation in participants’ physical case files. Each month L&I compiles the respective data from the CWDS system to prepare the ETA-9149 Report and submits the report electronically to USDOL.

L&I does not verify the accuracy of the CWDS data used to prepare the ETA-9149 each month. Instead L&I relies on its annual LWIB compliance and oversight on-site monitoring reviews throughout the fiscal year to ensure the accuracy of data on the CWDS system. During these annual reviews, L&I employees review whether youth meet the eligibility requirements of the program. Additionally, as part of the annual LWIB on-site reviews for the 2009 program year, L&I assessed the adequacy of the LWIB’s internal controls over collecting and reporting Recovery Act data.

In order to test the data on the reports submitted to USDOL, we obtained the respective detail data files supporting the ETA-9149 reports for the four sample months of July 2009, August 2009, September 2009, and June 2010 that we selected for review. The total program-to-date youth participants served and reported for each test month was 5,102, 9,047, 9,275, and 9,879, respectively. We selected a random sample of 65 youth participant case files from these four monthly data files and attempted to trace the key line items from the ETA-9149 report to documentation in the participant’s case file. Our testing disclosed reporting errors for five of the 65 cases, or approximately eight percent, as follows:

- Three youth participants attained a work readiness skill and completed the Summer Youth Employment Program; however, the participants were not included on the ETA-9149 report.
- Two participants that were not served with WIA Recovery Act resources were erroneously included in the ETA-9149 report as participants who were served with WIA Recovery Act resources.

Since L&I’s procedures did not appear adequate to detect reporting errors, along with our 8 percent error rate in our random sample, we consider this to be a material weakness in reporting procedures. A total of \$25,627,345 was paid out for WIA Youth Activities under ARRA during our current fiscal year ended June 30, 2010.

Criteria: USDOL Training and Employment Guidance Letter No. 24-08 states, in part:

States will be required to distinguish youth served with Recovery Act funds from youth served with regular WIA funds and report “Recovery Act” youth separately in a supplemental monthly youth report. In this supplemental report, states will report aggregate counts of all Recovery Act youth participants, including the characteristics of participants, the numbers of participants in summer employment, services received, attainment of a work readiness skill, which is required in the Recovery Act, and completion of summer youth employment.

In addition, Title VIII (2) of the American Recovery and Reinvestment Act of 2009 states, in part:

The work readiness performance indicator...shall be the only measure of performance used to assess the effectiveness of summer employment for youth provided with such funds.

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Cause: Regarding the ETA-9149 reporting errors noted above, the respective LWIB officials stated that the discrepancies were caused by data entry errors. With an eight percent error rate, L&I's on-site monitoring of the LWIBs does not appear to be detailed enough to detect these data entry errors in the CWDS system.

Effect: The accuracy of the ETA-9149 report is essential because it provides data for the use of Recovery Act funds for summer employment, which is currently not collected in the WIA quarterly or annual report. Additionally, the application of the work readiness performance indicator is the only measure used to assess the effectiveness of the Recovery Act funded youth summer employment program. If the accuracy of this report is compromised, L&I will not achieve adequate accountability on the impact of the WIA Recovery Act funds used to serve youth, and erroneous Recovery Act data will be reported to USDOL in noncompliance with reporting requirements.

Recommendation: L&I should pursue appropriate corrective action with USDOL on erroneous ARRA data submitted in its prior ETA-9149 Reports. L&I should also strengthen its existing monitoring procedures over the LWIB Recovery Act data collection and entry procedures to ensure that all reported information on the ETA-9149 report is accurate and that all participants included on the ETA-9149 report have been served by WIA Recovery Act youth funds.

Agency Response: In response to the Single Audit Finding, Inaccurate Reporting on the ETA-9149 "Youth Served with Recovery Act Resources Monthly Report," Pennsylvania's Department of Labor and Industry offers the following:

- 1) **"L&I does not verify the accuracy of the CWDS data used to prepare the ETA-9149 each month."** While L&I does not verify the accuracy of the Commonwealth Workforce Development System (CWDS) data used to prepare the ETA-9149 before the report is pulled each month, L&I periodically generated CWDS reports to identify possible data entry errors. In each case, L&I ran reports to look for anomalies within the data. For example, LWIAs were provided instructions on how to data enter youth participants being funded under ARRA. However, youth could also be served with regular youth formula funds. Because certain services (e.g. Summer Work Experience) could only be tied to ARRA funding, the reports L&I provided to LWIAs identified potential errors based on the connection between funding streams chosen and the services provided. A copy of two of those e-mails sent to LWIAs is attached below. In addition, L&I would like to point out that the reports used by the auditors were from particular points in time (months.) As such, while it was determined that *"two participants who were not served with WIA Recovery Act resources were erroneously included in the ETA-9149 report as participants who were served with WIA Recovery Act resources,"* once those participants' service records were corrected, they would no longer be reported on the ETA-9149. In other words, once the data entry correction is made, these participants were no longer considered part of the reporting cohort and subsequent reports would not reflect their participation. With respect to *"three youth participants attained a work readiness skill and completed the Summer Youth Employment Program; however, the participants were not included on the ETA-9149 report,"* a similar explanation with regard to data entry could explain this. The timing of data entry is directly related to when the data shows on the ETA-9149. A participant will not show on the ETA-9149 until the month following when the data was entered. If the work readiness and completion indicators were not entered until after the time period for the report the auditors looked at, the participants would not show up on the report. If the participant ID numbers for the three participants in question are provided, further investigation by L&I can be done to determine the cause.
- 2) **"L&I's on-site monitoring of the LWIBs does not appear to be detailed enough to detect these data entry errors on the CWDS system."** The finding states that *"L&I relies on its annual LWIB compliance and oversight on-site monitoring reviews throughout the fiscal year to ensure the accuracy of data on the CWDS system."* This is not accurate. L&I does not use the annual LWIB compliance and oversight monitoring reviews to ensure or confirm accuracy of data entered into CWDS. The only on-site monitoring that L&I conducts with respect to data integrity is the annual Data Element Validation (DEV) prescribed by ETA. Since the data entry of SYEP participants did not start until July 2009, none of these records were included in the DEV for PY 2009. We agree that the accuracy of data used to create the ETA-9149 *"is essential because it provides data for the use of the Recovery Act funds for summer employment."* While we recognize that errors will occur with a manual data entry process, we believe that L&I's data as reported on the ETA-9149 is an accurate reflection of the number served, the services provided and the outcomes of those participating.

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Finding 10 – 44: (continued)

With regards to the recommendation that “L&I should pursue appropriate corrective action with USDOL on erroneous ARRA data submitted in its prior ETA-9149 Reports,” L&I believes the nature of the report to capture updated/revised data as part of the cumulative totals ensures that overall reporting is accurate. While monthly totals may fluctuate due to data corrections, the cumulative totals will ultimately reflect the appropriate numbers. As such, we do not see the need to pursue corrective action with USDOL. With respect to the report’s recommendation that L&I “should also strengthen its existing procedures over LWIB Recovery Act data collection and entry procedures,” L&I will continue to produce periodic reports to share with LWIAs for review and confirmation of data entered. With ARRA ending on June 30, 2011, L&I will be preparing emails/reports for each LWIA to conduct a review of ARRA participants. This will provide each LWIA with an opportunity to verify that data is accurate and reporting will be as accurate as possible.

Auditors’ Conclusion: L&I states in its response that it periodically reviews CWDS reports for possible data entry errors. Also, L&I states that since the monthly ETA-9149 reports are cumulative, once a data entry error is discovered and corrected subsequent reports would then be accurate. However, in regard to the reporting errors we noted in the finding, L&I had not discovered these errors. The errors were acknowledged by the LWIBs during the auditors’ follow-up for requested documentation from L&I to support the information on the ETA-9149 reports for the respective participants. In regard to the two participants who were erroneously included on the ETA-9149 reports, one participant was found in error on the report for the month of August 2009 and was still included in error as of the June 2010 report, or 11 months later. The other participant was found in error on the June 2010 report. In regard to the three participants who attained work readiness skills and completed the summer youth employment program but were erroneously not included on the ETA-9149 report, one participant was found in error on the July 2009 report and one was found in error on the September 2009 report. Both of these participants still were not reported properly through the June 2010 report, or 12 months and 10 months later, respectively. The third participant was found in error on the June 2010 report. Therefore, once these errors occurred, they continued to be reported in error on all future months during SFYE June 30, 2010. All three participant ID numbers were previously provided to auditee staff for their follow up.

Additionally, L&I states that it does not review the accuracy of data entered into CWDS system by the LWIBs during its annual on-site monitoring, but instead reviews this during its annual Data Element Validation. However, as L&I suggested in its response, the data entered during SFYE June 30, 2010 would not have been reviewed until subsequent to June 30, 2010. In fact, the results of this review for PY 2009 were not completed until February 2011, which is not timely. Furthermore, L&I informally shares the results of the Data Element Validation with the LWIBs at an exit meeting and follow-up emails; however, this appears to be for informational purposes only, and does not require corrective action. Therefore, L&I’s review of the accuracy of the data entered into the CWDS system by the LWIBs does not appear adequate to timely detect or correct data entry errors as evidenced by our testing which disclosed ETA-9149 reporting errors for 5 of 65 participants sampled, or approximately eight percent.

L&I stated that since the ETA-9149 reports are cumulative, it does not need to pursue corrective action with USDOL in regard to erroneous ARRA data submitted. As previously stated, these errors were not discovered by L&I and the errors existed from the month of the initial data entry error at least through the end of our audit period SFYE June 30, 2010. We believe corrective action with USDOL needs to be considered and discussed with the federal government.

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

Questioned Costs: None

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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Finding 10 – 45:

CFDA #20.205 – Highway Planning and Construction (including ARRA)

CFDA #20.219 – Recreational Trails Program

CFDA #23.003 – Appalachian Highway Development System (including ARRA)

Material Weaknesses Exist Due to the Lack of Reconciliations Between SAP and PADOT’s ECMS System and Poor IT General Controls

Federal Grant Numbers: N78000 and N78ARR (ARRA)

Condition: A large majority (approximately 75 percent) of PADOT’s \$1.8 billion in federally reimbursable HPC Cluster highway and bridge expenditures reported on the SEFA, including ARRA, flow through PADOT’s Engineering and Construction Management System (ECMS). The ECMS system tracks individual contract payment activity for construction projects and invoices for engineering consultant agreements. Contract payments and invoices are approved electronically by PADOT and OB-OCO personnel; therefore, computer controls are paramount to internal controls over the process. After approval by PADOT personnel, construction and engineering payments on ECMS are interfaced with SAP, the Commonwealth’s statewide accounting system. Once interfaced to SAP, the expenditure transactions are pre-audited by OB-OCO personnel before actual posting to SAP. However, OB-OCO personnel approve payment based on whether the PADOT approver has a signature card on file. We noted inconsistencies as indicated below between OB-OCO’s population of signature cards and PADOT’s population of ECMS approvers. Requests for payment are then sent to Treasury for additional pre-audit and final payment. PADOT is reimbursed, based on the federal participation percentage, by the federal government (FHWA) for approved invoices and estimates that are cleared for payment within SAP.

Based on our inquiry, there are currently no procedures being performed by PADOT or OCO personnel to periodically reconcile ECMS expenditure totals to SAP expenditures on a regular, on-going cumulative basis to ensure both systems are in agreement and remain accurate throughout the fiscal year.

In addition, we tested certain information technology (IT) general controls in the ECMS application and noted IT control deficiencies. For example, we found that there are no formal procedures in place to request and maintain ECMS invoice approver access using the “Request for ECMS USERID” form. Also, we found there are no formal procedures to ensure terminated ECMS users are removed from the system in a timely manner. Further, we tested 65 individuals with ECMS invoice approval authority from the signature card listing maintained by OCO and noted that 11 of the 65 ECMS invoice approvers tested also currently have the Inspector in Charge (IIC) role in ECMS, which allows the employees to create invoices. Also, for five of 65 ECMS invoice approvers on the OCO signature card listing, PADOT was unable to provide a “Request for ECMS USERID” Form to evidence the propriety of OCO’s reliance on the signature card listing during their invoice approval in SAP.

In the audit of the Commonwealth’s Basic Financial Statements (BFS) for FYE June 30, 2010, auditors disclosed in BFS Finding #10-11 that certain general computer controls weaknesses existed at PADOT, such as inadequate controls over privileged access, and removing terminated users timely, which could significantly impact PADOT’s controls over its ECMS system. Also, BFS auditors disclosed in the BFS Finding #10-12 that automated controls over system access for transactions posted in the SAP accounting system included internal control weaknesses regarding segregation of duties in the overall SAP computer environment.

SAP and ECMS controls for PADOT transactions are automated; therefore, due to the control weaknesses noted above these controls provide limited assurance that both SAP and ECMS systems are properly recording authorized and allowable transactions in accordance with federal regulations.

Criteria: Strong internal controls should ensure that all HPC Cluster transactions are recorded accurately and completely on SAP and ECMS. Reconciliations between these two independent accounting systems helps to ensure complete data transmission, interfaces are operating properly for a given accounting period, and accuracy of the

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Finding 10 – 45: (continued)

reporting functions on both systems. Additionally, a well-designed system of internal controls dictates that sound general computer controls be established and functioning to best ensure that federal programs are administered in accordance with management's intent.

Cause: PADOT officials noted that potential errors in the interface between ECMS and SAP are reviewed and identified at the time of individual postings to both systems and payment by Treasury. PADOT and OCO officials believed that these control procedures were sufficient, and additional periodic reconciliations did not need to be performed to verify these systems remained accurate and in agreement throughout the year.

Additionally, we determined that PADOT's overall design for granting, approving and removing ECMS access is not adequate. Management indicated that there were no formal written procedures to grant access to ECMS or to ensure that a segregation of duties existed between individuals who can create ECMS invoices and those who can approve them. Nor were there written procedures to ensure timely removal of separated users from ECMS.

Effect: As a result of the lack of regular, on-going cumulative reconciliations being performed between ECMS and SAP, there is insufficient control to ensure that the interface between ECMS and SAP is operating properly and that all potential differences are being adequately and timely investigated. Inadequate operation of the interface could result in HPC expenditures being inaccurately recorded either in SAP or in ECMS, and not being detected by management. Also, a reconciliation would be an effective manual control to compensate for any additional risks associated with the computer access deficiencies at PADOT mentioned above which could cause inappropriate or incorrect postings to these systems.

The users who have the combination of the IIC role and invoice approver role in ECMS represents a segregation of duties conflict that could lead to improper payments to construction contractors. The deficiencies noted above in IT general controls and the segregation of duties weakness increase the risk of unauthorized payments to construction contractors.

Potential segregation of duties conflicts in SAP role assignments increases the potential risk of unauthorized or unallowable activities and is a significant weakness when manual controls outside of SAP are not effective.

Recommendation: We recommend that PADOT and OCO work together to implement a process to periodically reconcile all transactions flowing through ECMS to SAP on a regular basis to ensure all postings and expenditure balances on both systems are and remain accurate and appropriate throughout the fiscal year.

Also, to resolve the IT control weaknesses noted above, PADOT management should develop written policies and procedures governing ECMS access. These policies should ensure that: 1) appropriate segregation of duties exists between persons with the ability to create and approve invoices in ECMS; 2) only properly documented, authorized, and appropriate individuals are granted access to ECMS using the "Request for ECMS USERID" form; and 3) separated users' access to ECMS is removed timely. (See additional auditor recommendations to improve IT general controls in BFS Findings #10-11 for PADOT agency systems and #10-12 for the Statewide SAP accounting system.)

OCO Response: In lieu of a reconciliation between ECMS and SAP, there is a 100 percent daily review of all ECMS transactions interfaced to SAP. For each business day, Payables staff runs two reports - construction and consultant - from Report Management Delivery System (RMDS). RMDS is a report repository where users can go and view reports from PennDOT systems. These reports list all invoices interfaced from ECMS to SAP and includes SAP ZI document numbers. If the account coding on an interface file does not match the fund commitment in SAP, an IDOC error will occur and the record will not interface. These IDOC errors are then reviewed and appropriate action is taken to resolve the issue.

Expenditure adjustments do not interface from ECMS to SAP; instead adjustments are entered separately into both systems. As a part of the federal final voucher process, SAP expenditures are compared to ECMS. On April 12, 2011, a meeting was held with Federal Highway Administration (FHWA), PennDOT and Comptroller Operations staff. FHWA

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stated that ECMS records do not have to match costs reported on the final voucher. FHWA accepts SAP as the official book of record and will accept pen and ink changes to ECMS documents showing the cost change(s) along with a copy of the SAP adjusting entry as part of the final voucher packet.

PADOT Response: We disagree that there are no procedures being performed to periodically reconcile ECMS expenditures to SAP expenditures.

A daily reconciliation is performed in Comptroller Operations in the Accounts Payable process. For each business day, the Office of Comptroller Operations runs a report that lists all invoices interfaced from ECMS to SAP and includes SAP ZI document numbers. In SAP, the document detail contains the Treasury Batch No. in the Text field and PDOT-ECM Cnstr Pmt or PDOT-ECM Cnslt Pmt in the Assignment field. For each business day, Comptroller Operations Payables staff runs the Vendor Line Item Detail reports. Payables staff then compare the total on the SAP Vendor Line Item Detail to the Report from ECMS to ensure that individual invoice amounts and totals agree. If the account coding on the payment document does not match the funds commitment, or there are budget errors, an IDOC error occurs. There are established procedures for the correction of IDOC errors and the IDOC's are monitored to ensure correction.

Adjustment documents do not pass from ECMS to SAP, but SAP is the official books of record and is the system in which payments and adjustments are audited, approved for payment, and paid by Treasury.

In addition, when final vouchers are being prepared for FHWA, Comptroller Operations also reconciles ECMS expenditures to SAP expenditures.

While we disagree on certain specifics mentioned in the IT general controls part of the finding we agree that some IT control deficiencies do exist regarding the ECMS application.

ECMS Security was designed, developed, implemented, and is maintained by bureaus within PennDOT's Office of Information Services (OIS). ECMS Security passed OA's security assessment and is responsible for security of numerous Highway Systems. Extensive documentation does exist for both internal and external access to ECMS. Policies and procedures related to the addition/removal of user roles has been the responsibility of our business area support unit – Engineering Computing Management Division (ECMD) and is segregated from the IT Functions. Deficiencies discovered deal more with record keeping and enforcement of policy/procedure rather than systemic IT System weaknesses. ECMD is working on a plan to train all staff that no roles (including termination) will occur without a properly completed user request form. They'll also institute QA procedures to ensure compliance with policy. Links to directions for completing the ECMS UserID are posted on the ECMS home page. This includes approvals required prior to granting ECMS role access.

ECMD has instituted reports to indicate inactivity in ECMS. These reports are scheduled to run every 60 days and report on users that have not accessed the system within the past 60 days. If users have not accessed ECMS within 60 days the employees ECMS access is revoked.

Potential improvements exist to have District IT Coordinators inform ECMD when an employee departs (more timely than waiting until individuals appear on the inactivity report). ECMD should also contact a users approving authority on the list to determine if ECMS access is still required (confirmation step). If not, a request form for removing access will be requested from the approving authority and access revoked upon receipt of the form.

Although the invoice approver and Inspector In Charge roles are typically mutually exclusive, there is an operational need to permit these dual roles in the event an employee is in an 'acting position' with no one to fill their 'former role'. This is needed in order to ensure timely payment to contractors for work performed in the District. We will be developing/instituting a waiver process for a limited period of time for these mutually exclusive roles (invoice creation & invoice approver). This will be monitored via scheduled reports (frequency TBD) to report on all users with these mutually exclusive roles and compared against the approved waiver list and timeframe indicated for waiver (QC process to catch any that may have been entered in the system without any corresponding paperwork). ECMD staff will follow up in a timely manner to determine which role is required and remove access to the conflicting role. Any change in role

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will require the appropriate forms completed prior to any action performed in the system. The Bureau of Business Solutions and Services & ECMD will work together to ensure the waiver process is documented, communicated, and enforced.

ECMD is developing procedures to train/retrain staff that no actions are performed without the appropriate paperwork requesting such action. This will also involve a QA process to ensure policies/procedures are being complied with. ECMD is also looking to scan in all request forms for faster access and retrieval.

ECMS is in compliance with OA password requirements.

As stated above, ECMS Security successfully passed OA's IT Security assessment. If there are system design recommendations we're certainly open to reviewing these suggestions for improvement. We have been working with ECMD on plans to address all deficiencies related to policy/procedure/enforcement that includes actions, responsible parties, and timelines for implementation.

The business area has stated that ECMS Roles cannot be totally mutually exclusive due to the fact that many District Personnel wear many hats. Some are in 'acting positions with no one to pick up their former roles (the Districts Employee is filling multiple roles). We are taking measures to minimize this occurrence but we're also being told we can't eliminate this potential due to the adverse operational impact it may have on making timely payments to contactors for work performed in the Districts.

Auditors' Conclusion: Although OCO's daily review of all ECMS transactions interfaced into SAP is a valid check at the time payments are processed, it would not detect expenditure adjustment errors made to ECMS or SAP which could result in both systems not agreeing. The federal final voucher process which takes place at the end of each project is not timely and could result in errors going undetected and uncorrected for an indeterminable amount of time. Reconciliation procedures to identify any errors made within both systems should be comprehensive and timely to ensure early detection, follow-up, and correction.

The management response states, "ECMS Security passed OA's security assessment and is responsible for security of numerous Highway Systems. Extensive documentation does exist for both internal and external access to ECMS. Links to directions for completing the ECMS UserID are posted on the ECMS home page." Subsequent to receipt of the management response we received the OA security assessment and link to directions referenced above. We determined from our review that the most recent security assessment was from 2007 and consequently not applicable to our audit period. Additionally, the link provided did not address segregation of duties in granting ECMS user IDs, which remains a systemic issue. We continue to recommend that PADOT management should develop segregation of duties policies and procedures governing ECMS user access.

The management response indicates, "ECMD has instituted reports to indicate inactivity in ECMS. These reports are scheduled to run every 60 days and report on users that have not accessed the system within the past 60 days. If users have not accessed ECMS within 60 days the employees ECMS access is revoked." During our audit procedures, PADOT's Bureau of Design/System Project Development Section Chief stated that separated ECMS user access reviews and removals are conducted only semi-annually. We continue to recommend that policies and procedures be developed to ensure that separated users' access to ECMS is removed timely.

Regarding the statement in the management response, "Although the invoice approver and Inspector in Charge roles are typically mutually exclusive, there is an operational need to permit these dual roles in the event an employee is in an 'acting position' with no one to fill their 'former role'. This is needed in order to ensure timely payment to contractors for work performed in the District. The business area has stated that ECMS Roles cannot be totally mutually exclusive due to the fact that many District Personnel wear many hats." PADOT's response indicates that they have not yet implemented compensating controls to mitigate the risk associated with not properly segregating duties. Activity by the users who have the combination of the IIC role and invoice approver role in ECMS could lead to improper payments to construction contractors. Additionally, this segregation of duties weakness increases the risk of unauthorized payments to construction contractors. We continue to recommend that policies and procedures are developed to ensure that

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appropriate segregation of duties exists between persons with the ability to create and approve invoices in ECMS. Furthermore, management indicated in its response that, “We will be developing/instituting a waiver process for a limited period of time for these mutually exclusive roles (invoice creation & invoice approver). The Bureau of Business Solutions and Services & ECMD will work together to ensure the waiver process is documented, communicated, and enforced.” If PADOT chooses to accept the risk associated with this lack of segregation of duties, we recommend that this waiver process is monitored and documented frequently and available for audit.

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

Questioned Costs: None

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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Finding 10 – 46:

CFDA #20.205 – Highway Planning and Construction

CFDA #20.219 – Recreational Trails Program

CFDA #23.003 – Appalachian Highway Development System

Internal Control Deficiencies Related to Buy American ARRA Provisions

Federal Grant Numbers: N78000 and N78ARR (ARRA)

Condition: During our current-year Single Audit of the HPC Cluster administered by PennDOT, we reviewed other auditors' reports to ascertain any impact on our state-level Single Audit for this major program. Our review noted that the Department of the Auditor General's, Bureau of Departmental Audits, issued a separate audit report in January of 2011 on the PennDOT Contract Procurement Program which disclosed deficiencies in PennDOT's documented compliance with Buy American provisions for ARRA funds. In particular, AG Bureau of Departmental Audits disclosed that PennDOT's sole reliance on contractor self-certification via Form CS-4171 for all steel used in highway construction is not adequate to ensure compliance with Federal Highway Administration's (FHWA's) Buy American provisions.

PennDOT field practices for documenting and validating Buy America steel that is other than identifiable (e.g. stamped Made in USA), and are termed unidentifiable, or fabricated, do not match Pennsylvania law or PennDOT's related regulation Publication 408 Construction Specification Guidance, which FHWA relies on PennDOT to follow for federally-funded highway programs. This distinction is necessary because both Pennsylvania law and Publication 408 require that when steel is identifiable, PennDOT's use of contractor self-certification is fine, but when the steel is unidentifiable or fabricated, the PennDOT Inspector-in-Charge must be provided with invoices, bills of lading, and mill certification that the steel was melted and manufactured in the United States. However, this is not occurring since PennDOT's actual field practice is to accept a self-certification on Form CS-4171 for all steel.

We performed a review of PennDOT's evidence of Buy American compliance for our HPC Cluster Single Audit test items that contain iron or steel products. Consistent with the separate AG, Bureau of Departmental Audit's audit report, PennDOT noted compliance only through the use of the CS 4171, self-certification approach. This demonstrates that PennDOT internal controls over compliance with Buy American provisions in the HPC Cluster are deficient and need to be strengthened.

Criteria: Title XII of the American Recovery and Reinvestment Act of 2009(ARRA) directs that ARRA-funded highway projects be administered in accordance with Title 23, United States Code. Therefore, the FHWA applies the Buy America provisions at 23 USC 313, and the implementing regulations and policies, to all Recovery Act highway construction projects.

FHWA allows state transportation agencies, including PennDOT, to assume certain FHWA oversight roles and approval responsibilities on specific categories and construction projects. FHWA and PennDOT have traditionally entered into a "Stewardship & Oversight Agreement" in which PennDOT assumes certain FHWA oversight and approval authority for areas such as construction contract administration, which in part is guided by PennDOT's Publication 408 Construction Specification guidance which FHWA relies on PennDOT to follow for federally funded highway programs.

PennDOT's Publication 408 foundation for ensuring compliance with Buy America provisions are found in Pennsylvania law that includes, in part, a certification process. According to the provisions of Act 3 of 1978, as amended by Act 161 of 1982, and Act 144 of 1984, in the performance of the contract or any subcontract only steel produced in the United States shall be used. Both state law and PennDOT's publication 408 require that if a steel product is identifiable on its face (e.g. stamped Made in USA), a contractor must submit certification, which satisfies PennDOT that the contractor has fully complied with the law and PennDOT's Publication 408 guidance. The state law and Publication 408 (section 106.1) further require that if the steel is unidentifiable or under Publication 408 (section 1105) is fabricated steel, the contractor must provide the PennDOT Inspector-in-Charge with the following: invoices, bills of lading, and mill certification that the steel was manufactured in the United States.

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Cause: PennDOT’s actual in field certification practices do not follow Pennsylvania law or PennDOT regulations in Publication 408. PennDOT believes its current self-certification process is adequate.

Effect: Because PennDOT’s field practices do not match state law or regulation and allow inspectors to accept only self certification for all types of steel, and do not document whether the steel was identifiable or unidentifiable or fabricated, no one can verify that Pennsylvania law, Publication 408, and FHWA’s “Stewardship & Oversight Agreement” with PennDOT are being followed for Buy America when unidentifiable or fabricated steel is used in FHWA construction projects.

Recommendation: We recommend that PennDOT implement field practices that mirror Pennsylvania law and PennDOT’s Publication 408 to document whether steel is identifiable, unidentifiable or fabricated and to inspect invoices, bills of lading, and mill certificates when the steel is determined to be unidentifiable or fabricated.

Agency Response: PennDOT is in disagreement with this finding. The vast majority of steel used on construction projects is fabricated or identifiable on its face. PennDOT asserts that “identifiable on its face” refers to much more than a stamp that says “Made in USA”. For example, our specifications for reinforcement steel (AASHTO M 31) require identification marks to be rolled into the surface of one side of the bar to denote the producer’s mill designation, bar size, and type of steel.

For fabricated steel, our plant inspectors provide in-plant inspection during the manufacturing process, including mill certification review, for quality assurance. Steel plate, shapes and tubular members used for structural members are required to retain ‘traceability’ (e.g. markings) from the producing mill to ensure that the material can be verified and accepted by the fabricator and our inspectors upon receipt along with the accompanying mill certification. Our requirements for inspection of fabricated structural steel are in Publication 408, Section 1105.01(e).

Fabricated structural materials is defined in the AASHTO material specs (R38: Quality Assurance of Standard Manufactured Materials) as major structural items produced specifically for an individual construction project by a material fabricator. They are generally characterized by one or more of the following conditions:

- The [fabrication] production process for the material occurs under controlled conditions at an established Fabricator plant typically located within state or in another state.
- The material properties are stable and have no potential for alteration under proper transportation from the Fabricator to the project site.
- The materials arrive at the project site in a solid state and require little or no additional work after installation.

For ancillary items such as fencing, hardware (e.g. nuts and bolts), down spouting, handrails, and metal curb drains which may not contain manufacturer or fabricator marks for identification, 106.03(b)(3) requires Form CS-4171 to be provided to the project with each material shipment. It is this field practice that provides the documentation for compliance with the Buy America provisions and the PA Steel Products Procurement Act.

Finally, neither the Buy America provisions nor the PA Steel Products Procurement Act specifically require documentation that guarantees the law is followed. Rather, the PA Steel Products Procurement Act requires a contract provision requiring compliance. That contract provision is located in our Publication 408 in full compliance of both the intent and the letter of the PA Steel Products Procurement Act. The Buy America provisions (See 23 CFR 635.11(d)) indicate that Standard State and Federal-aid contract procedures may be used to assure compliance with the requirements of this [Buy America] section.

Therefore, PennDOT believes, contrary to the assertion of the auditors, that the existing and approved field practices for documentation mirror and are in full compliance with the letter and intent of the law and regulation regarding steel.

Auditors’ Conclusion: Based on review of the auditor’s report and agency response, it is noted that the auditor’s report points out that PennDOT inspector’s material log book forms or any other forms used by the project inspectors do not

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document whether the steel product was identifiable or unidentifiable. Noting that and the fact that PennDOT field practices do not follow requirements specifically outlined in Pennsylvania Steel Products Procurement Act or the related regulations in PennDOT Publication 408 for unidentifiable steel, PennDOT field practices provide no assurance that Buy America compliance requirements for unidentifiable steel used in FHWA construction projects are followed.

Additionally, the agency response cites Publication 408 section 106.03(b) (3) as requiring Form CS-4171 be provided to the project with each shipment and they cite this field practice that provides documentation for compliance with Buy America provisions and the Pennsylvania Steel Products Procurement Act. However, this section deals with quality specifications. A later section in Publication 408 deals specifically with Buy America provisions and it is this section that PennDOT field practices are not properly documenting compliance.

Publication 408 Section 106.10(a) Buy America Provisions state:

“Furnish steel or iron materials, including coating for permanently incorporated work in accordance with 23 CFR 635.410 and as follows:…Provide certification to the Inspector-in-Charge, that all manufacturing processes for steel and iron materials in a product, including coating, have occurred in the United States; certify as specified in Section 106.01.”

Publication 408 Section 106.01 mirrors the Pennsylvania Steel Products Procurement Act and specifies:

“With each shipment of steel products delivered to the project site,…, provide the Inspector-in-Charge the following: For unidentifiable steel products, documentation such as invoices, bills of lading, and mill certification that the steel was melted and manufactured in the United States…”

The agency response also states the Buy America provisions (23 CFR 635.11(d)) indicate that Standard State and Federal-aid contract procedures may be used to assure compliance with the requirements of Buy America. However, the response fails to further add that FHWA Contract Administration Core Curriculum Participant’s Manual and Guide states:

“States may have “Buy America” provisions that are more restrictive than the Federal requirements,… However, the more restrictive procedures must be required by state law.”

That is the case here in Pennsylvania. As stated in the finding, for Buy America compliance, FHWA relies on PennDOT to follow via the signed “Stewardship & Oversight Agreement” PennDOT’s Publication 408, which mirrors Pennsylvania Steel Products Procurement Act for unidentifiable steel.

Because PennDOT’s field practices do not provide evidence that they are complying with the specific Buy America provisions of Pennsylvania Steel Products Procurement Act or Publication 408 for unidentifiable steel, PennDOT provides no assurance that Buy America compliance requirements for unidentifiable steel used in FHWA construction projects are being followed.

Therefore, for unidentifiable steel, the finding and recommendations remain as stated.

Questioned Costs: The amount of questioned costs cannot be determined.

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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Finding 10 – 47:

CFDA #20.205 – Highway Planning and Construction (including ARRA)

CFDA #23.003 – Appalachian Highway Development System

CFDA #20.219 – Recreational Trails Program

Internal Control Weaknesses Related to Monitoring of Locally Sponsored Subrecipient Projects

Federal Grant Numbers: N78000 and N78ARR (ARRA)

Condition: During our current-year Single Audit of the HPC Cluster administered by PADOT, we reviewed a sample of seven federally funded locally sponsored subrecipient projects. Out of total HPC Cluster expenditures of \$1.8 billion on the current-year SEFA, \$155 million (or 8.6 percent) was paid to PADOT subrecipients. A local project typically exists when the construction project is located on a street or highway over which PADOT does not have legal jurisdiction. In such cases, PADOT may arrange for the local public agency to perform the contract work with its own forces or by contract. However, it should be noted that PADOT is responsible for the construction of all Federal-aid projects and is not relieved of such responsibility by authorizing performance of the work by a local public agency.

PADOT has developed its Publication 39, *Procedures for the Administration of Locally Sponsored Projects*, to assist agency personnel in PADOT's 11 engineering district offices who are involved with local projects. The publication is a compilation of PADOT policies and procedures relating to the letting, construction inspection, and management of local construction contracts. In particular, the publication covers the staffing requirements of local municipalities, as well as PADOT on-site monitoring and oversight in the form of review checklists. These review checklists are important documents to provide evidence of PADOT district office on-site monitoring of its local subrecipient projects for compliance with various federal regulations, including allowability of project activities/costs, materials certifications and control, Davis-Bacon wage compliance, and other various requirements.

Our review of the seven individual locally sponsored projects totaling \$9.9 million consisted of projects within three engineering districts with five of the seven projects in Engineering District 06, Philadelphia Area. Key evidence of complete staffing documentation could not be provided and no review checklists were provided by PADOT for four of the seven projects totaling to \$8 million (or 81 percent of dollars tested and 57 percent of projects tested), with all four projects located in Engineering District 06. Based on the documentation obtained throughout the audit, District 06 whose subrecipient payments totaled \$52.9 million, (or 34 percent of total subpayments) was not adequately documenting the staffing process. We were unable to obtain the staffing letter to the Assistant District Executive (ADE) or the ADE approval for each applicable project tested in District 06.

We also noted in our review of the City of Philadelphia's most recent Single Audit for FYE June 30, 2009, that auditors reported noncompliance and internal control weaknesses in Philadelphia's procedures to ensure project compliance with Davis-Bacon wage requirements. This is further indication that PADOT's monitoring controls over local subrecipient construction projects are weak.

Also, we noted an additional overall internal control weakness since there is poor oversight by the central office to ensure PADOT's 11 engineering district offices throughout the state are properly verifying and documenting local subrecipient project compliance with federal regulations.

Criteria: 23 CFR 635.105, Supervising Agency, (c)(3) states:

The local public agency is adequately staffed and suitably equipped to undertake and satisfactorily complete the work.

PADOT Pub 39, Part B, Section 1.1, Staffing, states:

If the Local Project Sponsor elects to staff the project with its own personnel, it is to demonstrate to the satisfaction of the Assistant District Executive for Construction or a designee that its personnel are qualified.

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Finding 10 – 47: (continued)

If the Local Project Sponsor elects to engage the services of a consultant, the procedures described in Publication 93, Procedures for the Administration of Consultant Agreements, are to be used to select the consultant. The Local Project Sponsor's request for construction authorization must include a request for construction inspection by consultant forces.

Development of a consultant agreement for construction inspection services is to be accomplished in accordance with the procedure outlined in Publication 93. The Local Project Sponsor is to submit, to the District, the selected consultant's qualifications for review and approval by the Assistant District Executive for Construction or a designee.

The Local Project Sponsor is to submit a Staffing Letter to the Assistant District Executive for Construction wherein the Local Sponsor is to describe, in detail, how it proposes to staff the project.

If the Local Project Sponsor's proposed staffing is deemed acceptable, the Assistant District Executive for Construction or a designee is to approve the Local Sponsor's Staffing Letter, noting applicable conditions or comments, as necessary, and including a statement that any subsequent staffing changes be likewise submitted for review and approval.

23 CFR 106, Project Approval and Oversight, (g)(4) states:

(A) In General – The States shall be responsible for determining that subrecipients of Federal funds under this title have – (i) adequate project delivery systems for projects approved under this section; and (ii) sufficient accounting controls to properly manage such Federal funds.

PADOT Pub 39, Part B, Section 1.1, Construction Inspection, states:

The Contractor's work and the Local Project Sponsor's inspection are to be reviewed by the District. The Assistant District Executive for Construction is to assign an Assistant Construction Engineer to monitor and oversee the project. The Assistant Construction Engineer or a designee is to visit the project as frequently as needed to maintain an intimate knowledge of current activities and ensure that the work is being inspected and the contact administered in accordance with the terms of the agreement, the requirements of FHWA, and the procedures outlined herein. During each visit to the project, the Assistant Construction Engineer or designee is to document, in writing, the project status and any outstanding issues relating to the following:

- *Work Orders & Authorizations for Contract Work*
- *Project Schedule*
- *DBE Goal*
- *Trainees*
- *Inspection Staff*
- *Wage Rates*
- *Claims*
- *Maintenance and Protection of Traffic*
- *Materials Control and Certifications*
- *Erosion and Sediment Control*
- *Work Underway*
- *Bulletin Board in Place*
- *Environmental Commitments*
- *Railroad Issues*
- *Utility Issues*

PADOT Pub 2, Project Office Manual, Part C, Section 1, Checklist for the Administration of Locally Sponsored Federal Aid Projects, contains a checklist to aid the Districts with monitoring and oversight of local projects. The checklist covers the bulleted points above and serves as documentation for PADOT oversight of locally sponsored project activity. Based on the documentation obtained throughout the audit District 06 was not completing the checklist.

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Finding 10 – 47: (continued)

Cause: PADOT policy requires adequate documentation related to local project staffing, and PADOT’s monitoring and oversight. The monitoring evidence provided to us for projects in District 06 included verbal approvals, meeting minutes, progress minutes, agreement exhibits, etc., but these clearly did not meet the specific requirements contained within the Publication 39 to properly meet federal requirements. Additionally, PADOT stated that staffing shortages have contributed to the internal control weaknesses noted above.

Effect: Many of the requirements implemented by PADOT within Pub 39 are designed to ensure compliance with federal regulations related to locally sponsored projects. District 06 did not sufficiently adhere to the requirements of Pub 39 which could result in staffing inadequacies and oversight failures for local projects within the District. Furthermore, improper and non-compliant use of federal funds could occur within all PADOT district offices and not be prevented or detected without adequate oversight and staffing reviews.

Recommendation: We recommend that PADOT ensure that its 11 district offices strictly adhere to the requirements and policies within Pub 39 to prevent control deficiencies related to local project oversight and better ensure compliance with federal regulations.

Agency Response: We concur that the requirements and policies implemented by PADOT are designed to ensure compliance with federal regulations related to locally sponsored projects. We also concur that the District offices must adhere to these requirements and policies to prevent deficiencies related to local project oversight and better ensure compliance with federal regulations.

Construction Oversight:

As stated in Pub. 39, “the Assistant District Executive for Construction is to assign an Assistant Construction Engineer to monitor and oversee the project. The Assistant Construction Engineer or a designee is to visit the project as frequently as needed to maintain an intimate knowledge of current activities and ensure that the work is being inspected and the contract administered in accordance with the terms of the agreement, the requirements of FHWA, and the procedures outlined herein.”

The Assistant District Executive for Construction assigned the Assistant Construction Engineer to oversee the District’s Federal Aid Municipal projects program. As permitted by Pub. 39, the Assistant Construction Engineer has delegated the responsibility for direct oversight of these projects to the Federal Aid Municipal project coordinators. These individuals performed oversight duties, and participated in project control meetings which were typically held bi-weekly.

The project control meeting minutes furnished by the District in response to the audit request, which sufficiently cover the time period(s) associated with the project payments selected for review, clearly demonstrate that the District has been meeting its obligation to visit Locally Sponsored Projects, maintain an intimate knowledge of current activities, and ensure that the work is being inspected and the contract is administered in accordance with the terms of the agreement, the requirements of FHWA, and the procedures outlined in Pub. 39.

Furthermore, a thorough review of the minutes from these regularly scheduled project control meetings shows that the requirements were met. Outstanding issues relating to the various items outlined in Pub. 39 (B/1/4-1) were part of the agenda, discussed during each meeting, and documented in writing.

In April, 2009, a checklist was developed to assist the Districts with oversight responsibility. According to the Project Office Manual, Pub. 2, this checklist “should be utilized when visiting Locally Sponsored Federal Aid Projects to provide uniformity in reviews as well as documentation that oversight is being performed.” While the checklist was created to aid the Districts, and its use is recommended, it is currently not required and the lack of checklists for a particular project cannot be construed as a violation of PADOT policy. However, PADOT will update the Project Office Manual to require the use of the checklist for future projects in order to assure statewide consistency. Nevertheless, improper or non-compliant use of federal funds is prevented or detected with adequate oversight, and the lack of the referenced checklist on these projects does not imply inadequate oversight in light of the thorough meeting minutes that were provided.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 47: (continued)

Project Staffing:

The selection of consultant staffing is conducted in accordance with standard procedures and is scrutinized to the same level as any PADOT project. As referenced in the audit findings, staffing letters for projects 57898 and 17724 were on file, however the approvals were given verbally. For the Presidents House Project, since this is a unique scope/design build project, the receipt of staffing letters and approvals was inadvertently overlooked. We acknowledge the audit finding.

The District through its own quality control measures, prior to the audit, acknowledged the lack of documentation in the staffing approval process and implemented new procedures to ensure staffing letters/approvals are properly documented. Starting in mid-2010, staffing letters/approvals are now doc-linked through ECMS prior to the award of any Federal Aid Municipal project. In the cases when staffing approval is not provided prior the project let date, a condition is set within ECMS to prevent award until project staffing is approved and doc-linked into ECMS. The fact that these documents were in place for project 14663 validates that corrective actions are now in place.

Auditors' Conclusion: Based on our review of project control meeting minutes provided, PADOT did not demonstrate with adequate documentation that all key requirements in Pub. 39 were monitored. PADOT did not provide any additional documentation to support their conclusions noted in their response related to construction oversight. Therefore, the finding and recommendations remain as previously stated. We will review any corrective action in the subsequent audit.

Questioned Costs: The amount of questioned costs cannot be determined.

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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Finding 10 – 48:

CFDA #20.205 – Highway Planning and Construction (ARRA)

CFDA #20.219 – Recreational Trails Program

CFDA #23.003 – Appalachian Highway Development System

Internal Control Deficiencies in PADOT’s Monitoring of Locally Sponsored ARRA Projects

Federal Grant Numbers: N78000 and N78ARR (ARRA)

Condition: During our current-year Single Audit of the HPC Cluster (\$1.8 billion on current SEFA) administered by PADOT, we reviewed two federally funded locally sponsored (subrecipient) ARRA projects. Of the \$155 million paid to PADOT subrecipients for the current year, \$5.9 million (or 3.8 percent) was paid with ARRA funds. A local project typically exists when the project is located on a street or highway over which PADOT does not have legal jurisdiction. In such cases, PADOT may arrange for the local public agency to perform the contract work with its own forces or by outside contracts. PADOT is responsible for the oversight of all Federal-aid projects and is not relieved of such responsibility by authorizing performance of the work by a local public agency.

PADOT and the Local Sponsor enter into a reimbursement agreement which typically includes but, is not limited to, general and required contract provisions, responsibilities for design and construction, utility considerations, ROW acquisition, availability of municipal funds, contract letting and awarding, construction inspection, payment procedures and responsibilities, records, audit requirements, contractor integrity provisions, and effective dates. An agreement exhibit details project funding within project phases and includes the amount of ARRA funding. If the agreement terms and conditions change, supplemental agreements may be added. As work progresses the local municipality submits invoices to PADOT for approval and federal reimbursement per the federal participation percentage.

The OMB A-133 Compliance supplement highlights requirements specific to ARRA projects. In the case of administering locally sponsored projects, PADOT is considered a pass-through entity of federal HPC funds and must ensure federal regulations are clearly identified to local recipients. We performed a review of ARRA specific requirements applicable to locally sponsored projects and noted that PADOT was not 1) ensuring the subrecipient of ARRA funding had a current CCR registration, 2) providing specific notification to the subrecipient that ARRA funds were not to be used for any casino or other gambling establishment, aquarium, zoo, golf course, or swimming pool and 3) separately identifying at the time of disbursements of funds, the Federal award number, CFDA, and the amount of ARRA funds. Our testwork consisted of reviewing the applicable subrecipient agreement between PADOT and the locally sponsored project, as well as specific invoicing and disbursement documentation.

Criteria: Strong internal controls should ensure that applicable federal regulations are observed and clearly identified to the local municipality for their use of federal HPC ARRA funds. Applicable federal regulations from the OMB A-133 June 2010 Compliance Supplement are as follows:

1) Part 3, M. Subrecipient Monitoring:

Compliance Requirement – Central Contractor Registration – Identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintain the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)).

Audit Objectives – Determine whether the pass-through entity reviewed whether subrecipients receiving ARRA funding have current CCR registrations and performed periodic checks to ensure that subrecipients are updating information, as necessary.

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Finding 10 – 48: (continued)

2) Part 3, A. Activities Allowed or Unallowed:

In addition, ARRA has established a cross-cutting unallowable activity for all ARRA-funded awards. Pursuant to Section 1604 of ARRA, none of the funds appropriated or otherwise made available in ARRA may be used by any State or local government, or any private entity, for any casino or gambling establishment, aquarium, zoo, golf course, or swimming pool.

3) Part 3, N. Special Tests and Provisions:

Compliance Requirement – Federal agencies must require recipients to agree to: (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, Federal award number, CFDA number, and the amount of ARRA funds; and (2) require their subrecipients to provide similar identification (as noted in R2 above) in their SEFA and SF-SAC. Additional information, including presentation requirements for the SEFA and SF-SAC, is provided in Appendix VII (2 CFR section 176.210)

Audit Objectives – If subawards of ARRA funds were made, determine whether the entity met the requirements for separately identifying to each subrecipient, and documenting at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds; and required their subrecipients to provide appropriate identification in their SEFA and SF-SAC.

Cause: 1) PADOT agreed they did not have a process in place to review subrecipient CCR registrations. 2) PADOT management felt that a general reference to the ARRA act within the subrecipient agreement special provisions was sufficient in identifying to the subrecipient that ARRA funds should not be used for any casino or other gambling establishment, aquarium, zoo, golf course, or swimming pool. 3) PADOT management noted that within the subrecipient ARRA agreement, the federal award number, CFDA number, and amount of ARRA funding is identified. PADOT management also noted that an audit clause, which references OMB circular A-133 requirements, is included within the agreement with subrecipients. PADOT management stated that a review of subrecipient audit reports is performed to determine if subrecipients' SEFA's and SF-SAC's are accurate based on comparison with the Commonwealth accounting system, SAP. The Federal award number, CFDA, and the amount of ARRA funds were not separately identified to the subrecipient at the time of disbursement since management was not aware of this ARRA requirement.

Effect: PADOT controls over locally sponsored projects are weak and are in noncompliance with ARRA requirements.

Recommendation: We recommend that PADOT strengthen controls over subrecipients receiving ARRA funds to ensure they communicate all information in compliance with ARRA requirements.

Agency Response: We agree that compliance with ARRA requirements is important. However, we disagree that PADOT needs to strengthen controls over subrecipients receiving ARRA funds to ensure communication of all information in compliance with ARRA requirements.

Of the 344 ARRA projects, there are 23 locally administered projects. To ensure communication with all the ARRA projects including the ARRA local projects, PADOT is using state-of-the art systems including the Engineering and Construction Management System (ECMS), Multi-Modal Project Management System (MPMS), and SAP to deliver the projects. PADOT has taken an aggressive approach to deliver the ARRA projects. This approach clearly adheres to the purpose and intent of ARRA, to preserve and create jobs and promote economic recovery, to assist those most impacted by the recession, and to invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.

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Specific Responses to the three Causes

Cause 1)

The Office of Comptroller Operations provides the following response for Cause 1: We disagree with this portion of the finding. The criteria noted by the auditors in 2 CFR, section 176.50 describes reporting and registration requirements. Our interpretation of the CFR is that an entity is only required to register in CCR if they are required to file 1512 Reports. In an effort to ensure we were compliant with the guidance we contacted OMB for clarification on the need to register in CCR.

OMB clarified that only ARRA subrecipients that have been delegated the reporting requirement from the Prime grant recipient are required to register in CCR in order to report in Federalreporting.gov. The Commonwealth files the ARRA 1512 report for all federal pass thru funds, and does not delegate reporting requirements to its subrecipients. Based on the Commonwealth's central reporting structure and the CCR registration exceptions noted by OMB, the Commonwealth is in compliance with CCR registrations as applicable to 1512 reporting.

In response to the auditors' contention that they must rely on HHS-OIG rather than on the OMB guidance that we provided them, we followed up by submitting the OMB guidance to HHS-OIG and asking HHS-OIG to review the specific guidance provided to the Commonwealth by OMB and consider whether, based on this guidance and the central ARRA 1512 reporting practice in Pennsylvania, this issue should be considered an audit finding. HHS-OIG directed the Commonwealth to "follow OMB guidance." We provided both the OMB and HHS-OIG documents to the auditors. Based on the guidance provided by OMB and affirmed by HHS-OIG, we maintain that by centrally filing the 1512 report for all federal pass thru funds the Commonwealth is in compliance with the federal reporting requirements for CCR registrations.

Cause 2)

All of the ARRA projects including the locally administered ARRA projects must follow all the requirements of the ARRA Bill, including Section 1604, *Limit of Funds*, "None of the funds appropriated or otherwise made available in this Act may be used by any State or local government, or any private entity, for any casino or other gambling establishment, aquarium, zoo, golf course, or swimming pool." PADOT has oversight for all the ARRA projects and would not approve any projects that are not allowed through Section 1604. In addition, the FHWA Division Office authorized these projects for federal funding. The ARRA locally administered (subrecipient) projects have included various types of projects including resurfacing, bridge preservation, bridge replacement, bridge removal, roadway rehabilitation, safety, and transportation enhancement (sidewalk, streetscape, etc.) projects. The reference to follow the ARRA Bill requirements is both in the contract special provisions and in the reimbursement agreements with the local agencies/sponsors (subrecipients) for their respective ARRA projects.

Cause 3)

For all locally administered projects, PADOT enters into a Reimbursement Agreement with the local agencies/sponsors. For the ARRA locally administered projects involving local agencies/sponsors (subrecipients), PADOT as part of any agreement with a subrecipient receiving federal funding, identifies with each agreement the federal award number, the CFDA number, and also any amount of ARRA funds that are part of such agreement. PADOT also includes the audit clause used with subrecipients receiving federal awards which provides instructions to each subrecipient on the requirements of OMB circular A-133. In addition, PADOT reviews all applicable single audit reports received from the various subrecipients that expend federal funding provided through PADOT to determine if their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC) are accurate based on comparing the information contained on those documents against the Department's accounting system (SAP).

Auditors' Conclusion: We acknowledge PADOT's agency response to the three exceptions reported in the finding, but we do not agree that these exceptions are resolved for the following reasons: 1) As the criteria above clearly states, determining that the pass-through entity checked the CCR registrations of its ARRA subrecipients is a key audit objective in our Single Audit. In our separate auditor correspondence with HHS-OIG, our federal cognizant agency for Single Audit, HHS-OIG agreed with our above finding that PADOT is required to check its ARRA subrecipients for CCR registrations. Since PADOT clearly did not do this, PADOT needs to work with Federal audit resolution officials

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to resolve the issue. 2) Due to the increased accountability and transparency for ARRA funds, we conclude that the missing ARRA-specific allowability provisions represents a control weakness in PADOT's subrecipient ARRA agreements which cause subrecipients to be inadequately informed. 3) Since PADOT does not identify the required information at the time of disbursements, PADOT is clearly not in compliance with the above criteria. In addition, OB or OA should have issued overall guidance to all Commonwealth agencies (e.g., Management Directive) to inform them of the federally-required information at the time of ARRA disbursements to subrecipients.

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

Questioned Costs: The amount of questioned costs cannot be determined.

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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Finding 10 – 49:

CFDA #66.458 – Clean Water State Revolving Fund (including ARRA)

PENNVEST Did Not Specify Required Federal Award Information in Subrecipient Award and Disbursement Documents Resulting in Noncompliance With OMB Circular A-133

Federal Grant Numbers: CS-420001-08 and 2W-42000209

Condition: For the CWSRF program, PENNVEST (PV) did not identify the federal award name and federal grant number or name of the federal awarding agency in the award documents (both ARRA and non-ARRA) and at the time of disbursement of funds to subrecipients. In addition, PV did not notify its subrecipients of the amount of ARRA funds they were receiving at the time of the award and disbursement of funds. These failures represent internal control weaknesses which causes CWSRF subrecipients to be improperly informed of federal program information (both ARRA and non-ARRA), which could cause the omission or improper identification of program expenditures on subrecipient SEFAs.

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 and number; if the award is research and development, and 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.

The Federal OMB Circular A-133 Compliance Supplement Part 3, Section N., R3 – Subrecipient Monitoring, states:

Federal agencies must require recipients to agree to: (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds;

Cause: According to management, PV informs subrecipients of the CFDA title and number in the Funding Offer and Funding Agreement. Notification of ARRA funding is included in the Funding Offer and Funding Agreement Addendum. However, only the total amount of funding is shown on these documents provided to the subrecipient and not the breakout of ARRA and Non-ARRA funding. PV management stated they were not informed of the additional award notification requirements by EPA.

The Comptroller’s Office is responsible for payments made for CWSRF and tracks the payments by subrecipient on the Loan Accounting System and SAP. The Comptroller can provide the necessary award information for proper identification of program expenditures on subrecipient SEFAs, but only if the information is requested by the subrecipients or their auditors.

Effect: Failing to include the Federal grant award number and ARRA award information in subrecipient award documents and at the time of disbursement of funds causes subrecipients and their auditors to be uninformed or untimely informed about what specific program and other regulations apply to the funds. The potential exists for incorrect SEFAs in subrecipient OMB Circular A-133 Single Audit reports to be submitted to the Commonwealth, and federal funds will

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not be properly audited at the subrecipient level in accordance with the Single Audit Act and Circular A-133. In addition, if the internal control weaknesses are not corrected, noncompliance with Circular A-133 audit provisions at the subrecipient level may continue into the future.

Recommendation: PV should timely and adequately identify the federal award name and federal grant number, name of the federal funding agency and ARRA award information to all subrecipients on up-front award documents and also identify the same information at the time of each disbursement of ARRA funds to each subrecipient.

Agency Response: PENNVEST agrees with the above-referenced audit finding, as stated in the “Condition” paragraph of the finding. However, PENNVEST is in partial agreement and partial disagreement with the consequences of that condition, as stated in the “Effect” paragraph of the finding. As noted in the “Cause” paragraph of the finding, there are several times prior to disbursement of federal funds to projects that federal award information is included in documents that provide detail on the American Recovery and Reinvestment Act (ARRA) information. The PENNVEST Funding Offer, made at the time of PENNVEST Board of Directors approval, notified PENNVEST borrowers of ARRA award funds being used and that all ARRA and federal reporting requirements would be required. Furthermore, at the time of Loan Settlement, PENNVEST notified borrowers that ARRA funds would be disbursed to them in the PENNVEST Funding Agreement between PENNVEST and the borrower. Specific language was included in PENNVEST Funding Agreement exhibits that detail ARRA and federal reporting requirements. Both the PENNVEST Funding Offer and Funding Agreement detail federal and ARRA award notifications and occur prior to disbursement of any ARRA or federal dollars.

Consequently, as a result of these various notifications being in place, PENNVEST disagrees with the statement in the “Effect” paragraph that reads “Failing to include the Federal grant award number and ARRA award information in sub-recipient award documents and at the time of disbursement of funds causes sub-recipients and their auditors to be *uninformed or untimely informed about what specific program and other regulations apply to the funds.*” (emphasis added).

On the other hand, PENNVEST is in agreement with the finding that the program is required to detail federal award information at the time of each disbursement according to the OMB A-133 compliance supplement. That having been said, we are in partial agreement and partial disagreement with the statement in the “Effect” paragraph that stated “The potential exists for incorrect SEFAs in sub-recipient OMB Circular A-133 Single Audit reports to be submitted to the Commonwealth, and federal funds will not be properly audited at the sub-recipient level in accordance with the Single Audit Act and Circular A-133” Since ARRA funding recipients knew that they were receiving ARRA, i.e. federal, dollars and, further, we did not distinguish to them federal from non-federal dollars, they had no reason to assume anything except that all of the funds being disbursed to them were federal dollars. If anything, our not reporting funding sources to our funding recipients as required under Circular A-133 would most likely have resulted in sub-recipients assuming that they had surpassed the \$500,000 Single Audit threshold in a given fiscal year, rather than the other way around.

The above observation to one side, PENNVEST intends to correct the information shortcoming noted in the finding “Condition”. First, an email will be sent to each ARRA funding recipient showing a record of the dollar amount and disbursement date of federal funds that they have received to date under ARRA. This communication will also include the Catalog of Federal Domestic Assistance (CFDA) as well as the Federal Capitalization Grant number. In addition, for the ARRA funds remaining to be disbursed, this same information will be conveyed to the funding recipient with each disbursement, as required under Circular A-133.

CFDA and ARRA information do exist on the PENNVEST Payment Memo that assigns funding sources and is scanned to process the payments by the Pennsylvania Comptroller Office (PACO). All funds are tracked by PA Budget office Bureau of Financial Management Schedule of Expenditure of Federal Awards (SEFA) for federal reporting and are reconciled by PENNVEST. In addition all ARRA projects are audited by PACO Bureau of Auditors or by contracted professional consultants that use an ARRA check list that is reviewed by the PENNVEST borrower during disbursement of ARRA funds. These notices of ARRA funding increase the knowledge of a PENNVEST borrower awareness that a Single Audit may need to be done. However, PENNVEST is in agreement that the additional federal information with

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Finding 10 – 49: (continued)

each disbursement will increase borrower awareness that ARRA federal funds are in the project. This will assist the borrower in tracking the total federal funds including ARRA money that may meet the funding level that would require that a Single Audit be submitted. The PENNVEST borrower will need to continue doing audit confirmation procedures to insure compliance with all audit regulations including ARRA funds.

Auditors' Conclusion: Based on the response by PENNVEST, the finding remains as previously stated. While ARRA subaward notification takes place before disbursements, these notifications do not meet the requirements of OMB Circular A-133 since they do not include all the required items mentioned in the condition above. The response by PENNVEST indicates agreement that action must be taken to provide the needed information to subrecipients during both the subawards process and the cash disbursement process. As indicated in the Effect section of the finding, without clear guidance to subrecipients, they will not be directly informed about the specific type of funding received, which could cause confusion regarding specific auditing requirements. The auditors believe the best course of action is to fully provide subrecipients with ARRA and non-ARRA loan information rather than leaving to chance that subrecipients will adhere to auditing requirements.

Questioned Costs: The amount of questioned costs cannot be determined.

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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Finding 10 – 50:

CFDA #66.458 – Clean Water – State Revolving Fund (Including ARRA)

Material Weaknesses Cause Errors in the CWSRF Annual Report Submitted to EPA (A Similar Condition Was Noted in Prior Year Finding #09-37)

Federal Grant Numbers: CS-42-0001-08 and 2W-42000209 (ARRA)

Condition: On an annual basis, PENNVEST is required to submit an Annual Report to EPA for CWSRF. The Annual Report details many aspects of the PENNVEST program including a chart to list all CWSRF loans, a chart to show that PA met its required state match obligation, a chart to show that PENNVEST adhered to the binding commitment requirements, etc. PENNVEST submitted the FYE June 30, 2010 Annual Report as required. However, during the auditor's review of the Annual Report, numerous errors were identified. PENNVEST's internal controls designed to ensure the accuracy of the annual report did not prevent and detect the errors prior to submission. The auditors found the following errors:

- Chart 1 lists all the loans awarded by PENNVEST in the CWSRF program since inception of the program. Chart 11 is the Intended use Plan. We found 64 loans on Chart 1 that do not appear on Chart 11. Therefore, the Intended Use Plan does not accurately report all intended uses of available funds.
- Chart 4 lists all the sources of funds including the Federal grant payments, required state match, and principal and interest repayments. The principal and interest repayments on Chart 4 are reported at \$830,905,175 which includes an incorrect amount of \$15.3 million in prepaid repayments. In addition, the amount reported on Chart 11 for principal and interest repayments is \$815,590,069 which does not include any of the \$16.1 million in prepaid repayments, which is incorrect by \$.8 million. The correct amount of principal and interest repayments is \$831,682,892 and therefore, the amount of available recycled funds is not accurately reported on Chart 4 or Chart 11.
- Chart 10 tracks the equivalency amounts equal to the Federal grants. Chart 10 overstated loan # 71365 by \$5M causing the total equivalency amount to be overstated. However, the equivalency amount still exceeds the Federal grants.
- Chart 1 understated the closed loan amount for loan # 73182 by \$7k due to reporting the final disbursed amount instead of the closed loan amount.
- Chart 3 is the binding commitment schedule. This Chart did not include any ARRA funding which could affect future required binding commitments. The total ARRA funding is \$176,912,530.
- Chart 6 lists the Federal cash draws. This Chart did not include any ARRA cash draws. Therefore, total federal cash draws were understated by \$83,488,770, the amount of draws for ARRA funding.
- Chart 9 lists the benefits accruing from current year closed loans. Chart 9 was missing a current year closed loan in the amount of \$5.8 million (loan #73116) so no benefit was reported for this loan.
- Chart 7 tracks the available administrative funds. The administrative funds listed on Chart 11 are reported at \$44,374,672 which is overstated by \$2.7M since our testing disclosed the amount reported on Chart 7, \$41,627,857 to be accurate. Therefore, Chart 11, the Intended Use Plan, does not accurately report all available funds.
- The last section of the Annual Report is called the Addendum to Narrative for the CWSRF Annual Report. The Addendum summarizes the report information for use in the Narrative Section. We tested the Addendum by comparing it to Chart 1 and to the PNVST-04 report from the Loan Accounting System (LAS). We found numerous instances in which data in the addendum did not agree to the LAS as follows:

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Finding 10 – 50: (continued)

Item	LAS	Addendum	Difference
Construction Projects Amortized	\$1,577,584,817	\$1,593,543,725	\$(15,958,908)
Number of Projects	555	558	(3)
ARRA Only	0	\$112,607	\$(112,607)
Number of Projects	0	1	(1)
Constructed and in Operation	1,426,037,459	1,434,729,450	\$(8,691,991)
Number of Projects	563	567	(4)
ARRA Only	0	\$112,607	\$(112,607)
Number of Projects	0	1	(1)
Paid in Full	\$150,533,468	\$141,193,198	\$9,340,270
Number of Projects	95	92	3

Criteria: Federal TITLE 40 Chapter I, Part 35, Section 35.3165 (a) and (b) mandate that PENNVEST must submit an Annual Report as follows:

(a) *Annual report. The State must provide an Annual Report to the RA beginning the first fiscal year after it receives payments under title VI. The State should submit this report to the RA according to the schedule established in the grant agreement.*

(b) *Matters to establish in the annual report. In addition to the requirements in section 606(d) of the Act, in its annual report the State must establish that it has:*

- (1) Reviewed all SRF funded section 212 projects in accordance with the approved environmental review procedures;*
- (2) Deposited its match on or before the date on which each quarterly grant payment was made;*
- (3) Assured compliance with the requirements of Sec. 35.3135(f);*
- (4) Made binding commitments to provide assistance equal to 120 percent of the amount of each grant payment within one year after receiving the grant payment pursuant to Sec. 35.3135(c);*
- (5) Expended all funds in an expeditious and timely manner pursuant to Sec. 35.3135(d); and*
- (6) First used all funds as a result of capitalization grants to assure maintenance of progress toward compliance with the enforceable requirements of the Act pursuant to Sec. 35.3135(e).*

Good internal controls dictate that review and approval procedures for the Annual Report should be adequate to prevent and detect errors, and ensure errors are corrected before the report is submitted.

Cause: According to PENNVEST management, PENNVEST was extremely busy with ARRA related issues at the time the Annual Report was being prepared. Therefore, PENNVEST did not devote adequate resources to properly prepare and review the Annual Report prior to submission.

Effect: When information reported in the required Annual Report contains errors, PENNVEST is not in compliance with federal regulations.

Recommendation: We recommend that PENNVEST strengthen its internal controls over the preparation and review and approval of the Annual Report. PENNVEST procedures must ensure a more diligent review of the Annual report to ensure its accuracy prior to submission to EPA. We also recommend that PENNVEST submit a revised Annual Report for June 30, 2010 to EPA to correct the errors noted in the finding above.

Agency Response: PENNVEST partially agrees and partially disagrees with the finding. The finding cites numerous errors with the FFY 2010 Annual Report whose validity PENNVEST Management questions. In addition, PENNVEST

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will implement internal controls to verify audit information to submit in the Annual Report. It is important to realize that during this audit time period, PENNVEST operations were impacted by the administration of the American Recovery Reinvestment Act.

PENNVEST partially agrees that Chart 1, which lists all the loans awarded by PENNVEST since the inception of the CWSRF program, should match Chart 11. Stricter reviews may address some of the misreported information. PENNVEST notes, however, that the independent Certified Public Accounting (CPA) firm that performs a cross walk of the PENNVEST annual audit to the CWSRF Annual Report did not find any dollar differences. They did note that Chart 1 contains cumulative totals for 20 years and annual numbers are better compared on Chart 5. The finding does address Chart 5.

PENNVEST agrees with the finding on Chart 4. Chart 4 lists all the sources of funds including the Federal grant payments, required state match, and principal and interest repayments. The cumulative principal and interest repayments through June 30, 2010 reported on Chart 4 are-\$830,905,175 which is missing a prepayment amount from a prior year and the repayments for the On Lot program for the 2009-10 fiscal year. In addition, the amount reported on Chart 11 for principal and interest repayments is \$815,590,069 which does not include the prepaid repayments since FY 2006-2007. The adjusted Chart 11 amount of principal and interest repayments is \$831,682,892 and the adjusted amount of Chart 4 is \$831,859,581; therefore, the amount of available recycled funds is not accurately reported on Chart 4 or Chart 11. The difference of \$176,689 will be investigated and adjusted in the near future.

PENNVEST agrees with the finding regarding Chart 10. PENNVEST inter-departmental reviews would have identified the overstated \$5 million dollars. However, as noted in the Finding, Chart 10 tracks equivalency and PENNVEST still exceeds the required equivalency amounts for the Federal capitalization grants.

PENNVEST agrees with the finding on Chart 1 on the difference reported on \$7 thousand between final disbursed amounts versus the closed loan amount. However, PENNVEST does not believe that \$7 thousand dollars reaches a material reporting level.

PENNVEST disagrees with the finding on Chart 3. The EPA CWSRF Coordinator noted to PENNVEST a conversation that she had with AG staff about Chart 3. As she explained the problem, the binding commitments are calculated in Chart 3 by using the 20 percent state match as a multiplier. However, ARRA funding did not require a state match, which could result in the numbers being misleading. According to the EPA official, it is unclear if Chart 3 is actually the correct chart to report ARRA commitments. In addition, EPA guidance was lacking regarding how to treat ARRA funding, but rather it was left to the states to use whatever methodology worked best for them.

PENNVEST is unclear on the finding regarding Chart 6. EPA guidance on ARRA funding was unclear on exactly how to include ARRA funds on the Annual Report and left the decision to the states to decide what Chart to use.

PENNVEST agrees with the finding regarding Chart 9. If EPA wants this chart revised, we will do the revision.

PENNVEST agrees with the finding on Chart 7. Chart 7 is correct. Chart 11 has incorrect information on available funds. Better communications between staff will ensure that differences between charts are reconciled.

PENNVEST agrees with the finding on the Addendum to Annual Report having numerous errors.

PENNVEST management agrees that increased reviews and strengthening internal controls will provide a more diligent review of the EPA Annual Report. PENNVEST believes that any revisions to the Annual Report reporting decision should be done in coordination with EPA, which we plan to do.

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Finding 10 – 50: (continued)

Auditors' Conclusion: We encourage PENNVEST to resolve the reporting errors and the unique issues related to reporting the ARRA funding with Federal officials in EPA. Our finding remains as previously stated. We will review any corrective action in the subsequent audit.

Questioned Costs: None

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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Finding 10 – 51:

CFDA #66.458 – Clean Water – State Revolving Fund

Misinterpretation of Regulations Resulted in Noncompliance With ARRA Requirements

Federal Grant Number: 2W-42000209

Condition: PENNVEST is the Commonwealth's agency that administers the ARRA grants from EPA for the CWSRF. Disbursements of ARRA funds to subrecipients are initiated by PENNVEST and recorded in SAP by OCO. OCO's responsibility includes a review and approval of all expenditures posted to SAP. We found that neither PENNVEST nor OCO verified that subrecipients have current registration as required in the Central Contractor Registration (CCR), resulting in noncompliance with ARRA program regulations. Additionally, we found that neither PENNVEST nor OCO performed periodic checks to ensure subrecipients are updating CCR information as necessary. Based on information provided by OCO, it appears OCO misinterpreted the ARRA regulations to say that verifying CCR registration is not required by pass-through entities.

Criteria: Part 3 of the A-133 Compliance Supplement, Section M regarding ARRA requirements, states:

Central Contactor Registration – Identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Numbering System (DUNS) number, and maintain the currency of that information (section 1512(h) of ARRA, and 2 CFR section 176.50(c)).

Part 3 of the A-133 Compliance Supplement, Section M states an audit objective for auditors is as follows:

Determine whether the pass-through entity reviewed whether subrecipients receiving ARRA funding have current CCR registrations and performed periodic checks to ensure that subrecipients are updating information, as necessary.

Cause: Based on our conversations with PENNVEST, PENNVEST was relying on OCO to perform the CCR verifications. OCO stated that they believed they were in compliance because there is no method to truly confirm CCR registration because entities can mark their registrations as private. Additionally, OCO believed they were in compliance because they understood initially that OMB provided guidance that a subrecipient should have both a DUNS and CCR registration, but, that it was later removed when reporting actually began and there were no existing requirements by OMB that state a subrecipient has to be registered in the CCR.

Effect: Without ensuring subrecipients are properly registered and updated in the CCR, the Commonwealth did not comply with ARRA requirements and the Commonwealth's quarterly 1512 reporting could be inaccurate.

Recommendation: We recommend that PENNVEST and OCO coordinate their efforts to ensure the Commonwealth's CWSRF ARRA subrecipients are in compliance with the CCR registration requirements.

PENNVEST and OCO Response: We disagree with this finding. The criteria noted by the auditors in 2 CFR, section 176.50 describes reporting and registration requirements. Our interpretation of the CFR is that an entity is only required to register in CCR if they are required to file 1512 Reports. In an effort to ensure we were compliant with the guidance we contacted OMB for clarification on the need to register in CCR.

OMB clarified that only ARRA subrecipients that have been delegated the reporting requirement from the Prime grant recipient are required to register in CCR in order to report in Federalreporting.gov. The Commonwealth files the ARRA 1512 report for all federal pass thru funds, and does not delegate reporting requirements to its subrecipients. Based on the Commonwealth's central reporting structure and the CCR registration exceptions noted by OMB, the Commonwealth is in compliance with CCR registrations as applicable to 1512 reporting.

In response to the auditors' contention that they must rely on HHS-OIG rather than on the OMB guidance that we provided them, we followed up by submitting the OMB guidance to HHS-OIG and asking HHS-OIG to review the

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specific guidance provided to the Commonwealth by OMB and consider whether, based on this guidance and the central ARRA 1512 reporting practice in Pennsylvania, this issue should be considered an audit finding. HHS-OIG directed the Commonwealth to “follow OMB guidance.” We provided both the OMB and HHS-OIG documents to the auditors. Based on the guidance provided by OMB and affirmed by HHS-OIG, we maintain that by centrally filing the 1512 report for all federal pass thru funds the Commonwealth is in compliance with the federal reporting requirements for CCR registrations.

Auditors’ Conclusion: As the criteria above clearly states, determining that the pass-through entity checked the CCR registrations of its ARRA subrecipients is a key audit objective in our Single Audit. In our separate auditor correspondence with HHS-OIG, our federal cognizant agency for Single Audit, HHS-OIG agreed with our above finding that PENNVEST is required to check its ARRA subrecipients for CCR registrations. Since PENNVEST clearly did not do this, PENNVEST needs to work with Federal audit resolution officials to resolve the issue.

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

Questioned Costs: The amount of questioned costs cannot be determined.

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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Finding 10 – 52:

CFDA #66.458 – Clean Water State Revolving Fund (including ARRA)

Control Deficiencies Exist in PENNVEST’s Subrecipient Audit Resolution Process

Federal Grant Numbers: CS-420001-08 and 2W-42000209

Condition: For the CWSRF program, PENNVEST (PV) utilizes the Commonwealth Office of the Budget’s Bureau of Audits (BOA) to conduct on-site program audits of PV loan recipient construction projects. To assist with the on-site audit effort, BOA contracted with an independent consultant to perform reviews of ARRA-funded construction projects. We reviewed the seven BOA audit reports and 15 independent consultant reports issued during FYE June 30, 2010. We found that four of the seven BOA audits reported no findings. The remaining three BOA audits contained findings for which two audits’ corrective action plans were either not received or not resolved. Questioned costs for these three findings could not be determined. The other audit had a corrective action plan on file which PV approved. However, our review of that approved plan found that it was not adequate to resolve the finding.

We found that 10 of the 15 independent consultant review reports contained no findings. The remaining five consultant reports contained findings. For three of the five reports with findings, we found that PV had not received a corrective action plan from the subrecipient. Questioned costs for these five reports could not be determined. The other two reports with findings had corrective action plans submitted, but we found it took PV up to six months to approve the plans. Based on our audit procedures, it appears PV initiated efforts to follow-up and to resolve the outstanding corrective action plans as a result of our inquiry.

Therefore, PV’s process to follow-up on and approve corrective action plans is inadequate.

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: According to PV management, PV was extremely busy with ARRA related issues during the fiscal year. Therefore, PV did not devote adequate resources to properly resolve all subrecipient audit findings.

Effect: Since PV did not properly review and approve correction action plans from subrecipient audits, subrecipients were not made aware of acceptance or rejection of corrective action plans in a timely manner. Furthermore, noncompliance could continue to occur in future periods if findings are not properly and timely corrected.

Recommendation: We recommend that PV complete timely audit resolution procedures to ensure timely subrecipient compliance with program requirements.

Agency Response: PENNVEST Management takes exception to the conclusion of this deficiency. As stated in the “Condition” paragraph of the finding that PENNVEST has failed to provide adequate follow-up on subrecipient monitoring. All PENNVEST funded America Reinvestment Recovery Act (ARRA) projects are subject to the on-site project review, any issues that are identified are resolved prior to final project close-out. No project is able to finalize their funding and receive funding hold-back and/or final amortized until all audit issues are resolved, and funding agreement conditions are satisfied. We agree that audit processing review may not have been timely, and while that may have a negative impact on final project disbursement, the quality of the project disbursement process has not been compromised in regard to funding eligibility of project components as these projects are subject to this final review before close-out. Given that audits and reporting will continue to be an important part of the funding our funding

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Finding 10 – 52: (continued)

program, PENNVEST has devoted additional staff to the loan monitoring program to assist in the audit review and response activities in order to provide a more timely resolution to any issues identified in the correction action plans. We believe that this renewed effort to ensure a timely close-out of the projects, and additional reviews of on-going projects will ensure an appropriate level of oversight, afford the proper monitoring of construction progress, and provide the necessary reporting information.

Auditors' Conclusion: We acknowledge PENNVEST's comments in its agency response and its assignment of additional staff to the resolution of audits to ensure a more timely response to the issues identified in the audits. However, no additional information or documentation was provided with the agency response to resolve the internal control weakness that existed in our current audit period. We believe prompt attention to and resolution of audit issues makes the audits more useful to detect and prevent future noncompliance with program regulations. As a result, the finding remains as originally stated and we will review any corrective action by PENNVEST in our subsequent audit.

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 53:

CFDA #66.458 – Clean Water – State Revolving Fund (Including ARRA)

Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (A Similar Condition Was Noted in Prior Year Finding #09-38)

Federal Grant Numbers: CS-42-0001-08 and 2W-42000209 (ARRA)

Condition: As part of our audit of the PENNVEST major program (CWSRF) for the year ended June 30, 2010, we performed an information technology (IT) general controls review over the significant applications (Online Funding Request [OFR] System and Funds Disbursement [FD] System) identified for this major program. Our prior year audit SFYE June 30, 2009 disclosed several significant deficiencies that needed to be addressed by Commonwealth management. PENNVEST management stated that it has implemented corrective action to address the control weaknesses; however, this corrective action was not implemented until subsequent to June 30, 2010. PENNVEST implemented a new change management system and improved controls using Microsoft SharePoint software which was implemented in August of 2010 to address the deficiencies. Therefore, the same deficiencies in computer controls identified in the prior year continued to exist for the current year.

A lack of segregation of duties exists because personnel with the ability to develop and maintain programs also have the capability to promote programs to production. Those same individuals also have the ability to program, implement, and monitor changes to the job schedules in the FD application. Further, these same individuals are responsible for FD application backups and for monitoring that the backups were completed successfully.

Also, a monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard change management process. This deficiency is more significant because of the lack of segregation of duties related to personnel with the ability to develop programs and move the programs into production.

As part of our current audit, due to ARRA funding, we performed a limited evaluation of the new software being used for a change management system. However, we did not test the operating effectiveness of this system because it was implemented subsequent to the end of our audit period.

Criteria: A well-designed system of internal controls dictates that sound general computer controls be established and functioning to best ensure that federal programs are administered in accordance with management's intent.

Cause: Although management has implemented a new change management system with Microsoft SharePoint software to track and monitor program changes, the system was implemented in August 2010 (subsequent to the end of our audit period). Also, management indicated that they implemented changes to access and monitoring to strengthen the segregation of duties subsequent to our audit period. However, certain employees still have the ability to develop and promote changes into production.

Effect: The deficiencies noted above in IT general controls could have resulted in unauthorized changes to computer applications and noncompliance with federal regulations, including any future funds paid out by PENNVEST from EPA grants awarded under ARRA (CFDA #66.458). Since this is a web-based application/system, IT general controls are paramount to effective internal controls.

Recommendation: We recommend that PENNVEST management continue to evaluate the effectiveness of the new change management software to determine its adequacy in addressing the segregation of duties and monitoring deficiencies noted above. Furthermore, management should ensure all new reviews and implemented internal controls are adequately documented and that segregation of duties be enforced. We will test the operating effectiveness of the new controls in our subsequent audit.

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Finding 10 – 53: (continued)

Agency Response: PENNVEST partially agrees with the finding. Agreement is made with the finding statements that changes implemented as part of the corrective actions, were implemented after June 30, 2010 and records audited under the FY 2010 audit period would not have had the corrective actions applied at the time of the transaction.

PENNVEST does not agree with the portion of the findings that there is a lack of segregation of duties and adequate controls for management of application programs. Starting in June 2011, PENNVEST systematically re-organized reporting, approvals and reviews to align with a hierarchical organization structure. A governance model was fully implemented over the application systems. Additional changes included filling a critical job vacancy which was responsible for management of application controls, separation of IT permissions and accesses to production environments, better defined and separated job duties, and implementation of an electronic change management tracking system that captures the approvals and reviews of changes through each step of the lifecycle process.

PENNVEST does agree with the portion of the findings that there is a lack of segregation of duties for adequate controls over monitoring of job schedules and application backups. The current organization has only one database administrator and one network administrator. These positions, by the nature of their job responsibilities and required skills to perform their job, do not have a second level of reviews or approvals over these activities. Since it is not feasible to have organizational depth or more than one person in these job classifications, PENNVEST will investigate possible corrective actions through other methods.

PENNVEST does not agree with the portion of the findings that states that there is inadequate production monitoring. Effective as of December 2010, PENNVEST implemented production monitoring tools to monitor unauthorized changes to computer applications in its production environment. PENNVEST made an agreement with the Commonwealth Technology Center (CTC) Enterprise Server Farm (ESF), where PENNVEST infrastructure is located and managed, to independently run SAS 70 compliant software, RSA Envision, to report on production server activities. The software generates monitoring reports that log activities for all windows software installations, host and applications privileges and configuration changes, and computer account logon activities. These reports are automatically sent on a weekly basis to the PENNVEST Executive Director for Information Technology, who in turns reviews these reports for exceptions and unauthorized activities for that reporting period. Both the report runs and reviews are separated activities, and responsible personnel do not have access to production environments that allow for altering or modifications of reporting results.

Auditors' Conclusion: Although PENNVEST disagrees “with the portion of the findings that there is a lack of segregation of duties and adequate controls for management of application programs”, the corrective action was started in June 2011; therefore, the lack of segregation of duties existed for the entire audit period.

Regarding “PENNVEST does not agree with the portion of the finding that states that there is inadequate production monitoring”, any corrective action occurred in December 2010, which is subsequent to our audit period.

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

Questioned Costs: None

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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Finding 10 – 54:

CFDA #81.042 – Weatherization Assistance for Low-Income Persons

CFDA #81.042 – ARRA – Weatherization Assistance for Low-Income Persons

CFDA #93.568 – Low-Income Home Energy Assistance Program

Noncompliance and Internal Control Deficiencies in DCED’s Program Monitoring of Weatherization Subrecipients (A Similar Condition Was Noted in Prior Year Finding #09-39)

Federal Grant Numbers: 08B1PALIEA, 09B1PALIEA, 0901PALIE2, G-10B1PALIEA, G-1001PALIE2, DE-EE0000135, EE0000290, and R340651

Condition: The prior four Single Audits of the Weatherization Assistance Portion (WAP) of the LIHEAP program administered by DCED disclosed numerous instances of noncompliance with federal regulations, potential unallowable costs, and material internal control deficiencies at both the state and subrecipient levels. These prior-year findings were based initially on a separate June 2007 report issued by other auditors (in the Department of the Auditor General – Bureau of Departmental Audits) who performed compliance testing of Weatherization expenditures at both the state and subrecipient levels and issued a 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, 2010 disclosed that DCED was undergoing an organizational overhaul during our audit period due to the significant increase in the size of the program resulting from the new ARRA funding. As a result, DCED was in the process of developing corrective measures to resolve the prior year deficiencies during the current audit period, which DCED indicated were not fully implemented and continued to exist as of the end of the audit period, June 30, 2010. In addition, DCED indicated that corrective measures are ongoing in the implementation of a new weatherization system, known as the Hancock Energy Software system (or HES), to enhance the future management and oversight of the WAP program. The new HES system was piloted by DCED, but not fully implemented as of the prior year ended June 30, 2009. We found that the computer control weaknesses over HES consisting of a lack of documentation of change controls and weaknesses in system security over information technology (IT) noted during the prior year SFYE June 30, 2009 audit continued to exist in the current year SFYE June 30, 2010.

Based on our review of supporting documents provided by DCED in response to our follow-up on the prior year findings and the results of our current year testwork, the following internal control deficiencies were not sufficiently addressed and continued to exist during the current audit period:

- There were inconsistent state guidelines in calculating client income to determine individual eligibility for weatherization assistance. Clients receiving LIHEAP 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 the 12 months preceding the weatherization application to determine client eligibility, DPW policy allowed for a pro-rated calculation of client income based on 90 days of actual income. This situation led to inconsistent eligibility determinations in the Weatherization program, and the potential for client abuse. DCED methods to determine eligibility remain inconsistent. DCED indicated they were in the process of implementing changes to address this deficiency, however the changes were subsequent to SFYE June 30, 2010
- DCED lacked clear and consistent written policies and procedures that it considered necessary for subrecipients to effectively administer their weatherization programs. DCED reissued old program directives to subrecipients to reinforce the policy and address the deficiency. DCED also made the directives available on DCED’s computer system for access by agency and subrecipient personnel. This corrective action is not sufficient since the deficiencies found during the audit were a result of the varying interpretations and inconsistent application of these directives by different subrecipients. Also, DCED indicated that they were developing a policy and procedure manual for subrecipients to strengthen controls, however, the manual was not complete as of the end of our audit period.

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- 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. DCED indicated that they began to utilize the HES system to review invoices during the audit period. However, we found that HES data was incomplete during the audit period. In addition, DCED management indicated that new financial monitoring procedures were being developed, to include a detailed review of case file documentation and invoices that support project costs. However, the financial monitoring process was not implemented as of SFYE June 30, 2010. The US DOE also noted inadequate financial monitoring by DCED during the current audit period.
- In the current year, DCED was in the process of overhauling its monitoring procedures and the new monitoring procedures were not yet implemented as of the end of our audit period. DCED on-site monitoring activity did not include a review of internal control processes and procedures at the subrecipients and a consistent sampling methodology was not applied to ensure that an adequate sample of client case files was reviewed. DCED monitoring procedures also failed to include monitoring of the promotional/outreach activities of its subrecipients to ensure the most needy residents were made aware of the Weatherization program. Additional weaknesses were noted by US DOE during the current audit period, such as inadequate on-site financial monitoring and an insufficient level of on-site monitoring to comply with the minimum outlined in the state plan (i.e. every subrecipient at least once per year). Management indicated that they were in the process of developing these procedures and hiring additional staff. The new monitoring procedures would address these weaknesses once implemented.
- As in the prior year, we found that violations with federal cash management regulations occurred in the current year due to drawdowns of excess cash. The drawdowns were considered in excess of the subgrantees immediate cash needs. During the current audit period, we reviewed an audit performed by US DOE OIG that disclosed that excess cash drawdowns occurred for ARRA disbursements. In the prior audit we noted similar transactions for LIHEAP Crisis drawdowns in which DCED Office of General Counsel, without any valid support, indicated that given the processing time and immediate cash needs of the subgrantees, subgrantee cash advances of up to 100 percent were acceptable.

Our prior year SFYE June 30, 2009 audit disclosed several deficiencies in computer controls over DCED's new HES Weatherization (or Wx) application. DCED management stated that it has implemented corrective action addressing all control weaknesses noted in the prior year finding; however, this corrective action was not implemented until subsequent to June 30, 2010. Therefore, the same deficiencies in computer controls identified in the prior year continue to exist for the current year as follows:

- DCED's Information Technology Center (DCED-IT) did not use the same policies and procedures to manage changes to the Wx application as are used to control other DCED applications. Instead, DCED-IT met with HES weekly to approve planned changes to the system. DCED-IT did not maintain a comprehensive list of all changes made to the application during the audit period. They relied on purchase orders to document the major changes made to the system and did not maintain a list of other changes that were made without a purchase order. Further, a monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.
- Password settings in the Wx application did not meet minimum standards published by the Office of Administration/Office for Information Technology. Specifically, the Wx application does not lock out a user account after a number of failed log-in attempts and the system does not force users to change their passwords every 60 days. Further, there is no logging of user access violations or security events.

Total program payments made by DCED to its 42 subrecipients during the fiscal year ended June 30, 2010 for WAP (CFDA #81.042) were \$102.7 million of which \$79 million were ARRA funds. In addition, these same control deficiencies noted above also impact the Low-Income Home Energy Assistance Program (LIHEAP) CFDA #93.568 which includes Weatherization program payments. Weatherization program payments for LIHEAP totaled \$20.2 Million (or 7.8 percent) of total LIHEAP expenditures of \$257.2 Million expended during SFYE June 30, 2010.

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Finding 10 – 54: (continued)

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)).*
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 Circular A-133 Compliance Supplement, Part 3, Section C. related to Cash Management, states in part:

Pass-through entities must monitor cash drawdowns by their subrecipients to ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.

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)).

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.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 54: (continued)

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.

Cause: The state guidelines in calculating client income to determine individual eligibility for weatherization assistance remained inconsistent between LIHEAP and Weatherization. While DCED policy required the use of actual income for the 12 months preceding the WAP application to determine client eligibility, DPW policy allowed for a pro-rated calculation of client annual income based on 90 days of actual income.

The prior audit found that subrecipients lacked written policies and procedures necessary for subrecipients to effectively administer their weatherization programs. DCED indicated that they placed policy directives on the network to ensure they are available to both subrecipients and agency personnel. In addition, DCED indicated that they were in the process of creating a policy and procedures manual for subrecipients which was not complete as of the end of our audit period. Although placing policy directives on the network for easier access was an improvement, adequate written procedures at the subrecipient level are necessary to improve the internal controls and would allow DCED to verify adequate internal controls are in place at the subrecipient level.

For subrecipient billings, DCED provided inadequate policy and procedures to subrecipients addressing how operations should be functioning. DCED indicated that they began reviewing HES system data in lieu of reviewing actual supporting documentation from the subrecipients. However, the HES system data was not complete as of June 30, 2010; therefore, this process was not adequate for our audit period. Management indicated they intend to incorporate a detail review of invoices as part of the new subrecipient financial monitoring. However, the financial monitoring was still being developed and not operational as of June 30, 2010. We believe DCED should establish a process for the review of subrecipient source documents prior to approving the payments until such a time that the HES system is complete and the financial monitoring is in place.

For WAP on-site program monitoring, as noted above, DCED is in the process of developing new procedures and hiring additional monitoring staff which was ongoing as of the end of our audit period. DCED needs to continue to improve this process.

For payment of excess cash, DCED indicated that the Office of Chief Counsel determined that, given the processing time and immediate cash needs of the subgrantees, cash advances of up to 100 percent are acceptable. Due to a lack of support, we disagree. DCED should monitor and limit cash advances to actual subgrantee cash needs. DCED procedures fail to assess and limit the subrecipient drawdowns to immediate cash needs.

Finally, DCED management stated that the HES weatherization system will improve DCED management’s ability to monitor, evaluate and assess subrecipients’ production, cost data, etc. However, the related controls in HES were not effective because the system was not sufficiently implemented as of June 30, 2010, because the data was not complete and not being entered timely by subrecipients.

Effect: DCED did not comply with federal regulations related to the proper administration of the LIHEAP and US DOE Weatherization programs 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 inappropriate spending of Weatherization funds, including ARRA funds, could occur in future periods.

Recommendation: We recommend that DCED management continue to review and strengthen its internal controls in its LIHEAP and US DOE Weatherization (including ARRA) programs in order to correct all the significant deficiencies noted above.

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Finding 10 – 54: (continued)

DCED Response: We agree with this finding.

The Office of Energy Conservation and Weatherization was organized in response to the 2007 audit by the Pennsylvania Auditor General and with the availability of ARRA Stimulus funding (March 2009- March 2012). Over the last two years, every system, process and procedure has been reviewed and has been or is in the process of being changed. The vast majority of these changes have taken place since the summer of 2010.

Although the leadership for the Office of Energy Conservation and Weatherization was in place in June 2009, the ramp up for the central office was in process gradually and in phases from December 2009 – January 2011 with the re-organization of seven existing DCED staff and the addition of 14 new staff.

In May 2010, the staff member who currently writes directives was hired and eight directives have been either re-issued or newly-authored and distributed to the agencies. For example, the directive clarifying client eligibility was sent on February 2, 2011. The intent of this directive was to align LIHEAP eligibility to DOE standards.

Although a significant advance of working capital was provided to agencies in November and December of 2009, all agencies have been operating through a monthly invoicing process since January 2011. With the addition of the third member of our compliance team in January 2011, the capacity of The Office of Energy Conservation and Weatherization to review all monthly expenses to the submitted invoices is now operational.

In addition, the requirement by the federal Department of Energy that fiscal and full, comprehensive monitoring of all Weatherization agencies needed to be completed by June 30, 2011 has been resolved and all agencies will receive a full, comprehensive and fiscal monitoring conducted by two independent DCED teams by the June 30, 2011 deadline. This enhanced compliance capability is demonstrated in the review and turnaround of findings from the ongoing monitoring of the agencies as well as the full, comprehensive monitoring of each agency by the monitoring supervisors. In addition, all agencies conducting LIHEAP work were monitored for the first time by three monitors in the field.

The Office is now compliant with files, on site premise and agency monitoring. Monitors have added and are using an "in progress" monitoring component of homes in a strategic way to determine the root cause of problematic retrofitting and will reach the three percent goal this fall. In addition, the Performance Standards are currently being implemented which moves the program into an applied business and performance-based management model.

Once the reporting division that manages HES had three staff members, the division has been revising and reprogramming the software to better manage the state oversight functions.

Therefore, DCED understands the need for the audit findings and recommendations for the 2009-10 audit review as described, however contends that all efforts are being put into place to eradicate all significant deficiencies as noted.

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.

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 55:

CFDA #81.042 – Weatherization Assistance for Low-Income Persons

CFDA #81.042 – ARRA - Weatherization Assistance for Low-Income Persons

CFDA #93.568 – Low Income Home Energy Assistance Program

Noncompliance and Internal Control Deficiencies at DCED Result in Questioned Costs of \$260,668 in the Weatherization Assistance Program and \$19,308 in the Low Income Home Energy Assistance Program

Federal Grant Numbers: 08B1PALIEA, 09B1PALIEA, 0901PALIE2, G-10B1PALIEA, G-1001PALIE2, DE-EE0000135, EE0000290, and R340651

Condition: We found that numerous instances of noncompliance with federal regulations, questioned costs, and material internal control deficiencies existed during our audit period ended June 30, 2010 for the Weatherization Assistance Program (CFDA #81.042) and the Weatherization portion of the LIHEAP program (CFDA #93.568), both administered by DCED. These exceptions were based on separate audit work performed by the U.S. Department of Energy Office of Inspector General (US DOE OIG), U.S. Government Accountability Office (GAO), and Pennsylvania Office of the Budget – Bureau of Audits (OB-BOA), along with separate quality assurance monitoring performed by the US DOE National Energy Technology Laboratory (NETL). We obtained and reviewed the applicable reports from these other auditors/monitors for audit coverage and to determine their impact on our Single Audit of the WAP and LIHEAP programs. The following control deficiencies were identified:

- During the audit period, US DOE NETL and GAO performed on-site testing of 14 out of a population of 43 subrecipients receiving Weatherization Funds and visited 95 weatherized homes. They noted numerous deficiencies with weatherized homes, such as, improper installations, deficient tests and calculations, skipped procedures not documented, and unjustified materials installed which resulted in questioned costs by US DOE. The unjustified materials noted were windows and furnaces. DOE also noted a lack of documentation to support Lead Safe Weatherization and proper moisture assessments, which could lead to inadequate weatherization. Documentation of final job costs reported to DOE was not evident in the client files. DOE also found instances where weatherization workers lacked expertise to carry out proper weatherization procedures, such as blower door testing, or blower door testing was not performed as required. GAO also found weaknesses with local agencies' controls over documenting material and labor costs, oversight of contractors, and documentation of final inspections.
- DCED failed to comply with its WAP ARRA State Plan to provide weatherization services to high energy users over low energy users. In an effort to maximize stimulus ARRA funding, DCED requested lists of high energy users from utility companies providing services to LIHEAP clients. US DOE OIG determined that DCED did not independently verify these individuals met the definition of a high energy user. As a result, DOE OIG found that some clients on these lists were not qualified high energy users, but received weatherization services prior to qualified high energy users in violation of the ARRA State Plan.
- DCED did not ensure that cash disbursements to subrecipients were limited to the immediate cash needs of the subrecipient and in some instances, that these funds were not deposited into interest bearing accounts by subrecipients. DOE OIG found that excessive cash disbursements of ARRA funds were made to subrecipients when the ARRA funding became available.
- DCED was required to comply with the Davis Bacon Act for ARRA funded weatherization projects. DCED did not have a process to review wage rates for certified payrolls or monitor that subgrantees were checking wage rates. Although DOE approved corrective action to this deficiency in April 2010, DOE's report indicated that at fiscal year end, Davis Bacon procedures remained deficient because wage rate inquiries were not being performed for projects in progress at the subgrantee level as required by the Davis Bacon Act. In addition, we found during our inquiry with DCED personnel that DCED lacked procedures to track ARRA funded projects to ensure that all certified payrolls were being submitted for review. DCED was relying solely on the subrecipients to ensure all certified payrolls were submitted for DCED review.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 55: (continued)

- According to DOE NETL, DCED state plans were not updated to reflect the significant organizational changes that occurred within DCED due to the influx of ARRA funds into the program.
- According to DOE NETL and GAO, DCED’s Hancock Energy Software (HES) system for tracking and monitoring subrecipients’ activities lacked the ability to track actual costs by dwelling or by subgrantee. Also, a number of subrecipient agencies were not entering production data into HES or the data was not being entered timely by subrecipients. In discussion with management and analysis of data, we found that although DCED was making strides to correct these deficiencies, HES was still deficient as of June 30, 2010.
- According to DOE NETL and GAO, numerous deficiencies were identified with DCED on-site subrecipient monitoring. DCED did not, at a minimum, monitor each subrecipient at least once during the year and monitor at least 20 percent of weatherized homes as called for in the state plan. In addition, deficiencies with monitoring procedures, such as lack of adequate financial monitoring, and inadequate tracking of monitored sites including subgrantee responses to and corrective measures taken by subrecipient sites were found. Also, DCED did not include monitoring of weatherization workers’ qualifications.
- According to DOE NETL, DCED did not adequately monitor and track purchased vehicles and equipment. In addition, as part of the single audit we examined 10 purchases of vehicles and equipment costing over \$5,000 made during the audit period which required DOE approval prior to purchase. We found that 7 of the 10 purchases examined received DOE approval subsequent to the purchase.
- According to GAO, DCED did not comply with its state plan to train and certify all weatherization workers by July 1, 2010. Although not required by DOE, DCED included this goal in its state plan and was deficient as of July 1, 2010.
- The Commonwealth’s Office of the Budget was in the process of auditing 13 local weatherization agencies during the audit period. At the time of our audit inquiry, OB-BOA provided a summary of results for three audits that were near completion. OB indicated that it found weaknesses at the local agencies to include not complying with federal ARRA Section 1512 reporting requirements, lack of support for indirect costs, and comingled funds in bank accounts without sufficient documentation to maintain an audit trail.

In addition, we assessed the above weaknesses reported in these separate engagements to identify high risk areas in our Single Audit of WAP and LIHEAP. Using this approach, we obtained project data/information that was available from DCED and performed data analysis/data mining. Our analysis revealed trends/risks related to waste, abuse, and potential fraud. From our current-year population of \$93.3 million (\$71.2 million in ARRA) in DCED subrecipient payments under WAP (#81.042) and the population of \$19.7 million in DCED subrecipient payments under LIHEAP (#93.568), we judgmentally selected 90 Weatherization projects based on high-risk criteria out of a total population of approximately 17,300 completed projects for the year, and requested the related project files.

Based on our review of the project files, we noted the following deficiencies and instances of waste, abuse, and potential fraud. We also found unallowable payments totaling \$260,668 in WAP and \$19,308 in LIHEAP which results in questioned costs.

- Of the 90 project files requested, we only received project documentation for 79 projects. As a result, we take exception to 11 missing projects totaling \$56,755 in questioned costs.
- Weatherization services were provided to applicants using SSNs associated with deceased individuals. We found that a one-person household applied in March 2010 and received \$2,878 in weatherization services, although the individual had been deceased since December 2008. We also found that five applicants had died after submitting an application, but before the weatherization services began. In these five situations, which totaled to \$19,465, the local agency should have re-determined the eligibility of these applicants, but did not do so. As a result \$22,343 is questioned as unallowable.

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Finding 10 – 55: (continued)

- Weatherization services provided to applicants, who were listed as renters, but did not pay rent to the landlord, and were, therefore, ineligible for WAP. We found 20 such instances, where applicants received a total of \$154,957 in weatherization services, which were not in compliance with applicable regulations. As a result \$154,957 is questioned as unallowable.
- For one subrecipient, weatherization costs identified as ARRA were inflated as compared to other similar projects that were non-ARRA funded. The local agency inappropriately used a two-tiered billing structure to inflate prices for services paid with ARRA funds vs. non-ARRA. For example, we noted that a weatherization project normally costing \$3,676 was marked-up to \$5,931 solely because it was funded with ARRA monies. The three instances we tested found questioned costs totaling \$18,142.
- The same weatherization services provided twice to the same dwelling, which is not allowed per regulation. We found that a home received a furnace replacement for \$5,212 on December 8, 2009 and a second furnace replacement for \$6,400 on June 8, 2010. As a result \$6,400 is questioned as unallowable.
- Ineligible LIHEAP applicants may inappropriately obtain WAP services. We reviewed files for clients listed as “Categorically Eligible” (i.e., automatically eligible) for weatherization in the HES system because they were listed as eligible for LIHEAP, but were actually rejected for LIHEAP benefits by DPW for exceeding the income limits. Our review found inconsistent and inadequate documentation for the basis of the local agencies’ determination of WAP eligibility in the WAP files. Two files that turned out to be ineligible for LIHEAP lacked any supporting documentation for the income claimed on the weatherization application; thus, project costs of \$20,334 are questioned. This lack of control may allow ineligible applicants to receive WAP services.
- Weatherization standards were violated. We found one refrigerator replacement totaling \$1,045 was for a side-by-side refrigerator/freezer with a front-mounted ice/water dispenser, which violates the standards in the Weatherization Standards and Field Guide for Pennsylvania. Therefore, this cost is questioned.

In addition to unallowable payments and questioned costs, our auditors also found patterns of abuse by applicants who were beneficiaries of significant weatherization services, and at the same time involved in financial arrangements between related or affiliated parties. For example, a mother did not pay rent to her son, but lived in the same dwelling as her son that owns the dwelling. She inappropriately applied as a renter and received \$12,633 in weatherization services. In another example, a father transferred his home to his son for \$1.00; in turn, the son did not charge the father rent to live in the home. The father inappropriately applied as a renter and received \$10,246 in weatherization services. Consequently, individuals that should not benefit from related-party transactions are able to position themselves to manipulate or abuse the program and receive weatherization services. These individuals are circumventing the intent of the program. (Note: These questionable payments are included in the bullet above regarding applicants who paid no rent.) DCED does not have strong scrutiny over applicants to determine if these types of conditions/relationships exist before approving the projects. If these instances of abuse are evident, DCED and/or its local agencies should investigate before approving a project.

We also found that a conflict of interest, which was not disclosed by the local agency or approved by DCED as required, existed between a local agency and its subcontractor hired to weatherize an 83-unit apartment building. A member of the local agency’s board of directors is the senior VP of the subcontractor that was selected by the local agency to provide the weatherization services. The subcontractor received more than \$618,000 in ARRA funds for the project. Because this occurred during the subsequent fiscal year ended June 30, 2011, these costs are not reported on the current-year June 30, 2010 SEFA under audit, and are, therefore, not questioned; however, since ARRA funds were involved, we are reporting this issue in the current-year report.

Additionally, we found that this 83-unit apartment building was managed by the local agency, which processed and approved the WAP applications for each apartment. We also consider this a conflict of interest.

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Finding 10 – 55: (continued)

On the SEFA and the SAP accounting system, the total WAP expenditures during SFYE June 30, 2010 was \$102,745,876 which included \$79,929,289 of ARRA funds. In addition, DCED provided WAP services in conjunction with the LIHEAP program (CFDA 93.568). These same control deficiencies also impact LIHEAP for WAP services provided with LIHEAP funds. LIHEAP expenditures for WAP services provided by DCED during SFYE June 30, 2010 totaled \$20,160,153 on the SEFA.

Criteria: As part of administering WAP, DCED must have adequate controls to ensure they are adhering to federal and state law and satisfying program objectives. These controls should include procedures to ensure adequate monitoring of subrecipient activity, compliance with federal requirements (CFR 440 - Weatherization), American Recovery and Reinvestment Act, Davis Bacon Act, Cash Management, compliance with the state plan, applicable state laws and weatherization standards.

Specifically, CFR-440 defines a rental dwelling as a dwelling unit occupied by a person who pays rent for the use of the dwelling unit. Additionally, the Weatherization Standards and Field Guide for Pennsylvania prohibits the purchase of side-by-side refrigerator/freezer combination units and refrigerators with front mounted ice/water dispensers.

Regarding client eligibility, regulations permit the local WAP agencies to forego any eligibility determination if the family unit of the dwelling was eligible for and received a LIHEAP benefit. These clients are considered automatically eligible for weatherization services.

Cause: DCED Management indicated that it was in the process of implementing a major overhaul to the Weatherization program to handle the infusion of ARRA stimulus funding that increased the program's expenditures from \$20M in the prior fiscal year to over \$100M in the current fiscal year, of which \$79M was ARRA funding. However, due to the time constraints and increased demands on the program, changes to the business processes, staffing and control issues, various policies and procedures were not able to be developed and implemented as of June 30, 2010.

Effect: Due to various deficiencies and instances of waste, abuse, and potential fraud, \$260,668 in WAP costs (CFDA #81.042) and \$19,308 in LIHEAP costs (CFDA #93.568) are questioned as unallowable. Also, DCED did not comply with federal regulations related to the proper administration of the LIHEAP and US DOE Weatherization programs 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 the misapplication of Weatherization funds, including a significant amount of ARRA funds, could occur in future periods.

Recommendation: We recommend that DCED pursue appropriate settlement of \$279,976 in total questioned costs. We also recommend that DCED management continue to review and strengthen its internal controls in the Weatherization program, to include the following:

- Require local agencies to verify the identity of the individuals and their household members applying for weatherization services;
- Require local agencies to request applicants to inform local agencies when a change in household composition has occurred subsequent to applying, such as a household member dying, and when it occurs to re-determine eligibility prior to starting the weatherization services;
- Limit the dollar amount for the cost of replacing a refrigerator and monitor to ensure the limit is adhered to;
- Require local agencies to ensure that subcontractors are not paid using a two-tiered billing structure that inflates prices when performing weatherization services;
- Ensure that its computerized tracking system (Hancock Energy Software) is fully populated, complete, and accurate;

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Finding 10 – 55: (continued)

- Utilize its computerized tracking system (Hancock Energy Software) to monitor the activities of each local agency by performing data analysis and data mining of weatherization assistance services to look for fraudulent, suspicious, and questionable transactions, including duplicate services and non-compliance activities;
- Consider obtaining independent data exchanges such as SSN, death files, and income to verify applicant households are eligible for weatherization;
- Develop conflict of interest policies and procedures relating to local agencies approving weatherization services for tenants residing in rental properties managed by the same local agency;
- Monitor and enforce its contract stipulation regarding local agencies identifying and seeking approval by DCED for conflicts of interest between local agencies and subcontractors;
- Develop policies and procedures relating to applicants' involvement in financial arrangements between related or affiliated parties seeking weatherization services who rent dwellings;
- Require local agencies to ensure renters seeking weatherization services actually pay rent to the landlord;
- Require local agencies to contact the Department of Public Welfare to confirm applicants listed as automatically eligible actually received LIHEAP benefits during the current or most recent heating season; and
- Improve its monitoring of the local agencies to ensure consistency regarding the processing, documenting, and approval of applications, rental forms, and support documentation.

DCED's Response: We take this report very seriously overall and were compelled to research each allegation. Our overall response is Disagreement to the allegations for the reasons outlined for each bullet below. We have documents to support our disagreement; which will be provided to the auditors. Even though we disagree with the findings, we also respect the concern behind each one and will proceed with a series of proactive strategies to train agencies on more proficient use of the HES system, accurate record-keeping and the continued provision of detailed policies and procedures which will enhance internal controls.

Bullet 11 – Files Not Provided

We disagree with this finding. The 11 files in question have been requested from the agencies and received in this office. They will be provided to your office for further review.

Auditors' Conclusion: Because these 11 files have not been provided to us by DCED, the finding remains as stated and DCED should pursue settlement with USDOE.

DCED's Response:

Bullet 12 – Deceased Clients

We disagree with this finding. The agencies followed the eligibility criterion which was applied at the time of the application. The eligibility policy requires re-certification of eligibility at one year from the time of application, and all clients were served within eight months of application. Agencies do not and are not required to research social security numbers as part of their eligibility process. In five of the six listed cases, it was further determined that the household members remaining in the home after the original client died, was indeed eligible. According to the file, the client deemed deceased applied and was served within a two-month period. All supporting documentation seems reasonable and accurate. The agency recently had a conversation with [the client] to confirm her existence. File documentation will be provided under separate cover.

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Finding 10 – 55: (continued)

Auditors' Conclusion: DCED states that the eligibility of the remaining household member(s) for five of six items was determined after the applicant's death; however, we found no documented evidence in the project files that the local agency reconsidered the household's eligibility before providing the weatherization services. Additionally, for the sixth item, we confirmed with the Pennsylvania Department of Health that the client in our example had died in December 2008. This WAP project file is potentially fraudulent and will be turned over to the Office of Inspector General for investigation. Due to the lack of documentation, the finding remains as stated.

DCED's Response:

Bullet 13 – Renters that pay NO rent

We disagree with this finding. Income eligibility is the basis for qualification for weatherization services, NOT the documented and specific substantiation of the payment of rent or any other obligation or household expenditure. According to DOE regulation # 10 CFR 440.3, 10 CFR 440.16, 10 CFR 440.22 the criterion for eligibility is income, not substantiation that a renter pays rent.

Auditors' Conclusion: According to 10 C.F.R. 440.3 – Definitions, a rental dwelling unit is one that is occupied by someone who pays rent for the use of the dwelling unit. Thus, if no rent is paid, an applicant cannot apply for WAP as a renter. The failure to ensure all renters actually pay rent may permit individuals (e.g., landlords) to abuse the program and inappropriately obtain WAP benefits and services for dwelling units. DCED should require local agencies to ensure that a legitimate landlord/renter relationship exists. The finding remains as stated.

DCED's Response:

Bullet 14 – Inflated Prices for ARRA projects

DOE has determined that ARRA projects must utilize Davis-Bacon wage rates, which was new for the WAP and does not apply to the standard weatherization program. Initially, the Department of Labor modified PA rates at least twice before settling on a final wage determination for various positions. Therefore, costs for the same type of work will be higher for ARRA than for other weatherization programs, as Davis-Bacon does not apply to the others.

Auditors' Conclusion: We acknowledge that wage rates on ARRA-funded projects must comply with the Davis-Bacon Act. However, based on our follow-up test work for one example project out of the three projects mentioned above, the local agency billed an average of 60 percent more for labor costs per hour than the required Davis-Bacon wage rates, so DCED's response does not adequately explain the higher ARRA costs. We believe that in all three cases, these billings are excessive. DCED needs to monitor to ensure that excessive charging for ARRA-funded projects does not occur. The finding remains as stated.

DCED's Response:

Bullet 15 – Duplicate Weatherization Services provided to Same Dwelling

We disagree with this finding. The agency clearly used two different streams of funding to serve this client who came to the agency originally as a LIHEAP Crisis client, in need of heat, and at that point, the agency replaced the furnace. The client applied for and was deemed eligible for standard weatherization. After an energy audit was conducted, it was found that the heating system was undersized and needed to be replaced, according to heat load calculations. The home was weatherized with ARRA funds.

Auditors' Conclusion: According to 10 CFR 440.18 – Allowable Expenditures, "No grant funds awarded under this part shall be used for any of the following purposes:...(2) To install or otherwise provide weatherization materials for a dwelling unit weatherized previously with grant funds under this part,..." DCED did not provide regulations to support its claim that the same weatherization service can be provided more than once to a dwelling if a different funding stream is used. Thus, the finding remains as stated.

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Finding 10 – 55: (continued)

DCED's Response:

Bullet 16 – Ineligible LIHEAP Applicants Received Automatic Eligibility

We disagree with this finding. According to the income information listed in HES for these clients, all are listed at the eligible level of income for weatherization services. Ineligibility for LIHEAP services does not preclude clients being eligible for weatherization services. Agencies are required to – and did in this case – verify income.

Auditors' Conclusion: We agree that the higher income eligibility criteria for the Weatherization Assistance Program may allow a client to be eligible even though they were actually determined to be ineligible for LIHEAP based on income. However, during the audit, DCED management explained that clients are automatically eligible for weatherization if the client is listed as eligible for LIHEAP and, as such, the local agencies do not verify the income for these clients because LIHEAP has lower eligibility income thresholds; and because it would be too time consuming. Our review of a sample of WAP client project files found inadequate documentation regarding whether local agencies properly re-verified income of categorically eligible LIHEAP clients. As a result, the potential exists for LIHEAP-ineligible applicants to be automatically approved for weatherization, which is inappropriate. DCED did not provide the policy, procedures or any standard form that requires local agencies to re-verify the income of applicants listed as categorically eligible for WAP since they were listed as eligible for LIHEAP. The finding remains as stated.

DCED's Response:

Bullet 17 – Weatherization Standards Violation – Refrigerator Replacement

We disagree with this finding and will provide supporting documentation which shows that the side-by-side refrigerator was the one replaced with a top freezer model at a cost of \$1,045.

Auditors' Conclusion: Our review of the client's project file found a copy of the invoice for the replacement refrigerator from the appliance store. The name, model number and price were on the invoice. A basic internet search using the manufacturer's name and model number identified it as a side-by-side refrigerator/freezer combination unit with a front ice/water dispenser. The weatherization standards specifically prohibit this type of refrigerator. The finding remains as stated.

DCED's Response:

Additional Exceptions: Conflict of Interest

We disagree with this finding. The eligibility requirement for client service for weatherization is income. Whether or not the agency owns a building in which the client resides has no bearing on the decision to weatherize since the service is determined from an audit once client income eligibility is established.

Regarding the potential conflict of interest of a local agency board member being chosen for the 83-unit apartment building, we disagree and will be providing a listing of the board members. The person in question is not a member of the local agency's board, but rather a member of the board for [another corporate entity], a 501(c)(4). In addition, the work for this apartment unit was procured according to the required bidding requirements and this subcontractor was appropriately selected as the lowest reasonable bid from the four bids submitted.

Auditors' Conclusion: We believe that there is an apparent conflict of interest if an entity, that approves the use of public funds to weatherize homes and buildings, owns or manages a property whose residents apply for weatherization. During the audit, DCED stated that it lacked a specific policy addressing this issue, but relied on the contractor's integrity and conflict of interest language in its contracts with the local agencies. Additionally, it admitted that there is a need to address this issue and to develop additional strategies for weatherizing multi-family buildings.

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Finding 10 – 55: (continued)

Also, regarding the conflict of interest involving the board member, an independent accounting firm reported in a related subrecipient Single Audit Report (i.e., a related party footnote in the financial statements) that the said corporate entity has a controlling interest in the local agency, and the said corporate entity's Board of Directors selects the local agency's board members. Thus, a conflict of interest appears to be evident. The finding remains as stated.

Overall, DCED's response did not address the first ten bullets in the finding, and did not resolve the remaining exceptions we reported, so our finding and recommendation, with the above clarifications, remain as previously stated. We will review any corrective action in the subsequent audit report.

Questioned Costs: \$279,976

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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Finding 10 – 56:

CFDA 81.042 – ARRA - Weatherization Assistance for Low-Income Persons

Noncompliance With ARRA Regulations and Inadequate Controls Over ARRA Payments

Federal Grant Number: DE-EE0000135

Condition: During SFYE June 30, 2010, DCED entered into separate subrecipient Weatherization agreements for ARRA and non-ARRA funds. Each ARRA subrecipient agreement included an addendum that outlined the requirements related to ARRA and included disclosures made by DCED to its ARRA subrecipients at the time of the subaward. Based on our review of the subrecipient agreements and discussion with management, we noted the following internal control deficiencies and non-compliance with respect to ARRA funding requirements:

- DCED did not separately identify to each ARRA subrecipient, and document at the time of disbursement of funds, the federal award number and CFDA number.
- Management failed to review whether subrecipients receiving ARRA Weatherization funds had current Central Contractor Registry (CCR) registrations and failed to perform periodic checks to ensure these subrecipients were updating CCR information, as necessary.
- Upon review of the subrecipient agreement and ARRA addendum we noted that the federal award number was not disclosed as required. We noted that the SAP grant number, CFDA number and amount of ARRA funds were properly included.

According to the SAP accounting system, the total of WAP expenditures during SFYE June 30, 2010 was \$102,745,876 which included \$79,929,289 of ARRA funds.

Criteria: The OMB Circular A-133 Compliance Supplement, part 3, Section M on subrecipient monitoring, requires:

A pass-through entity is responsible for:

Pass-Through Entity Impact – Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable Federal regulations.

Central Contractor Registration – Identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintain the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)).

The Federal OMB Circular A-133 Compliance Supplement Appendix VII, Other OMB Circular A-133 Advisories, states:

Responsibilities for Informing Subrecipients:

Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal Award number, CFDA number and amount of ARRA funds. When ARRA funds are subawarded for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental ARRA funds from regular subawards under the existing program.

Part 3 of the A-133 Compliance Supplement, Section M states an audit objective for auditors is as follows:

Determine whether the pass-through entity reviewed whether subrecipients receiving ARRA funding have current CCR registrations and performed periodic checks to ensure that subrecipients are updating information, as necessary.

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Finding 10 – 56: (continued)

Cause: According to management, disbursements to subrecipients are made electronically via an automated clearing house (ACH) and that DCED had no control over what was communicated with an electronic payment. As a result, the CFDA number and federal award number were not communicated at the time of each disbursement. DCED requires the request for ARRA funds by the subrecipient to be presented separately from other funds, so the amount of ARRA funds was sufficiently identified. Furthermore, DCED indicated that subsequent to the audit period, as a result of limitations with respect to electronic transfers via the ACH payment process, DCED required the subrecipients to include additional award information on the subrecipient invoices.

According to management, the federal requirements for subrecipient CCR registration and a DUNS number were communicated at the time of subaward in the subrecipient ARRA agreements. Furthermore, management stated that the PA Office of the Budget (OB) handled these requirements as they related to the ARRA Section 1512 reporting requirements, which was the responsibility of OB. However, we determined that the Office of the Budget was not monitoring subrecipient CCR registrations either.

Effect: Failing to include the CFDA title or number and Federal grant award number at the time of disbursement of funds and to monitor subrecipient CCR information and DUNS numbers causes subrecipients and their auditors to be uninformed or untimely informed about what specific program and other regulations apply to the funds and could potentially lead to incorrect subrecipient SEFAs in their OMB Circular A-133 Single Audit reports and ARRA Section 1512 Reports. In addition, if the internal control weaknesses are not corrected, noncompliance with Circular A-133 audit provisions will continue to occur in the future.

Recommendation: Develop adequate policies and procedures to ensure compliance with ARRA requirements as follows:

- Ensure that DCED separately identifies to each subrecipient, and document at the time of disbursement of funds, the federal award number, CFDA number, and the amount of ARRA funds;
- Review whether subrecipients receiving ARRA Weatherization funds have current CCR registrations and perform periodic checks to ensure subrecipients are updating CCR information, as necessary.
- Revise the ARRA subrecipient agreements to ensure that the proper disclosures are made to include the federal award number.

DCED Response:

- We disagree with this portion of the finding since DCED does not control the actual disbursement of funds—the Comptroller and Treasury make the final disbursement of funds. Please refer to the Office of Comptroller Operations (OCO) response below.
- DCED has been advised that the Comptrollers Operations will be responding to all Commonwealth single audit findings regarding CCR registration requirements.
- We agree with this portion of the finding, but since three-year contracts for ARRA are already issued, DCED will consider cost-effective options to correct this finding via the issuing of letters or adding the award number onto monthly invoices.

OCO Response:

- Identification of disbursements: We disagree with this portion of the finding. ARRA specific contracts include the Federal award number, CFDA number, and amount of Recovery Act funds. Remittances are produced for all payments, including both checks and ACH, and mailed to subrecipients. This process is part of the commonwealth's normal disbursement process and it is not cost effective to retain copies of all remittances.

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Finding 10 – 56: (continued)

- CCR issue: We disagree with this portion of the finding. The criteria noted by the auditors in 2 CFR, section 176.50 describes reporting and registration requirements. Our interpretation of the CFR is that an entity is only required to register in CCR if they are required to file 1512 Reports. In an effort to ensure we were compliant with the guidance we contacted OMB for clarification on the need to register in CCR.

OMB clarified that only ARRA subrecipients that have been delegated the reporting requirement from the Prime grant recipient are required to register in CCR in order to report in Federalreporting.gov. The Commonwealth files the ARRA 1512 report for all federal pass thru funds, and does not delegate reporting requirements to its subrecipients. Based on the Commonwealth's central reporting structure and the CCR registration exceptions noted by OMB, the Commonwealth is in compliance with CCR registrations as applicable to 1512 reporting.

In response to the auditors' contention that they must rely on HHS-OIG rather than on the OMB guidance that we provided them, we followed up by submitting the OMB guidance to HHS-OIG and asking HHS-OIG to review the specific guidance provided to the Commonwealth by OMB and consider whether, based on this guidance and the central ARRA 1512 reporting practice in Pennsylvania, this issue should be considered an audit finding. HHS-OIG directed the Commonwealth to "follow OMB guidance." We provided both the OMB and HHS-OIG documents to the auditors. Based on the guidance provided by OMB and affirmed by HHS-OIG, we maintain that by centrally filing the 1512 report for all federal pass thru funds the Commonwealth is in compliance with the federal reporting requirements for CCR registrations.

Auditors' Conclusion: Based on the agency response, the finding and recommendation remain as previously stated. Although DCED and OCO both disagreed with our recommendation related to identifying the federal award number and CFDA number at the time of each disbursement of ARRA funds, we contend that the Commonwealth, as the recipient and pass-through entity of ARRA Weatherization funds, must identify and communicate the required information to DCED subgrantees at the time of each disbursement of ARRA Weatherization funds. In addition, OB or OA should have issued overall guidance to all Commonwealth agencies (e.g., Management Directive) to inform them of the federally-required information at the time of ARRA disbursements to subrecipients.

As the criteria above clearly states, determining that the pass-through entity checked the CCR registrations of its ARRA subrecipients is a key audit objective in our Single Audit. In our separate auditor correspondence with HHS-OIG, our federal cognizant agency for Single Audit, HHS-OIG agreed with our above finding that DCED is required to check its ARRA subrecipients for CCR registrations. Since DCED clearly did not do this, DCED needs to work with Federal audit resolution officials to resolve the issue.

DCED agreed that the subrecipient agreements lacked the required federal award number and indicated it will take corrective action to ensure the federal award number is included in all subaward agreements.

We will review any corrective action in the subsequent audit.

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 57:

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

CFDA #84.389 – ARRA – Title I Grants to Local Educational Agencies

Noncompliance and Inadequate Controls Over PDE’s Consolidated State Performance Report and the Annual State Report Card (A Similar Condition Was Noted in Prior Year Finding #09-41)

Federal Grant Numbers: S010A090038A and S389A090038A

Condition: Title I federal education grant monies 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.

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 School Improvement I. A school that has not made AYP for three consecutive years is classified as School Improvement II. A school that has failed to meet AYP for four consecutive years is classified as Corrective Action I and a school that has not made AYP for five consecutive years is classified as Corrective Action II. Schools under the above classifications are all considered under an improvement status. For schools in the above classifications, the LEAs must create school plans and work with PDE to implement the plans to ensure that students can make AYP.

According to NCLB, PDE must annually review the progress of each LEA that receives Title I funds to determine whether the LEA made AYP. PDE must identify for improvement any LEA that fails to make AYP for two consecutive years or was in an improvement status. PDE must identify the LEA for corrective action if it continues to fail to make AYP.

PDE must report annually to USDE and make certain information widely available within the state including the number and names of each school identified for improvement, the reason why the school was identified, and measures taken to address the achievement problems in the school. Based on data received from an outside vendor, PDE must prepare and submit information to USDE on the Consolidated State Performance Report (CSPR). Further, PDE must prepare and disseminate an annual State Report Card (SRC) including the number and name of each school and LEA identified for improvement.

As part of the reporting and AYP process, PDE contracted with an outside vendor to provide numerous services which included: designing state assessment materials at PDE specifications; providing assessment testing materials to students in the subjects of reading, mathematics, and science; 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. Also, this vendor creates the SRC along with school district and individual school report cards. AYP information is posted to the PDE web site for the general public to access.

Although PDE has contracted with this vendor, federal regulations require PDE to be responsible 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 CSPR and SRC. While some information comes directly from the vendor, other reporting information on the CSPR and SRC comes from PDE.

Both the CSPR and SRC contain more than a thousand fields of data. From the CSPR, we haphazardly selected 18 fields and for the SRC, we haphazardly selected 17 fields containing various types of information reported. For each item selected, we traced the reported information to source documentation that included computer reports, and other lists and supporting schedules, as applicable. Results of our review and testing are as follows:

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Finding 10 – 57: (continued)

While reviewing the CSPR Overall for completeness, we noted three data fields in which PDE did not report required information. For two of the data fields, part 1.2.6 – Participation of Students with Disabilities in Science Assessment and part 1.4.9.1.4. – Availability of Public School Choice Options no data or comment was reported. For one data field, part 1.4.8.3. – Effective School Improvement in place of the information PDE inserted the following comment; “Pennsylvania did not collect this data...” We conclude that the PDE is in noncompliance since the CSPR is incomplete.

For our testing of the 18 selected data fields on the CSPR, we noted one exception where PDE could not determine how the number of students was determined for part 1.4.9.1.2. – Public School Choice – Students Eligible for public school choice. PDE was unable to support the number of students reported. Therefore we could not determine the accuracy of this item as reported.

When reviewing the SRC for completeness, we noted that the prior year 2007-2008 data for “State PSSA Results in Grade 11 Science” and “State PASA Results in Grades 4, 8, 11 Science” in the Assessment Report section was excluded from the SRC. PDE said that this information was missing due to an oversight in the review process. We conclude that PDE is in noncompliance since the SRC was incomplete.

In comparing data reported on both the CSPR and SRC, we noted differences between the total number of schools reported and the total number of school districts reported. We also noted differences between the number of schools and districts that made AYP in school year (SY) 2008-09. In the CSPR, part 1.4.1 – All Schools and Districts Accountability reported 3,109 schools and 527 districts and 2,439 schools and 489 districts that made AYP in SY 2008-09. The SRC in section “Adequate Yearly Progress Status” AYP Results Statewide reported 3,115 schools and 500 school districts and 2,443 schools and 474 districts that made AYP in SY 2008-09. PDE stated that the reason the schools reported are different was because CSPR only publishes schools that are still open and all schools receive a report card even if they are closed. According to PDE, five schools closed at the end of the 2008-09 SY. PDE stated that the reason the districts reported are different is because the SRC only includes the total number of districts and the CSPR includes charter schools and career technical schools. Based on our review of both reports, the basis for providing this information is to report AYP data for SY 2008-09, therefore, the same information should be reported on both reports.

Of the 17 fields we sampled and tested on the SRC, PDE provided some documentation to support the test items. However, even for the tested items in the CSPR and SRC that had supporting documentation, we call into question the accuracy of the data.

PDE indicated that it performs various automated data validation checks (i.e., record counts and control totals) and comparisons of year-to-year on test score data received from its outside contractor. PDE appears to have taken steps to better document these procedures. However, when asked to provide evidence of the checklist procedures, PDE could not produce anything but the signed checklist. No evidence of any of the procedures was maintained. The checklist contained no evidence that it was used or any other notations. Without documented evidence as to what type of review procedures were done, what comparisons of data were completed, what variances were investigated, and what the results were determined, we do not have reasonable documented evidence that any procedures were completed and therefore we question the validity of the data as provided from the vendor.

Based on the results above we reached the following conclusions:

- PDE has filed an incomplete CSPR with the USDE because sections of the report were left blank and not answered, and has filed an incomplete SRC because of missing information.
- PDE has inadequate documentation procedures regarding the collection, compiling and verifying the accuracy of the data reported in the CSPR and SRC.

This is the seventh year in a row in which a similar finding has been issued regarding the CSPR and SRC reports under Title I.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 57: (continued)

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

(h) Reports.

(1) Annual State Report Card.

(A) In General. Not later than the beginning of the 2002-2003 school year, unless the State has received a 1-year extension pursuant to subsection (c)(1), a State that receives assistance under this part shall prepare and disseminate an annual State report card.

(C) Required Information. The State shall include in its annual State report card—

(i) information, in the aggregate, on student achievement at each proficiency level on the State academic assessments described in subsection (b)(3) (disaggregated by race, ethnicity, gender, disability status, migrant status, English proficiency, and status as economically disadvantaged, . . .

(v) aggregate information on any other indicators used by the State to determine the adequate yearly progress of students in achieving State academic achievement standards;

(vii) information on the performance of local educational agencies in the State regarding making adequate yearly progress, including the number and names of each school identified for school improvement under section 1116; and

(4) Annual State Report to the Secretary. Each State educational agency receiving assistance under this part shall report annually to the Secretary, and make widely available within the State—

(A) beginning with school year 2002-2003, information on the State's progress in developing and implementing the academic assessments described in subsection (b)(3);

(E) the number and names of each school identified for school improvement under section 1116(c), the reason why each school was so identified, and the measures taken to address the achievement problems of such schools;

Cause: PDE depends heavily upon the outside vendors for the determination of schools making AYP and identifying schools in the improvement classification. Since timeliness of the reports is viewed as most critical, accuracy of the information is left to the vendor to ensure. Although PDE has made some improvements in the coordinating and compiling of both reports, the reports continue to contain errors due to an inadequate review process.

Effect: Missing and unsupported information on the CSPR and SRC is in violation of federal regulations. The reports are 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 CSPR are missing and unsupported the report cannot be used by USDE or the public in measuring NCLB success.

Furthermore, all the parties involved with complying with NCLB (e.g., PDE, LEAs, and schools) have a vested interest in making AYP. The interests of the parties increase the risk of submission of inaccurate data because all parties have direct consequences if AYP decreases rather than increases. Therefore, adequate oversight of all parties and their reported information is most critical to evaluate the true success or failure of NCLB programs.

Recommendation: PDE management should institute reasonable documented measures to insure that data is complete and accurate as reported on the CSPR and SRC. Assessment data should be documented in detail, tested, and reviewed by PDE to ensure its accuracy before it is submitted in the reports.

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Finding 10 – 57: (continued)

PDE management has instituted an Accountability Checklist and a Quality Control approval document. However, reasonable documented evidence of completing the checklist procedures must be maintained in file. In addition, PDE needs to strengthen and better document internal controls over the collecting, compiling, verifying accuracy, and reporting of data. Included in this effort should be the development of comprehensive written procedures to document the process. Procedures should include independent verification, supervisory review, and documented sign-offs. Audit trails should be documented that show individual and school data rolling-up into the summary data presented on the CSPR and SRC. Procedures, audit trails, data summaries, and reviews and approvals should be retained on file by PDE.

Agency Response: Part 1.2.6, CSPR – Participation of Students with Disabilities in Science Assessment

In 2009, it was incorrectly believed that this information would be automatically populated from the EDFACTS report into the CSPR. In 2010, the information was manually populated into the CSPR and this will continue to be the procedure in future submissions.

SRC – State PSSA Results in Grade 11 Science, State PASA Results in Grades 4, 8, and 11 Science

Data validation checks for completeness will be further strengthened with independent verification and supervisory review. Detailed procedures will be published to document the process through the use of an accountability checklist. Checklists will be properly annotated, signed and retained on file by PDE.

Differences in Data on the CSPR and the SRC

PDE is providing further clarification for a better understanding of this process as follows:

File specifications and reporting requirements differ for the CSPR and the SRC. The SRC reports only LEAs that are “School Districts” for AYP and not other LEAs, such as charter schools and Comprehensive Technical Centers (CTCs), as the CSPR reports. However, the LEAs that comprise the difference between the CSPR and the SRC are in fact reported in the SRC as schools; they are not overlooked. Because Pennsylvania’s Title 22 Chapter 4 considers the LEAs that constitute the difference in reported numbers as schools, the Bureau of Assessment and Accountability performs AYP calculations on these LEAs as schools, not districts. Also, the SRC reports AYP results for schools that have closed in the previous year as AYP results are always based on that previous year’s PSSA assessment results. As such, reporting LEAs on the SRC in the same manner as the CSPR would result in the duplicate reporting of these LEAs. Therefore for the reasons stated, these differences will continue to exist in total number of schools reported and the total number of school districts reported. Also, there will continue to be differences between the number of schools and districts that made AYP in a particular school year. However, in future submissions, the PDE will carefully investigate, document and explain in the reports the differences at the district and school level of detail. The same strengthened validation checks mentioned in the response to the missing data will result in a greater accuracy of the data.

Part 1.4.9.1.4, CSPR – Availability of Public School Choice Options

This item requires data on the number of LEAs not able to provide school choice. The data necessary to respond was not yet part of the data collection in 2008-2009 and therefore, could not be reported accordingly. In 2009-2010, this data was included in the data collection process and has been reported on the CSPR since that time.

Part 1.4.8.3, CSPR – Effective School Improvement

The Division of District and School Planning did not have the capacity to manually pull this information from hard copies for each of over 400 school improvement plans to obtain the data for the 2008-2009 school year. This data has now been placed into an electronic data collection system, making it easier to access and analyze.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 57: (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.

Questioned Costs: None

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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Finding 10 – 58:

- CFDA #84.010 – Title I Grants to Local Education Agencies
- CFDA #84.027 – Special Education - Grants to States
- CFDA #84.173 – Special Education – Preschool Grants
- CFDA #84.367 – Title II Improving Teacher Quality State Grants
- CFDA #84.389 – ARRA – Title I Grants to Local Education Agencies
- CFDA #84.391 – ARRA – Special Education – Grants to States
- CFDA #84.392 – ARRA – Special Education – Preschool Grants
- CFDA #84.394 – ARRA – State Fiscal Stabilization Fund

PDE Did Not Specify Required Federal Award Information in Subrecipient Award Documents and at the Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133

Federal Grant Numbers: S010A080038A, S010A090038A, S010A080038A, H027A080093, H173A080090, S367A080051A, S367A090051A, S389A090038A, S367A080051A, S389A090038A, H391A090093, H392A090090, and S394A090039

Condition: For the major federal programs listed above, PDE did not identify federally-required information in subrecipient award documents and at the time of disbursement of funds provided to LEAs. This failure represents an internal control weakness which causes subrecipients to be improperly informed of federal award information, and can also cause the omission or improper identification of program expenditures on subrecipients' Single Audit SEFAs. Therefore, the major programs listed above run the risk of not being properly administered or audited at the subrecipient level in accordance with program regulations or OMB Circular A-133, further requiring PDE to follow-up with subrecipients to ensure they are aware of the correct award information and proper Single Audits are performed. The following chart shows noncompliance (i.e., No) with federally-required award information since the information was missing from subrecipient award documents at the time of award.

Program	CFDA Title	CFDA Number	Award Name	Federal Grant Number	Federal Awarding Agency
Title I - Grants to Local Educational Agencies	–	No	No	No	No
Title I – ARRA	–	No	No	No	No
Title II	–	No	No	No	No
IDEA-B Cluster	No	–	No	No	–
IDEA-B Cluster - ARRA	No	–	No	No	–
State Fiscal Stabilization Fund – ARRA	–	–	–	No	–

In addition, PDE did not provide to its subrecipients at the time of disbursement the required ARRA award information. The following chart again shows noncompliance (i.e., No) with required information to be provided at the time of disbursement.

Program	Federal Grant Number	CFDA Number	Amount Of ARRA Funds
Title I – ARRA	No	No	No
IDEA-B Cluster – ARRA	No	No	No
State Fiscal Stabilization Fund - ARRA	No	No	No

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Finding 10 – 58: (continued)

We also found that PDE's Subrecipient Master Agreements and program Riders contained deficient language to properly inform subrecipients of two specific program requirements that are considered potentially direct and material in the OMB'S A-133 Compliance Supplement for major USDE programs. There are no detailed clauses to specifically inform subrecipients of the requirements of Equipment and Real Property Management in Section F of the A-133 Compliance Supplement and Real Property Acquisition and Relocation Assistance in Section K of the Compliance Supplement.

Finally, for the four ARRA programs listed above, PDE and OCO did not perform any review of subrecipients to determine whether the subrecipients have current CCR registrations and performed periodic checks to ensure that the subrecipients were updating their CCR information as necessary.

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 and number; if the award is research and development, and 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.

Central Contractor Registration – Identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintain the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)).

For CCR registrations, the A-133 Compliance Supplement requires Single Auditors to “*determine whether the pass-through entity reviewed whether subrecipients receiving ARRA funding have current CCR registrations and performed periodic checks to ensure that subrecipients are updating information, as necessary.*”

The Federal OMB Circular A-133 Compliance Supplement Part 3, Section N., related to Special Tests and Provisions, states:

As provided in 2 CFR section 176.210, Federal Agencies must require recipients to...separately identify to each subrecipient, and document at time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA Funds; and provide identification of ARRA awards in their Schedule of Expenditures of federal Awards (SEFA) and Data Collection Form (SF-SAC) and require their subrecipients to provide similar identification in their SEFA and SF-SAC.

The Federal OMB Circular A-133 Compliance Supplement Appendix VII, Other OMB Circular A-133 Advisories, states:

Responsibilities for Informing Subrecipients:

Recipients agree to separately identify to each subrecipient, and at the time of subaward and at the time of disbursement of funds, the Federal Award number, CFDA number and amount of ARRA funds. When ARRA funds are subawarded for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental ARRA funds from regular subawards under the existing program.

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Finding 10 – 58: (continued)

The Federal OMB Circular A-133 Compliance Supplement Part 3 Section F Equipment and Real Property Management states:

The requirements for equipment are contained in the A-102 Common Rule §_____.32), OMB Circular A-110 (2 CFR section 215. 34) program legislation, federal awarding agency regulations, and the terms and conditions of the award.... Title to real property acquired by non-federal entities with federal awards vests with the non-Federal entities with Federal awards vests with the non-federal entity....When real property is no longer needed for federally supported programs or projects, the non-Federal entity shall request disposition instructions.

The Federal OMB Circular A-133 Compliance Supplement Part 3, Section K, Real Property Acquisition and Relocation Assistance, states:

Governmentwide requirements for real property acquisition and relocation assistance are contained in Department of Transportation's single governmentwide rule at 49 CFR part 24, Uniform Relocation Assistance and Real Property Acquisition Regulations for Federal and Federally-Assisted Programs.

Cause: PDE informs subrecipients of their federal award information through subrecipient applications and agreements. PDE management stated they provide subrecipients with the required information by providing CFDA names and numbers on the applications. PDE believed that the award information historically provided was sufficient.

PDE believed that posting award information on its FAI system at the time of disbursement was sufficient notification to subrecipients. PDE stated that subrecipients have the ability to log onto the FAI system if they choose to find out the program information for their payments received.

Also, PDE stated that they believed OCO was reviewing and verifying the subrecipient CCR registrations for ARRA funds, but OCO was not performing this.

Effect: Failing to include the Federal grant award information at the time of award and at the time of disbursement may cause subrecipients and their auditors to be uninformed about specific program and other regulations that apply to the funds they receive. There is also potential for PDE's subrecipients to include incorrect SEFAs in their OMB Circular A-133 Single Audit reports submitted to the Commonwealth, and federal funds may not be properly audited at the subrecipient level in accordance with the Single Audit Act and Circular A-133.

Failing to adequately inform subgrantees of program requirements surrounding equipment, real property and relocation assistance, subgrantees could be in noncompliance with these program regulations.

Additionally, without PDE performing periodic verifications of proper subrecipient CCR registrations, they are violating ARRA provisions and quarterly 1512 reporting could be incorrect.

Recommendation: PDE should identify all required federal award information to all subrecipients both at the time of award and at the time of disbursement for ARRA to ensure subrecipient compliance with applicable federal regulations and OMB Circular A-133.

PDE should ensure language in both the Master Agreements and program riders is sufficiently detailed to ensure subrecipients are fully aware of program regulations surrounding equipment and real property management, and real property acquisition and relocation assistance.

Additionally, we also recommend that PDE develop a procedure to periodically review and verify the subrecipient CCR registrations as required by ARRA provisions.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 58: (continued)

PDE Response:

Federal Award Information

- At the time of disbursement, the subrecipients can access the Commonwealth’s Financial Accounting Information (FAI) System to view the payment details, which identifies required federal award information.
- At the time of award, the PDE will consistently communicate via the grant agreements the required federal award information. Standard agreements will contain the required information going forward and appropriate checks will be incorporated in the review processes.

Property Management

- The PDE’s Master Agreements, under the “Federal Assurance Clause,” states, in part:

“Grant Recipient’s activities under this Agreement shall be carried out on a nondiscriminatory basis in accordance with . . . Office of Management and Budget Circulars A-87, A-102, A-110, A-128 and A-133, as applicable.”
- Where the Master Agreement and/or Riders reference the applicable requirements, PDE fulfils its flow-down requirements.

OCO Response to CCR Issue: We disagree with this portion of the finding. The criteria noted by the auditors in 2 CFR, section 176.50 describes reporting and registration requirements. Our interpretation of the CFR is that an entity is only required to register in CCR if they are required to file 1512 Reports. In an effort to ensure we were compliant with the guidance we contacted OMB for clarification on the need to register in CCR.

OMB clarified that only ARRA subrecipients that have been delegated the reporting requirement from the Prime grant recipient are required to register in CCR in order to report in Federalreporting.gov. The Commonwealth files the ARRA 1512 report for all federal pass thru funds, and does not delegate reporting requirements to its subrecipients. Based on the Commonwealth’s central reporting structure and the CCR registration exceptions noted by OMB, the Commonwealth is in compliance with CCR registrations as applicable to 1512 reporting.

In response to the auditors’ contention that they must rely on HHS-OIG rather than on the OMB guidance that we provided them, we followed up by submitting the OMB guidance to HHS-OIG and asking HHS-OIG to review the specific guidance provided to the Commonwealth by OMB and consider whether, based on this guidance and the central ARRA 1512 reporting practice in Pennsylvania, this issue should be considered an audit finding. HHS-OIG directed the Commonwealth to “follow OMB guidance.” We provided both the OMB and HHS-OIG documents to the auditors. Based on the guidance provided by OMB and affirmed by HHS-OIG, we maintain that by centrally filing the 1512 report for all federal pass thru funds the Commonwealth is in compliance with the federal reporting requirements for CCR registrations.

Auditors’ Conclusion: Regarding PDE’s response, we do not agree that PDE’s current procedures are adequate to properly identify Federal award information and Property Management requirements to its local ARRA and non-ARRA subrecipients, so our finding does not change in this regard.

As the criteria above clearly states, determining that the pass-through entity checked the CCR registrations of its ARRA subrecipients is a key audit objective in our Single Audit. In our separate auditor correspondence with HHS-OIG, our federal cognizant agency for Single Audit, HHS-OIG agreed with our above finding that PDE is required to check its ARRA subrecipients for CCR registrations. Since PDE clearly did not do this, PDE needs to work with Federal audit resolution officials to resolve the issue.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 58: (continued)

In addition, OB or OA should have issued overall guidance to all Commonwealth agencies (e.g., Management Directive) to inform them of the federally-required information at the time of ARRA disbursements to subrecipients.

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 59:

CFDA #84.010 – Title I Grants to Local Education Agencies
CFDA #84.027 – Special Education - Grants to States
CFDA #84.173 – Special Education – Preschool Grants
CFDA #84.367 – Title II Improving Teacher Quality State Grants
CFDA #84.389 – ARRA – Title I Grants to Local Education Agencies
CFDA #84.391 – ARRA – Special Education – Grants to States
CFDA #84.392 – ARRA – Special Education – Preschool Grants
CFDA #84.394 – ARRA – State Fiscal Stabilization Fund

Internal Control Deficiencies in PDE Monitoring of Subrecipient Cash Management (A Similar Condition Was Noted in Prior Year Finding #09-40)

Federal Grant Numbers: S010A080038A, S010A090038A, S010A080038A, H027A080093, H173A080090, S367A080051A, S367A090051A, S389A090038A, S367A080051A, H391A090093, H392A090090, and S394A090039

Condition: During our current-year Single Audit of the Title I, Title II, IDEA-B, and SFSF major programs administered by PDE, we reviewed other auditors’ reports to ascertain any impact on our state-level Single Audit for these four major programs. Our review disclosed that USDE OIG issued an audit report in March of 2010 (Report #ED-OIG/A03J00010) and issued an updated audit report in December 2010 (#ED-OIG/A03K0003) that disclosed major deficiencies in PDE’s Comptroller Office internal controls for monitoring subrecipient cash management of Federal ARRA funds to ensure these funds were limited to immediate cash needs. In particular, USDE OIG auditors noted that the PDE Comptroller Office did not have adequate controls in place to prevent and detect whether LEAs within the above major programs were: 1) expending all the Federal cash advanced to them on a monthly basis (prior to receiving their next month’s advance); 2) maintaining excess Federal cash balances; 3) earning quarterly interest in excess of \$100 on Federal funds; and 4) returning interest earned on these funds to USDE in accordance with the regulations.

For the major programs listed above, total SEFA expenditures are \$1.6 billion of which over 98 percent was subgranted. The Comptroller’s Office issues monthly advance payments to each LEA based on the yearly allocation amount divided by the length in months of each subgrant. On a quarterly basis, each LEA is required to report to the Comptroller’s Office total project expenditures through a “Reconciliation of Cash-on-Hand Report”, which is certified by a responsible LEA official to be true and accurate. Future payments to each LEA are then adjusted by the Comptroller (up or down), as necessary each quarter. OIG noted that LEA’s are only required to report expenditures in aggregate amounts, with no detailed expenditure information or documentation as support. Also, because the reconciliations do not occur on a more regular basis such as monthly, these Comptroller Office monitoring procedures are not adequate to minimize excess cash at the LEA level.

Overall, the results of our current-year testwork demonstrate that PDE’s internal controls over monitoring of LEA cash management in the above federal programs are deficient and need to be strengthened.

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.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 59: (continued)

34 CFR 80.37, 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 . . . 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.*

According to 34 CFR Section 76.702, *a State should use fiscal control and fund accounting procedures that ensure proper disbursement of and accounting for Federal funds. In addition, States are responsible for managing the day-to-day operations of grant and subgrant supported activities. States must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements (34 CFR Section 80.40(a)).* The Comptroller’s Office processes do not ensure that these requirements were being met.

According to 34 CFR Section 80.21(c), *“Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.”* Methods and procedures for payment should also minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR Part 205 (34 CFR Section 80.21(b)).

Cause: PDE and Comptroller personnel disagree with the USDE OIG reports and believe their current LEA payment and cash management monitoring procedures are adequate and limit LEA cash to immediate needs; in addition, LEA cash is reviewed during OMB A-133 Single Audits of LEAs and during PDE close-out reviews after each grant ends.

Effect: PDE Comptroller’s internal controls over ensuring LEA compliance with federal cash management regulations are deficient, and provide little timely assurance that cash at the LEA level is being limited to immediate needs as required.

Recommendation: We recommend that PDE and the Comptroller Office:

- Develop and implement USDE OIG-recommended procedures to review LEA expenditures charged to ARRA and non-ARRA funds to determine whether the funds advanced were actually expended and whether the expenditures are reasonable, allowable, and properly supported prior to reimbursement.
- Develop and implement USDE OIG-recommended procedures to proactively monitor cash balances at LEAs on a more regular basis and minimize the time lapsing between the transfer of funds advanced to its LEAs and the disbursement of those funds by the LEAs.

Agency Response: The Pennsylvania Department of Education (PDE) will continue to use fiscal control and fund accounting procedures that insure proper disbursement of and accounting of Federal funds. This includes subrecipient monitoring consistent with applicable regulations and guidance to the satisfaction of the awarding agency.

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

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 60:

CFDA #84.010 – Title I Grants to Local Education Agencies

CFDA #84.367 – Title II Improving Teacher Quality State Grants

CFDA #84.389 – ARRA – Title I Grants to Local Education Agencies

Internal Control Deficiencies in PDE During-the-Award Monitoring of Title I and Title II Subrecipients (A Similar Condition Was Noted in Prior Year Finding #09-42)

Federal Grant Numbers: S010A090038A, S010A080038A, S367A080051A, S367A090051A, and S389A090038A

Condition: During our current year Single Audit of the Title I and Title II major programs administered by PDE, we noted an internal control deficiency in which PDE, because of inadequate review and oversight, did not properly ensure that all Title I and Title II subrecipients were included in the three-year monitoring schedule covering fiscal years 07-08 through 09-10. We noted that 31 LEAs, consisting of 29 IUs, 1 school district, and 1 charter school who received Title I and Title II funds in the three-year cycle but were not monitored.

Also, our audit disclosed that for 21 of the 41 LEAs in our sample selected from 243 LEAs monitored in the current year, the monitoring instruments tested were incomplete or lacked evidence of supervisory review. Seventeen instances were noted where the monitor identified that the requirement was not applicable however no explanation was provided that would allow the reviewer to determine its accuracy. In one monitoring instrument, six sections were incomplete where the monitor failed to check the results of four sections of the Title I requirements and two sections of the Title II requirements. In another monitoring instrument, the monitor incorrectly checked “not met” for two specific requirements where one of the requirements should have been met based on program guidance. For two monitoring instruments, the routing sheet was not completed that provides evidence of PDE’s supervisory review and approval. For 2 of the 41 items tested for Title II, we determined that the monitor incorrectly marked the requirement “not applicable” when it should have been marked not met making the LEA noncompliant.

Additionally, we reviewed two separate USDE OIG ARRA reports issued in March 2010 and December 2010 on PDE’s administration of Title I ARRA funds. (Reports #ED-OIG/A03J00010 & #ED-OIG/A03K0003). The March 2010 report disclosed major deficiencies in PDE’s on-site fiscal monitoring controls over LEAs in the Title I program. In particular, USDE-OIG found that PDE did not implement adequate ARRA monitoring requirements in the monitoring instrument for the Title I program. The December 2010 report disclosed that deficiencies continued to exist over PDE’s on-site monitoring of LEAs receiving Title I funds. The reports concluded that “PDE needs to conduct additional monitoring and provide LEAs guidance to ensure fiscal controls are adequate” and “PDE needs to conduct additional monitoring and provide LEAs guidance to ensure their policies and procedures are adequate.”

We also reviewed the most recent subrecipient OMB Circular A-133 Single Audit Report issued by Philadelphia School District (PSD), which is by far the largest Title I and Title II subrecipient in the Commonwealth, for potential impact on our state-level Single Audit. We noted that in the FYE June 30, 2009 audit report, the auditor issued a qualified compliance opinion based on PSD’s inability to furnish records documenting their compliance with federal comparability requirements. PDE’s LEA oversight and monitoring procedures are not adequate enough to ensure LEA compliance.

Finally, we reviewed a separate USDE OIG audit report “Philadelphia School District’s Controls Over Federal Reporting” issued in January 2010. That report disclosed that the Philadelphia School District did not have adequate fiscal controls in place to account for the Federal grant funds that were expended during the audit period of July 1, 2005 through June 30, 2006 which resulted in material expenditures in Title I and Title II grant funds that were either unallowable or inadequately supported. The audit disclosed that:

- 1) PSD needed stronger internal controls to better support millions in personnel expenditures routinely charged to Federal grants;
- 2) PSD inappropriately supplanted state and local funding with nearly \$7 million in Federal funds;

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Finding 10 – 60: (continued)

- 3) PSD did not have adequate controls in place to ensure that millions in non-payroll expenditures were allowable in accordance with Title I and Title II regulations and were adequately supported;
- 4) PSD's policies and procedures were not adequate and/or properly enforced for transaction processing, travel costs, imprest fund reimbursements, inventory tracking, and contracts.

PSD also did not have written policies and procedures for various fiscal processes including: monitoring of budgets, using Nonpublic Title II, Part A grant funds, purchasing from the office supplies vendor, charging of transportation costs, allocating single audit costs, and charging of indirect costs.

These numerous subrecipient audit findings further demonstrate that instances of material noncompliance are occurring with inadequate controls existing at the subrecipient level, and PDE's during-the-award Title I and Title II monitoring procedures are not adequate enough to prevent, detect, and correct them.

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.

The Code of Federal Regulations (CFR) Parts 76 and 80 address the SEA's role in monitoring subrecipients. According to 34 CFR Section 76.702, "A State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds."

According to 34 CFR Section 80.40(a),

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.

An effective internal control procedure should ensure that every LEA participating in Title I and Title II is scheduled and tracked for monitoring during the three-year cycle.

Cause: PDE maintains separate yearly monitoring schedules for Title I and Title II. They do not combine and review the schedules into one list of all LEAs to be monitored over the three-year cycle. By using separate schedules and failing to properly review them, PDE does not ensure that all LEAs are being monitored in the three-year cycle.

PDE management stated that monitors and reviewers have the experience and knowledge to determine the adequacy of the monitoring results when additional documented comments are not provided. Also, PDE management believed that the incomplete sections and reviews were performed but were not documented due to reviewer oversight.

PDE management stated that it has enhanced its monitoring efforts and guidance provided to subrecipients over the use and reporting of ARRA funds. PDE added three additional requirements to the existing Title I review instrument to address ARRA requirements and a consultant was hired to carry out additional ARRA oversight. However, OIG stated that the updated program monitoring instrument included steps to review only whether subrecipients are tracking ARRA funds and expenditures separately from non-ARRA funds and expenditures, and that PDE should revise its monitoring instrument to include an additional step to ensure that LEAs track Federal (ARRA and non-ARRA) expenditures by program at the time the expense is incurred.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 60: (continued)

In response to USDE OIG's audit report, PDE management has stated that the Division of Federal Programs has been providing assistance to the PSD on implementing fiscal controls, procedures, and oversight. A Corrective Action Plan was developed in response to the USDE OIG audit report; however, it was implemented subsequent to our audit period. Therefore, inadequate controls continued to exist during our audit period.

Effect: Due to PDE's inadequate review and oversight, LEAs were not properly monitored in the three-year cycle to ensure compliance with Title I and Title II regulations. Consistent and regular on-site monitoring is critical to ensure LEA compliance with the various complex and detailed federal regulations. Adequate review of monitoring instruments would ensure they are complete and in accordance with federal regulations.

Additionally, without adequate monitoring of ARRA funds, PDE cannot be assured the LEAs are properly reporting complete and accurate information or spending funds in accordance with ARRA requirements.

For PSD, the largest subrecipient, noncompliance is occurring which is material to the Statewide Title I and Title II grants as a whole and inadequate fiscal controls exist at the subrecipient level which is not being prevented, detected, or corrected by PDE's during-the-award monitoring procedures.

Recommendation: We recommend that PDE increase their effort over review and oversight to ensure that all Title I and Title II subrecipients are properly monitored on-site within the three-year cycle and monitoring instruments are complete and contain evidence of supervisory review and approval. In addition, PDE should develop and implement additional monitoring procedures that address all applicable ARRA requirements. We also recommend that PDE work closely with USDE program officials and make enhancements to its during-the-award monitoring procedures, especially at PSD – PDE's largest subrecipient in Title I and Title II, which will better ensure timely prevention, detection, and corrective action on major issues noted in program monitoring of LEAs.

Agency Response: The Pennsylvania Department of Education (PDE), Division of Federal Programs acknowledges that the 29 Intermediate Units were not monitored during this cycle, but they were monitored during the 2010-11 school year. Additionally, the one (1) School District and one (1) Charter School referenced in the Finding as being unmonitored have also been monitored during the 2010-11 school year.

The exceptions identified as a result of the USDE, OIG/ARRA Reports issued March 2010 and December 2010 have been addressed by PDE. The PDE believes that its current practices are adequate and compliant based on the USDE and OIG's acceptance of PDE's responses and no additional corrective action had been requested by USDE or OIG. Therefore, PDE disagrees with this Finding.

The PDE is working very closely with the USDE, OIG and Risk Management Office to implement a Corrective Action Plan with the School District of Philadelphia. Monthly reports are submitted by the District, reviewed by PDE and shared with USDE.

Auditors' Conclusion: As mentioned above, the December 2010 OIG audit report disclosed that deficiencies continued to exist over on-site monitoring. Therefore, any corrective action would have been implemented subsequent to our audit period. Also, corrective action implemented for PSD was subsequent to our audit period, so our finding and recommendations do not change for our current year.

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

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 61:

CFDA #84.027 – Special Education – Grants to States

CFDA #84.391 – ARRA – Special Education – Grants to States

Noncompliance and Internal Control Deficiencies in PDE Monitoring of IDEA-B Subrecipients (A Similar Condition Was Noted in Prior Year Finding #09-43)

Federal Grant Numbers: H027A080093, H027A090093, and H391A090093

Condition: During our current year Single Audit of the IDEA-B major program, including ARRA, we found internal control deficiencies in PDE’s monitoring of sub-recipients. IDEA-B funds are subgranted to 29 IUs in the state, who in turn subgrant these funds to school districts and charter schools.

In our prior-year audit, we reviewed a separate USDE OIG ARRA report issued in March 2010 on PDE’s administration of IDEA-B ARRA funds (ED-OIG/A03J0010), which disclosed major deficiencies in PDE’s on-site fiscal monitoring controls over LEAs in the IDEA-B program. These monitoring deficiencies were reported for our prior fiscal year Single Audit and have not changed for the current audit period. In particular, USDE-OIG found that PDE did not implement ARRA monitoring requirements into the monitoring instrument for the IDEA-B program. The report noted that the monitoring instrument focused mainly on programmatic issues, excluding a fiscal review of each subrecipient’s use of Federal ARRA funds. During our current audit, we found that in December 2010, USDE-OIG issued a follow-up report (ED-OIG/A03K0003) that recommended PDE conduct additional monitoring, provide more guidance, and work further with LEAs to ensure that LEAs have adequate fiscal controls to provide assurance that ARRA and non-ARRA federal funds are safeguarded. USDE confirmed that its monitoring findings issued in these two reports were not resolved by PDE as of June 2011.

In response to these OIG reports, PDE contracted with an outside vendor to perform on-site monitoring of ARRA funds at the subrecipient level. However, we found that no on-site monitoring of IUs occurred during FYE June 30, 2010. We learned that PDE’s on-site monitoring of the 29 IUs did not start until December 2010, after our current audit period.

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.

The Code of Federal Regulations (CFR) Parts 76 and 80 address the SEA’s role in monitoring subrecipients. According to 34 CFR Section 76.702, “A State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds.”

According to 34 CFR Section 80.40(a),

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: PDE was not able to resolve our prior-year finding and adopt a monitoring instrument to include ARRA components prior to June 30, 2010. Additionally, IU monitoring of ARRA funds by the outside vendor could not begin until after June 30, 2010.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 61: (continued)

Effect: Where on-site, during-the-award monitoring is not being performed, and if the monitoring instrument does not include ARRA components, PDE is not complying with federal regulations and cannot be assured the LEAs are complying with the requirements of the IDEA-B program.

Recommendation: We recommend that PDE document and implement an ARRA component to its IDEA-B on-site monitoring document and perform timely on-site monitoring of all subrecipients to ensure effective during-the-award monitoring of ARRA funding. Additionally, we recommend PDE work with USDE-OIG to resolve the findings noted in the USDE-OIG reports.

Agency Response: The Pennsylvania Department of Education, Bureau of Special Education (BSE) has been in contact with the U.S. Office for Special Education Programs (OSEP) regarding the OIG Report requirements and the BSE's March 2011, Monitoring Report to the November 2010, Special Education and IDEA-ARRA Fiscal Verification Monitoring Visit. The BSE have forwarded to OSEP any required documentation regarding corrective action as indicated in OSEP's e-mail dated June 20, 2011 which was provided to the auditors during the audit review. Upon receipt of any additional direction or requests regarding the OIG Report or the OSEP Monitoring and IDEA-ARRA Fiscal Report, BSE will implement any additional corrective action if required by OSEP.

No additional actions are required at this time.

Auditors' Conclusion: We continue to encourage PDE to seek resolution with USDE. Based on the agency response, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 62:

CFDA #84.126 and #84.390 – Vocational Rehabilitation Cluster (including ARRA)

A Material Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (A Similar Condition Was Noted in Prior Year Finding #09-46)

Federal Grant Numbers: H126A080056, H126A090056, H126A100056, and H390A090056 (ARRA)

Condition: As a result of federal resolution of multiple prior Single Audit findings on debarment and suspension requirements, which have been reissued annually since SFYE June 30, 1992, OVR is required to check all vendors receiving \$25,000 or more of VR Cluster funding during the fiscal year for suspension/debarment. As part of our current year testing in this area, we determined that OVR's procedures are to only check new vendors or vendors which required a change in contact information (for example, address or phone number) against the Federal Excluded Parties List System (EPLS) website to ensure they are not suspended or debarred. OVR performs this check when the vendor is first input into L&I's Commonwealth Workforce Development System (CWDS) or when vendor contact information is updated in CWDS, but OVR does not have procedures to re-verify the status of these vendors or other existing vendors on an on-going basis. We consider this to be inadequate. In addition, OVR did not have procedures in place to identify those vendors who receive VR Cluster funds of \$25,000 or more (the federal contract threshold) which requires OVR to then check the EPLS website to ensure that such vendors are not debarred or suspended.

We tested a sample of 17 vendors receiving VR Cluster payments under federal grant numbers H126A090056 and H126A100056 in SFYE June 30, 2010 to verify whether OVR checked the respective vendor against the debarment list prior to making payments to that vendor. For all 17 items tested, OVR provided us with a screen from the CWDS system which indicated that the vendors were verified against the EPLS system, supposedly (according to OVR's established procedures) only when they were new or when there was a change in contact information which, as stated above, we consider inadequate. Further, for 5 out of 17 items, the "Debarment List Verify Date", as indicated in OVR's CWDS system, was after the date of the payment being tested. OVR personnel stated that these five vendors were not new, but had contact information that was updated in CWDS, so the EPLS was re-checked by OVR. However, there was no other documentation supporting that debarment/suspension was checked at any earlier date (for example, when each vendor was new) before payments, which we also consider inadequate. Additionally, for 9 out of 17 items, the "Debarment List Verify Date", as indicated in OVR's CWDS system, ranged from over one year to over seven years prior to the date of the payment being tested, which indicated that the EPLS had not been checked for these vendors annually as required. This is also considered to be inadequate.

Criteria: USDE Regulation 34 CFR 85 regarding government-wide debarment and suspension, states in part:

Section 85.220 Are any procurement contracts included as covered transactions?

(a) Covered transactions under this part –

(1) Do not include any procurement contracts awarded directly by a Federal agency, but

(2) Do include some procurement contracts awarded by non-Federal participants in nonprocurement covered transactions (see appendix to this part).

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

(1) The contractor is awarded by a participant in a nonprocurement transaction that is covered under §85.210, and the amount of the contract is expected to equal or exceed \$25,000.

Section 85.300 What must I do before I enter into a covered transaction with another person at the next lower tier?

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:

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Finding 10 – 62: (continued)

- (a) *Checking the Excluded Parties List System; or*
- (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 80.35 states the following regarding subawards to debarred and suspended parties:

Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension."

34 CFR 80.36(a) states:

When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Commonwealth Management Directive 215.9, Section 7.a.(2)(B), dated 4-16-99, states:

If the agency makes a written determination of responsibility, the determination shall contain a statement that the contractor was determined to be responsible pursuant to this directive. This statement shall be included in the agency's contract file.

Cause: OVR personnel indicated that as a result of the prior year findings related to this matter they attempted an interface to check the debarment more timely and more frequently for existing vendors, but due to technology limitations, they were not able to implement the feature into CWDS. Regarding the vendors that were checked after the date of the payment, OVR personnel indicated that contact information was updated in CWDS for these vendors. OVR personnel stated that OVR's policy is to perform an EPLS verification when an informational update occurs.

Effect: Since OVR personnel are not ensuring, on an ongoing basis, that all vendors which receive payments of \$25,000 or more during a contract are not suspended or debarred before entering into a covered transaction, they are not complying with federal regulations and a material weakness exists. Also, there is limited assurance that VR Cluster funds (including ARRA) are not paid to service providers who have been excluded or disqualified from participating in federal programs. Since the auditor's review of the EPLS system for the 17 vendors did not disclose that any vendors were debarred or suspended, no costs are questioned for this finding.

Recommendation: We recommend that OVR personnel work with RSA, the federal awarding agency, and establish procedures to identify all outside vendors in the VR Cluster which receive, or are expected to receive, payments of \$25,000 or more during a contract and to check the Federal Excluded Parties List System prior to authorizing a payment to these VR Cluster service providers in order to ensure that the service provider is not debarred or suspended. Additionally, OVR should retain documentation of all EPLS verifications so they are available for auditor review.

Agency Response: Our CWDS team has been working on an interface with the Federal Excluded Parties List System since June, 2009. To date the interface has not been able to successfully pull the information necessary to meet minimum requirements. As a result the team has created a monthly Ad hoc report to generate a list of all vendors that have received \$25,000 and above from OVR. Upon receiving the report the fiscal unit manually verifies each vendor against the debarment list. Once verified the vendor will not reappear on the list for one year. The initial report has been generated however upon review it was discovered that further refining of the information being pulled would result in a more efficient process. OVR expects to be able to begin a regularly scheduled debarment report within two months.

CWDS has an audit history of when debarment was done. It cannot be seen from the front end. It is only available to IT. An enhancement to display the history of the debarment checks to the user will be added. Again, the table exists, it simply is not currently displayed on the front end.

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Finding 10 – 62: (continued)

Auditors' Conclusion: As we stated in the finding recommendation, OVR should work with RSA to help ensure that any new procedures which OVR implements related to debarment/suspension will be adequate to ensure compliance with federal regulations and RSA guidance. We will evaluate any corrective action during the subsequent audit. The finding and recommendation remain as stated.

Questioned Costs: None

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, 2010

Finding 10 – 63:

CFDA #84.126 and #84.390 – Vocational Rehabilitation Cluster (including ARRA)

A Material Weakness Exists Over the Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA (A Similar Condition Was Noted in Prior Year Finding #09-45)

Federal Grant Numbers: H126A100056, H126A090056, H126A080056, and H390A090056 (ARRA)

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 VR Cluster. These SSA reimbursements are considered program income to the VR Cluster and deducted from expenditures reported on the SEFA. OVR received approximately \$9.2 million in program income from SSA during the state fiscal year ended June 30, 2010, 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. For SFYE June 30, 2010, we selected five clients' reimbursement requests, which totaled \$615,276 in VR Cluster program income for the year. These five claims were part of the largest Refund of Expenditure Document (No. KW1093258384 totaling \$4,498,125) posted to the SAP System as VR program income during the current year (under Federal grant number H126A100056 on December 17, 2009). However, for the fifth year in a row, OVR could not provide complete documentation supporting the VR Provider Claim forms for our review. In particular, our testwork disclosed that for two clients out of the five clients sampled, OVR did not retain and provide the OVR-208 Forms which were required to support \$6,434 of direct costs claimed for the two clients in question.

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 personnel stated that in response to the findings issued in prior years, they began to implement procedures to retain copies of the claim documentation at the OVR Central Office and copies of the OVR-208 Forms in the respective clients' case files at the district offices to ensure that the documentation is retained and available for audit purposes. However, at the time the claims in question were prepared, these procedures were not yet in place.

Effect: Since complete documentation was not retained to substantiate the proper determination of the SSA claims for program income recorded for the VR Cluster in violation of federal regulations, OVR provides limited assurance that the SSA income received by L&I in the VR Cluster for these items was correct and legally earned in the current year. L&I may have received SSA benefits which it was not entitled to claim, and as a result, may have drawn an insufficient amount of VR Cluster benefits since program income is used to reduce VR Cluster draws. In addition, without adequate procedures for properly documenting the VR Claim Forms submitted to SSA, there is limited assurance that future claims will be adequately supported.

Recommendation: 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.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 63: (continued)

Agency Response: As a result of prior year audit findings several procedures were implemented to help ensure that documentation would not be missing from the case files:

1. The VR Provider Claim form and supporting claim documentation must be kept in Central Office. This procedure change eliminated the problem with missing VR Provider Claim forms in this year's audit.
2. The Directors of the Bureau of Vocational Rehabilitation Services and Bureau of Blindness and Visual Services implemented a policy instructing the OVR district offices to file all copies of the paid OVR-208 or provider invoices in the case file at the OVR district offices (this procedure change was noted in this year's Single Audit Preliminary Finding).
3. The Bureau Directors are implementing another procedure change effective May 2011 asking that each office do a complete review of Social Security cases prior to filing the case to ensure all the necessary invoices are part of the supporting case file.

NOTE: The cases selected for audit were closed prior to the implementation of the new procedures. However, the new procedures should eliminate this problem moving forward.

Specific to the claims examined, two were missing OVR-208 forms. In both cases the CWDS 'Participant Fiscal Summary' showing that the costs were paid were provided to the Auditor. In previous findings where invoices could not be located in cases selected by the Social Security Administration for audit, SSA accepted a copy of the 45 screen from mainframe or the Participant Fiscal Summary as proof that an invoice was paid.

Based on the above, I am asking that those claims be removed from the finding.

Auditors' Conclusion: Since OVR could not provide complete documentation to support the VR Provider Claim forms which we selected for testing in the current audit period, the finding and recommendation remain as stated. OVR's statement that SSA accepted a copy of the 45 screen from the mainframe or the Participant Fiscal Summary as proof that an invoice was paid is not relevant to our finding since SSA does not perform an on-site audit of submitted claims and does not review the completed supporting documentation that is part of our Single Audit. We will review any corrective action in the subsequent audit.

Questioned Costs: \$6,434

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, 2010

Finding 10 – 64:

CFDA #84.126 and #84.390 – Vocational Rehabilitation Cluster (including ARRA)

Noncompliance Exists Due to the Lack of Federal Review and Approval of the Hiram G. Andrews Center Cost Allocation Plan

Federal Grant Numbers: H126A100056, H126A090056, H126A080056, H390A090056 (ARRA)

Condition: The Commonwealth owns and operates the Hiram G. Andrews Center (HGAC) through L&I's Office of Vocational Rehabilitation (OVR). The HGAC provides rehabilitative services to OVR clients in order to prepare them for gainful employment and claims reimbursement from OVR based on pre-determined billing rates. During the SFYE June 30, 2010 audit period, HGAC incurred VR Cluster expenditures for OVR client rehabilitation totaling \$14,162,705 (federal portion only) under federal grant numbers H126A100056 and H126A090056 out of total VR Cluster expenditures of \$117.5 million on the current-year SEFA.

Since HGAC is owned and operated by the Commonwealth of Pennsylvania, and as determined by OB, is part of the Commonwealth's reporting entity, HGAC and OVR should be determining allowable costs of HGAC to be charged to the VR Cluster based on the provisions of OMB Circular A-87. Our review disclosed that, although L&I prepared a cost allocation plan (CAP) for HGAC for SFYE June 30, 2010 and submitted the CAP to USDE for approval in May 2009, due to misinformation communicated about the status of HGAC by L&I, USDE mistakenly believed HGAC was a subrecipient and did not review and approve the CAP as of the date of our testing in May 2011.

Criteria: OMB Circular A-87, Cost Principles for State and Local Governments, Attachment A, General Principles for Determining Allowable Costs, Section C, Basic Guidelines, states:

3. *Allocable Costs.*

d. *Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Attachments C, D, and E.*

OMB Circular A-87, Cost Principles for State and Local Governments, Attachment C, State/Local-wide Central Service Cost Allocation Plans, Section D, Submission Requirements, states:

1. *Each State will submit a plan to the Department of Health and Human Services for each year in which it claims central service costs under Federal awards. The plan should include (a) a projection of the next year's allocated central service cost (based either on actual costs for the most recently completed year or the budget projection for the coming year), and (b) a reconciliation of actual allocated central service costs to the estimated costs used for either the most recently completed year or the year immediately preceding the most recently completed year.*

OMB Circular A-87, Attachment C, State and Local-wide Central Service Cost Allocation Plans, Section F, Negotiation and Approval of Central Service Plans, states in part:

1. *All proposed central service cost allocation plans that are required to be submitted will be reviewed, negotiated, and approved by the Federal cognizant agency on a timely basis. The cognizant agency will review the proposal within six months of receipt of the proposal and either negotiate/approve the proposal or advise the governmental unit of the additional documentation needed to support/evaluate the proposed plan or the changes required to make the proposal acceptable.*

OMB Circular A-87, Attachment E, State and Local Indirect Cost Rate Proposals, Section D, Submission and Documentation of Proposals, states:

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Finding 10 – 64: (continued)

I.d. Indirect cost proposals must be developed (and, when required, submitted) within six months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant Federal agency. If the proposed central service cost allocation plan for the same period has not been approved by that time, the indirect cost proposal may be prepared including an amount for central services that is based on the latest federally-approved central service cost allocation plan. The difference between these central service amounts and the amounts ultimately approved will be compensated for by an adjustment in a subsequent period.

Cause: The Commonwealth prepared a CAP for HGAC for the fiscal year ended June 30, 2010 and submitted it to USDE for review and approval. Subsequent to the submission of the CAP, Commonwealth personnel erroneously informed USDE Indirect Cost Group (ICG) personnel that HGAC was a subrecipient of the Commonwealth, when HGAC is actually part of the Commonwealth reporting entity. Based on this erroneous statement that HGAC was a subrecipient, USDE ICG personnel decided that USDE did not need to review and approve the HGAC CAP, and that only the Commonwealth should review the HGAC CAP for compliance with applicable standards and regulations. Commonwealth personnel did not inform USDE that USDE's decision was based on erroneous information. Further, since HGAC is part of the Commonwealth reporting entity, the Commonwealth cannot review and approve its own CAP.

Effect: The HGAC CAP for the fiscal year ended June 30, 2010 was submitted, but was not reviewed and approved by USDE based on erroneous information provided to USDE by L&I, so there is noncompliance with OMB Circular A-87. Since OMB Circular A-87 allows L&I to continue charging costs based on the USDE approved CAP from the prior year while waiting for federal approval of the current year CAP, with the stipulation that USDE can settle any differences after the current year CAP is federally approved, no costs are questioned.

Recommendation: L&I should resubmit the HGAC CAP for SFYE June 30, 2010 to USDE for its review/approval with the corrected information about HGAC. Also, L&I should continue to prepare a CAP for HGAC on an annual basis and submit the CAP to USDE for review and approval in accordance with the OMB Circular A-87 requirements.

Agency Response: L&I strongly disagrees with the finding. An Indirect Cost Allocation Plan for the department is submitted annually to the department's federal cognizant agency; Department of Labor (DOL). The plan includes cost analysis for the Hiram G Andrews Center (HGAC). Rates are established on an annual basis and approved by DOL. Copies of the Indirect Cost Allocation Plan and DOL approval are available for the auditor's review. Also, federal confirmation of the plan can be confirmed by the DOL Regional Cost Negotiator.

In addition, Comptroller Operations has been in contact with USDE in regards to the submission of the plan. USDE's position is that they accept the department wide cost allocation plan, including HGAC, submission to the federal cognizant agency. USDE feels a separate submission for HGAC is not necessary.

L&I recommends the elimination of this finding.

Auditors' Conclusion: As requested by L&I personnel in the Agency Response, we obtained and reviewed L&I's Agency Indirect Cost Allocation Plan (CAP) prepared for SFYE June 30, 2010. Our review of L&I's Agency Indirect CAP disclosed that this plan allocates costs from the offices of L&I's Secretary, L&I's Deputy Secretary for Administration, L&I's Deputy Secretary for Unemployment Compensation, L&I's Bureau of Administrative Services, L&I's Bureau of Human Resources, and L&I's Legal Offices to HGAC (and other L&I bureaus). There is also a portion of Statewide Allocated Costs being allocated to HGAC. In contrast, the HGAC CAP allocates HGAC costs to various categories (Therapy, Dormitory, Center for Assistive and Rehabilitative Technology, Educational Training, Evaluation, Transitional Living, and Specialized Services) and calculates a billing rate for each category. These billing rates are applied to the number of days of service provided to individual OVR clients by HGAC and used to calculate the direct charges to the VR Cluster for the services provided by clients by HGAC. Since the HGAC billing rates used to directly charge the VR Cluster are not included in L&I's Agency Indirect CAP, the L&I Agency Indirect CAP is not sufficient to

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 64: (continued)

take the place of the HGAC CAP. Therefore, the existence of the L&I Indirect CAP does not mitigate or eliminate the finding. The finding and recommendation remain as stated. We will review any corrective action in the subsequent audit.

Questioned Costs: None

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, 2010

Finding 10 – 65:

CFDA #84.126 and #84.390 – Vocational Rehabilitation Cluster (including ARRA)

A Material Weakness Exists in L&I's Procedures for Performing Eligibility Determinations (A Similar Condition Was Noted in Prior Year Finding #09-47)

Federal Grant Numbers: H126A100056, H126A090056, H126A080056, and H390A090056 (ARRA)

Condition: As part of the VR Cluster, OVR purchases vocational rehabilitation services from vendors to be provided to OVR clients. During our audit we randomly selected a sample of 40 payments to vendors and to the Hiram G. Andrews Center made for the benefit of OVR clients totaling \$52,763 (federal portion only) of the \$53,768,615 charged to the VR Cluster under federal grant numbers H126A100056 and H126A090056 in SFYE June 30, 2010. Our review of the 40 OVR client case files disclosed that for three clients for whom VR Cluster payments were made in the amount of \$1,865, although the clients appeared to be eligible for participation in the VR Cluster, OVR personnel did not make eligibility determinations within 60 days after the VR Cluster application date or by the agreed upon extension date as required by federal regulations. Eligibility determinations for the three clients in question occurred 18, 24, and 60 days, respectively, after the 60 day eligibility determination period or agreed upon extension period expired, which was in violation of federal regulations.

This finding was also impacted by various deficiencies in information technology general controls in the Commonwealth Workforce Development System (CWDS) which are disclosed in a separate finding in this Single Audit report.

Criteria: USDE Regulation 34 CFR 361 regarding the State Vocational Rehabilitation Services Program states in part:

Section 361.41 Processing referrals and applications.

(a) Referrals. The designated State unit must establish and implement standards for the prompt and equitable handling of referrals of individuals for vocational rehabilitation services, including referrals of individuals made through the One-Stop service delivery systems established under section 121 of the Workforce Investment Act of 1998. The standards must include timelines for making good faith efforts to inform these individuals of application requirements and to gather information necessary to initiate an assessment for determining eligibility and priority for services.

(b) Applications. (1) Once an individual has submitted an application for vocational rehabilitation services, including applications made through common intake procedures in One-Stop centers established under section 121 of the Workforce Investment Act of 1998, an eligibility determination must be made within 60 days, unless-

(i) Exceptional and unforeseen circumstances beyond the control of the designated State unit preclude making an eligibility determination within 60 days and the designated State unit and the individual agree to a specific extension of time; or

(ii) An exploration of the individual's abilities, capabilities, and capacity to perform in work situations is carried out in accordance with section 361.42(e) or, if appropriate, an extended evaluation is carried out in accordance with section 361.42(f).

Cause: OVR personnel were unable to provide an explanation for the late eligibility determinations.

Effect: Since OVR personnel do not have adequate procedures in place to ensure that client eligibility determinations are made within 60 days of the application date or within the specific time period extension agreed upon by the client, OVR is not in compliance with federal regulations and a material weakness exists. Also, there is limited assurance that OVR clients are receiving necessary VR Cluster services (including ARRA) on a timely basis. Since no OVR clients were determined to be ineligible, no costs are questioned for this finding.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 65: (continued)

Recommendation: We recommend that OVR personnel establish procedures to ensure that client eligibility determinations are made within the 60 day period subsequent to the application date or within the specific time period extension agreed upon by the client to ensure compliance with federal regulations.

Agency Response: The three cases were investigated by the Bureau of Vocational Rehabilitation Services (BVRS). All three cases were opened through this bureau in the years 2008- 2009. In all three instances, we have confirmed that there was no extension on file for the case going over the 60 day eligibility period. Our policy states that an extension form must be signed by the customer to agree to a time extension when warranted. The reasons for not getting the extension signed by the customer included a counselor being on leave, difficulty scheduling a person to meet with his/her counselor, and waiting for specialty examinations that took longer than expected.

OVR already has a policy in place to reinforce the 60 day timeline. The current audit finding information was shared with the three specific District Administrators who had cases noted. The District Administrators will be providing counseling sessions to the two remaining counselors (one counselor left OVR employment) on the importance of meeting this deadline. Additionally, we rolled out training called Back to Basics for all counseling staff. Module II was implemented in March 2010 and covers the eligibility process. The policy is clearly reinforced in this training and should prevent audit findings for future years (note: the current findings are from cases found eligible in 2008 and 2009 prior to our last audit finding and the implementation of Back to Basics).

Auditors' Conclusion: Based on the agency response, it appears that OVR is in agreement with the auditors' finding. No information was provided to mitigate or eliminate the condition for the three clients noted above. Therefore, the finding and recommendation remain as stated. We will review any corrective action in the subsequent audit.

Questioned Costs: None

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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Finding 10 – 66:

CFDA #84.126 and #84.390 – Vocational Rehabilitation Cluster (including ARRA)

A Material Weakness Exists Over the Preparation and Submission of the Annual RSA-2 Report

Federal Grant Numbers: H126A100056, H126A090056, H126A080056, and H390A090056 (ARRA)

Condition: L&I's OVR is required to submit the *Annual Vocational Rehabilitation Program Cost Report (RSA-2)* on an annual basis to USDE. The RSA-2 Report includes data related to VR Cluster expenditures, unobligated balance, and the number of clients served on a federal fiscal year basis. During our audit of the RSA-2 Report submitted for grants H126A090056 and H390A090056 (ARRA) for the reporting period ended September 30, 2009, we noted that there were misstatements in the amounts reported for the following line items:

RSA-2 Report Line Item	Amount Reported By OVR	Amount Calculated By Auditor	Overstatement/ (Understatement)
Schedule I. Total Expenditures			
2. Services to Individuals with Disabilities			
B. Services Purchased by State VR Agency From:			
2. Private Community Rehabilitation Programs	\$13,978,158	\$11,970,118	\$2,008,040
3. Other Public Vendors	\$18,484,177	\$18,619,079	(\$134,902)
4. Other Private Vendors	\$26,371,819	\$28,244,957	(\$1,873,138)
Schedule II. Number of Individuals Served and Expenditures by Service Category			
Type of Service:			
4.a. Postsecondary Institution of Higher Education	\$19,718,514	\$21,591,652	(\$1,873,138)

Further, we noted that the RSA-2 Report was submitted late to USDE on March 17, 2010, which was 76 days after the required submission date of December 31, 2009.

Finally, the existence of the reporting errors and the late submission of the report indicate that the supervisory review and approval process is not functioning as designed, and a control deficiency exists over the preparation and submission of the RSA-2 Report.

Criteria: 34 CFR 361.4(a)(5) indicates that the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments contained in 34 CFR Part 80 are applicable to the RSBS program.

34 CFR Part 80.20, Standards for Financial Management systems, states:

(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.

34 CFR 361.40, Reports, states:

(a) The State plan must assure that the designated State agency will submit reports...

(b) The designated State agency must comply with any requirements necessary to ensure the accuracy and verification of those reports.

The USDE-RSA Instructions for the Annual Vocational Rehabilitation Program Cost Report (RSA-2) state, in part:

The RSA-2 Report must be submitted to RSA by December 31 following the close of the Federal fiscal year.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 66: (continued)

Further, adequate internal controls over report preparation would include a segregation of duties between the preparation and the review and approval of the report, and the review and approval process should detect errors in the report preparation, ensure that such errors are corrected, and that the report is submitted on a timely basis.

Cause: OVR management stated that the OVR employees who prepared the report did not have previous experience in preparing the RSA-2 Report. OVR management stated that they requested a time extension for report submission from USDE-RSA but were informed that time extensions are not provided for report submissions. OVR management did not explain why the reporting errors were not detected as part of the supervisory review and approval process.

Effect: Since the supervisory review and approval process was not functioning as designed, the RSA-2 Report was misstated for the federal fiscal year 2009 and was not submitted on a timely basis. If the control deficiency is not corrected, the RSA-2 Reports could also be significantly misstated and submitted late in future periods.

Recommendation: OVR should ensure that its supervisory review and approval process over the preparation and submission of the RSA-2 Report is functioning as designed. These procedures should ensure that the RSA-2 Report is accurate and complete in accordance with federal regulations and submitted on a timely basis. In addition, OVR should consider making the proper corrections to the RSA-2 Report for the federal fiscal year 2009 and submit the revised report to USDE.

Agency Response: OVR agrees with the content of the finding and recommendation. The RSA-2 for FFY ending September 30, 2009 was prepared by an Accountant 2 and reviewed by her supervisor. Neither was aware they were using an incorrect source document that did not contain the full FFY 09 expenses. OVR has initiated a number of process revisions to reduce the possibility of recurrence.

- CWDS staff have been instructed to revise the business rules for the source document to assure it is run the first week in December. This will assure full FFY data is in the report, but should not delay completing the report by December 31 annually.
- The manual for preparing the report will be revised to include the correct run dates for all source documents to prevent incorrect documents from being used.
- The Division Chief will review all federal reports prior to their final submission.
- The review packet will include the source documents to add an extra layer of assurance the correct documents have been used.
- The Division Chief will provide a task timeline and progress reports for submission of all federal reports, including those for which the division provides information to other submitters, to the Bureau Director.
- OVR will consult with the Rehabilitation Services Administration re submission of a revised report to USDE and comply with their guidance.

Auditors' Conclusion: Based on the agency response, it appears that OVR is in agreement with the auditors' finding and recommendation. No information was provided to mitigate or eliminate the condition stated above. Therefore, the finding and recommendation remain as stated. We will review any corrective action in the subsequent audit.

Questioned Costs: None

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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Finding 10 – 67:

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

Noncompliance and Internal Control Deficiencies in PDE’s Review and Approval of Title II Subrecipient Applications Resulting in Questioned Costs of \$1,268,363

Federal Grant Number: S367A090051A

Condition: To participate in the Title II, Part A program, LEAs are required to submit electronic applications annually to PDE through PDE’s grant application system (e-grants) by July 1 each year. Noncompliance and internal control weaknesses were noted in PDE’s review and approval process which resulted in applications being approved that were submitted incomplete and failed to contain required information to support compliance with Federal regulations.

As part of our current year testing of the Title II, Part A program, we found that 7 out of 41 LEAs sampled submitted incomplete applications. One LEA application failed to include the following required sections: 1) highly qualified teacher information, 2) paraprofessional qualifications, 3) description of professional development activities and 4) local needs assessment. The remaining six LEAs submitted applications that disclosed the LEAs did not conduct a local needs assessment. An assessment of local needs must be conducted by an LEA in order to be eligible to receive a subgrant of Title II, Part A funds. These seven LEAs applications were improperly approved by PDE and the LEAs were subgranted Title II, Part A funds. In addition, based on our inquiry, PDE performed further follow up and informed us that an additional 37 LEA applications disclosed the LEAs did not conduct a local needs assessment. For 18 of the 44 LEAs, we were unable to verify a needs assessment was conducted. These 18 ineligible LEAs were improperly paid \$1,268,363 in Title II funds.

Criteria: The Elementary and Secondary Education Act (ESEA) of 1965, as amended by the No Child Left Behind Act of 2001, Section 2122 states:

- (a) *In General – To be eligible to receive a subgrant under this subpart, a local educational agency shall submit an application to the State educational agency at such time, in such manner, and containing such information as the State educational agency may reasonably require.*
- (b) *Contents – Each application submitted under this section shall be based on the needs assessment required in subsection (c) and shall include the following:*
 - (4) *A description of how the local educational agency will coordinate professional development activities authorized under this subpart with professional development activities provided through other Federal, State, and local programs.*
 - (5) *A description of the professional development activities that will be made available to teachers and principals under this subpart and how the local educational agency will ensure that the professional development (which may include teacher mentoring) needs of teachers and principals will be met using funds under this subpart.*
 - (8) *A description of the results of the needs assessment described in subsection (c).*
- (c) *Needs Assessment-*
 - (1) *In General- To be eligible to receive a subgrant under this subpart, a local educational agency shall conduct an assessment for professional development and hiring, as identified by the local educational agency and school staff.*

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Finding 10 – 67: (continued)

- (2) *Requirements – Such needs assessment shall be conducted with the involvement of teachers, including teachers participating in programs under Part A of Title I, and shall take into account the activities that need to be conducted in order to give teachers the means, including subject matter knowledge and teaching skills, and to give principals the instructional leadership skills to help teachers, to provide students with the opportunity to meet challenging State and local student academic achievement standards.*

Cause: PDE believed that automated business rules in e-grants were in place that would not allow application sections to be submitted incomplete. PDE's review and approval process was not detailed enough, failed to detect the missing information, and failed to detect that the LEAs were reporting that they did not complete a local needs assessment.

Effect: PDE's internal controls over the review and approval of the application process are inadequate. Failure to ensure that LEA applications are accurately completed resulted in Title II funds being subgranted to ineligible LEAs, and \$1,268,363 in costs are questioned.

Recommendation: PDE should pursue appropriate settlement with the federal government for the \$1,268,363 in questioned costs. PDE should also strengthen procedures to ensure controls within PDE's application processing system are working properly. Further, PDE's review and approval process should be improved to ensure all required information is properly included when approving Title II applications.

Agency Response: The Pennsylvania Department of Education (PDE) has implemented appropriate business rules that will prevent applications to be submitted without indicating the completed needs assessment. Additionally, PDE has contacted all 18 LEAs in question and has received sufficient evidence that these assessments occurred during the applicable time.

Auditors' Conclusion: Due to the audit exceptions noted in the finding, we concluded that the documents subsequently provided by PDE's subrecipients to resolve the questioned costs were not sufficient since we could not determine if the needs assessments were properly and timely performed to resolve the questioned costs in the finding. Therefore, they should be examined by USDE officials as part of finding follow-up and appropriate settlement by the Federal awarding agency. As recommended, PDE should pursue appropriate settlement with USDE for these LEAs. The finding and recommendations, with the above clarifications, remain as previously stated. We will review any corrective action in the subsequent audit.

Questioned Costs: \$1,268,363

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, 2010

Finding 10 – 68:

CFDA #84.394 – State Fiscal Stabilization Fund - ARRA

Noncompliance and Internal Control Deficiencies in PDE Monitoring of State Fiscal Stabilization Fund Subrecipients

Federal Grant Number: S394A0039

Condition: During our current year Single Audit of the SFSF ARRA program administered by PDE, we found an internal control deficiency in PDE's monitoring of school districts and institutions of higher education (IHE) subrecipients since PDE did not perform on-site monitoring of SFSF funds on a timely basis. PDE began disbursing SFSF funding to school district subrecipients in February, 2010. We found that PDE did not begin on-site monitoring until June, 2010, or four months after SFSF funding began. We found that PDE contracted with a consultant to perform on-site monitoring of SFSF school district subrecipients. As of June 30, 2010, the consultant performed only 12 on-site monitoring visits out of 500 school districts that received SFSF funds. Therefore, school district subrecipients were not being monitored on a timely basis to ensure SFSF funding was being used in compliance with federal regulations.

Additionally, PDE began disbursing SFSF ARRA funding to institutions of higher education in February, 2010. We found that PDE has performed no on-site monitoring of the institutions of higher education as of our test date in April, 2011. Therefore, all 18 institutions of higher education subrecipients are not being monitored to ensure SFSF ARRA funding was being used in compliance with federal regulations.

We reviewed a separate USDE OIG ARRA audit report issued in March, 2010 on PDE's administration of SFSF ARRA funds. (Report #ED-OIG/A03J00010). That report also disclosed major deficiencies in PDE's on-site fiscal monitoring controls over LEAs in the SFSF ARRA program. In particular, USDE-OIG found that PDE did not develop a plan to monitor SFSF ARRA funds. We learned that PDE subsequently developed a monitoring plan and submitted it to USDE for approval. This plan was implemented in June, 2010.

On April 29, 2011, OB's Bureau of Audits issued a special audit of PDE's oversight of the SFSF ARRA program. That reported cited PDE for internal control deficiencies related to lack of adequate PDE follow-up on deficiencies noted during on-site monitoring, lack of PDE SFSF ARRA monitoring at Philadelphia City School District (which received large dollars), lack of PDE SFSF ARRA monitoring at IHE's and untimeliness of monitoring as reported above.

PDE subgranted all of the \$605.7 million of SFSF expenditures reported on the SEFA for CFDA #84.394 to the LEAs as noted above.

Criteria: The OMB circular A-133 Compliance Supplement Part 3 M. Subrecipient Monitoring states:

A pass-through entity is responsible for:

- Award Identification – At the time of the award, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding 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 Code of Federal Regulations (CFR) Parts 76 and 80 address the SEA's role in monitoring subrecipients. According to 34 CFR Section 76.702, "A State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds."

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 68: (continued)

According to 34 CFR Section 80.40(a):

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: According to PDE management, a risk based approach (designed to identify the riskiest subrecipients and to focus available resources to those subrecipients) to on-site monitoring was developed and put into place in June, 2010. PDE needed the extra time to secure a contract with the consultant and the extra time to develop a standardized monitoring instrument.

Effect: Without timely on-site monitoring, subrecipients may be expending SFSF ARRA funds in noncompliance with federal regulations. Timely oversight of subrecipient activity is necessary to ensure SFSF ARRA subrecipients activities are in compliance with applicable federal requirements.

Recommendation: We recommend that PDE complete their on-site monitoring of SFSF ARRA subrecipients as timely as possible, and timely follow-up on corrective action noted in the monitoring reports. Additionally, we recommend PDE implement appropriate corrective action to address the SFSF ARRA findings noted in the BOA audit report mentioned above.

Agency Response: The Pennsylvania Department of Education (PDE) will continue to use fiscal control and fund accounting procedures that insure proper disbursement and accounting of Federal funds. This includes subrecipient monitoring consistent with applicable regulations and guidance to the satisfaction of the awarding agency.

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

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 69:

CFDA #84.394 – State Fiscal Stabilization Funding Cluster

Internal Control Deficiency Results in Inaccurate ARRA Section 1512 Reporting

Federal Grant Number: S394A090039

Condition: The Commonwealth is required to submit a quarterly report to the Federal government in accordance with requirements under Section 1512 of the American Recovery and Reinvestment Act (ARRA). The Commonwealth utilizes the Central Access to Recovery Data System (CARDS) for the compilation of the required report data and for submission to the Federal Government. This system was developed by the Commonwealth and interfaces daily with the general ledger (SAP). Data is transmitted from SAP to CARDS. The Bureau of Commonwealth Accounting (BCA) is responsible for this process.

During the current year audit, we tested the internal controls related to the Commonwealth's section 1512 reporting process as well as a sample of 55 Section 1512 reports for the quarter ending March 31, 2010. As part of our testing, if the entity passed-through funding under the award to any subrecipients, we reconciled subrecipient data (total federal ARRA subrecipient expenditures) reported on Recovery.gov to the general ledger (SAP). Our testing revealed that the quarter ending March 31, 2010 Section 1512 subrecipient data on Recovery.gov related to the State Fiscal Stabilization Fund (SFSF), CFDA #84.394, included payments posted to SAP on April 1, 2010 however the total overall SFSF prime recipient federal ARRA expenditure amount reported on Recovery.gov did not include the April 1, 2010 payments because this reporting field and the subrecipient reporting field are not linked together on the Section 1512 report within the Recovery.gov. Therefore, there is a difference between the overall prime recipient federal ARRA expenditure amount and the subrecipient expenditure amount of \$54,561,906.

The BCA did not have adequate procedures in place to ensure that subrecipient expenditures were properly reported on the section 1512 ARRA report for the quarter ending March 31, 2010.

Criteria: The requirements for the Section 1512 ARRA reporting are included in Section 1512 of the ARRA and state in part:

(c) RECIPIENT REPORTS – Not later than 10 days after the end of each calendar quarter, each recipient that received recovery funds from a Federal agency shall submit a report to that agency that contains-

(4) Detailed information on any subcontracts or subgrants awarded by the recipient to include the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006 (Public Law 109-282).

In addition OMB Circular A-133, Section 105 regarding internal control states in part that:

“Internal control means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (1) Effectiveness and efficiency of operations;*
- (2) Reliability of financial reporting; and*
- (3) Compliance with applicable laws and regulations.*

Cause: During the first seven days after quarter end, BCA begins completing the “Bureau of Commonwealth Accounting, Section 1512 Quality Review Checklist” (Checklist), which guides their review of CARDS data. This checklist encompasses a review of all data in CARDS, including all first-time data, program information, and financial data. CARDS provides functionalities that assist the reviewer, including a “Dashboard” that highlights if reporting rules are met and a .pdf version of the report that highlights blank fields in red. If exceptions are noted, they are documented on the Checklist, and the accountant is required to provide an explanation for the exception. During this stage of the

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 69: (continued)

process, CARDS takes any exceptions or warnings generated by the Federal Recovery system and creates a summary file for review. Once exceptions and warnings are addressed, a separate batch is generated for final file submission. On the tenth day after each quarter-end, BCA personnel initiate CARDS generation of a batch for submission of the section 1512 reports. CARDS logs into the Federal Recovery website and submits the batch file for processing by the federal website.

The 14th to 29th day after quarter-end is the “Change Period.” It is during this time that the Federal agencies review the submitted reports and make comments and, if necessary, request changes to submitted information. On the 29th day, the Federal Recovery system is locked, and, on the 30th day, all reports are published on www.Recovery.gov.

BCA personnel stated that the difference between the overall prime recipient federal ARRA expenditure amount and the subrecipient expenditure amount of \$54,561,906 noted above was the result of an error. The subrecipient data was pulled from CARDS for the original submission properly; however when the 1512 submission was revised, during the change period, for job counts the subrecipient data was mistakenly pulled again which resulted in the April 1, 2010 payments being included in the subrecipient expenditure amounts. CARDS had been updated after the initial submission on April 10, 2010 in order for BCA to generate the "Recovery Act Cumulative Spending Update" report for the Governor. However, this error was not caught by BCA reviewers because the Section 1512 review checklists are only completed for initial submissions and the subrecipient amounts were correctly reflected on the initial submission.

Effect: Proper internal control procedures related to the Commonwealth’s section 1512 ARRA reporting are not in place to ensure that data is accurate, complete, in accordance with ARRA section 1512 reporting requirements, and that the data accurately reflects the use of these funds. In addition, the March 31, 2010 Section 1512 Report was incorrect.

Recommendation: We recommend that BCA establish procedures to ensure that subrecipient expenditures are properly reported to the Federal Recovery website and that each resubmission of the data be reviewed by BCA personnel to ensure accuracy. In addition, BCA should consider following up with the Recovery.gov website to determine if the March 31, 2010 submission should be corrected.

Agency Response: The Bureau of Commonwealth Accounting concurs with this finding.

Auditors’ Conclusion: Based on the agency response, the finding remains as previously reported. We will review any corrective action in the subsequent audit.

Questioned Costs: None

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, 2010

Finding 10 – 70:

CFDA #84.397 – State Fiscal Stabilization Fund – Government Services

Noncompliance With Allowability Requirements Results in \$111,548 In Questioned ARRA Costs

Federal Grant Number: S397A090039

Condition: As part of our audit of the State Fiscal Stabilization Fund (SFSF) Government Services Program for the SFYE June 30, 2010 we found that an outside contractor was selected by DGS for a twelve-month period to act as the Chairman of Governor’s Working Group for Stimulus Accountability and the Commonwealth’s Chief Accountability Officer (CAO). DGS selected this individual whose responsibility under the contract was to join a statewide team of professionals focused on executing the use of resources provided by the American Recovery and Reinvestment Act (ARRA). The contract for services stated that the CAO was authorized to begin work in April of 2009 through April of 2010, and after the initial twelve months, the contract term was extended under the same terms and conditions for an additional twelve-month period into SFYE June 30, 2011, after the end of our current audit period. Both twelve-month contracts specified compensation at a rate of \$10,000 per month, payable with ARRA funds, and that monthly time records and invoices were required (in Appendix B) to be submitted by the CAO to support these payments.

According to the contract “Description of Services” with this vendor (in Appendix A), the CAO was to perform or provide services to the Commonwealth as follows: develop performance measures with all applicable Commonwealth agencies; set outcome targets for each measure developed for those agencies; identify opportunities for Commonwealth agencies to improve contract and grant program tracking systems; design and implement pre-audit systems for Commonwealth agencies to ensure vendors/subgrantees have appropriate financial and programmatic controls in place; evaluate and make recommendations for improving the Commonwealth’s accounting/financial tracking systems to ensure appropriate use of stimulus funds; and, ensure accurate quarterly reports are provided to the federal Stimulus Oversight Board and Intergovernmental Stimulus Task Force.

We requested documentation such as specific CAO Work Plans or Statements of Work to support fulfilling the contract’s “Description of Services” mentioned above. However, DGS could not provide any detailed work plans or statements or narratives prepared by the CAO to describe and support actual services rendered under the contract. We also noted that the CAO did not submit monthly invoices and receive payments on time, but often combined and submitted several months together, so the contractor’s total hours claimed were clearly not subject to timely reviews by state officials near the time when they were actually incurred.

We also noted that Section 5 of the Contract under “Billing” required each monthly contractor invoice to “describe specifically the work performed or the deliverables provided” to support the contract payment. Our review of the monthly invoices submitted to DGS disclosed that they all contained the exact same generic description of contractor activities each month, based on the clauses in the contract, with no specific descriptions of actual work performed by the contractor or actual deliverables provided in any given month. Each monthly invoice was for \$10,000 and provided only one grand total for contractor hours worked for the entire month, with no actual contractor time records attached (as required by Appendix B mentioned above).

Since inadequate support was used by DGS to make contract payments, on December 13, 2010, we requested DGS management to obtain all detailed documentation from the contractor to support the original invoices, including the contractor’s detail time records and concise deliverables/products/quantified output from the CAO. The only information provided was total hours worked per week throughout the contract period, signed by the CAO and dated December 21, 2010, or after our audit request, with no additional documentation supporting any specific work done or any deliverables provided. This additional information provided in December of 2010 was clearly not adequate to resolve our audit exceptions mentioned above.

As a result, DGS did not properly document the allowability of the \$111,548 charged to the SFSF Government Services Program under this contract in the current year ended June 30, 2010, and these ARRA costs are unallowable and questioned.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 70: (continued)

Total SFSF Cluster expenditures reported on the current-year SEFA was \$779,068,835, of which \$173,382,912 was spent in the CFDA #84.397 Government Services Program.

Criteria: Federal ARRA regulations require SFSF costs to be reasonably and adequately documented to support the allowability of ARRA payments. To be reasonably and adequately documented and comply with ARRA, contractor invoices/billings should be submitted in compliance with contract requirements.

OMB Circular A-133, Section 510 regarding Audit Findings, states:

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

(3) *Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor.*

Cause: The contract indicates that the CAO will be compensated for services in accordance with the provisions within “Description of Services”. However, DGS officials believed that payments to the CAO were appropriate since they were not predicated based upon his completion of any individual activity in the contract, and that the CAO is only a member of a whole team of professionals focused on executing the use of resources provided by the American Recovery and Reinvestment Act. DGS officials further stated that the CAO could not achieve these activities alone and they relied on the fact that the CAO was dependent upon the efforts and resources of all members of the team and their respective agencies and employees, as well as the provision of adequate available resources. We disagree since DGS’s statements do not absolve management from their responsibility to ensure contractor costs are properly documented and supported in accordance with the contract provisions and in accordance with federal regulations.

Effect: The contractor did not submit documentation, such as monthly time records or specific monthly descriptions of work performed or deliverables provided, as required by the contract. Due to inadequate documentation of services rendered, DGS violated federal regulations since they cannot support the allowability of costs charged to the SFSF program. Therefore, we question the \$111,548 in ARRA expenditures for SFYE June 30, 2010 due to the maintenance of inadequate documentation for CAO contract costs. The Commonwealth’s inadequate documentation also calls into question any additional ARRA costs charged to this contract beyond our current fiscal year ended June 30, 2010 audit.

Recommendation: We recommend that DGS pursue appropriate settlement with the USDE regarding the \$111,548 in current-year questioned ARRA costs, and pursue additional timely and appropriate settlement with USDE for any additional poorly documented ARRA funds charged to this contract after our current period under audit.

Agency Response: The finding states:

“We requested documentation such as specific CAO Work Plans or Statements of Work to support fulfilling the contract’s “Description of Services” mentioned above. However, DGS could not provide any detailed work plans or statements or narratives prepared by the CAO to describe and support actual services rendered under the contract.”

DGS disagrees with this finding. The “Description of Services” clearly states:

“...the CAO will join a team of professionals...” and “As a member of this team the Contractor shall consult with various members of the team in order to achieve the following goals, it being recognized by the Commonwealth that [the] Contractor cannot achieve these goals itself and that achievement of these goals are dependent on the efforts and resources of all members of the team and their respective agencies...”

DGS maintains that the Chief Accountability Officer (CAO), in discharging his duties under the contract, was not required to create Work Plans or Statements of Work independent of the work accomplished as a result of his collaboration as part of the stimulus management team. Further, DGS as well as staff from the Governor’s Budget

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 70: (continued)

Office provided the auditors with information evidencing the team’s accomplishments relative to the ten (10) numbered items outlined in the “Description of Services.” Most, if not all, of this information is publicly accessible at www.recoverypa.gov. Examples include:

- A Commonwealth map broken down by county to show projects under each major category of stimulus funding, including photos, contractor and/or grantee information.
- Performance and Outcome measures (regularly updated) for each funding stream and shown by funding category.
- Current and archived federal 1512 reports indicating (among other information): funds committed, obligated, spent; number of full-time equivalent jobs created in the quarter; project descriptions; and project progress narratives.
- Reports, presentations, testimony documents, and supporting documentation from each Stimulus Oversight Commission (chaired by the CAO during the term of his contract) from March 2009 thru May 2011.

The finding states:

“We also noted that the CAO did not submit monthly invoices and receive payments on time, but often combined and submitted several months together, so the contractor’s total hours claimed were clearly not subject to timely reviews by state officials near the time when they were actually incurred.”

“Our review of the monthly invoices submitted to DGS disclosed that they all contained the exact same generic description of contractor activities each month, based on the clauses in the contract...”

DGS agrees in part and disagrees in part with these findings. We agree that the contractor did not always submit monthly invoices. During the period tested, on two occasions the CAO submitted an invoice covering more than a single month. However, each of these invoices clearly states how many hours the CAO worked in each of the calendar months covered by the invoice. We recognize that the invoices submitted by the CAO contained less specificity than may have been expected if the contract outcomes had been dependent only on the actions of the contractor, and had not required the participation of multiple team members in order to secure the outcomes. However, we strongly disagree that the hours claimed were not subject to timely reviews by state officials, and would also point out that the CAO’s payment is not based upon his completion of specific activities outlined in the contract (or specified in his invoices), but rather was based on meeting his time obligation of up to 120 hours per month. We emphasize that review of the CAO’s invoices was completed by the Chief Implementation Officer, a critical member of the state’s stimulus management team, who had personal knowledge of both the time dedicated and activities addressed by the CAO throughout the course of the contract.

The finding also states:

“We requested DGS management to obtain all detailed documentation from the contractor to support the original invoices, including the contractor’s detail time records and concise deliverables/products/quantified output from the CAO.”

DGS disagrees with this finding. The CAO’s contract indicates that he will be compensated for the services contracted for in accordance with the provisions of Appendix B. Appendix B requires that the contractor provide up to 120 hours per month in performing the services required under the contract. It further indicates that the contractor will maintain records of the time spent providing such services and shall include a copy of such records with his monthly invoice. The “Invoice Attachment,” which represents the second pages of the CAO’s submitted invoices, included a listing of the activities performed and the hours spent conducting those activities. Daily hours are not specifically required to be kept or provided on the monthly invoices. Therefore, the invoices received from the CAO, reviewed and approved by the Chief Implementation Officer, reviewed and forwarded for payment by Comptroller Operations, and ultimately paid by Treasury, were found to be and are in compliance with the contract provisions.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 70: (continued)

DGS maintains that payments made to the CAO under the SFSF Government Services Program were allowable and supported.

Auditors' Conclusion: While we acknowledge DGS's points made in its agency response, they do not resolve the questioned costs in our finding. While work plans or statements of work from the CAO were not "required" by DGS under the contract, we believe that reasonably detailed work plans or statements of work documented by the CAO as the team leader should have been required since they would have provided a portion of the valid documented support for allowability of the contract costs. DGS's general claim about the team's overall accomplishments posted to a website is not sufficient documentation to support costs paid out under this specific contract. In addition, DGS's arguments about the CAO's "collaboration as part of the stimulus management team" or the "participation of multiple team members in order to secure the outcomes" do not excuse them from the federal requirement to provide reasonable documentation to support the CAO's activities and contract costs. Finally, despite its strong disagreement, the DGS response provided no additional information or documentation to resolve the inadequate documentation to support contractor billings as specified in the above finding. Therefore, our finding and recommendation, with the above clarifications, remain as previously stated and we will review any corrective action, as applicable, in our subsequent audit.

Questioned Costs: \$111,548

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, 2010

Finding 10 – 71:

CFDA #84.397 – State Fiscal Stabilization Fund – Government Services

Noncompliance and Weaknesses in DOC Procedures for Recording of Payroll Expenditures and Retention of Payroll and Attendance Records Leads to \$29,526 in Questioned Costs

Federal Grant Number: S397A090039

Condition: As part of our audit of the State Fiscal Stabilization Fund (SFSF) Government Services Program we obtained documentation for \$ 172,911,000 in payroll expenditures from the population of the American Recovery and Reinvestment Act (ARRA) expenditures provided by Department of Corrections (DOC). We selected a sample of 15 individual DOC correctional officers from this population with expenditures totaling \$69,153 and tested a random biweekly pay period from the SFYE June 30, 2010 for each. Each biweekly pay period consists of 14 days; therefore, a total of 210 daily shift commander rosters and other supporting documentation items were requested.

Correctional Officers are non-ESS (Employee Self Service) users meaning their activity, exclusive of their regular assigned work shift information, is entered into SAP by a designated time keeper. Every state correctional institution (SCI) accounts for their Correctional Officers time reporting via shift commander rosters. These rosters are the only documents required by DOC to properly support allowability as no timesheets or other support for allowability of DOC personnel costs are prepared/maintained. These rosters are to be signed-off by the shift commanders to ensure completeness and accuracy. Roster attendance is taken at the beginning of each shift and supervisors/shift commanders monitor all posts to ensure Correctional Officers are at their respective post throughout each scheduled shift. Also, absences are entered by the timekeeper into SAP based on approved leave slips (i.e., STD-330 forms).

Our testing of DOC’s payroll procedures disclosed the following control deficiencies:

- We found 29 of the 210 shift commander rosters were not signed/initialed by the shift commander demonstrating lack of approval and verification of the Correctional Officer attendance at each respective SCI on that date.
- We identified 2 STD-330 leave approval forms that could not be located and 42 of the 210 shift commander rosters that could not be provided to us for testing.
- Per our discussion with DOC Chief of Employee Services Division there is no secondary/supervisory review of the data input from the shift commander roster into SAP by the timekeepers.

Based on these 73 instances of undocumented and unsupported costs, we calculated \$22,047 in payroll costs which we question as unallowable.

In addition, the Commonwealth’s Office of the Budget, Bureau of Audits (BOA) issued a separate audit of the State Fiscal Stabilization Fund during our fieldwork procedures. We obtained this report and noted that BOA reviewed employees’ records and reported one DOC employee who was on paid disability leave and whose costs were inappropriately charged to the State Fiscal Stabilization Fund Government Services Program. As such, this employee’s time charges are deemed unallowable since the employee was not active and working to maintain public safety. Accordingly, we question all costs charged by DOC to the State Fiscal Stabilization Fund Government Services Program for this employee during the SFYE June 30, 2010 totaling \$7,479.

Total SFSF Cluster expenditures reported on the current-year SEFA was \$779,068,835, of which \$173,382,912 was spent in the CFDA #84.397 Government Services Program.

Criteria: DOC should ensure that all SCI’s are fully aware of existing policy and procedure in Section 16, 4.1.1, Human Resources and Labor Relations Procedures Manual, related to approval of source documentation used for payroll processing and attendance. This Policy states that “Shift Commander shall schedule overtime work for Corrections

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Finding 10 – 71: (continued)

Officers through the completion of the standard duty rosters (i.e., shift commander rosters) for their shifts, which shall be reviewed and approved by the Major of the Guard”. Also, an adequate system of controls would contain policies and procedures related to the retention of the shift commander rosters and other source documentation to allow for follow-up or review by DOC, internal and external auditors. In addition, a prudent system of controls would require that a secondary/supervisory review of the data from the shift commander roster input to SAP is conducted to ensure accuracy and completeness of information.

The Federal USDE document entitled “Guidance for Grantees and Auditors, State Fiscal Stabilization Fund Program,” dated December 24, 2009, states “entities must maintain contemporaneous documentation to show that individuals for whom salary is paid worked sufficient hours to justify the salary”.

Cause: DOC could provide no explanation for the missing STD-330 forms but DOC officials stated that these should have been retained by the SCI and available. Also, it was represented to us that the missing shift commander rosters were shredded due to the lack of an adequate retention policy and procedure requiring maintenance of supporting documentation for review. The existing policy and procedure for approval of source documentation, such as shift commander rosters, used for payroll processing was not followed by all SCI’s. DOC agreed a lack of control exists due to no secondary/supervisory review of the data from the shift commander roster before it is input to SAP by the timekeepers.

Effect: Not adhering to existing DOC policy and procedure relating to the approval of shift commander rosters, not having an adequate record retention policy in place and the lack of adequate controls for secondary/supervisory review of information input from source documentation into SAP resulted in \$29,526 of unsupported and unallowable payroll expenditures as part of the ARRA payroll expenditures claimed. Therefore, these SFSF costs are questioned. In addition, because of material internal control weaknesses, there may be additional unallowable costs in the SFSF Government Services Program at DOC both in the current year and in the future.

Recommendation: We recommend that DOC pursue appropriate settlement with USDE concerning the \$29,526 in questioned costs. We also recommend that DOC adhere to existing policies and procedures related to the approval of all shift commander rosters at the SCI’s. Also, DOC should implement policies and procedures requiring record retention for all payroll related documentation as well as adequate controls for secondary/supervisory review of information entered into SAP by the timekeepers to ensure accuracy and completeness.

Agency Response: The Department of Corrections agrees with this finding. Since the Department of Corrections has a wide latitude of using public safety expenditures for the SFSF Government Services Fund and the grant time frame remains open, replacement personnel expenditures are being submitted in order for Pennsylvania to use all of the available GSF monies.

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.

Questioned Costs: \$29,526

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, 2010

Finding 10 – 72:

CFDA #93.044 – Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers

CFDA #93.045 – Special Programs for the Aging – Title III, Part C – Nutrition Services

CFDA #93.053 – The Nutrition Services Incentive Program

CFDA #93.705 – ARRA – Aging Home – Delivered Nutrition Services for States

CFDA #93.707 – ARRA – Aging Congregate Nutrition Services for States

Material Weaknesses Exist in PDA Procedures for the Awarding and Disbursement of Subrecipient Funding Resulting in Noncompliance with OMB Circular A-133

Federal Grant Numbers: 10AAPAT3SP, 10AAPANSIP, 09AAPAT3SP, 09AAPANSIP, 09AAPAC1RR (ARRA), and 09AAPAC2RR (ARRA)

Condition: As part of the Aging Cluster, PDA subgranted ARRA funding totaling \$2,595,617 to the 52 Area Agencies on Aging (AAAs) for the purpose of providing nutrition services under federal grant numbers 09AAPAC1RR and 09AAPAC2RR during SFYE June 30, 2010. During the current audit we randomly selected a sample of five AAA contracts which covered the period July 1, 2006 through June 30, 2011 and contained ARRA expenditures of \$175,508 that were incurred under the Aging Cluster during SFYE June 30, 2010. Since the ARRA funding was not awarded until the fourth year of the five year contract period, we reviewed the contract amendments for SFYE June 30, 2010 to determine whether the contract amendments contained the required ARRA federal program information. Our review disclosed that the contract amendments for the five AAAs selected did not comply with federal regulations since they did not contain the required ARRA federal program information, specifically the federal ARRA grant award number and the ARRA CFDA number, nor did they include the federal non-ARRA grant award number. In addition, we found that PDA did not comply with federal regulations at the time of ARRA subawards since PDA did not notify the AAAs of the federal requirement to provide identification of ARRA awards in the subrecipient Single Audit report SEFAs and Data Collection Forms (Form SF-SAC).

We also randomly selected and tested a separate sample of 42 Aging Cluster payments to AAAs totaling \$789,158, of which 11 payments totaling \$62,434 related to ARRA funding, as part of our detailed testing of Aging Cluster subgranted expenditures totaling \$56,350,735 during SFYE June 30, 2010. Our review of the applicable PDA Block Grant Payment Breakdown worksheets and the PDA Block Grant Agreement Invoices disclosed that although the ARRA CFDA numbers and payment amounts were properly listed separately on the PDA Payment Breakdown sheets, the applicable federal ARRA grant award numbers were not included, nor were the federal ARRA grant award numbers included on the PDA Invoices. Therefore, PDA did not comply with the federal regulations since PDA did not notify the AAAs of the federal ARRA grant award numbers at the time of the disbursement of funds. In addition, as a result of our testing of the 42 payments to AAAs, we became aware of two additional ARRA payments to two AAAs of in the amounts of \$9,385 and \$10,685, respectively, which were incorrectly reported by PDA on the PDA Block Grant Payment Breakdown worksheets under Medicaid Cluster, CFDA numbers #93.775 and #93.778, instead of the Aging Cluster, CFDA numbers #93.705 and #93.707.

Criteria: The Federal OMB Circular A-133 Compliance Supplement Part 3, Section M., related to Subrecipient Monitoring by pass-through entities, states, in part:

A pass-through entity is responsible for:

Award Identification – At the time of the award, identifying to the subrecipient the Federal award information (i.e., CFDA title and number, award name and number; if the award is research and development, and 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 as provided for in OMB Circular A-133 have met the audit requirements of OMB Circular A-133...

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 72: (continued)

Pass-Through Entity Impact – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

The Federal OMB Circular A-133 Compliance Supplement Part 3, Section N, R2 – Presentation on the Schedule of Expenditures of Federal Awards and Data Collection Form, states, in part:

Federal agencies must require recipients to agree to provide identification of ARRA awards in their SEFA and SF-SAC.

The Federal OMB Circular A-133 Compliance Supplement Part 3, Section N, R3 – Subrecipient Monitoring, states, in part:

Federal agencies must require recipients to agree to: (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds; and (2) require their subrecipients to provide similar identification (as noted in R2 above) in their SEFA and SF-SAC.

Cause: PDA did not appear to be aware of the ARRA requirements related to subawards and disbursements. PDA management stated that, for all of the 52 subrecipients, the AAAs were not provided separate notification of the ARRA and non-ARRA federal grant numbers, but the CFDA Numbers were identified on the monthly payment breakdown invoices that PDA sends to each AAA. PDA management stated that AAAs are aware of their responsibility to report all federal funding on their subrecipient audit report SEFAs, so PDA did not provide special notification to the AAAs to remind them to report the ARRA funding on their SEFAs. In addition, as part of the PDA Allocation/Payment process, PDA tracks these ARRA expenditures at the AAA level. These funding allocations are transmitted to the AAAs via the PDA Aging Program Directives. PDA did not explain the incorrect CFDA numbers reported on the PDA Block Grant Payment Breakdown sheets.

Effect: The exclusion of the federal ARRA and non-ARRA grant award numbers and the ARRA CFDA number from the subrecipient award documents and the exclusion of the applicable federal ARRA grant award numbers at the time of disbursement causes the subrecipients and their auditors to be untimely informed about the specific federal programs and federal regulations which apply to the awarded funds. The lack of PDA's notification to AAAs of the federal requirement to provide proper ARRA award identification in the subrecipient audit report SEFAs and Data Collection Forms (Form SF-SAC), along with the reporting of incorrect CFDA numbers in disbursement documentation sent to AAAs, increases the potential for incorrect SEFAs in subrecipient OMB Circular A-133 Single Audit reports to be submitted to the Commonwealth and federal funds to not be properly audited at the subrecipient level in accordance with the Single Audit Act and OMB Circular A-133. In addition, if the above control deficiencies are not corrected by PDA, noncompliance with OMB Circular A-133 audit provisions at the subrecipient level may continue to occur in future periods.

Recommendation: We recommend that PDA implement procedures to ensure that the federal ARRA and non-ARRA grant award numbers and the ARRA CFDA number are included in award documents for all Aging cluster subrecipients and that federal grant award numbers are included in disbursement documents at the time of disbursement of ARRA funds to subrecipients. PDA should also implement procedures to notify the AAAs of the federal requirement to provide proper ARRA award identification in the subrecipient audit report SEFAs and Data Collection Forms (Form SF-SAC). Finally, PDA should enhance their control procedures to ensure that correct CFDA numbers are reported to AAAs at the time of disbursement.

Agency Response: The Department of Aging agrees the federal award documentation requires the subrecipient be notified of the federal award number. As a corrective action the federal award number and the associated CFDA number for the remaining ARRA allocation will be included in the narrative section of the funding directive for FY 2011-12. However, a review of the federal awarding documents for the non-ARRA grants did not disclose a requirement that this information be provided to subrecipients.

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Finding 10 – 72: (continued)

Subrecipients are well aware of the requirement to report any federal funding they receive on their A-133 audits and SF-SAC forms. Additionally we require their A-133 auditors to be certified public accountants. As such is it expected they also understand the necessity.

For the single instance of a subrecipient receiving the incorrect CFDA number, the department has provided a revised disbursement document to the agency. A review of the associated documents found this to be an isolated incident and therefore no further action is deemed necessary.

Auditors' Conclusion: The OMB Circular A-133 Compliance Supplement, Subpart D, Section 400 (d), as cited in the Criteria section above, applies to *all* subrecipients (i.e., both ARRA and non-ARRA) and clearly states that the pass-through entity (in this case, the Department of Aging) is required to identify to the subrecipient at the time of the award the Federal award information (i.e. CFDA title and number, award name and number) and applicable compliance requirements. Therefore, this Federal award information (both non-ARRA and ARRA) is required to be included in the subrecipient contract or amendment documents. Therefore, after review of the agency response, our finding and recommendation remain as previously stated. We also recommend that OA or OB consider issuing statewide guidance (e.g., Management Directives) to all state agencies administering federal funds to properly notify them to comply with the above Circular A-133 requirement. We will review any corrective action in the subsequent audit.

Questioned Costs: None

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, 2010

Finding 10 – 73:

CFDA #93.044 – Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers

CFDA #93.045 – Special Programs for the Aging – Title III, Part C – Nutrition Services

CFDA #93.053 – The Nutrition Services Incentive Program

CFDA #93.705 – ARRA – Aging Home – Delivered Nutrition Services for States

CFDA #93.707 – ARRA – Aging Congregate Nutrition Services for States

PDA Monitoring of AAA Subrecipients Needs Improvement (A Similar Condition Was Noted in Prior Year Finding # 09-49)

Federal Grant Numbers: 10AAPAT3SP, 10AAPANSIP, 09AAPAT3SP, 09AAPANSIP, 09AAPAC1RR (ARRA), and 09AAPAC2RR (ARRA)

Condition: As part of the Aging Cluster, PDA subgranted funding totaling \$56,350,735 to the 52 Area Agencies on Aging (AAAs) under federal grant numbers 10AAPAT3SP, 10AAPANSIP, 09AAPAT3SP, 09AAPANSIP, 09AAPAC1RR (ARRA), and 09AAPAC2RR (ARRA) during SFYE June 30, 2010. PDA is responsible for monitoring subrecipients (AAAs) with respect to the Special Programs for the Aging – Title III, Parts B and C, the Nutrition Services Incentive Program (NSIP), the ARRA - Aging Home – Delivered Nutrition Services for States, and the ARRA – Aging Congregate Nutrition Services for States. Over the past several years, the Aging Office of Long Term Living (OLTL) has developed and implemented a statewide automated system and process with its 52 AAAs (known as SAMS) for the assessment and care management of Long Term Living consumers. This process focuses on consumers from the point of a request for assistance to the receipt of services that fall under various programs at PDA and includes the Level of Care Assessment process, the completion of a Care Plan Worksheet process, and the Service Plan process. Our inquiry of personnel within the PDA’s OLTL disclosed that during the current period under audit, the Center for Medicare and Medicaid Services (CMS) required changes to the SAMS Service Plan Review Process as identified in the Aging Waiver Renewal and Work Plan. These changes were part of the Aging Waiver Program which is funded under the Medicaid Cluster, not the Aging Cluster, and required the focus of PDA’s review of the Service Plans to be based on documented need (for example, evaluating the assistance required in order for the consumer to function in the community as opposed to a nursing home) as opposed to the previous method of evaluating consumer costs per day versus nursing home costs.

Our review of PDA’s SAMS Service Plan Review procedures disclosed that this process was not adequate for meeting compliance related to the applicable federal regulations under the Aging Cluster. These procedures do not constitute a strong system of on-site documented program monitoring at the AAA level since they do not routinely document or cover areas such as AAA processes, operations, procedures, and internal controls in place over federal funds, federal program income, fiscal policies and procedures, and any AAA procedures regarding the receipt of ARRA funding to ensure the proper handling of funds at the AAA level. The majority of the monitoring performed by PDA’s OLTL relates to the PDA Waiver Program, which is funded under the Medicaid Cluster, not the Aging Cluster, and this results in a very limited portion of the monitoring being performed for the Aging Cluster.

Our inquiry of personnel within the Aging Office of Quality, Management Metrics and Analytics (QMMA) disclosed that, in addition to the SAMS Service Plan Process, PDA performed monitoring procedures in other areas during the current period under audit, such as QMMA’s review of the Pre-Admissions Program, the Consumer Protection Division’s review of the Protective Services Program, and the Ombudsman Division’s review of the Ombudsman Program. These monitoring procedures are primarily done using the SAMS System whereby these offices are reviewing the AAA data for significant/unusual items, trends, etc., and following up to ensure AAA compliance. The above PDA divisions also promptly investigate and remediate any complaints they receive by interested parties at the AAA level. However, none of the current year monitoring reviews and complaints reported at the AAA level pertained to the Aging Cluster, so no monitoring coverage was noted within the Aging Cluster for the current year. Our inquiry also disclosed that the Bureau of Program Integrity, PDA, performed on-line reviews for all 52 AAAs’ budgeted and expended cost centers on a monthly, quarterly, and annual basis using data submitted by AAAs on PDA’s Financial and Reporting

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Finding 10 – 73: (continued)

Requirements System. However, these on-line reviews did not cover AAA processes, operations, procedures, and internal controls in place over Aging Cluster funds. Therefore, for the second year in a row, PDA's subrecipient monitoring procedures are not adequate for meeting compliance related to the applicable federal regulations under the Aging Cluster.

Criteria: 45 CFR 92.40(a) which applies to the Title III programs states the following regarding 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.

In addition, the OMB Circular A-133 Compliance Supplement, Part 3, Section M, Subrecipient Monitoring, states in part:

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: PDA is aware that they did not meet their monitoring responsibilities to ensure compliance with the Aging Cluster federal regulations during the current period under audit. PDA personnel indicated that they implemented new monitoring procedures during August 2010, but these procedures were not in place during the current audit period. PDA personnel also stated that they will re-examine staffing levels to ensure that the PDA can meet their goals under the new monitoring process. Finally, PDA officials indicated that they rely on the OMB Circular A-133 Audits of the AAAs in order to achieve compliance at the AAA level, and they are made aware of any problems through this process.

Effect: There is limited assurance that PDA is making adequate progress toward meeting the goals of the Aging Cluster (including ARRA) and is in compliance with the federal monitoring requirements. Effective during-the-award monitoring of the AAAs should be performed on a regular basis. However, PDA is placing excessive reliance on the OMB Circular A-133 subrecipient audits, which are only done after-the-fact and on an annual basis.

Recommendation: We recommend that PDA implement more effective on-site, during-the-award monitoring and documentation procedures to ensure that all AAAs are properly and timely monitored to achieve compliance under the Aging Cluster (including ARRA). The current monitoring processes in place appear to over-rely on the automated SAMS system and appear to only focus on AAA data reviews and complaints after-the-fact, so we recommend they more specifically focus on the major fiscal and administrative operations, procedures, internal controls, etc. of the Aging Cluster at the AAA level. PDA should be more proactive in the identification of the types of risks as they relate to subrecipients in the Aging Cluster.

Agency Response: The Department of Aging agrees with the finding. We are currently in the process of upgrading our AAA oversight program to include the necessary procedures to correct this issue. The draft inspection instruments are being coordinated with the auditors for review and comment.

Auditors' Conclusion: Based on the agency response, the Department of Aging agrees with the finding. No additional information was provided to mitigate or eliminate the finding. Therefore, the finding and recommendation remain as stated. We will review any corrective action in the subsequent audit.

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 74:

CFDA #93.268 – Immunization Grants

CFDA #93.712 – Immunization Grants (ARRA)

Unsupported Payroll Charges Results in \$2,513,164 in Questioned Costs

Federal Grant Numbers: 5H23IP322559 and 3H23IP322559 (ARRA)

Condition: DOH personnel working in the Immunization Grants program stated to us that they work 100 percent of their time on the Immunization program. However, program personnel do not complete federally-required semi-annual certifications as part of the payroll process. As a result, total payroll charges in the current year of \$2,513,164 in the Immunization Program, which include \$37,510 in ARRA funds, were not properly documented and supported as required, and are, therefore, unallowable.

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: Program management indicated that they were not aware of the federal requirement to complete semi-annual certifications to support their payroll charges to Immunization Grants.

Effect: The lack of semi-annual certifications to clearly support 100 percent of salary and fringe benefit charges to a Federal award represents an internal control deficiency and is not in compliance with OMB Circular A-87. As a result, the Immunization program is not in compliance with federal regulations related to Allowable Costs/Cost Principles, and \$2,513,164 in payroll costs (\$37,510 for ARRA) are questioned.

Recommendation: We recommend that the Division of Immunization implement policies and procedures for program personnel to complete a semi-annual certification as part of the payroll process in order to comply with the federal requirements. We also recommend that management pursue appropriate settlement with HHS for the \$2,513,164 in questioned costs.

Agency Response: The Immunization Program agrees that this is currently not being done and was unaware of the need to do so. An employee certification form will be utilized semi-annually for all employees funded by the Immunization and Vaccines for Children Grant.

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.

Questioned Costs: \$2,513,164

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, 2010

Finding 10 – 75:

CFDA #93.268 – Immunization Grants (Vaccines)

CFDA #93.712 – ARRA – Immunization Grants (Vaccines)

Internal Control Deficiency at DOH and the Commonwealth Comptroller Office Over SEFA Reporting

Federal Grant Number: 5H23IP322559

Condition: The value of non-cash vaccines received by the Commonwealth under the Immunization Cluster (CFDA #93.268 and #93.712) were not properly included on the client-prepared schedule of expenditure of federal awards (SEFA). Vaccines are considered non-cash assistance and the amount that should be reported on the SEFA is the fair value of the vaccines received during the year. As a result, auditor-proposed adjustments of \$70.8 million (CFDA #93.268) and \$6 million (CFDA #93.712) were necessary to correct the SEFA for the fiscal year ended June 30, 2010.

Criteria: OMB Circular A-133 states that the auditee shall prepare a schedule of expenditures of federal awards for the period covered by the auditee’s financial statements. At a minimum, the schedule shall . . . include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance. . . .

Cause: The DOH and its Comptroller’s Office were not aware that vaccines for this program should have been included on the SEFA.

Effect: The SEFA originally prepared by the Commonwealth was incomplete and was missing a major program, necessitating auditor-proposed adjustments of \$70.8 and \$6 million to include the vaccines and audit the Immunization Cluster as major in the current-year audit.

Recommendation: We recommend the DOH and Comptroller Office implement internal controls to ensure that all non-cash assistance for the Immunization Cluster is properly reported in the SEFA.

Comptroller Response: Comptroller’s Office agrees with the finding

DOH Response: DOH agrees with the finding and will work with the Bureau of Commonwealth Accounting to ensure that the vaccine valuations are properly included on the SEFA in the future.

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.

Questioned Costs: None

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, 2010

Finding 10 – 76:

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 #93.667 – Social Services Block Grant

CFDA #93.713 – ARRA – Child Care and Development Fund

Weaknesses Exist in DPW’s Contracting and Program Monitoring of Child Care Subgrantees (A Similar Condition Was Noted in Prior Year Finding #09-52)

Federal Grant Numbers: 0901PACCDF, 1001PACCDF, G0901PASOSR, G1001PASOSR, 0902PATANF, 1002PATANF, and 0901PACCD7

Condition: During SFYE June 30, 2010 DPW had CCDBG/CCDF (Child Care Cluster) funded subgrantee contracts in place with one statewide agency (called “PA Key”) and six regional agencies (called “Keys”) for the purpose of improving the quality of child care, community planning and early learning programs, etc. DPW utilizes an on-site monitoring instrument for the six regional Keys intended to include both a fiscal and programmatic review of operations, and this monitoring instrument was used at each regional Key visit. However, our examination of DPW’s procedures for monitoring of the six regional Keys revealed that DPW did not communicate results of their on-site monitoring visits to these agencies in a timely manner. Specifically, the on-site visits were conducted in June of 2010, but results for three of the agencies were not communicated until late January or early February 2011, and for the remaining three agencies, DPW had not yet communicated any results as of our April 25, 2011 testing date.

In addition, during SFYE June 30, 2010 DPW had contracts in place with 59 Child Care Information Services (CCIS) subgrantees that received approximately \$286.1 million (or 84.4 percent) of Child Care Cluster funding, \$30.5 million (or 31.2 percent) of SSBG funding, and \$32.0 million (or 6.7 percent) of TANF funding. These CCIS subgrantees are primarily responsible for determining eligibility of applicants for child care services and for accurately paying child care providers for allowable child care services provided to eligible applicants. All applicant and provider payment data from CCIS’s is maintained and processed on DPW’s statewide PELICAN Child Care Works Information System (PELICAN-CCW).

Our testing of DPW’s contracting and monitoring procedures for CCIS subgrantees disclosed the following control deficiencies:

- Our prior year testing disclosed that three out of our sample of 11 CCIS agencies were identified as submitting budgets reflecting excessive personnel benefit amounts of greater than 60 percent of salaries and wages. This ratio of benefits to salaries and wages was deemed excessive; however, no follow-up was performed by DPW to ascertain the reasonableness of the benefits budgeted or charged to the programs. In the current year, although no individual agencies had budgeted amounts in excess of 60 percent, several were close to this threshold and DPW admitted that no new procedures were implemented to question the reasonableness of excessive benefits budgeted or charged by CCIS agencies.
- Our current year testing of six of 59 CCIS monitoring documents disclosed that DPW did not specifically document monitoring of TANF costs for compliance with the allowability and reasonableness provisions of the DPW-CCIS contract or Federal OMB Circular A-87. Coinciding with this, DPW did not require CCIS subgrantees to return TANF interest earned to the federal DHHS as required per 45 CFR 74.22 and 92.21.

While Circular A-133 audits of Keys and CCIS subrecipients are conducted each year, this auditing activity does not compensate for the lack of adequate on-site program monitoring and contracting since the timing, focus, and scope of A-133 auditing activities after year-end are clearly different than compliance monitoring by program officials.

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Finding 10 – 76: (continued)

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.

In addition, 45 CFR 74.22(l) applicable to TANF non-profit subgrantees, states in part:

Interest earned on Federal advances deposited in interest bearing accounts shall be remitted annually to the Department of Health and Human Services.

And 45 CFR 92.21 applicable to TANF governmental subgrantees, states in part:

- (i) *Interest earned on advances.
...grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency.*

Cause: DPW could provide no other explanation for the late issuance of on-site reports other than to say that they were not reviewed and approved timely due to a manpower shortage. Based on discussions with DPW representatives and their reply to this finding in the prior year, DPW was not aware of the requirement for local government subgrantees to remit TANF interest earned to DHHS. Regarding personnel benefit amounts, the DPW Family Support Services (FSS) CCIS allocations do not provide specific instructions or limitations on how to populate FSS Rider budgets, and DPW does not limit the amount of personnel benefits claimed by CCIS agencies. Also, DPW’s lack of monitoring procedures regarding allowability of TANF expenditures has been a weakness for several years which has not been addressed.

Effect: Late issuance of on-site monitoring reports dilutes the effectiveness of the on-site monitoring process and related reports, and can result in program inefficiencies and/or noncompliance without timely corrective action. DPW provides no documented assurance that the CCIS TANF expenditures are in compliance with federal requirements as they relate to allowability and reasonableness of costs, and cash management of subrecipient drawdowns is being adequately monitored. Based on our review of personnel benefits budgeted and charged by 10 sampled CCIS’s, no DPW procedures are in place to inquire when CCIS benefits appear excessive, unreasonable, and actual costs could be potentially unallowable. There may be additional unallowable benefit charges at other CCIS’s as well. Finally, interest earned by subgrantees on TANF funds is not being remitted to DHHS as required.

Recommendation: DPW should improve the timely issuance of on-site monitoring reports to ensure that regional Keys receive results and recommendations for corrective action in a timely and effective manner. On-site monitoring of CCIS subgrantees should include documented procedures to verify allowability of TANF charges as well as the timely return of interest earned on excess TANF funds to the DHHS. DPW should also implement stronger review procedures to verify reasonableness of budgeted expenditures, especially personnel benefits, in their review of CCIS budgets submitted as part of their annual contract renewals. Finally, DPW should strengthen controls over its review of CCIS recap reports showing interest earned and adjust payment procedures, as applicable, to minimize advances and excess cash at the subrecipient level in violation of federal regulations.

Agency Response: DPW disagrees with all preliminary findings.

The results of the June 2010 on-site monitoring visits were communicated by the Office of Child Development and Early Learning (OCDEL) to all six Regional Keys in a timely manner, no later than July 2010.

DPW stated and maintains that the logic used to determine the percentage of personnel benefits in relation to salaries and wages is appropriate. OCDEL would suggest that a more accurate comparison would be to compare the percentage of personnel benefits to total personnel (salaries and wages plus benefits).

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Finding 10 – 76: (continued)

The DPW does advance funds; however, these funds are reimbursements to the CCIS agencies for the projected cost of care and other expenses. In order for the Child Care Program to have a continuity of operations, they must be provided advanced cash distributions. However, OCDEL does require invoices monthly to the services rendered, during which time, unexpended funds are recovered. The interest earned is not a result of cash advances, but rather the result of the funds being appropriately placed in an interest bearing account(s) while payments for provider invoices and CCIS agency expenses are processed. It is the requirements of the program that this interest be offsetting to the program, and this is determined during program settlement. If the CCIS program did not offset the program expenditures, the interest revenue is recovered as a disallowance in expenditures to the program.

Auditors' Conclusion: DPW provided no documentation to substantiate their claim that the on-site monitoring visits were communicated to the Regional Keys in a timely manner. In fact OCDEL officials were in agreement with the dates we state in the Condition above.

DPW's suggestion to compare the percentage of personnel benefits to total personnel (salaries and wages plus benefits) is basically suggesting that the amount of personnel benefits be used in both the numerator and denominator to calculate a lower benefit percentage. This is not generally-accepted practice for this analysis, especially since it is not consistent with the method used in the statewide Governor's Annual Workforce Report. DPW also failed to address the weakness noted in the finding. DPW's suggestion notwithstanding, this weakness still exists and DPW needs a procedure in place to routinely follow up and ascertain the reasonableness of subrecipient benefit charges to the federal programs.

DPW's monitoring instruments/documents should clearly indicate their procedures performed that are specific to the TANF program in order to show monitoring for compliance with the allowability and reasonableness provisions of DPW-CCIS contracts and Federal OMB Circular A-87. DPW failed to address this weakness in their agency response.

As for DPW's response relating to CCIS cash management, this was a condition noted in the prior year finding referenced above but was corrected and not reported in the current finding. As such we will not address this part of the agency response other than to say that DPW's response contradicts itself as it states that they advance funds, but then claims these advances are "reimbursements". Funding provided to a subgrantee would be either a cash advance or a cash reimbursement since these are opposite forms of funding. Further, DPW states that interest earned is not a result of cash advances; however, there would be no interest earned on funding provided on a cash reimbursement basis since the cash expenditures would be incurred by the subgrantee prior to funding being provided to them. Finally, DPW does not address the fact that they failed to identify interest earned on TANF funds by subgrantees that would subsequently be required to be returned to the federal DHHS in accordance with OMB Circular A-87.

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

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 77:

- CFDA #93.558 – Temporary Assistance for Needy Families**
- CFDA #93.563 – Child Support Enforcement**
- CFDA #93.563 – ARRA – 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 #93.658 – ARRA – Foster Care – Title IV-E**
- CFDA #93.659 – Adoption Assistance**
- CFDA #93.659 – ARRA – Adoption Assistance**
- CFDA #93.667 – Social Services Block Grant**
- CFDA #93.713 – ARRA – Child Care and Development Fund**
- CFDA #93.714 – ARRA – Emergency Contingency Fund for TANF State Programs**
- CFDA #93.778 – Medical Assistance Program**
- CFDA #93.778 – ARRA – Medical Assistance Program**
- CFDA #93.959 – Substance Abuse Prevention and Treatment Block Grant**

DPW Did Not Specify CFDA Number and Other Required Award Information in Subrecipient Award and Disbursement Documents, Resulting in Noncompliance With OMB Circular A-133 (A Similar Condition Was Noted in Prior Year Finding #09-50)

Federal Grant Numbers: 0902PATANF, 1002PATANF, 0904PA4004, 0904PA4002 (ARRA), 1004PA4004, 1004PA4002 (ARRA), 0901PACCDF, 1001PACCDF, 0901PA1401, 1001PA1401, 0901PA1402, 0901PA1403, 0901PA1407, 1001PA1407, 1001PASOSR, 0901PASOSR, 0901PACCD7 (ARRA), 0901PATAN2 (ARRA), 001PATAN2 (ARRA), 0905PA5028, 5-0905PAARRA, 1005PA5028, 5-1005PAARRA, TI010044-09, and TI010044-10

Condition: For the major federal programs listed above, DPW does not consistently identify the CFDA title and number, award name and federal grant number, and the name of the federal awarding agency in the award documents and at the time of disbursements of funds provided to county and nonprofit subrecipients. This failure represents material internal control weaknesses which cause subrecipients to be improperly informed of federal program information, and also cause the omission or improper identification of program expenditures and CFDA numbers on county and nonprofit Single Audit SEFAs. Therefore, the major programs listed above run the risk of not being properly administered or audited at the subrecipient level in accordance with program regulations and 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.

In addition, regarding ARRA funds, DPW did not separately identify to each ARRA subrecipient, and document at the time of the subaward and disbursement of funds, the federal award number, CFDA number, and the amount of ARRA funds, nor did DPW require their subrecipients to provide appropriate identification in their SEFA and SF-SAC. Our review of example subrecipient Single Audit Reports for Allegheny County for the FYE December 31, 2009, the City of Philadelphia FYE June 30, 2009, and the PA Housing Finance Agency (PHFA) for the FYE June 30, 2010 disclosed that while Allegheny County and the City of Philadelphia were awarded or received ARRA funds within the Adoption Assistance, Foster Care, Child Support Enforcement, and Medical Assistance Programs, and PHFA received TANF ARRA funds, only Adoption Assistance ARRA and Foster Care ARRA funds were identified on the SEFA for Allegheny County Single Audit, and no other ARRA funds were reported in these subrecipient SEFA's as required. Further, there was no indication of follow-up on the missing information by DPW.

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Further, DPW did not inform its ARRA subrecipients of the requirement to obtain a DUNS number, register with the federal government's Central Contractor Registry or CCR, and maintain the currency of that CCR information. Also, no monitoring of subrecipients was performed to determine if subrecipient CCR registrations were accurate and if subrecipients were updating their CCR information, as necessary.

The above internal control weaknesses, considered in combination with a separate finding included elsewhere in this report disclosing inadequate controls at DPW over the review and reconciliation of SEFA amounts in Circular A-133 subrecipient Single Audit reports, is material to the major federal programs listed above.

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 and number; if the award is research and development, and 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.

Central Contractor Registration – Identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintain the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)).

Part 3 of the A-133 Compliance Supplement, Section M states an audit objective for auditors is as follows:

Determine whether the pass-through entity reviewed whether subrecipients receiving ARRA funding have current CCR registrations and performed periodic checks to ensure that subrecipients are updating information, as necessary.

The Federal OMB Circular A-133 Compliance Supplement Appendix VII, Other OMB Circular A-133 Advisories, states:

Responsibilities for Informing Subrecipients:

Recipients agree to separately identify to each subrecipient, and at the time of subaward and at the time of disbursement of funds, the Federal Award number, CFDA number and amount of ARRA funds. When ARRA funds are subawarded for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental ARRA funds from regular subawards under the existing program.

Cause: According to management, DPW informs county subrecipients of their federal award information using allocation letters and plans, and management has concluded that the award information historically provided was sufficient. DPW management stated they provide subrecipients with the required information regarding CFDA numbers and funding amounts 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 United States Department of Health and Human Services (HHS) is not identified on the payment invoices as the original granting agency, the CFDA number provides that information with the two-digit identifier (93), which DPW believed was enough.

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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, PELICAN was not able to provide up-to-date reporting of CFDA numbers and corresponding federal funds disbursed.

The Comptroller's Office is responsible for payments made for Child Support Enforcement, Title IV-E Foster Care, Adoption Assistance, Temporary Assistance for Needy Families and Medical Assistance. 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 and federal award numbers are not identified.

The DPW, Office of Children, Youth, and Families, does not currently enclose a funding chart with allocation letters to identify the different CFDA numbers that are funded by Child Welfare. Also, OCYF and the Bureau of Financial Operations and the Comptroller's Office do not include the CFDA numbers on the remittance advice.

While our testing disclosed instances where DPW was transmitting some of the required award information to subrecipients, this was not consistently done as noted in the condition above.

Regarding the CCR, DPW personnel mistakenly believed that OB would address all CCR issues as part of the ARRA 1512 Reporting process.

Effect: Failing to include the CFDA title or number and Federal grant award number and ARRA award and CCR information in subrecipient award documents and at the time of disbursement of funds causes subrecipients and their auditors to be uninformed or untimely informed about what specific program and other regulations apply to the funds. As a result, in the current and prior years under audit, DPW's subrecipients in the above-listed major programs have included incorrect SEFAs in their OMB Circular A-133 Single Audit reports submitted to the Commonwealth, and federal funds have not been properly audited at the subrecipient level in accordance with the Single Audit Act and Circular A-133. In addition, if the internal control weakness is not corrected, noncompliance with Circular A-133 audit provisions at the subrecipient level will continue to occur in the future.

Recommendation: DPW should timely and adequately identify the CFDA title and number, federal award name and grant number, and name of the federal funding agency, along with required ARRA and CCR award information to all subrecipients on up-front award documents and also identify the same information at the time of disbursements of funds. DPW should also ensure proper follow up with subrecipients in instances where they are not properly aware of and/or mis-reporting federal award information in their Single Audit reports submitted to the Commonwealth.

DPW Response: The DPW, Audit Resolution Section (ARS) continues to work with each individual program office to ensure the "award documents" (allocation letters) include all applicable CFDA numbers. The DPW feels that the allocation letters provide the necessary information to the subrecipients as required by OMB Circular A-133.

There was difficulty in identifying the American Recovery and Reinvestment Act (ARRA) funds disbursed to subrecipients during the audit reports reviewed for June 30, 2009 and/or December 31, 2009. The Commonwealth did not appropriate ARRA funds until State Fiscal Year ended June 30, 2010. Therefore, the subrecipients noted were expending funds eligible for ARRA; however, payments were not identifying ARRA funds separately. This was corrected for payments made during June, 2010.

The ARS reviews the Data Collection Form, as submitted to the Federal Clearinghouse. This form contains the DUNS number for subrecipients. Currently, the ARS is reviewing audit reports submitted for FYE June 30, 2009. ARS will add identifying the DUNS number to the audit review checklist.

PELICAN does have the capability to display current federal funds by CFDA numbers and total disbursements. This screen can be seen by accessing the Administrative/Funds tab of the application. Each Child Care Information Service

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has access to this information, and can identify at anytime the federal program and amount by accessing this information. Also, the CCIS has access to see the federal funds disbursed by payment on the Payment/CCIS Invoice screen. Each individual invoice can be viewed along with the CCIS funding breakdown.

Office of Comptroller Operations Response to the CCR Issue: We disagree with this portion of the finding. The criteria noted by the auditors in 2 CFR, section 176.50 describes reporting and registration requirements. Our interpretation of the CFR is that an entity is only required to register in CCR if they are required to file 1512 Reports. In an effort to ensure we were compliant with the guidance we contacted OMB for clarification on the need to register in CCR.

OMB clarified that only ARRA subrecipients that have been delegated the reporting requirement from the Prime grant recipient are required to register in CCR in order to report in Federalreporting.gov. The Commonwealth files the ARRA 1512 report for all federal pass thru funds, and does not delegate reporting requirements to its subrecipients. Based on the Commonwealth's central reporting structure and the CCR registration exceptions noted by OMB, the Commonwealth is in compliance with CCR registrations as applicable to 1512 reporting.

In response to the auditors' contention that they must rely on HHS-OIG rather than on the OMB guidance that we provided them, we followed up by submitting the OMB guidance to HHS-OIG and asking HHS-OIG to review the specific guidance provided to the Commonwealth by OMB and consider whether, based on this guidance and the central ARRA 1512 reporting practice in Pennsylvania, this issue should be considered an audit finding. HHS-OIG directed the Commonwealth to "follow OMB guidance." We provided both the OMB and HHS-OIG documents to the auditors. Based on the guidance provided by OMB and affirmed by HHS-OIG, we maintain that by centrally filing the 1512 report for all federal pass thru funds the Commonwealth is in compliance with the federal reporting requirements for CCR registrations.

Auditors' Conclusion: Based on our review of the agency responses, our finding and recommendation remain as previously stated. No new information was provided in DPW's response to resolve the conditions reported in the finding. Furthermore, regarding the Office of Comptroller Operations response, as the criteria above clearly states, determining that the pass-through entity checked the CCR registrations of its ARRA subrecipients is a key audit objective in our Single Audit. In our separate auditor correspondence with HHS-OIG, our federal cognizant agency for Single Audit, HHS-OIG agreed with our above finding that DPW is required to check its ARRA subrecipients for CCR registrations. Since DPW clearly did not do this, DPW needs to work with Federal audit resolution officials to resolve the issue.

In addition, OB or OA should have issued overall guidance to all Commonwealth agencies (e.g., Management Directive) to inform them of the federally-required information at the time of ARRA disbursements to subrecipients.

We will review any corrective action in the subsequent audit.

Questioned Costs: The amount of any questioned costs cannot be determined.

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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Finding 10 – 78:

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 #09-59)

Federal Grant Numbers: 0902PATANF and 1002PATANF

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 2009. We selected a sample of 65 out of the 276 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 13th 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 7 of the 65 cases, or 11 percent, as follows:

Out of the 65 cases reviewed on the data report, 31 cases included work activity for the period. However, for 5 of the 31 cases with work activity, or 16 percent, the number of unsubsidized weekly employment hours (Item #50) reported was not properly calculated and reported as follows:

Case	Hours Reported	Hours Per Case File	Difference
A	40	43	3
B	30	12	18
C	40	41	1
D	43	48	5
E	40	42	2

- Documentation provided within Case A indicated that the participant worked 85.50 hours (79.50 hours of regular time and 6.0 hours of overtime) during the time period used to calculate the participant’s work hours. However, the calculation of hours reported only included the regular hours and did not include the overtime hours.
- Documentation provided within Case B included a letter from the participant’s employer that estimated that the participant would be working 30 hours per week as reported. However, the participant’s pay stub included in the case file only supported 12 hours.
- Documentation provided within Case C included an employee pay stub that indicated that the participant worked 41 hours instead of the 40 hours reported.
- Documentation provided within Case D included two pay stubs indicating that the participant worked 46.15 hours during the week ended December 12, 2009, and 47.05 hours during the week ended December 26, 2009. Since no pay stubs were available for the other two weeks of December 2009, DPW personnel assigned 40 hours per week for those two weeks to arrive at the 43 hours reported. However, based on the information provided on the two pay

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stubs within the case file, which include cumulative wages and hours worked, we were able to conclude that the participant worked a total of 142.37 hours for the three pay periods ended December 12, 2009, December 19, 2009 and December 26, 2009 or an average of 48 hours.

- One of the 65 cases, Case E, DPW reported 40 hours of unsubsidized employment in December; however, the November 20, 2009 pay stub included in the case file disclosed that the person worked 42 hours per week.
- One of the 65 cases, Case F, indicated that no Subsidized Child Care (Item #17) was paid to the participant during December 2009. However, documentation within the case file indicated that the participant was paid \$321 in December 2009.
- Out of the 65 cases reviewed, 12 cases included Vocational Education Training (Item #57) activity for the period. However, for one of 12 cases, or 8 percent, Case G, the number of Vocational Education Training was not properly calculated. Documentation within the case file supported 13 hours of Vocational Education Training, which is two hours more than the 11 hours reported by DPW.

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.

Also, DPW's federally approved TANF Work Verification Plan states:

I. Countable Work Activities

A. Unsubsidized Employment

1. Definition

The Commonwealth of Pennsylvania (Commonwealth) identifies unsubsidized employment as full- or part-time employment in the public or private sector, including self-employment, apprenticeships, internships, work study and employment resulting in income-in-kind compensation, in which neither the employer nor employee receives a subsidy from TANF or other public funds.

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2. Countable Hours of Participation

Unsubsidized Employment

The number of countable hours of Unsubsidized Employment counted towards participation is determined based on the hours of work, including any paid breaks built into the schedule and any paid leave time, including personal, vacation and holiday time, granted by the employer.

3. Verification of Actual Hours of Participation

An individual's participation in Unsubsidized Employment can be verified in one of the following ways:

- A copy of at least one pay stub that was current at the time it was used to project income;
- A letter or statement from the employer that enumerates hours;
- A copy of an attendance record as verified by the employer;
- An Employment Verification Form;
- Time sheets as verified by the employer;
- A letter stating the details of the work provided as income-in-kind;
- Collateral contacts including employee's supervisory or management staff but not a co-worker; or
- Independent verification sources including the Commonwealth-contracted verification provider, Inspiritec and The Work Number.

When the Commonwealth receives verification of employment through any of the ways listed above, the hours of participation are recorded in the data system at initial entry into the activity and prospectively for a six-month period. A copy of at least one pay stub that was current at the time is used to project hours for no more than six months. Hours of participation will be adjusted if the individual reports a change in employment status such as increased or decreased hours, loss of job or new employment. Upon expiration of the six-month period or at the semi-annual review, whichever comes first, the individual must again provide verification that will be used to project the hourly participation for the subsequent six-month period.

Cause: Regarding the current-year discrepancies in work hours reported above, DPW officials felt that they reported hours based on their established TANF Work Verification Plan approved by HHS.

DPW officials could not explain why no subsidized child care was reported for Case F.

Effect: Based on the error rates and the nature of the errors noted in the condition, DPW did not comply with federal reporting requirements or its HHS-approved TANF Work Verification Plan. 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.

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.

Agency Response: In Cases A, C, D and E, the auditor recommends that DPW report hours that are not supported by the information DPW has about the client. These four cases are related to the inclusion or exclusion of overtime in the hours calculations. DPW has documentation received from the client or the client's employer that states the number of hours worked, but the auditor states that we should report more hours worked than what is documented. While DPW included overtime hours for the week(s) for which the hours were worked, the auditor includes overtime hours for weeks in which

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overtime hours were not documented. Per federal regulations and our Work Verification Plan, we are required to report the number of hours that we know the client is working. DPW cannot report data to the Federal government that contradicts or overstates the hours in the documentation we have.

The hours indicated by the auditor in case B conflicts with the information we have about the client. DPW used the most current documentation, provided to us by the client's employer, which states the number of hours worked. The finding indicates we should report a lower number of hours worked based on older documentation (from October for the TANF Sample month of December). The federal government allows states to set their own policies and procedures as to what constitutes acceptable verification for case files during the time period of the audit, and DPW follows the verification policies. These policies and procedures are detailed in our Work Verification Plan, which was approved by HHS in their letter dated September 12, 2007. The audit should have evaluated DPW's compliance with these policies and procedures.

The finding for Case F indicates that \$321 of child care received in December 2009 should be included in the TANF Data Report. DPW agrees that a child care amount of \$249 should have been included, and has implemented procedures to correct this situation. But the amount identified by the auditor is incorrect for two reasons: the auditor is not looking at the correct Grant Group, and the auditor is looking at when child care payment was issued rather than the period for which the payment was issued (child care payment is issued in the month after the month for which the child care is paid).

In case G, the auditor states that its office obtained the TANF Data Report file for the sample month to perform their case review. DPW has informed the auditor several times that HHS permits all states to resubmit quarterly data throughout the federal fiscal year. There is no limit to the number of times data can be submitted, and although federal regulations state the final data is due to HHS by December 31st, for the past several years HHS has extended that deadline by several months (for FFY2010 the deadline was April 30, 2011). DPW submits quarterly data throughout the FFY repeatedly for each quarter. However, the auditor did not use the final data submitted to HHS to perform their audit. As a result, the audit finding that DPW did not have the documentation for this case is incorrect. The audit is not based on the final data submitted to HHS for which DPW had verification.

All but one of the cases cited by the audit finding as having "errors and/or documentation discrepancies" meets DPW's verification requirements as approved by HHS. Therefore, we do not agree with the auditor's conclusion that "DPW did not comply with federal reporting requirements or its HHS-approved TANF Work Verification Plan." DPW is in fact in compliance with the reporting requirements and has taken steps to correct the lone error cited in the audit finding.

DPW continues to provide outstanding service to an increasing number of clients by providing the tools to get clients the services they need. Improvements for clients include instituting Customer Service Centers, Call Centers, expanding COMPASS (our on-line client self-service system), and providing simplified notices to clients informing them of the status of their benefits. We have instituted scanning of client documentation and are creating electronic case files that make required verification readily available to staff. We have also improved the Workload Dashboard for CAO staff which enables them to more effectively monitor and track the status of clients. This system allows greater analysis of trends to better anticipate the needs of the residents of the Commonwealth and to provide tools for our staff to make it easier for them to meet these needs.

Over the last decade, Pennsylvania has met its federal Work Participation Rate requirement every year. DPW continues to focus significant time and resources on reporting accurate data in the TANF Data Report (ACF-199), and continues to improve the accuracy of this report. Two years ago, the automated TANF Data Management system was created and implemented to increase the efficiency and accuracy of ACF-199 reporting. Over the past several years, DPW has instituted rigorous Quality Control measures to review the eligibility of clients, the completeness of case files, and to verify the data reported to HHS. We also continue to increase the Corrective Action measures taken in response to any Quality Control findings. We perform multiple reviews of cases reported in the TANF Data Report to ensure the appropriateness of services provided to the clients and the accuracy of the data collected and reported. Ongoing training is provided to staff that work with the clients and that report the data collected for the TANF Data Report.

As a result of these measures, DPW is confident in the quality and integrity of the services provided to clients and the associated data that is collected and reported. We believe strongly we are in compliance with federal requirements.

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Auditors' Conclusion: As noted in the condition above for Cases A, C, D and E, we determined actual hours worked from actual pay stubs; however, DPW used an employer-provided estimate of 40 hours per week per client for the whole month or part of the month. Since the HHS-approved Work Verification Plan does not allow for the use of estimates, DPW's reporting procedures are incorrect, and we calculated the required actual hours based on the Verification of Actual Hours of Participation criteria of a copy of at least one client pay stub.

For Case B, the employer provided documentation that DPW used in the report was a form completed by the employer stating that the individual was estimated to work 30 hours a week; however, the pay stub disclosed the individual only worked 12 hours per week. Same as Cases A, C, D, and E above.

Regarding Case F we indicated that \$321 should have been reported for child care for December based on the date of payment because all other child care payments reported on the TANF ACF-199 report were based on payment date, not the period for which the payment was issued, so DPW is not consistent for this case.

For Case G DPW did not address the discrepancy in hours actually reported, and we are aware that the TANF ACF-199 report we audit can be resubmitted to HHS as many times as necessary until April 30, 2011. DPW did not provide any documentation that any data we audited, including Case G, had been resubmitted to HHS with changes that related to any of the discrepancies noted in our condition above.

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

Questioned Costs: None

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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Finding 10 – 79:

CFDA #93.558 – Temporary Assistance for Needy Families

CFDA #93.658 – Foster Care – Title IV-E (including ARRA)

CFDA #93.659 – Adoption Assistance (including ARRA)

Weaknesses in DPW Office of Children, Youth and Families Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients (A Similar Condition Was Noted in Prior Year Finding #09-53)

Federal Grant Numbers: G0902PATANF, 1002PATANF, G0901PA1401, G0901PA1402 (ARRA), G1001PA1401, G1001PA1402 (ARRA), G0901PA1407, G0901PA1403 (ARRA), G1001PA1407 and G1001PA1403 (ARRA)

Condition: DPW Office of Children, Youth and Families (OCYF) performs two types of during-the-award monitoring of its 67 subrecipient County Children and Youth Agencies. Prior to the expiration of each yearly license term, one group within OCYF performs on-site inspections 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. These inspections primarily focus on health, safety and performance issues, and each on-site inspection is documented on a Licensing Approval/Registration Inspection Summary. In addition, a separate group within DPW OCYF performs Title IV-E Quality Assurance Compliance Reviews which primarily focus on eligibility and allowability. These two types of on-site monitoring visits are not performed at the same time. Our current-year testing disclosed internal control weaknesses in DPW's during-the-award monitoring as follows:

- During our prior audits we noted that written monitoring procedures provided by DPW (CYF Bulletin #00-95-08 issued April 26, 1995) were outdated and no longer applicable. During our prior audit period, DPW began updating their written monitoring procedures; however, many of these procedures are still in draft format. As a result, it was not always clear as to what monitoring procedures were actually planned and performed during DPW's on-site visits in our current audit period.
- To test DPW's licensing/inspections and Quality Assurance Compliance Reviews in the current year, we selected 19 of the 67 County Agencies receiving Foster Care/Adoption Assistance Funds. Our testing of the OCYF on-site inspections and reviews of these County Agencies during the year disclosed that, for all 19 Counties tested, we could not determine if key regulatory requirements were adequately or consistently tested due to the lack of detailed documentation and monitoring forms demonstrating the scope and methodology of the reviews performed while on-site.
- While DPW implemented the above-mentioned Quality Assurance Compliance Reviews during a prior audit period to strengthen its monitoring controls, these reviews are only performed for the Foster Care expenditures and do not include Adoption Assistance.

As a result, for the sixth year in a row, internal control weaknesses exist over DPW monitoring of Foster Care and Adoption Assistance subrecipients.

Also, we noted that DPW did not perform any on-site monitoring of TANF Child Welfare funding received by County Children and Youth Agencies.

Total Foster Care program payments made by DPW to its 67 County Children and Youth Agency subrecipients during the fiscal year ended June 30, 2010 were \$198.9 million, \$8.7 million of which was ARRA funding, (or 92.8 percent) of total Foster Care expenditures of \$214.3 million reported on the June 30, 2010 SEFA. Total Adoption Assistance program payments made by DPW to its 67 County Children and Youth Agency subrecipients during the fiscal year ended June 30, 2010 were \$102.8 million, \$9.3 million of which was ARRA funding (or 86.8 percent) of total Adoption Assistance expenditures of \$118.4 million reported on the June 30, 2010 SEFA. Total TANF Child Welfare program payments made by DPW to its 67 County Children and Youth Agency subrecipients during the fiscal year ended June 30, 2010 were \$38.9 million (or 8.15 percent) of total TANF expenditures of \$477.1 million reported on the June 30, 2010 SEFA.

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Finding 10 – 79: (continued)

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: As indicated in the prior year response, the Office of Children, Youth and Families (OCYF) acknowledges that checklists and procedures for monitoring programs and facilities can vary from Region to Region, based on local resources and practices. However, all regions follow the same checklist for the 3800 Regulations that cover Residential Facilities. Also, DPW did not provide a reason for not updating the monitoring procedures contained in CYF Bulletin #00-95-08. Further, DPW personnel indicated there is no need for on-site monitoring of TANF Child Welfare activities as eligibility and allowability requirements are not complex.

With regard to the quality assurance reviews only including Foster Care expenditures, DPW personnel indicated that Adoption Assistance expenditures would be added to the reviews in the future.

Effect: Internal controls over DPW's during-the-award on-site monitoring of Foster Care, Adoption Assistance, and TANF subrecipients are weak and are not adequately documented, and county agencies could be operating out of compliance with federal regulations without timely detection and correction by DPW management. These internal control weaknesses could also impact the expenditures of ARRA monies under these federal programs.

Recommendation: DPW OCYF should strengthen its controls to ensure more timely and better documented monitoring of Foster Care, Adoption Assistance and TANF Child Welfare agencies occurs, and provide greater and better documented assurance that subrecipients are running their programs in compliance with federal regulations.

Agency Response: OCYF believes that the placement maintenance reviews are thorough and does not demonstrate any internal control weaknesses. OCYF Bulletin #00-95-08, Distribution of OCYF Children and Youth Survey and Evaluation Manual, includes a Title IV-E Placement Maintenance Review Procedures and Protocol Manual which was used through the end of FY 06-07. Although the regional licensing/inspection staff continues to use the a portion of the referenced bulletin, since October of 2007, the Quality Assurance Division (QA) has been using a revised Placement Maintenance review procedure and protocol manual in the field to review Title IV-E placement maintenance claims. The revised QA manual is not in draft form but is a working tool. The QA manual has been enhanced multiple times since 2007 to continuously improve and strength the review process.

The auditors requested nineteen County Agency Title IV-E Quality Assurance reports for their testing. The auditors were advised the final report to the county was a paper copy but all review work papers were stored only electronically and was available for the auditors to review. The auditors state in the report "...we could not determine if key regulatory requirements were adequately or consistently tested due to the lack of detailed documentation and monitoring forms demonstrating the scope and methodology of reviews performed while on-site". OCYF contends, if the electronic work papers were reviewed, that regulatory requirements are adequately and consistently being tested and a finding pertaining to Title IV-E placement maintenance claims is not warranted.

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Finding 10 – 79: (continued)

OCYF concurs with the findings concerning Adoption Assistance and TANF Child Welfare programs. The Quality Assurance Division is finalizing the review procedure and protocol for these two programs which will be incorporated with the placement maintenance review by July 31, 2011.

Auditors' Conclusion: Regarding the QA manual, we noted that many of the Word documents provided were still not finalized since they contained tracked changes, strike outs, and additions, or the documents were labeled “draft.” We also reviewed copies of DPW’s electronic documents supporting the QA reviews and they do not resolve or correct the weaknesses noted in our finding.

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

Questioned Costs: The amount of questioned costs cannot be determined.

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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Finding 10 – 80:

- CFDA #93.558 – Temporary Assistance For Needy Families
- CFDA #93.563 – Child Support Enforcement (including ARRA)
- 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 (including ARRA)
- CFDA #93.659 – Adoption Assistance Program (including ARRA)
- CFDA #93.667 – Social Services Block Grant
- CFDA #93.713 – ARRA – Child Care and Development Fund
- CFDA #93.714 – ARRA – Emergency Contingency Fund for TANF State Programs
- CFDA #93.778 – Medical Assistance Program (including ARRA)
- CFDA #93.767 – State Children’s Health Insurance Fund

HHS-Required ADP Risk Analysis and System Security Review Was Not Performed for Various DPW and Insurance Department Systems (A Similar Condition Was Noted in Prior Year Finding #09-76)

Federal Grant Numbers: 0902PATANF, 1002PATANF, 0904PA4004, 0904PA4002 (ARRA), 1004PA4004, 1004PA4002 (ARRA), 0901PACCDF, 1001PACCDF, 0901PA1401, 1001PA1401, 0901PA1402, 0901PA1403, 0901PA1407, 1001PA1407, 1001PASOSR, 0901PASOSR, 0901PACCD7 (ARRA), 0901PATAN2 (ARRA), 001PATAN2 (ARRA), 0905PA5028, 5-0905PAARRA, 1005PA5028, 5-1005PAARRA, TI010044-09, and TI010044-10

Condition: Based upon requirements documented in the Department of Health and Human Services (HHS) Compliance Supplement Special Tests and Provisions III.N.3, the Commonwealth of Pennsylvania’s Department of Public Welfare (DPW) did not conduct an Automatic Data Processing (ADP) risk analysis and system security review for the Temporary Assistance for Needy Families (CFDA #93.558), Child Support Enforcement (CFDA #93.563), Low Income Home Energy Assistance (CFDA #93.568), Child Care and Development Block Grant (CFDA #93.575), Foster Care (CFDA #93.658), Adoption Assistance Program (CFDA #93.659), Social Services Block Grant (CFDA #93.667), and Medical Assistance Program (CFDA #93.778); and the Insurance Department (DOI) did not conduct an ADP risk analysis and system security review for the State Children’s Health Insurance Program (CFDA #93.767). According to the provisions of 45 CFR Part 95, Subpart F, a biennial ADP risk analysis and system security review is required by HHS for existing systems that received Federal Financial Participation (FFP) funding to support, maintain, or develop their information systems.

Criteria: The Commonwealth of Pennsylvania’s Department of Public Welfare is required to conduct an Automatic Data Processing (ADP) risk assessment and system security review for the Temporary Assistance for Needy Families (CFDA #93.558), Child Support Enforcement (CFDA #93.563), Low Income Home Energy Assistance (CFDA #93.568), Child Care and Development Block Grant (CFDA #93.575), Foster Care (CFDA #93.658), Adoption Assistance Program (CFDA #93.659), Social Services Block Grant (CFDA #93.667) and Medical Assistance Program (CFDA #93.778); and the Insurance Department is required to conduct an ADP risk assessment and system security review for the State Children’s Insurance Fund (CFDA #93.767) programs according to the provisions of 45 CFR Part 95.621, Subpart F which requires a biennial review for existing systems that received Federal Financial Participation (FFP) funding to support, maintain, or develop their information systems.

Cause: This finding was caused by a lack of an established ADP Risk Assessment process in DPW and DOI to address the compliance requirements.

Effect: The Agencies noted did not perform an ADP Risk Assessment during the prior 24 months; therefore, they are not in compliance with 45 CFR 95.621 to ensure appropriate, cost-effective safeguards are incorporated into new and existing systems.

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Finding 10 – 80: (continued)

Recommendation: We recommend that DPW and the DOI develop an established ADP Risk Assessment process to meet the requirements of 45 CFR 95.621. Agencies must review the ADP system security installations involved in the administration of HHS programs on a biennial basis. Agencies must also perform risk analyses whenever significant system changes occur. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agencies should maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews.

Agency Response: The department is configuring a security solution using a third party tool named RSA - Archer. This tool contains all of the laws, regulations, policies, standards and procedures that we must abide by. We hope to begin the risk assessment in the third quarter of this year (2011).

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.

Questioned Costs: None

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, 2010

Finding 10 – 81:

CFDA #93.563 – Child Support Enforcement – ARRA

Material Internal Control Deficiencies Over \$24.7 Million in Federal ARRA CSE Incentive Payments Result in Noncompliance With Matching and Supplanting Requirements and Questioned Costs of \$6,861,313

Federal Grant Numbers: 0904PA4002 (ARRA) and 1004PA4002 (ARRA)

Condition: Out of \$165.7 million in total expenditures reported on the Commonwealth's SEFA for the CSE program during SFYE June 30, 2010, \$24.7 million was for ARRA Incentive payments. Out of this \$24.7 million, \$6.9 million was expended by DPW on outside contractors working on DPW's Statewide Collections and Disbursement Unit (SCDU) and Pennsylvania Child Support Enforcement System (PACSES) utilized by the 67 counties in the state to run the CSE programs at the subrecipient level. The remaining \$17.8 million was paid by DPW to CSE county subrecipients.

From the population of \$6,861,313 in ARRA Incentive payments to SCDU and PACSES contractors, we selected six larger-dollar transactions as key items totaling to \$4,456,793, and reviewed each transaction for allowability, reasonableness, and compliance with applicable federal regulations. These six transactions consisted of Vendor Adjustment Invoice FI document #1702328970 dated June 17, 2010 which claimed \$1,944,470 of ARRA Incentive funding for PACSES contractor costs incurred during SFYE June 30, 2010 related to contract #4000011443, plus Vendor Invoices FI documents #1902511165, #5101946319, #5101959804, #5101994784, and #5101940257 which claimed \$2,512,323 of ARRA Incentive funding for SCDU contractor costs incurred during SFYE June 30, 2010 related to contract #4000013976.

While each expenditure was properly supported as allowable within the CSE Program, we noted that all \$4,456,793 in CSE ARRA Incentive payments in our testwork were used to supplant existing operations of SCDU and PACSES and were not used to supplement other non-ARRA CSE funding as required by CSE Incentive Reinvestment regulations. We concluded that supplanting occurred because the PACSES and SCDU contracts did not change in the current year vs. prior years and DPW provided no documentation to support that CSE ARRA payments in the current year were used to supplement PACSES and SCDU contract activities that were paid with non-ARRA dollars in the past.

As further evidence of supplanting, we noted that total non-ARRA CSE expenditures declined by \$7.1 million, which approximates the \$6.9 million identified above, from SFYE June 30, 2009 to SFYE June 30, 2010 as follows (SEFA amounts in thousands):

	<u>6/30/09</u>	<u>6/30/10</u>	<u>(Decrease)</u>
Total CSE Expenditures from SEFA	\$140,673	\$165,728	
Less ARRA Expenditures	(5,939)	(24,654)	
Add Back Net Collections	<u>16,380</u>	<u>2,936</u>	
Total Non-ARRA CSE Expenditures	<u>\$151,114</u>	<u>\$144,010</u>	<u>(\$7,104)</u>

Further, our review of the state restricted revenue appropriation used to record the receipt and expenditure of CSE Incentive funds disclosed that all state Incentive funds were being paid to county subgrantees and no state Incentive funds were paid to the SCDU or PACSES contractors to match the federal ARRA Incentive claims for SCDU or PACSES costs. As a result, federal ARRA Incentive claims were not properly matched with state CSE Incentive funds for SCDU or PACSES costs.

Regarding the \$17,792,220 in ARRA Incentive expenditures that were paid to county subrecipients, DPW did not provide any documented during-the-award monitoring that subgrantees complied with CSE Incentive Reinvestment regulations, such as supplementing/not supplanting at the local level, or other CSE program requirements.

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Finding 10 – 81: (continued)

As a result of the above conditions, we consider DPW's internal controls over ARRA CSE Incentive Payments to be materially deficient and, because of the 100 percent error rate in the items we tested, we question the entire \$6,861,313 in ARRA CSE Incentive Payments for costs of SCDU and PACSES in the current year.

Criteria: 45 CFR 305.35 applicable to CSE Incentive Payments, states in part:

Reinvestment.

- (a) *A State must expend the full amount of incentive payments received under this part to supplement, and not supplant, other funds used by the State to carry out IV-D program activities...*
- (b) *In those States in which incentive payments are passed through to political subdivisions or localities, such payments must be used in accordance with this section.*
- (c) *State IV-D expenditures may not be reduced as a result of the receipt and reinvestment of incentive payments.*

Also, Federal Register, Vol. 65, No. 249 dated December 27, 2000, page 82204, which provides comments and responses on CSE Reinvestment requirements states, in part:

9. *Comment: One commenter asked how will the Federal government know if individual counties have complied with the reinvestment requirement and who is responsible for ensuring compliance. Another commenter stated that the proposed rule did not address what will occur when a State is deemed to be supplanting State funds previously used to fund IV-D functions.*

Response: States are responsible for ensuring that all components of their IV-D programs comply with all Federal requirements, including local or county IV-D programs, vendors, or other entities that perform IV-D services under contract or cooperative agreement. Federal auditors' and central and regional office staff will have a role in monitoring State compliance with the reinvestment requirement. Potential Federal actions include financial audits which could result in disallowances of incentive amounts equal to the amount of funds supplanted.

OMB A-133 Compliance Supplement, Part 4, Child Support Enforcement, CFDA #93.563, Section G.1. Matching states, in part:

A Federal match of 66 percent is available for State administrative costs of carrying out Child Support Enforcement program activities under Title IV-D of the Social Security Act. ARRA temporarily changed the Child Support authorization language to allow States to use Federal incentive payments provided to States in accordance with Section 458 of the Social Security Act as their State share of expenditures eligible for Federal match.

Cause: DPW personnel believe they were in compliance with all Reinvestment regulations and provided a worksheet that showed that DPW expended more funds during the current year than in the base year of 1998. Further, DPW personnel indicated that monitoring of individual subgrantees or vendors for compliance with Reinvestment requirements was not necessary as long as current year expenditures exceeded the 1998 base year. However, while this may demonstrate compliance with the maintenance of effort requirements of 45 CFR 305.35(d) it does not demonstrate that ARRA CSE Incentive Payments actually supplemented and did not supplant other non-ARRA funds used to carry out (IV-D) CSE program activities.

Effect: Internal controls over all \$24.7 million in ARRA CSE Incentive Payments are materially deficient and \$6,861,313 in ARRA CSE Incentive Payments in the SCDU and PACSES contracts are questioned. Also, since DPW did not provide any documented during-the-award monitoring of \$17,792,220 in ARRA CSE Incentive Payments to county subgrantees for compliance with CSE Incentive Reinvestment regulations, there is limited assurance that subgrantees complied with these regulations.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 81: (continued)

Recommendation: We recommend that DPW improve their monitoring controls over all their ARRA CSE Incentive Payments to ensure all these costs are reasonable and allowable in accordance with federal regulations, and they are properly matched and not used to supplant non-ARRA funds. We also recommend that DPW pursue appropriate settlement of the \$6,861,313 in questioned costs with HHS.

Agency Response: According to U.S. Dept. of Health and Human Services (HHS), Administration for Children and Families (ACF), Office of Child Support Enforcement (OCSE) AT-01-04 (Reinvestment of Child Support Incentive Payments):

“In order to determine if incentive payments are used to supplement rather than supplant other amounts used by the State to fund the CSE program, a base-year level of program expenditures is necessary. Therefore, per 45 CFR Section 305.35(d), a base amount of spending will be determined by subtracting the amount of incentive funds received by the State CSE program for fiscal year 1998 from the total amount expended by the State in the program during the same period. Alternatively, States have an option of using the average amount of the previous three fiscal years (1996, 1997, and 1998) for determining the base amount. This base amount of State spending must be maintained in future years. Incentive payments earned under section 458A of the Act must be used in addition to, and not in lieu of, the base amount. OCSE will calculate the base amount of spending for each State using 1998 expenditure data unless the State notifies OCSE that the State prefers the base amount to be established as an average of the 1996, 1997, and 1998 expenditures”.

As DPW has expended more funds during the audit period than in the base year of 1998, we have complied with the Maintenance of Effort (MOE) requirements of 45 CFR 305.35(d) and met the requirement of supplementing vs. supplanting identified above. Furthermore, the audit was done on the SEFA expenditures (state fiscal year basis), while federal requirements are on a federal fiscal year basis. Therefore, the auditors’ comparison of state fiscal year 2009/10 to 2008/09 is not only the incorrect basis for the comparison (state year instead of federal year), but also the incorrect base year for the comparison (should use 1998).

As for local government vs. state expenditures, local expenditures are required to comply with overall IV-D requirements under our cooperative agreement with the counties. In addition, as described in OSCE-AT-01-04, the MOE (supplantation vs. supplementation) rules are at the overall state program level including vendors and sub-recipients. As such, DPW met the supplementation rules and they were documented within the spreadsheet (Attachment A) provided to the auditor that compared the audit period spending level to the base year.

County payments are incentives that are “passed through” to the counties in accordance with the cooperative agreement with the counties. They are displayed as a direct expense out of the restricted Incentive account. The SCUDU and PACSES spending occurs from the CSE appropriation and is “augmented” through a revenue transfer from the Incentive account to the CSE fund. They are different transaction types and could lead to confusion when trying to identify the transactions.

The auditor recommends that DPW improve its monitoring controls over all the ARRA CSE Incentive Payments to ensure all these costs are reasonable and allowable in accordance with federal regulations, and that they are properly matched and not used to supplant non-ARRA funds. The auditor also recommends that DPW pursue appropriate settlement of the \$6,861,313 in questioned costs with HHS.

DPW continually strives to improve efforts and procedures to ensure that appropriate controls are in place to make sure we comply with all state and federal regulations. As the \$6,861,313 Incentive Payments are supplementing, not supplanting, there is no need to pursue settlement with HHS.

The issues raised in this audit do not involve internal controls, but are more a matter of policy interpretation. DPW stands by its interpretation of the federal policy regarding ARRA spending and our administration of these funds.

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Finding 10 – 81: (continued)

Auditors' Conclusion: While DPW may have complied with the MOE requirements in 45 CFR 305.35(d) for the reinvestment of incentive funds, DPW has clearly not complied with the requirement to supplement, not supplant, federal funds in 45 CFR 305.35(a) and (c). The ARRA Incentive funds were not used to increase the amount of services provided under the PACSES or SCDU contracts and just represented a shift in prior-year funding.

Further, the DPW response indicates that Incentive funds were spent on PACSES and SCDU through revenue transfers that augmented the CSE appropriation; however, our review of BW reports did not disclose any revenue transfers between the Incentive funds appropriation and the CSE appropriation, and DPW did not provide any documentation that disclosed any revenue transfers between these appropriations. As a result, since DPW did not demonstrate that any state Incentive funds were actually used to fund the required match for ARRA Incentive funding, no federal ARRA funding of PACSES and SCDU costs should have been claimed by DPW as it was not properly matched.

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

Questioned Costs: \$6,861,313 at the state level and the amount of any questioned costs at the subrecipient level cannot be determined.

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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Finding 10 – 82:

CFDA #93.568 – Low-Income Home Energy Assistance Program

Internal Control Deficiencies in DPW’s Administration of LIHEAP Cash and Crisis Benefits (A Similar Condition Was Noted in Prior Year Finding #09-56)

Federal Grant Numbers: G-10B1PALIEA, G-1001PALIE2, 08B1PALIEA, 09B1PALIEA, and 0901PALIE2

Condition: Our prior four Single Audits of cash and crisis benefits paid through the LIHEAP program administered by DPW reported numerous instances of noncompliance with federal regulations, questioned costs, and material internal control deficiencies within DPW as a whole. These prior-year findings were initially based on a June 2007 report prepared by other auditors (from the Department of the Auditor General – Bureau of Departmental Audits) 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.

To follow-up on these prior-year deficiencies, we interviewed various management within DPW, and performed testwork of various areas in LIHEAP, such as management’s monitoring process, LIHEAP payments, and utilization of the data exchanges in eCIS. In addition, we visited two CAOs and a crisis contractor in which we interviewed management and staff to evaluate the policies and procedures and internal controls in place at the CAO and Crisis Contractor sites. In addition, we obtained data files from DPW to perform data analysis and data mining on the LIHEAP benefit payments during SFYE June 30, 2010. Based on the results of our testwork, we determined that a number of the prior year deficiencies were not adequately resolved.

Our current audit included a random sample of 69 LIHEAP benefit transactions of cash, crisis, and extraordinary payments totaling \$14,705 out of a total population of \$218,723,599 in LIHEAP cash and crisis payments for the year. Our current year testing of these 69 items disclosed noncompliance, unallowable payments, and questioned costs (detail on our current-year test results and questioned costs are reported in Finding #10-84). Moreover, we reviewed the results of DPW’s own on-site monitoring reports of its CAOs and outside crisis contractors and found error rates indicated by DPW’s monitors, to include deficiencies noted below, ranging up to 57 percent of items tested. In addition, based on DPW’s response to exceptions noted from the random sample of 69 transactions and various high risk areas identified as a result of data analysis and data mining, we expanded our coverage and selected an additional 65 transactions totaling to \$66,740 to test.

Based on our follow-up of the prior year finding (#09-56) and the results of our current testwork, material internal control deficiencies continued to exist during our current audit period ended June 30, 2010, since the following deficiencies were noted:

Cash/Crisis Benefits:

- Applicants using SSNs associated with deceased individuals;
- Applicants approved for benefits while incarcerated/imprisoned;
- Applicants using different SSNs to receive multiple benefit payments;
- Applicants filing more than one application using the same SSN;
- Applicants underreporting income on their applications;
- Applicants receiving benefits exceeding maximum allowed;
- Applicant case files lack documentation to include, proof that the applicant was responsible for heating bills, a landlord statement if heat is included in rent, and calculation of household income;

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Finding 10 – 82: (continued)

- Applications to support benefit payments could not always be located by the CAOs. In addition, CAO procedures for the safeguarding of records are 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;
- Applications for households with participating fuel vendors were processed as direct pay LIHEAP transactions to individuals, which is in noncompliance with the LIHEAP state plan and DPW procedures, which require these to be paid to vendors;
- DPW is not imaging LIHEAP Cash applications in the eCIS imaging system timely. 15 applications were not imaged until after the auditors identified that the documents could not be located on the imaging system. Furthermore, during a site visit by auditors to one CAO, CAO management indicated that the backlog of documentation pending imaging included applications and support from the prior year's heating season. Moreover, the documentation was stored in unlocked file cabinets in a common area; and
- LIHEAP application of an individual who misrepresented their state residency and should have been investigated for potential welfare fraud was inappropriately processed and a benefit awarded by DPW.

As part of the audit we visited two CAOs and a crisis contractor in which we interviewed management and staff, performed walkthroughs of the site and of transactions processed to evaluate the policies and procedures and internal controls in place at these offices. Based on our visits to the CAO and crisis contractors we noted the following additional control deficiencies:

- Physical inventory of applications and support is not stored securely within the offices. Documentation is stored in cardboard boxes on office floors and in filing cabinets that do not lock or are never locked. Meeting rooms that were used to interview LIHEAP and non-LIHEAP clients at one of the locations had applications and support with SSNs and names in cabinets that are never locked and also, left out in the open;
- A 49 day backlog in processing LIHEAP applications;
- Hardcopy of applications and support from the prior heating season were stored in unlocked filing cabinets still awaiting scanning;
- No office specific policy and procedures were developed at the crisis contractor and submitted to DPW as is required per the multi-year contract between the crisis contractor and DPW, according to the Crisis Contractor DPW did not request it for the audit period;
- Data exchanges are not being utilized by the crisis contractor's office staff to assist in determining initial and continued eligibility;
- LIHEAP applicants that were determined ineligible for LIHEAP by DPW were being referred to the Weatherization Program for benefits, but should not be;
- Crisis Contractor does not have access to the vendor PROMISE system that tracks vendor deliveries and payments. Per the Crisis Contractor management, not having access to this system to track crisis transactions has caused some clients' second crisis request to be delayed due to the vendor not timely processing the first crisis transaction;
- Crisis Contractor does not have access to Client Information System (CIS). Per the Crisis Contractor management, if they had access to CIS they would be able to identify situations such as child support payments recorded in CIS records; and

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Finding 10 – 82: (continued)

- The current year monitoring of the crisis contractor was not done on-site at the office of the crisis contractor. According to crisis contractor management, the program monitor requested their records be taken to the local County Assistance Office where the monitor conducted the entire review to include meetings and the exit conference.

According to the SAP accounting system, the total cash and crisis benefits paid during SFYE June 30, 2010 was \$218,723,599 out of total LIHEAP expenditures of \$257,180,406 reported on the current year SEFA.

Criteria: As part of administering LIHEAP, DPW must have adequate controls in place, including proper reviews/approvals, to ensure applicants requesting LIHEAP benefits are eligible and receive the appropriate benefit amounts. 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 the type of fuel used, along with personal identification for all household members. Once eligibility is properly determined, controls need to be established to ensure applications and support is scanned accurately into eCIS. Finally, applications and support filed and waiting for the scanning process should be filed in a restricted area and secured to limit access and ensure proper safeguarding of records.

Cause: Not all CAOs have written policy and 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. The LIHEAP Manual and Handbook, used by the CAOs to administer the program, was inadequate in addressing specific LIHEAP application procedures to make them consistent throughout DPW's 67 CAOs. According to DPW, the processing of LIHEAP benefits is susceptible to errors due to the large number of applications being processed by limited staff in short periods of time. We disagree with DPW. Regardless of limited staff, all applications must be processed properly and accurately. Also, although the LIHEAP Manual and Handbook were improved in the current year, we do not agree with DPW that they alone adequately suffice as written procedures for day to day operations at all the CAOs.

In addition, even though DPW implemented the new eCIS system to process LIHEAP benefit payments which automated processes such as, the calculation of eligibility income, imaging supporting documents, validation of SSN format, and making data exchange information available to assess the application, the accurate processing of LIHEAP benefits was dependent upon the effectiveness of the LIHEAP CAO workers' decision-making and proper use of the information available on the system. DPW did not monitor the work at the CAOs to ensure the various data exchanges were properly being utilized during the application process. Furthermore, as part of implementing this new system and retooling the business process, DPW eliminated the requirement for supervisors to review and approve applications prior to the case worker approving the payment. Moreover, as part of the new business process, as noted in another finding, DPW instituted a new policy requiring supervisors to review a limited number of transactions for each worker. However, this review was limited to 10 transactions per case worker per week and was no longer occurring prior to the worker approving the payment. In numerous instances we noted the monitoring was not being performed to satisfy DPW policy.

Effect: There is an increased risk of inappropriate spending 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 continue to strengthen internal controls by utilizing the implemented corrective measures of continued training of CAO personnel, revisions to the LIHEAP Manual and Handbook, safeguarding of assets and guidance on the control environment, and verification that the related internal controls in this system are operating effectively. In addition, we recommend that DPW ensure that each CAO is properly utilizing the data exchanges, has a written policy and procedure manual detailing application processing procedures beyond referencing to the State Plan and LIHEAP Manual, including safeguarding records, and ensure crisis contractors develop written policies and procedures to accurately document and process crisis transactions.

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Finding 10 – 82: (continued)

Agency Response: Below are specific comments on the individual deficiencies contained in finding #93568A.

1. Deficiency: Applicants using SSNs associated with deceased individuals.

Agency Response: The current file clearance process does identify individuals who have a date of death within the Master Client Index. DPW is implementing a system enhancement in eCIS that identifies the individual is deceased and excludes them from the household for purposes of determining any benefit.

Auditors' Conclusion: We will evaluate the corrective action in the subsequent audit.

2. Deficiency: Applicants approved for benefits while incarcerated/imprisoned.

Agency Response: DPW will be reinforcing the policy that incarcerated/imprisoned individuals are prohibited from receiving LIHEAP benefits in the upcoming LIHEAP state plan.

Auditors' Conclusion: We will evaluate the use of the data exchanges in the subsequent audit.

3. Deficiency: Applicants using different SSNs to receive multiple benefit payments.

Agency Response: Workers are provided matching SSNs and demographics during the file clearance process for staff review. All SSNs are sent to SSA for verification. If a client applies for LIHEAP under multiple SSNs, SSA will alert DPW if these SSNs match the demographics sent. If SSA does not validate the SSN, the case is then investigated and reported to OIG for an investigation and possible overpayment if fraud has been committed. This policy will be reinforced with workers.

Auditors' Conclusion: This situation went undetected by DPW in the current audit. DPW should ensure that policies and procedures and internal controls are adequate to detect and prevent applicants from applying with different SSNs to receive multiple benefit payments. We will evaluate DPW's use of the data exchanges in the subsequent audit.

4. Deficiency: Applicants filing more than one application using the same SSN.

Agency Response: Applicants can file more than one application during the season and DPW cannot prohibit individuals from filing an application. eCIS will alert staff during file clearance that the individual has already applied for benefits or has already received benefits. eCIS will count the individual's income but not count the individual as a household when applying with other new household members at a new address. If the individual is applying alone or with other household members that have previously received a LIHEAP grant, eCIS will reject them for already receiving a LIHEAP grant.

Auditors' Conclusion: DPW is indicating that the system will reject an application for an applicant or household member receiving a prior benefit. Our audit disclosed unallowable multiple benefit payments received by applicants using the same SSN with a different record number that went undetected by DPW's internal controls. DPW should ensure that policies, procedures and internal controls are adequate to detect and prevent applicants from receiving excessive benefits by filing more than one application with the same SSN.

5. Deficiency: Applicants underreporting income on their applications.

Agency Response: Per DPW policy, all applicants must verify and provide documentation of their income as a condition of eligibility. Failure to verify and document income will result in application rejection. Additionally, CAOs are required to check CIS for income verification for LIHEAP applicants. In cases where the LIHEAP applicant is known to CIS, income is verified via data exchanges with the Department of Labor and Industry (DLI).

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Finding 10 – 82: (continued)

Auditors' Conclusion: DPW indicates that the policy requires applicants to provide proof of income for eligibility determination or they should be rejected. In addition, according to DPW management, CAOs' LIHEAP workers are required to check CIS and utilize the data exchanges to verify income. However, our audit disclosed that the income verification procedures and data exchanges were not properly followed and the errors went undetected. DPW should strengthen controls and monitoring techniques to ensure these procedures are adhered to by the CAO.

6. Deficiency: Applicants receiving benefits exceeding maximum allowed.

Agency Response: A hard edit in the eCIS system does not allow any LIHEAP recipient to receive crisis or cash benefits in excess of the maximum amount. Extraordinary payments are requested by CAOs and reviewed and authorized at the Headquarters level.

Auditors' Conclusion: Our audit disclosed applicants received benefits that exceeded certain maximum dollar thresholds for the heating season. Although DPW indicates that a hard edit would limit this from occurring, we found instances where applicants received above the maximum allowed. For instance, we found applicants that received multiple payments that were individually within the maximum, but exceeded the maximum in aggregate. For example, one household received \$400 twice (\$800) for crisis benefits. The maximum annual benefit was \$400.

7. Deficiency: Applicant case files lack documentation to include, proof that the applicant was responsible for heating bills, a landlord statement if heat is included in rent, and calculation of household income.

Agency Response: DPW disputes this claim, which has been asserted in previous audits. When DPW requested a list of cases for which the auditors failed to find appropriate documentation, DPW was easily able to find the documentation and present them to the auditors. DPW staff can use documents already provided by the household when applying for other benefits to verify heating bills or landlord statements. These documents could be in imaging or could reside in the client's physical record within the CAO.

Auditors' Conclusion: Although DPW was able to provide certain documentation that was initially not available to the auditors, we still found an instance where failure to obtain documentation, such as a heating bill to verify responsibility, resulted in DPW approving LIHEAP benefits for ineligible recipients. Additionally, DPW admitted in various responses to the auditors that LIHEAP applications and related support documentation could not be located in its imaging system for some of the transactions we questioned. Given all documentation is to be imaged within 30 days and should be available for review, we are taking the position if the documentation was not readily available via the imaging system then it has not been properly accounted for by DPW.

8. Deficiency: Applications to support benefit payments could not always be located by the CAOs. In addition, CAO procedures for the safeguarding of records are 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.

Agency Response: DPW believes that all files are maintained within the CAO and it is policy to restrict access to the work area of the CAO based on key pad codes at the main entrance doors. This finding is not specific on the types of areas that the Auditor General believes are unrestricted areas. DPW policy for security of records and confidential information is standard across all programs. DPW does not believe that files are kept in areas outside of the restricted work area and accordingly does not agree with this finding.

Auditors' Conclusion: We believe the lack of security over hardcopy documents and untimely scanning contributes to the risk of documentation being misplaced or destroyed. During our on-site CAO visits, we observed documentation with sensitive information located in cardboard boxes and unlocked filing cabinets in common areas. These methods of storage are not sufficient to secure sensitive documentation even on a temporary basis (i.e. waiting to be scanned).

9. Deficiency: Applications for households with participating fuel vendors were processed as direct pay LIHEAP transactions to individuals, which is in noncompliance with the LIHEAP state plan and DPW procedures, which require these to be paid to vendors.

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Finding 10 – 82: (continued)

Agency Response: DPW does not agree that there were errors in direct payments. DPW has their LIHEAP Compliance Unit review direct pays before the weekly payment batch runs and the unit has the CAOs correct these payments. Also, vendors completed LIHEAP Vendor agreements at different times during the 2009-10 LIHEAP season and DPW does not make payments to vendors that have not completed their agreements. So it is possible that some households correctly received direct payments early in the season for a vendor that later in the season completed a LIHEAP vendor agreement.

Auditors' Conclusion: DPW indicated that they do not agree that errors in direct payments were made citing the internal controls to monitor these payments would not allow it. This response contradicts a previous response made by DPW when confirming our audit exceptions. Our random sample disclosed an audit exception for a direct payment and DPW indicated that it agreed that this payment was in error, stating that it was an administrative error.

10. Deficiency: DPW is not imaging LIHEAP Cash applications in the eCIS imaging system timely. Fifteen applications were not imaged until after the auditors identified that the documents could not be located on the imaging system. Furthermore, during a site visit by auditors to one CAO, CAO management indicated that the backlog of documentation pending imaging included applications and support from the prior year's heating season. Moreover, the documentation was stored in unlocked file cabinets in a common area.

Agency Response: DPW does not believe that imaging files is an element of internal control. In fact, imaging is a new operational requirement intended to make work flow more efficient but this new tool is not an element of DPW's internal control. The unlocked cabinets are within secure areas of the office.

Auditors' Conclusion: We disagree with DPW's assertion that the scanning of documentation is not an element of internal control. In the prior year response to the findings, DPW indicated that the imaging of documentation was a corrective measure to ensure documentation would be adequately maintained and secured. We believe this system is an element of the internal control structure and should be properly controlled and maintained.

11. Deficiency: LIHEAP application of an individual who misrepresented their state residency and should have been investigated for potential welfare fraud was inappropriately processed and a benefit awarded by DPW.

Agency Response: Program restrictions are generally enforced within the program in which the fraud occurred. LIHEAP has no policy prohibiting individuals or households who have previously committed welfare fraud from applying for LIHEAP or receiving a LIHEAP benefit. Households who have previously committed welfare fraud may apply and receive a benefit if they meet all LIHEAP eligibility criteria. The individual in the case cited in the audit was not charged or convicted of welfare fraud. The individual had a one month overpayment for SNAP benefits.

Auditors' Conclusion: We contacted management from the Pennsylvania Office of Inspector General (OIG), who explained that although the individual was not charged and convicted of welfare fraud in Pennsylvania, another state may currently be investigating this individual. Furthermore, OIG management informed us that this individual or case will be forwarded to their fraud unit for an investigation, and, depending on the situation, the investigation could reveal that the individual should not have received the LIHEAP benefit. Finally, we believe that DPW should prohibit individuals that are banned from receiving welfare benefits from also receiving LIHEAP benefits.

12. Deficiency: Physical inventory of applications and support is not stored securely within the offices. Documentation is stored in cardboard boxes on office floors and in filing cabinets that do not lock or are never locked. Meeting rooms that were used to interview LIHEAP and non-LIHEAP clients at one of the locations had applications and support with SSNs and names in cabinets that are never locked and also, left out in the open.

Agency Response: We believe this relates to the Carbon County Crisis Contractor. While DPW agrees that completed applications should not be left in rooms used to interview clients, the crisis contractor reports that clients are never left unsupervised in these rooms.

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Finding 10 – 82: (continued)

Auditors' Conclusion: We observed during on-site visits that unlocked filing cabinets as well as open bins containing sensitive information were found in areas accessible by the public in some instances. We believe open bins and unlocked filing cabinets are not sufficient to secure sensitive documentation, even on a temporary basis.

13. Deficiency: A 49-day backlog in processing LIHEAP applications.

Agency Response: DPW does not know where this situation was noted. However, DPW does not agree that the existence of a backlog is a significant deficiency in controls and a material weakness. DPW does strive for processing efficiencies and has instituted many operational enhancements towards that goal to ensure applicants are able to access assistance in a timely manner.

Auditors' Conclusion: This deficiency is not new to DPW. DPW's monitoring reports disclosed this deficiency at several CAOs. Our interviews and observations at a CAO revealed several open boxes filled with active LIHEAP applications that had not yet been processed, thus resulting in a backlog. Management indicated that the applications are placed in order of being received so that they can maintain that order when they are finally processed. We disagree with DPW's perspective that a backlog in processing applications is not a significant deficiency or material weakness in controls. This backlog of applications is creating an unnecessary risk of a potential crisis situation for applicants. Moreover, a 49-day backlog is in noncompliance with the state plan of a 30 day processing turnaround time.

14. Deficiency: Hardcopy of applications and support from the prior heating season were stored in unlocked filing cabinets still awaiting scanning.

Agency Response: DPW did not have instructions to image LIHEAP applications and verification for the 2008-09 season. DPW believes that all files are maintained within the CAO and it is policy to restrict access to the work area of the CAO based on key pad codes at the main entrance doors. This finding is not specific on the types of areas that the Auditor General believes are unrestricted areas. DPW policy for security of records and confidential information is standard across all programs. DPW does not believe that files are kept in areas outside of the restricted work area and accordingly does not agree with this finding.

Auditors' Conclusion: We disagree with DPW's response. We believe that documents awaiting imaging should be secure from access to avoid them from being lost, misplaced or destroyed. In the prior year, DPW indicated that the scanning of documents was being implemented to improve the maintenance of documentation. Furthermore, DPW does not address the concern that imaging is not occurring timely. We noted during our detail test work that 15 of 69 transactions tested were not in the imaging system which is indicative of significant delays in scanning documents. We believe proper security and timely scanning of related documents is paramount to avoid missing documentation as encountered during our audits. Note: this deficiency was disclosed during our review/walk-thru of the current LIHEAP process and applicable documents not yet scanned were from the 2009-10 and 2010-11 LIHEAP program years.

15. Deficiency: No office specific policy and procedures were developed at the crisis contractor and submitted to DPW as is required per the multi-year contract between the crisis contractor and DPW, according to the Crisis Contractor DPW did not request it for the audit period.

Agency Response: DPW has office-specific policy and procedures from the crisis contractors from previous seasons that DPW deemed acceptable and therefore did not request new ones for the 2009-10 season. DPW conducts face to face training of the crisis contractor prior to the crisis season start and goes over LIHEAP policy, procedures and reviews the expectation of work. DPW also conducts frequent conference calls with the contractors and CAOs throughout the season to ensure policy and procedures are being followed.

Auditors' Conclusion: We disagree with DPW response regarding this issue, DPW should request the written policy and procedures each year to ensure changes to DPW protocols were properly addressed by the crisis contractor. In discussion with crisis contractor management some standard operating procedures had changed from the prior year which DPW was not aware of since they did not review the crisis contractor's procedures.

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Finding 10 – 82: (continued)

16. Deficiency: Data exchanges are not being utilized by the crisis contractor's office staff to assist in determining initial and continued eligibility.

Agency Response: Data exchanges contain highly confidential and information protected by HIPAA. DPW cannot allow contractors access to these data exchanges.

Auditors' Conclusion: We disagree with this response; the crisis contractor is also determining eligibility and therefore, should have access to the data exchanges which is required to properly determine eligibility. Furthermore, the crisis contractors have access to the client application and documentation, as well as, the applicant's information on eCIS which is proprietary and similar in nature. As a result, we believe they should be given access and required to utilize the data exchanges. Furthermore, as part of LIHEAP monitoring, the monitors should ensure that the crisis contractor's are utilizing the data exchanges properly.

17. Deficiency: LIHEAP applicants that were determined ineligible for LIHEAP by DPW were being referred to the Weatherization Program for benefits, but should not be.

Agency Response: DPW does not agree that it was in error by referring ineligible applicants to the Department of Community and Economic Developments (DCED) Weatherization program. Ineligibility for the cash and crisis programs administered by DPW does not automatically make a client ineligible for the weatherization benefits. DCED has other funding streams, such as the federal Department of Energy (DOE) Weatherization Assistance Program, which has its own eligibility guidelines. If a household is found ineligible for LIHEAP, they can still be referred for DOE weatherization services.

Auditors' Conclusion: We disagree with DPW. DPW should only refer applicants to DCED that properly received LIHEAP benefits for weatherization service consideration which is according to federal regulations in 10 CFR 400.22(a)(3) on eligible dwelling units.

18. Deficiency: Crisis Contractor does not have access to the vendor PROMISE system that tracks vendor deliveries and payments. Per the Crisis Contractor management, not having access to this system to track crisis transactions has caused some clients' second crisis request to be delayed due to the vendor not timely processing the first crisis transaction.

Agency Response: Crisis contractors and CAOs do not need PROMISE access to track vendor deliveries or payments. All crisis authorizations and payment information is available in eCIS which the crisis contractors have access to. PROMISE is only a claims submission system used by the vendors to submit the claims and accompanying documentation. Once a claim has been submitted and proper documentation is received, the information is updated in eCIS for Crisis contractors and CAOs to see. If crisis contractors or CAOs have clients that need a 2nd crisis delivery and they check eCIS and see the 1st crisis authorization has not yet been paid, they contact DPW's Vendor Unit. The vendor unit does outreach to the first vendor and assists them in completing their crisis claim so a second crisis can be authorized if there are funds remaining.

Auditors' Conclusion: Crisis contractor management indicated that access to PROMISE would allow them to determine the status of a delivery or payment. They indicated that applicants sometimes come into their office regarding a payment or delivery and because the crisis contractor does not have access to check PROMISE directly, they must call the CAO to check the status of the crisis which is inefficient, especially when an applicant is in the office making inquiry.

19. Deficiency: Crisis Contractor does not have access to Client Information System (CIS). Per the Crisis Contractor management, if they had access to CIS they would be able to identify situations such as child support payments recorded in CIS records.

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Finding 10 – 82: (continued)

Agency Response: All Crisis Contractors were set up for CIS access during previous LIHEAP seasons and given user IDs and passwords to log-in. For security purposes, these passwords must be updated periodically. DPW provided telephone numbers and contact information in the event they got locked out. All contractors had CIS access at their disposal.

Auditors' Conclusion: DPW, as the administrator of LIHEAP, should ensure and require that their contractors' access is current and the contractors are utilizing CIS as part of their procedures to process LIHEAP transactions. Furthermore, as part of DPW monitoring when conducting site visits and interviews with management, it should have identified this shortcoming of the contractor not utilizing CIS appropriately and recommended corrective action be taken immediately.

20. Deficiency: The current year monitoring of the crisis contractor was not done on-site at the office of the crisis contractor. According to crisis contractor management, the program monitor requested their records be taken to the local County Assistance Office where the monitor conducted the entire review to include meetings and the exit conference.

Agency Response: DPW monitors did on-site visits to all Crisis Contractors to observe their day to day operations. The monitors reviewed applications off-site so they could use DPW systems and also so they did not take up valuable computer resources and space at the Crisis Contractors' offices at an extremely busy time during the season. The meetings and exit interviews were done at the CAOs because CAOs have meeting rooms that afforded enough space and privacy to accommodate Crisis Contractor and the CAO staff that takes part in these meetings.

Auditors' Conclusion: According to crisis contractor management, the LIHEAP monitors did not visit its location during the 2009/10 LIHEAP season to observe its operations. We believe visiting each site to evaluate application processes, security of applications/support documentation, and the contractor's use of CIS, eCIS, and data exchanges is paramount in monitoring LIHEAP for effectiveness and efficiency.

Agency Conclusion: In conclusion, DPW has put adequate procedure in place to ensure applicant information and support are sufficient to determine eligibility in compliance with state and federal regulations. DPW conducts thorough training of LIHEAP staff to ensure:

- LIHEAP policy is applied correctly for applicants
- Verification provided by applicants is interpreted and inputted into eCIS properly
- Information know to CIS and available through data exchanges is reviewed and used properly
- Applications and verification is stored in restricted areas and until they are able to be scanned into imaging

Auditors' Conclusion: Although, DPW has attempted to improve its administration and operation of LIHEAP, more needs to be done. As indicated in this finding, DPW continues to provide LIHEAP benefits to households that are not eligible or continues to provide improper amounts of LIHEAP benefits. Additional training and oversight needs to be performed to ensure that DPW employees are appropriately approving LIHEAP benefits to Pennsylvania citizens that are truly eligible.

As a result, our finding and recommendations remain as previously stated. We will review any corrective action in the subsequent audit.

Questioned Costs: See questioned costs in Finding 10-84.

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, 2010

Finding 10 – 83:

CFDA #93.568 – Low Income Home Energy Assistance Program (LIHEAP)

Noncompliance With Contract Terms and Unallowable Contract Expenditures Result in \$478,157 In Questioned Costs

Federal Grant Numbers: G-10B1PALIEA, 1001PALIE2, 09B1PALEA, 0901PALIE2, and 08B1PALEA

Condition: As part of our audit of the Department of Public Welfare (DPW)-Low Income Home Energy Assistance Program (LIHEAP) for the SFYE June 30, 2010 we noted deficiencies with an outside sole-source contract awarded to a law firm to conduct LIHEAP monitoring of various County Assistance Offices (CAOs) and Crisis Contractors. These deficiencies included the following: the contract itself was not supported by DPW as necessary and reasonable for the LIHEAP program, invoices submitted by the contractor lacked a sufficient level of detail required by the contract, and DPW failed to demonstrate that all contract services were properly rendered. During the fiscal year ended June 30, 2010, the law firm was paid \$478,157 under the contract in question.

LIHEAP monitoring consists of a systematic predetermined review of the processing of LIHEAP cash and crisis applications at County Assistance Offices (CAOs) and Crisis Contractors. The LIHEAP State Plan and LIHEAP Policy Clarifications/Addendums for each season serve as the basis for the monitoring procedures to be performed. DPW's approach consisted of using four of their own employees, allocated on a part-time basis to monitor LIHEAP, along with the use of an outside law firm. During fiscal year ended June 30, 2010, DPW employees conducted monitoring visits to 13 sites and the law firm conducted 29 on-site visits. These DPW employees followed the same monitoring objectives as the law firm in reviewing procedures and LIHEAP applications processed by each CAO. According to DPW management, each on-site monitoring review completed by either DPW employees or the law firm were forwarded and reviewed/approved by the Director of the Bureau of Program Evaluation within DPW. Based on our review of contract documents, and based on our testwork of the monitoring performed by the law firm, and the fact it was the same as the work conducted by DPW's own employees, DPW failed to properly document and support that this outside contract with a law firm was justified, and that the costs were necessary and reasonable in its administration of the LIHEAP program. It appears that DPW could have performed most or all of this LIHEAP monitoring with state employees.

The contract terms stated that the law firm shall submit monthly invoices to DPW. Each invoice shall be itemized, listing the legal services performed by attorneys or legal assistants to include the date, hours worked, and the rates. Furthermore, DPW reimbursed the law firm for non-labor costs for travel, meal costs, and lodging costs. The billing rates per the contract ranged from \$480 per hour for partners, \$295 per hour for associates, and \$150 per hour for paralegals, which are clearly excessive and unreasonable charges compared to state employee hourly rates for these same services. No documentation was provided by DPW such as a cost vs. benefit analysis to reasonably justify charging these higher law firm rates to LIHEAP.

We reviewed the \$478,157 in monthly invoices submitted by the law firm to DPW for SFYE June 30, 2010, and determined that \$285,399 for eight summary invoices lacked sufficient detail to comply with the terms of the contract. For example, the summary invoices only noted "outside professional services" with no further details on what these services consisted of. This is contrary to the contract terms, which require invoices to include a sufficient level of detail to demonstrate that costs billed to DPW were necessary, reasonable, and ordinary, and for actual services rendered in accordance with rates established by the contract. When we questioned DPW concerning this lack of supporting documentation/information on the contractor invoices, DPW indicated that we were provided everything available.

In addition, we further noted that \$127,214 out of the \$285,399 paid to the contractor was for services rendered during three months of our audit period in which no on-site monitoring was actually performed. With no detail documented support to substantiate the actual services rendered, the validity of these expenditures is in question.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 83: (continued)

Since DPW did not document the contractor services charged to the LIHEAP program, and failed to document that this contract with an outside law firm was necessary and reasonable to properly administer the LIHEAP program, including documented justification for the excessive contract billing rates noted above, DPW did not adequately support the allowability of the \$478,157 paid to the contractor to conduct LIHEAP monitoring during the fiscal year ended June 30, 2010, and these costs are questioned.

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.

To justify the necessity and reasonableness of outside contractor costs, a cost vs. benefit analysis should be performed when considering the need to contract with an entity to perform services normally performed in-house.

Also, contract terms indicated that the contractor would be reimbursed for services rendered when conducting on-site visits to CAO and crisis contractor’s offices. All invoices were required by the contract to include a detail itemized listing of services performed and related hours and billing rates.

Cause: DPW believed that its own employees could not adequately monitor LIHEAP for the entire Commonwealth, and an outside contractor was needed. DPW believed its supporting documentation for these contract costs was adequate at the time they were incurred.

There are unallowable questioned costs because DPW lacked appropriate oversight of the contractor by not obtaining supporting information/documentation required by the contract terms for amounts billed on a monthly basis.

Effect: DPW’s failure to document the reasonableness and necessity of this outside contract for the LIHEAP program, and in addition its failure to adequately document the contractor’s costs, resulted in unallowable charges of \$478,157 to LIHEAP in our current year ended June 30, 2010, and these costs are, therefore, questioned. There are also additional costs charged to LIHEAP under this contract in the subsequent fiscal year ended June 30, 2011, which may also be unallowable.

Recommendation: We recommend that DPW pursue appropriate settlement with the HHS regarding the \$478,157 in current-year questioned costs, and pursue appropriate settlement with HHS for additional LIHEAP funds charged to this contract after our current period under audit. DPW management should perform and document a proper evaluation on the necessity and reasonableness of this outside monitoring contract for the LIHEAP program to justify its continuance in the future, and work with HHS program officials to obtain appropriate guidance on this matter. Finally, all future contractor costs should be adequately documented and reasonably supported by both DPW and its contractor in accordance with the provisions of the contract and with federal regulations.

Agency Response: DPW respectfully and strongly disagrees with this finding. This finding, in addition to others the auditor has presented, portrays their belief that the LIHEAP program has internal control weaknesses. This response, combined with others we have provided relating to the LIHEAP program, will clarify for the auditor the condition of the LIHEAP program. We also hope this process will initiate a high level discussion between our organizations to fully apprise the auditors of the significant progress that has been made relating to the accuracy of the LIHEAP program and the measurable contributions that our outside independent monitor has made to our ongoing improvement.

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Finding 10 – 83: (continued)

The outside monitor hired by DPW to assist in our monitoring program was hired, in part, in response to the Auditor General's Special Audit of LIHEAP in 2007 in which the AG criticized DPW's monitoring efforts. The overall administration of the LIHEAP program has improved since that audit and we are disappointed that DPW's decision to engage outside expertise to assist in this improvement is cause for further and continued criticism. DPW believes the tone of the auditors' report does not accurately depict the state of the LIHEAP program.

The law firm referred to in this finding hired an independent subcontractor to perform the majority of procedures relating to this contract, with the approval of DPW and the Office of General Counsel. The independent subcontractor is a forensic accounting firm that was engaged to assist DPW in putting together and implementing systems and controls to prevent internal or external fraud and to help improve program performance. The independent subcontractor provided independent ideas, perspective and experiences during the course of their work that continues to contribute to the overall improvement of the LIHEAP program. Between SFYE 2010 and SFYE 2011, for example, the payment error rate due to incorrect income determinations decreased 86 percent. The money saved for the program as a result of this increase in accuracy is significantly greater than the fees paid to the outside monitor.

Our monitoring program is substantially improved since the auditors last reviewed the LIHEAP program, the outside contractor is being utilized responsibly, and the cost-savings benefit warrants its level of participation. We are concerned that the auditor report does not recognize this improvement. Specifically, to address some of the auditor's concerns:

- The outside monitor works according to a very detailed annual work plan. This work plan includes considerable consulting that is not related to specific CAO visits.
 - This work plan includes a detailed monitoring schedule
 - This work plan incorporates detailed CAO-level procedures and targeting techniques to identify applications for review that will yield DPW the greatest opportunity for learning and improvement based on the results of these reviews
 - The outside monitor is a vital part of our feedback loop on performance and is present in the CAOs during the LIHEAP processing season. Regular reports and feedback from the monitoring program are reviewed by DPW executive management during the year and have affected policy, processing, training, supervisor review and technology changes in the program, all aimed at improving accuracy.
- DPW staff closely monitors the activities and costs incurred by the outside monitor compared to their work plan. No one on the monitoring team has a billing rate of \$480 per hour as cited. In fact the billing rates of the monitoring team are between \$125 and \$325 per hour and have averaged approximately \$180 per hour since October of 2009. DPW secured significant discounts from this vendor when the contract was entered into and these rates have not changed since February 2009 when the rates were further discounted at certain levels to ensure an overall contract cost reduction. In addition, the \$478,157 identified as 2009/10 payments is misleading. This represents payments made during the fiscal year, which includes several payments for the prior fiscal year. The actual amount for services performed during 2009/10 is \$361,658.
- The outside monitor performs activities intended to improve the accuracy of the program on a year-round basis while performing specific LIHEAP in-season CAO field monitoring in the fall and winter months. In addition, beginning in October of 2009, the contract is billed in equal monthly installments against an annual contract amount. Accordingly, correlating the fees billed by the outside monitor with specific LIHEAP in-season CAO field monitoring is not an appropriate approach to evaluate the contribution and effort of the outside monitor. Specific examples of why it is inappropriate to attempt to correlate fees paid to LIHEAP in-season CAO field monitoring visits include:
 - The outside monitor performed a detailed analysis of specific energy vendor issues during the summer of 2009 at the request of DPW's Office of Income Maintenance Executive Management team, requiring extensive field work in the following CAOs or crisis contractors:

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Finding 10 – 83: (continued)

- Allegheny
- Fayette
- Schuylkill
- Philadelphia
- Luzerne

The results of this analysis, presented to DPW executive staff after regular periodic updates, impacted important policy decisions made by DPW intended to ensure more benefit dollars would be available to assist more Pennsylvania citizens in need in future program years.

- In October of 2009, in an effort to ensure cost certainty relating to the contract with the outside monitor, the contract was converted to a monthly fixed fee of \$26,250 per month. At the time of this conversion in billing arrangements, it was agreed that detailed itemized statements relating to the work performed by the contractor would be evaluated by DPW management on a regular basis but would not be required as a part of the monthly invoice. Accordingly, DPW management periodically meets with the contractor to evaluate the status of the contract versus billings to date to ensure that on an annual basis the work plan is met and the Commonwealth receives their annual agreed-upon allotment of services.

It is our hope that after the auditor's review of this response, they will reconsider this finding relating to the LIHEAP program monitoring activities. DPW believes it has received valuable assistance from the outside monitor and has managed the cost of such monitoring activities properly. The overall program accuracy improvements, for which the outside monitor is in part responsible, are significantly more than the cost of that contractor and do not indicate inappropriate management of funds.

Auditors' Conclusion: We recognize and acknowledge DPW's activities to improve its internal controls in administering the LIHEAP program. However, with regards to the contract in question, the agency response provided no new information or documentation to resolve the condition in the finding. We were fully aware, during our audit, of the contractor duties as described in the agency response above, and we already determined that DPW employees and outside contractor employees were performing the same procedures in conducting their monitoring at the CAOs and crisis contractors, so there is no change to our conclusion in this regard. Although work appears to have been done by outside contractors, the contract itself was not reasonably documented and supported by DPW as necessary and reasonable for the LIHEAP program. In addition, based on our testwork and review of the agency response, the invoices submitted by the contractor clearly lacked a sufficient level of detail required by the contract, and DPW failed to demonstrate that all contract services were properly rendered, so the costs in the finding remain questioned. The agency response refers to a change in contractor billing procedures in October of 2009 in which DPW does not require the submission of itemized statements to support monthly billings, but simply pays a monthly fixed fee of \$26,250 per month, and periodically meets with the contractor to verify contractor billings and performance. DPW provided no documentation to demonstrate that periodic meetings with the contractor were valid support in lieu of itemized statements for monthly contractor costs charged to LIHEAP.

In its response, DPW indicated to our auditors that the law firm identified in the sole-source contract hired a forensic accounting firm as its subcontractor to perform the majority of the procedures relating to this contract, with the approval of DPW and the Office of General Counsel. During the audit, DPW did not give details about any independent subcontractor or provide documentation in the form of agreements or amendments involving a subcontractor. In addition, DPW stressed that the contracts benefitted the program greatly, pointing to cost discounts and cost savings due to reduction in errors in the subsequent audit period that have led to savings significantly greater than the cost of the fees paid to the outside monitors (contractors). However, DPW did not provide any documentation, support, or details regarding the alleged savings or discounts they are claiming.

Additionally, the use by the law firm of a forensic accounting subcontractor calls into question DPW's awarding of a sole-source contract to claim cost effectiveness. Also, DPW maintains (without support) that its sole-source contract is cost effective despite the law firm's high-rate costs, but we disagree. DPW claims a range of "discounted" rates from

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\$125 - \$325 per hour, which we believe is still excessive. Regarding the \$480 billing rate, although current year billings at this partner rate were not significant in total, there were some partner billings at this extremely high rate, so DPW is not correct here. Finally, by hiring a law firm as a sole source (state procurement regulations in the Procurement Manual, Part III, Chapter 5, Section A.2. allow for the hiring of law firms with no bid/sole source contracts), which then subcontracts the work out to a forensic accounting firm (which is not covered in the sole source waiver for law firms mentioned above), DPW appears to have circumvented and violated state procurement regulations (in Part III, Chapter 5, of the Manual) on sole source contracts and caused unnecessary LIHEAP costs to be paid to the law firm serving as the intermediary in this contract arrangement.

DPW states that \$478,157 represents payments made during the fiscal year, and we have accurately reported this in the finding as the total amount of payments posted to the current SEFA for contractor monitoring. This amount is not misleading if it covers services rendered late in the prior fiscal year since that has no impact on our audit conclusions.

In conclusion, after review of the agency response, DPW has not provided any new information or additional documentation to support the reasonableness, necessity, and allowability of the contractor costs in question. Our finding and recommendations, therefore, remain as previously stated, and we will review any corrective action in our subsequent audit.

Questioned Costs: \$478,157

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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Finding 10 – 84:

CFDA #93.568 – Low-Income Home Energy Assistance Program

Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$64,781 in LIHEAP (A Similar Condition Was Noted in Prior Year Finding #9-57)

Federal Grant Numbers: G-10B1PALIEA, G-1001PALIE2, 08B1PALIEA, 09B1PALIEA, and 0901PALIE2

Condition: Our prior four Single Audits 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 audits also disclosed questioned costs as a result. These prior year disclosures were initially based on a June 2007 report prepared by other auditors (from the Department of the Auditor General – Bureau of Departmental Audits) 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 prior Single Audit of LIHEAP. As part of our current audit, we interviewed various DPW management and staff, visited two CAOs and a crisis contractor’s office, and tested LIHEAP benefit payments to update these prior year deficiencies.

DPW indicated that corrective measures were implemented during SFYE June 30, 2010. However, we determined that a significant number of the prior-year deficiencies still exist. In addition, DPW indicated that system enhancements were made for the 2009-2010 season with the implementation of the new eCIS system to include imaging supporting documentation, automated calculation of eligibility and benefit amount, and data exchanges to assist the case worker with validating applicant information (i.e. Death file match, SSN, income determination). However, we determined that these system enhancements were not effectively utilized.

DPW administered LIHEAP cash and crisis payments through its 67 CAOs and its seven outside crisis contractors for SFYE June 30, 2010. DPW utilized eCIS to process cash and crisis applications and to determine the benefit amounts to be paid. DPW tracked LIHEAP applicant information in eCIS by application numbers and client LIHEAP record numbers. Additionally, eCIS identified and tracked household members claimed by each applicant when applying for LIHEAP benefits. Total cash and crisis benefits paid during SFYE June 30, 2010 were \$218,723,599 out of total LIHEAP expenditures of \$257,180,406 reported on the current year SEFA.

Our testwork for the current audit included a random sample of 69 LIHEAP benefit transactions of cash, crisis, and extraordinary payments, or \$14,705 in benefit payments made by DPW. Our sample results disclosed six exceptions, such as an application submitted for a deceased individual, an applicant that had committed previous fraud but was approved to receive LIHEAP benefits, and applications that did not include sufficient income support. The six unallowable payments totaled \$1,272.

In addition, based on DPW’s responses to the exceptions noted from our random sample of 69 transactions and various high risk areas identified as a result of data analysis and data mining, we expanded our audit coverage and judgmentally selected an additional 65 high-risk transactions totaling \$66,470 to test. Our sample disclosed various additional exceptions to include: SSNs associated with deceased individuals, applicants incarcerated, ineligible benefits, benefits exceeding maximum allowance, and underreporting of applicant income. We found 62 unallowable payments that totaled to \$63,509 out of the additional total of \$66,740 tested. Of the 62 unallowable payments, DPW followed up and agreed with 25 items, or \$27,504. According to DPW, of the remaining 37 items, 24 were considered administrative errors only and the balance of 13 payments were properly processed. However, we disagree with DPW’s conclusions on these 37 transactions since they lack the required documentation to support allowability and/or the existing documentation shows potentially inappropriate activity, which leads to questioned costs.

Moreover, we reviewed the results of seven CAO/crisis contractor on-site monitoring reports prepared by DPW monitoring staff and found error rates indicated by the monitors ranging up to 57 percent of items tested.

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Criteria: The LIHEAP State Plan Section 601.21 applicable to application completion states:

A member of the applicant household shall complete an application within the established time frames for the program year. To complete an application for a LIHEAP benefit, the LIHEAP applicant, on behalf of the household, shall meet the following conditions. The applicant shall:

- (1) Answer all questions on DPW's LIHEAP application form.*
- (2) Sign and date the application form.*
- (3) File the application form with the LIHEAP administering agency or any other agency designated by the LIHEAP administering agency to accept applications in the county where the applicant lives. Agencies other than the LIHEAP administering agency that are designated by the LIHEAP administering agency to accept applications are responsible for submitting such filed applications to the appropriate LIHEAP administering agency within three workdays after the applicant files the application; the eligibility decision, and benefits, may be delayed because the date of application is the date the LIHEAP administering agency receives the completed application.*
- (4) Provide income documentation.*
- (5) Provide documentation of responsibility for the payment of home heat.*
- (6) Provide additional verification, as needed and requested by the LIHEAP administering agency, to determine eligibility for LIHEAP and the amount of the benefit.*

The original approved LIHEAP application and supporting documentation will be valid for eligibility and benefit determination for the duration of the program year. Updated supporting documentation may be required if a household changes vendor or residence.

CAOs and Crisis Contractors must ensure the proper accountability and accuracy of processed LIHEAP applications. eCIS features to validate applicant information and make correct eligibility determinations must be used to reduce the risk of fraud and abuse by individuals 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 should 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: Not all CAOs have written policy and procedures on how to process, approve, and maintain LIHEAP applicant files. Also, DPW personnel were not adequately supervised in the performance of their LIHEAP duties within the CAOs. The LIHEAP Manual and Handbook, used by the CAOs to administer the program, was inadequate in addressing specific LIHEAP application procedures to make them consistent throughout DPW's 67 CAOs. According to DPW, the processing of LIHEAP benefits is susceptible to errors due to the large number of applications being processed by limited staff in short periods of time. We disagree with DPW since LIHEAP applications should be processed properly and accurately. Also, although the LIHEAP Manual and Handbook were improved in the current year, we do not agree with DPW that they alone adequately suffice as written procedures for day to day operations at all the CAOs.

In addition, even though DPW implemented the new eCIS system to process LIHEAP benefit payments which automated processes such as the calculation of eligibility income, imaging supporting documents, validation of SSN format, and making data exchange information available to assess the application, the accurate processing of LIHEAP benefits was dependent upon the effectiveness of the LIHEAP CAO workers decision making and proper use of the information available on the system. We noted that although DPW has the capability to verify this information through data exchanges, DPW was not monitoring data exchange activity to ensure LIHEAP case workers were adequately addressing discrepancies identified through the exchange information. Furthermore, as part of implementing this new system and retooling the business process, DPW eliminated the requirement for supervisors to review and approve

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applications prior to the case worker approving the payment. Moreover, as part of the new business process noted in another finding, DPW instituted a new policy requiring supervisors to review a limited number of transactions for each worker. However, this review was limited to 10 transactions per case worker per week and was no longer occurring prior to the worker approving the payment. In numerous instances we noted the supervisor monitoring of case workers was not being performed to satisfy DPW policy.

Effect: Due to the lack of documentation and inefficient use of the computer data exchanges implemented to support current-year LIHEAP cash and crisis payments, \$64,781 in LIHEAP costs are questioned as unallowable. 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. If these control deficiencies are not corrected, such noncompliance and the potential for fraud and abuse will continue to exist in future periods.

Recommendation: We recommend that DPW pursue appropriate settlement of the \$64,781 in LIHEAP questioned costs. Also, DPW should continue to reinforce policy through annual LIHEAP training. Through ongoing corrective actions, DPW should ensure the following deficiencies are resolved:

- ensure LIHEAP workers verify that SSNs entered into the system are valid and associated with legitimate and living individuals;
- ensure data exchanges are fully utilized by CAOs and crisis contractors to detect irregularities or potential fraud and abuse on applications;
- monitor the data exchanges used by the CAOs and crisis contractors to ensure LIHEAP applicant eligibility is being determined properly;
- require CAOs and crisis contractors to independently verify outside income 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 eCIS database.

Agency Response: The Department of Public Welfare (DPW) respectfully and strongly disagrees that findings from a limited targeted sample are indicative of poor internal controls statewide.

1. Deficiency: The auditor states: “Our testwork for the current audit included a random sample of 69 LIHEAP benefit transactions of cash, crisis, and extraordinary payments, or \$14,705 in benefit payments made by DPW. Our sample results disclosed six exceptions, such as an application submitted for a deceased individual, an applicant that had committed previous fraud but was approved to receive LIHEAP benefits, and applications that did not include sufficient income support. The six unallowable payments totaled \$1,272.”

Agency Response: DPW disagrees with the auditor statement that applications did not include sufficient income support. DPW provided all requested verification of these cases to the auditors on March 11, 2011. No further documentation was requested by the auditors.

Additionally, DPW disagrees with five of the six cases reported as exceptions by the auditors. Three of the cases cited as exceptions by the auditors were administrative errors and are not subject to reimbursement per § 601.144(c) of the LIHEAP state plan approved by the federal Administration for Children and Families (ACF). In one case, the auditors incorrectly state an applicant “had committed previous fraud.” The applicant in question was never charged or convicted of welfare fraud.

In one case the auditor alleges a four-year-old child was not in the household as he never attended school in the local school district. As a four-year-old is not required to be enrolled in school, this would not be evidence that he did not reside in the household. The case does provide verification that his school-aged sister was enrolled and did attend the local school district.

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DPW agrees with one exception and the case will be referred to the OIG for investigation and restitution.

Auditors' Conclusion: The random sampling method utilized was representative of the population and six errors in 69 items tested is an 8.6 percent error rate, which is significant. Furthermore, the expanded test work was performed, in part, in response to the results of our random sample 8.6 percent error rate. The targeted sample of 65 items resulted in 62 errors (or 95 percent), which is further evidence that significant control deficiencies exist.

DPW agrees with one of the six audit exceptions noted as a result of our random sample, and indicated they will forward the case to the state OIG for further investigation. Although DPW indicated that three of the six transactions were only “administrative errors” and not subject to reimbursement from the LIHEAP participant and, therefore, require no further investigation, this by itself does not resolve the questioned costs that may need to be paid back to HHS. We concluded that further documentation and follow up is needed to resolve the questioned costs, so we intend to forward these transactions to the state OIG also.

Regarding the applicant committing previous fraud, this was noted in documentation in the case record which DPW ignored in making payment without reasonable follow up. In our discussion with the Pennsylvania Office of Inspector General (OIG), OIG considered this fraud exception to be suspect based on the documentation and was referring the transaction to its fraud division for further investigation. Regarding the sixth exception, DPW is referring to a sampled item involving school-age children which we did not question in the finding. For the item we questioned, DPW failed to obtain proof of income for two adult members of the household as required by DPW policy.

2. Deficiency: Based on DPW's responses to the exceptions noted from our random sample of 69 transactions and various high risk areas identified as a result of data analysis and data mining we expanded our audit coverage and judgmentally selected an additional 65 high-risk transactions totaling \$66,470 to test.

Agency Response: DPW disagrees with the data mining method used in this audit. While data mining and targeting cases is a useful method in internal reviews, it is not indicative of the statewide accuracy in administering this program. A statistically valid random sample shows program accuracy across all types of cases. In order to show statistical significance, the auditor should provide the total number of high-risk transactions from which the ‘judgmentally’ selected 65 cases were selected. Without knowing the total number of cases from which the 65 were selected, it is not possible to determine if this number represents a statistically significant sample of all LIHEAP transactions/ cases.

Auditors' Conclusion: We disagree that data mining should be restricted to internal reviews only. Furthermore, we did not base our conclusions solely on the results of high-risk, targeted selections. We also performed a random sample that disclosed a significant error rate. The results of the data mining are additional evidence that supports and corroborates the results of our random sample and our conclusions. We do not believe we should report an exact total number or dollar value of “high-risk” transactions since such a number or amount may not be accurate without additional review, analysis, and further testing of additional transactions and risk factors by the auditors. This is beyond the current scope of our Single Audit of LIHEAP. However, we believe high-risk transactions in the current year are potentially significant to the LIHEAP program as a whole (i.e., may amount to ten percent of the total program).

3. Deficiency: Our sample disclosed various additional exceptions to include: SSNs associated with deceased individuals, applicants incarcerated, ineligible benefits, benefits exceeding maximum allowance, and underreporting of applicant income. We found 62 unallowable payments that totaled to \$63,509 out of the additional total of \$66,740 tested. Of the 62 unallowable payments, DPW followed up and agreed with 25 items, or \$27,504. According to DPW, of the remaining 37 items, 24 were considered administrative errors only and the balance of 13 payments were properly processed. However, we disagree with DPW's conclusions on these 37 transactions. Since they lack the required documentation to support allowability and/or the existing documentation shows potentially inappropriate activity which leads to questioned costs.

Agency Response: DPW received and reviewed the cases cited as exceptions and provided responses to the auditors. DPW agrees that 24 cases were overpayments and agreed to refer these cases for reimbursement. The amount for reimbursement is \$27,194. DPW maintains that 25 items were administrative errors and not subject to restitution. The LIHEAP State Plan Section 601.144(c) applicable to Treatment of overpayments states:

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If an overpayment occurs that was not caused by fraud, error or misrepresentation, by the client or the vendor, the overpayment will be considered an administrative error and no restitution is required. Neither the client nor the vendor will be held responsible for repayment of administrative errors and no referral will be made to the Office of Inspector General.

As an example, in four cases, the incorrect social security number was entered into the system by the County Assistance Office (CAO) worker. The cause was not fraud, error or misrepresentation on the part of the client or the vendor and as such, any resulting overpayment is administrative in nature and no restitution is required as per the Pennsylvania LIHEAP state plan approved by the federal Administration for Children and Families. As DPW has determined 25 of these cases to be errors of an administrative type, no restitution will be pursued.

Of the remaining 16 cases, five cases are payments which were correctly made in the 2009-2010 program year as reissuances but were expended from 2008-2009 funds and were therefore not subject to the single audit. As the funds used were from outside the audit period, these cases cannot be included as case errors for the reviewed SFYE June 30, 2010 as the eligibility determination was made in the prior state fiscal year. Of the remaining cases, DPW maintains that 10 cases were properly processed and no overpayment exists. One case was an underpayment of benefits. DPW has reviewed these cases and all required documentation to support the payment is contained within these records. DPW provided all requested verification of these cases to the auditors on May 6, 2011. No further documentation was requested by the auditors after that date and nothing reviewed indicates that any fraud took place.

Auditors' Conclusion: During the audit, we provided the 65 transactions to DPW for their review and response. DPW agrees with 24 of the 65 transactions in their response, indicating they would forward these 24 to the OIG. DPW management indicates that 25 of the remaining 41 items were administrative errors, claiming no further consideration or refund is necessary. As we state above for the six exceptions in our random sample, this does not resolve our questioned costs since further follow up by DPW is needed on these 25 cases (e.g., put the four correct social security numbers into the system and follow up). The remaining 16 transactions were deemed by DPW to be processed correctly. We disagree with DPW's conclusions on 13 of the 16 transactions that DPW claims were processed correctly. We believe these 13 transactions are potentially questionable and DPW should be more skeptical and conduct more follow up in its assessment of errors. We noted that all these transactions lacked the required documentation to support allowability and/or the existing documentation shows potentially inappropriate activity which should be flagged for investigation by OIG. Finally, DPW's claim that 2008-2009 program funds are "not subject" to our current Single Audit is not correct since these 2008-2009 program year costs were reported in the current-year SEFA.

4. Deficiency: We reviewed the results of seven CAO/crisis contractor on-site monitoring reports prepared by DPW monitoring staff and found error rates indicated by the monitors ranging up to 57 percent of items tested.

Agency Response: The reports cited are based on the method of targeted case reviews. DPW monitors applications that are targeted based on specific attributes. Specific applications that are reviewed by DPW include those most likely to have findings. These represent the most complicated applications and provide the best opportunity for all involved (CAO staff, monitors, headquarters staff) to understand the complex issues that while often the exception not the rule, need to be addressed. DPW Office of Comptroller conducted an audit for the November 2009- January 2010 timeframe. The audit concluded there was a 1.05 percent error rate when extrapolated to all LIHEAP cases.

Auditors' Conclusion: For additional testing purposes, we also obtained and reviewed the monitoring reports for all of the CAOs monitored by DPW during the audit period. Based on additional reviews of these reports, we noted error rates that ranged from 20 percent to 50 percent for a number of the CAOs and, in one instance, the error rate was 98 percent. Although these rates do not come from purely random samples, we disclose this information because it corroborates other evidence that significant internal control deficiencies continued to exist within LIHEAP during the audit period. Furthermore, a lower error rate claimed by DPW in a Comptroller Office internal audit does not change our responsibility to report our Single Audit results in the above finding.

5. Deficiency: Controls should include written standard operating procedures, supervisory review and approval of application processing, independent review of application data entry, verification of income, and proper reconciliations.

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Agency Response: Workers are trained and must utilize their knowledge when making determinations of eligibility. The supervisor is required to review a valid sample of cases for each worker to ensure the correct understanding of the policy and to intercede if further training is required. DPW has concluded that a supervisor reviewing every case is duplicate work and not efficient stewardship of taxpayer dollars.

Auditors' Conclusion: The DPW 2010 State Plan indicates, "The first step of the agency monitoring strategy is the completion of weekly supervisory reviews of LIHEAP applications." Also, the LIHEAP Manual states "A minimum of 10 LIHEAP applications per person per week must be reviewed." As noted in the finding, we tested supervisory review of LIHEAP for compliance with provisions described in the state plan and noted noncompliance.

6. Deficiency: The LIHEAP Manual and Handbook, used by the CAOs to administer the program, was inadequate in addressing specific LIHEAP application procedures to make them consistent throughout DPW's 67 CAOs.

Agency Response: DPW disagrees that the LIHEAP Manual and LIHEAP Handbook are not sufficient. Day to day operations can differ within individual CAOs based on numerous factors including the area population served. DPW sets guidelines and parameters rather than prescriptive day to day operational procedures to allow for these differences.

Auditors' Conclusion: DPW states "the day to day operations can differ within individual CAOs." We made the recommendation in prior audits that DPW require CAOs to develop written operating procedures for their individual offices that meet the approval of DPW. The fact that CAOs have differing day to day operations further supports the importance of this recommendation. DPW should review the operating procedures of the CAOs as part of the on-site monitoring to ensure CAOs are compliant with DPW expectations and policies.

7. Deficiency: According to DPW, the processing of LIHEAP benefits is susceptible to errors due to the large number of applications being processed by limited staff in short periods of time. We disagree with DPW since LIHEAP applications should be processed properly and accurately.

Agency Response: DPW believes LIHEAP applications should be processed properly and accurately regardless of the volume of applications received.

Auditors' Conclusion: DPW is in agreement with this assertion; therefore, no further comment is necessary.

8. Deficiency: Although DPW has the capability to verify this information through data exchanges, DPW was not monitoring data exchange activity to ensure LIHEAP case workers were adequately addressing discrepancies identified through the exchange information.

Agency Response: The LIHEAP User Manual instructs workers to review the information in exchanges prior to authorization. This will be reinforced with workers in the upcoming season.

Auditors' Conclusion: DPW is in agreement with this assertion; therefore, no further comment is necessary.

9. Deficiency: DPW eliminated the requirement for supervisors to review and approve applications prior to the case worker approving the payment. Moreover, as part of the new business process noted in another finding, DPW instituted a new policy requiring supervisors to review a limited number of transactions for each worker. However, this review was limited to 10 transactions per case worker per week and was no longer occurring prior to the worker approving the payment. In numerous instances we noted the supervisor monitoring of case workers was not being performed to satisfy DPW policy.

Agency Response: The review of applications prior to the payment approval was implemented for supervisors to recheck the calculation of the benefit. DPW system enhancements included a system calculation of the benefit so the checking of the calculation is no longer needed. DPW has saved taxpayer dollars by implementing a system efficiency that automates the calculation of the payment. This allows supervisors to be more available to assist workers with cases

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that have a higher degree of difficulty rather than competing duplicative work. DPW revised the number of applications required for review throughout the season based on application volume and staffing. Current review guidelines are a statistically valid sample for each CAO based on the number of applications processed.

Auditors' Conclusion: For the 2009/10 LIHEAP season, the requirement to review 10 applications per week for every worker remained consistent for the entire LIHEAP season. DPW did not comply with the state plan, so no change to our finding.

10. Deficiency: Due to the lack of documentation and inefficient use of the computer data exchanges implemented to support current-year LIHEAP cash and crisis payments, \$64,781 in LIHEAP costs are questioned as unallowable. 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.

Agency Response: DPW provided all requested documentation to the auditors as requested. Sufficient documentation was located in each record. Computer data exchanges are a resource utilized by workers. They are to be considered a “lead” in most instances as not all information received is completely accurate. Reinforcement of the need to review data exchange information will be completed prior to the next LIHEAP season.

Auditors' Conclusion: DPW is in agreement with this assertion; therefore, no further comment is necessary.

Agency Response: DPW maintains the total payments made due to error were \$27,475. Of this amount, DPW will pursue restitution for \$14,916 as the remaining funds are administrative errors and not subject to reimbursement.

In addition, DPW takes exception to the calculation method for payment errors employed by the auditors. If a household does receive a duplicate payment, both payments are not in error. Only the payment which the household was not entitled to receive would be a payment error. However, in this report, the AG cites the total payment received by the household. This method overstates the payment errors in the sample.

DPW strives to improve programs each year and remains committed to administering the LIHEAP program with the highest possible degree of accuracy and efficiency.

Auditors' Conclusion: We did not automatically question both payments in any sampled item that involved a duplicate payment, as DPW is attempting to claim. We consider the \$64,781 as questioned costs because all these transactions represent potential errors or fraud. As a result, DPW needs to perform more follow up when assessing the causes of these errors and questionable documentation.

Our finding and recommendations, with the above clarifications, remain as previously stated. We will review any corrective action in the subsequent audit.

Questioned Costs: \$64,781

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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Finding 10 – 85:

CFDA #93.568 – Low-Income Home Energy Assistance Program

DPW Failed to Adequately Monitor the Processing of LIHEAP Cash and Crisis Applications (A Similar Condition Was Noted in Prior Year Finding #09-54)

Federal Grant Numbers: G-10B1PALIEA, G-1001PALIE2, 08B1PALIEA, 09B1PALIEA, and 0901PALIE2

Condition: Our prior four Single Audits of the LIHEAP program administered by DPW reported material internal control weaknesses in DPW's overall monitoring and oversight of its 67 County Assistance Offices (or CAOs) and the seven outside contractors running the crisis portion (on behalf of seven CAOs) that administer LIHEAP. These prior-year deficiencies were initially based on a June 2007 report prepared by other auditors (from the Department of the Auditor General – Bureau of Departmental Audits) 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.

To follow-up on these prior year deficiencies in the current year, we interviewed DPW monitoring personnel, requested that DPW provide various supporting documentation for corrective actions to the deficiencies noted in the prior-year finding, and tested the documentation for a sample of monitored sites. Based on the results of our follow-up, we determined that DPW implemented a number of corrective actions during the current and prior audit periods, including: 1) contracting with an outside law firm to share in DPW's overall monitoring duties, 2) establishing a schedule for site visits to ensure that CAO's and crisis contractors are monitored regularly, and 3) incorporating steps into each CAO and crisis contractor review to ensure application information was properly entered into the eCIS computer system.

As mentioned above, during the current audit period ended June 30, 2010, DPW employed a team of department monitors and contracted with an outside law firm to perform its systematic reviews of processing LIHEAP cash and crisis applications at the CAOs and at the seven crisis contractors. DPW confirmed that the CAO/crisis contractor monitoring process that includes standardized reports to document the reviews, as well as a process to correct noted deficiencies, remained consistent from the prior year. For our current audit, DPW provided a list of 38 reviews completed during our audit period, which included all seven crisis contractors and 31 of the 67 CAO offices. We selected a sample of nine monitoring reports to review, three performed by DPW monitors at CAOs, three performed by the outside law firm at CAOs and three performed by the outside law firm at three crisis contractors. Based on our review of the nine monitoring reports and other related support provided, we deemed the monitoring documentation inadequate. The following deficiencies were noted as a result of our follow-up for SFYE June 30, 2010:

- Documentation supporting the monitors' reviews was insufficient to allow an independent review to determine the adequacy of the results. As part of the monitoring process, the monitors asked a number of questions regarding significant procedures, controls, etc required to be performed at the CAO and Crisis Contractor Offices. When we asked DPW if the monitors performed any procedures to validate the responses, DPW indicated that the monitors should have performed validation procedures, however, we noted that only the responses were written, nothing else was documented to include the validation work performed, results, or any conclusions.
- In some instances, the CAO or crisis contractors' responses to the monitor's questions indicated that a deficiency or weakness existed; however, follow-up and resolution was not documented. The monitoring teams inquired of the CAOs and Crisis Contractors as to whether supervisory reviews were being done with four of the nine sampled site visits, stating that the reviews were not completed. There was no follow-up documented by the monitoring teams to verify that the reviews were now being accomplished.
- DPW did not properly document the sample selection process or methodology for the transactions tested.
- The monitors did not make unscheduled visits to CAOs or crisis contractors during the 2009/10 LIHEAP program year for investigative or follow-up purposes. According to DPW, unscheduled visits may be done if there were serious deficiencies noted from prior years monitoring of CAOs. Because of serious deficiencies noted in some prior-year on-site visits, we noted instances where unscheduled follow-up site visits should have been conducted in the current year.

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Finding 10 – 85: (continued)

- The monitors did not address the process of how Crisis Contractors/CAOs process bar coded applications.
- The monitors did not address the processing of exceptional crisis applications, nor did they ask the CAO about potential fraud as required by monitoring guidelines.
- The monitors did not assess the timeliness of posting applications to the eCIS system.
- Monitoring reports were omitting pertinent information disclosed at LIHEAP field locations. For example, one monitoring report stated that “the crisis contractor had numerous issues we know are being addressed by the CAO and Harrisburg staff so we will not repeat them in this report”.

As part of our audit we visited two CAOs and a crisis contractor in which we interviewed management and staff, performed walkthroughs of the sites and a sample of transactions to evaluate the policies and procedures and internal controls in place at these offices. Our results are reported in another finding in this Single Audit report. Based on our review of the monitoring procedures and monitoring documentation we reviewed during the audit period, the monitoring process was inadequate and failed to detect the deficiencies that were noted by the single auditors. Moreover, for one of the sites we visited, we reviewed the completed monitoring report and noted that the report failed to mention any of the deficiencies disclosed by the auditors.

In addition to the inadequate on-site monitoring noted above, DPW does not require its CAOs to have standard written procedures to ensure consistent practices across the 67 CAO offices. As a result, DPW, failed to establish and verify that controls were adequate at CAOs and Crisis Contractors, and to assess the adequacy of application processing to include written procedures to minimize the risk of fraud and abuse.

Criteria: Prudent auditing and monitoring practices dictate that standard written procedures should exist. These procedures should include: 1) a valid/objective method of selecting case file samples to review, 2) verification that all necessary procedures were performed, 3) assessing the adequacy of controls, 4) ensuring procedures are adequately documented, summarized, followed, and reviewed, and 5) ensuring that all sites are monitored within a standard cycle.

Cause: DPW did not adhere to their standard written procedures for conducting, documenting, reviewing and reporting on the monitoring visits during our audit period. DPW management failed to recognize the need to adequately document the procedures performed to ensure the monitoring reports are adequately supported with documentation of the process.

Effect: Without adequate overall monitoring of the processing of LIHEAP applications at the CAOs and crisis contractors, DPW lacks assurance that LIHEAP applications are processed accurately and that internal 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 and crisis contractor levels.

Recommendations: DPW should continue to strengthen the monitoring process by improving documentation, developing written procedures to follow-up on deficiencies and ensure that all workpapers are completed/documented and thoroughly reviewed and approved by a supervisor.

Agency Response: In order to respond to the points in the finding, which the Department of Public Welfare (DPW) respectfully and strongly disagrees with, it will be helpful to first provide some perspective on the overall monitoring program.

Three years ago after similar criticism of the DPW LIHEAP monitoring program, significant changes were made to the program which include:

- Moving responsibility for the program from the Bureau of Operations to the Bureau of Program Evaluation (BPE), with day to day leadership of the program in the Division of Corrective Action (DCA).

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Finding 10 – 85: (continued)

DCA documented a comprehensive monitoring plan which was provided to the auditors at the inception of this audit (October 7, 2010), as well as in our response to the fiscal year 2008 finding regarding the monitoring program. This document is modified annually as necessary; however, the changes between the 2008 and 2009 document are not significant.

- DPW engaged an outside law firm who then sought the assistance of an independent forensic accounting organization to provide significant monitoring assistance.
- A monitoring schedule was developed that ensured independent monitoring was performed during the LIHEAP season that provided for real time in-season feedback to DPW management.
- This monitoring schedule, which has been provided to the auditors, called for visits to all processing locations at least once every three years (generally CAOs, although with the move towards regional processing centers slight modifications were made). Major processing centers such as Philadelphia and Allegheny Counties are visited annually as are all outside crisis contractors. In addition, as circumstances warrant, CAOs are visited “out of cycle” to address specific concerns of various constituencies.
- Specific applications that are reviewed include those most likely to have issues. These represent the most complicated applications and provide the best opportunity for all involved (CAO staff, monitors, headquarters staff) to understand the complex issues that, while often the exception not the rule, need to be addressed. It appears that the auditors used targeting techniques as well in their review (as also stated in related LIHEAP Findings 93.568C and 93.568A). The targets developed by DPW include the following high risk applications:
 - Applicant reports zero income
 - Benefit amount is greater than \$700
 - A member of the household does not have a social security number associated with them in eCIS
 - A member of the household is also on another application
 - A member of the household is known by DPW to be deceased
 - The application appears to be a duplicate

The total population of targeted applications represents approximately 27,000 applications out of a statewide total of approximately 800,000 applications received. These applications represent approximately three percent of total applications received. As stated above, it is critical to review these applications for a variety of reasons including the opportunity to learn about the complex issues faced in the field. However, it is important to keep the results of a review of these targeted files in perspective when compared to the results of a purely statistical statewide sample of applications (see next bullet below). The results of targeted reviews are not indicative of the statewide accuracy in administering this program. Care should be taken from jumping to this conclusion as DPW can demonstrate in the next bullet.

- The ongoing feedback and discussion of findings from the targeted files has resulted in a significant overall improvement in the accuracy of the administration of the LIHEAP program as measured by an annual statewide statistical sample (which was first performed in 2009/2010 and again in the 2010/2011 season by the independent forensic accounting firm). The payment error rate in the statewide statistical sample due to income eligibility improved to .76 percent in the 2010/2011 LIHEAP season.
- Contributing factors to this dramatic improvement included the feedback received from the LIHEAP monitoring program that effected the following areas:
 - CAO staff training
 - CAO Supervisor Review protocols
 - eCIS programming enhancements designed to improve program integrity
 - Application and applicant communications improvements intended to make it more likely applicants would provide appropriate supporting evidence.

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Finding 10 – 85: (continued)

- A weekly knowledge reinforcement session administered online to all staff who process applications which addresses key topics relating to LIHEAP policy. Results were provided to central office DPW staff as well as CAO supervisors that allowed DPW and supervisors to identify trends that may require additional training or policy clarification.
- The development and use of an online review tool (Rushmore) that simplifies the reporting of findings and speeds up the process of distributing monitoring visit results to the CAO.
- Providing the CAO reviewers with an on-line, real time tool to enable them to mirror the targeting protocols of the monitoring program
- The incorporation of substantive CAO closing meetings intended to educate staff at the CAO who process applications and obtain valuable feedback from the field relating to opportunities for program improvement.

These dramatic improvements in the monitoring protocols have had a measurable and significant impact on the LIHEAP programs accuracy and we respectfully propose that the overall assertion that DPW failed to adequately monitor the Processing of LIHEAP cash and crisis applications is not accurate. While there are certainly opportunities for further improvement of the monitoring program, the program as it stands today does not, in the opinion of DPW, represent neither a significant deficiency nor a material weakness.

Auditors' Conclusions: We requested all information on monitoring from DPW including the monitoring reports and documentation to support the monitoring work of LIHEAP during the SFYE June 30, 2010 Single Audit period. We selected a sample of monitoring reports for monitoring of CAOs and crisis contractors completed by OIM and the outside contractor. Our review of these monitoring reports and support encompassed all work DPW stated the monitoring team of OIM and the outside contractor completed for the Single Audit period ending June 30, 2010. Although we acknowledge that DPW has made strides in improving its approach to monitoring, we identified deficiencies in our review that DPW should address immediately.

Deficiency: Documentation supporting the monitors' reviews was insufficient to allow an independent review to determine the adequacy of the results. As part of the monitoring process, the monitors asked a number of questions regarding significant procedures, controls, etc. required to be performed at the CAO and Crisis Contractor Offices. When we asked DPW if the monitors performed any procedures to validate the responses, DPW indicated that the monitors should have performed validation procedures, however, we noted that only the responses were written, nothing else was documented to include the validation work performed, results, or any conclusions.

Agency Response: This finding is not accurate. The monitors made inquiries as to the processing activities at the CAO and then validated what they were told by reviewing actual applications processed at the CAO. The documentation of the results of all applications reviewed at the requested locations was provided to the auditors by DPW. A summary report of the results of the monitoring visit was prepared and delivered to the CAO for their review and response.

Auditors' Conclusions: In response to the prior audit, DPW indicated that it performed formal and in-depth site visits, whereby specific attention was paid to observing and testing the controls in place. Furthermore, the site visits included interviews with senior management to ensure key protocols and procedures were being performed. DPW also indicated that written procedures were developed that focus on the controls for processing LIHEAP applications and administering the LIHEAP program. However, DPW's current year documentation of monitoring activities was insufficient to demonstrate that it was achieving these goals and completing all the steps in their written procedures. Furthermore, with regard to validating CAO management's assertions, DPW indicated that validations were performed by the monitors, but the monitors' documentation does not reflect the validation. DPW must ensure that their LIHEAP monitoring procedures are performed and are documented so that an independent reviewer can evaluate the adequacy of the monitors' work.

Deficiency: In some instances, the CAO or crisis contractors' responses to the monitor's questions indicated that a deficiency or weakness existed; however, follow-up and resolution was not documented. The monitoring teams inquired of the CAOs and Crisis Contractors as to whether supervisory reviews were being done with four of the nine sampled site visits, stating that the reviews were not completed. There was no follow-up documented by the monitoring teams to verify that the reviews were now being accomplished.

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Finding 10 – 85: (continued)

Agency Response: This response will deal with the two separate issues raised in the finding:

Regarding follow up to noted deficiencies or weaknesses – The follow up that DPW required of the CAOs and Crisis Contractors includes each CAO and Crisis Contractor being required to provide an Error Prevention Plan (EPP) that specifically addresses how they will correct for the errors and deficiencies noted. These EPPs are reviewed by DCA for completeness and appropriateness and, in the event it is not deemed an appropriate response to the findings, follow up was performed. DPW does not believe that this finding is appropriate.

Regarding insufficient Supervisor Reviews being performed – The original requirement was for supervisors at the CAO to review 10 applications per worker per week. There is not and has not been a requirement for the Crisis Contractors to perform a specific number of supervisor reviews. The CAO requirement was not based on any critical analysis of its sufficiency, but rather a carryover from prior years. The feedback from the field was that this was a terribly burdensome requirement. The independent forensic accounting firm participating in the monitoring activities also agreed that the supervisor review requirements were not realistic, appropriate or structured to provide meaningful CAO level or statewide feedback. This was particularly true for CAOs that had a processing style that incorporated all workers (IMCW and EAWs). Under the Federal Fiscal Year 2010 (October 2009 - September 2010) supervisor review requirement, a CAO with 100 workers processing applications would have been required to complete 1,000 reviews per week. When the magnitude of the requirement was brought to the attention of the DPW headquarters staff, based on in-season monitoring team feedback, alternative approaches were evaluated. One factor in evaluating alternative approaches was a comparison of the LIHEAP review requirement to the number of reviews required for other programs administered by DPW. DPW does not feel it is appropriate to consider this process of evaluating the supervisor review requirements to be an indication of a failure to monitor the LIHEAP program. In fact, the early identification of the issue and the proactive steps to modify and improve the review process as described below is exactly the type of activity the monitoring team should be doing.

Based on the feedback from the field and the monitoring team’s observations, DPW focused on creating a robust review process for 2010/2011 that set the number of reviews at a more reasonable level based on CAO volume. This process was supplemented by a weekly knowledge reinforcement session that all staff processing LIHEAP applications were required to participate. A review tool (Rushmore) was made available to the CAOs to enhance the quality of the reviews. A targeting tool for the CAOs that mirrored the targeting protocols of the monitoring team was also made available to the CAOs on-line. The reporting of results was significantly improved to ensure that trends and issues could be promptly identified and acted upon.

An additional benefit of the adoption of the Rushmore tool for performing supervisor reviews is the ability to monitor the number of reviews being completed by a CAO from Headquarters and address CAOs that are not in compliance with the review requirement. The Director of Operations sent an electronic message to CAOs in May 2011 requiring the completion of their required reviews by early June 2011. The monitoring program provided key and critical feedback to DPW management just as should be expected on this issue.

Auditors’ Conclusions: CAOs submit their corrective action in their Error Prevention Plan (EPP), which DPW approves. Any follow-up performed by the monitors to ensure corrective action was implemented is not documented in the EPP. This should be done during a follow-up visit to substantiate that the corrective action was implemented and working effectively.

With regard to insufficient supervisory reviews, page #6 in the 2009/10 LIHEAP State Plan states that “the first step of the agency’s monitoring strategy is the completion of weekly supervisory reviews of LIHEAP applications.” DPW’s assertion that they do “not feel it is appropriate to consider this process of evaluating the supervisor review requirements to be an indication of a failure to monitor the LIHEAP program” is not consistent with DPW regulations.

Furthermore, cursory review of the Rushmore system found that CAOs did not complete the required supervisory reviews. During the audit, DPW acknowledged that the reviews were not occurring and were nearly impossible to accomplish. DPW’s response to supervisory reviews addresses corrective action DPW initiated for CAOs starting in the 2010/11 LIHEAP season. We will evaluate the corrective actions DPW instituted for supervisory reviews in the subsequent audit.

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Deficiency: DPW did not properly document the sample selection process or methodology for the transactions tested.

Agency Response: DPW has a complex sample process that involves identifying targeted applications for review. However, it should be noted that the dates for each sample selection varied since visits were done during a four month time period as the LIHEAP season progressed. Accordingly, the population that selections were made from was, therefore, changing (increasing) daily. This allowed for selections to cover the broader sample of applications being processed by the CAO. DPW does not believe that this indicates that the monitoring of the LIHEAP program was inadequate.

Auditors' Conclusions: DPW stated in interviews we conducted that they do not document each CAO/CC sample selection methodology and results. To allow for an independent review of DPW's monitoring work, DPW should document the sample selection procedures performed.

Deficiency: The monitors did not make unscheduled visits to CAOs or Crisis Contractors during the 2009/10 LIHEAP program year for investigative or follow-up purposes. According to DPW, unscheduled visits may be done if there were serious deficiencies noted from prior years monitoring of CAOs. Because of serious deficiencies noted in some prior-year on-site visits, we noted instances where unscheduled follow-up site visits should have been conducted in the current year.

Agency Response: According to the 2009-2010 LIHEAP state plan: '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'. No such information was received in 2009-2010 for the monitors to react to as required by the state plan. The audit finding does not specify which CAO the auditor believes should have been subject to an unscheduled visit so a precise rebuttal is not possible.

However, as noted in our response to this same criticism in last year's Single Audit findings, DPW continues to believe that the 2009-2010 LIHEAP on-site monitoring process is so much more visible and in-depth than in previous seasons that, absent specific information requiring investigation as described in the preceding paragraph, the benefit to be derived from unscheduled visits has been significantly reduced.

In addition, and contrary to the impression given by the finding, DPW is aware of the importance of modifying the monitoring plan in reaction to results and concerns. Using the 2008-2009 LIHEAP monitoring results as a baseline, and considering processing changes at certain CAOs, monitoring visits during the 2009-2010 LIHEAP season were completed in four counties that were not originally contemplated in the "published" monitoring schedule. The changes to the "normal" monitoring schedule included:

- Visiting York CAO out of cycle and twice during the LIHEAP year because they were taking over crisis application processing from a Crisis Contractor.
- Visiting Lackawanna CAO out of cycle to more closely examine the working relationship between the CAO and their county's Crisis Contractor and the impact on the CAO's ability to accurately process cash applications.
- Visiting Philadelphia CAO 3 times, at the beginning, middle and end of the LIHEAP season because this CAO is so large, was taking over crisis application processing from a Crisis Contractor, and was experiencing a significant change in management of the LIHEAP processing team.
- Visiting Susquehanna, Bedford and Northumberland CAOs based on results from the 2008-2009 season's monitoring visit.

Starting in 2010/2011 and forward, additional changes in locations that are monitored will be implemented in reaction to changing circumstances. There are now several large processing centers (Montour County, Fayette County and York County). These locations, plus the Philadelphia, Allegheny and Delaware CAOs, processed 53 percent of the applications statewide in 2010/2011 so the DPW monitoring plan will be adjusted accordingly during planning for the 2011/2012 LIHEAP season.

DPW does not believe that the process employed to select locations for visits indicates a weakness in the monitoring program.

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Auditors' Conclusions: DPW stated in interviews during our audit and in this response that they did not conduct unscheduled visits during the 2009/10 LIHEAP season. We disclosed that DPW should conduct unscheduled visits of CAOs found to have serious deficiencies. A serious deficiency within a CAO/CC suggests potential significant deficiencies in the design of internal controls or the potential for fraud, theft and/or abuse could be present. Montour County is an example of a county that we reviewed in our test work from the 2008/09 LIHEAP Single Audit that had an error rate greater than 20 percent, but was not selected for an unscheduled visit in the 2009/10 LIHEAP season.

Also, we believe unscheduled visits should be conducted within the same season the monitor visited and reported on deficiencies to ensure timely and sufficient corrective actions are implemented. Our initial review of LIHEAP monitoring reports for the 2009/10 LIHEAP season found error rates of: Carbon County 26 percent, Lawrence County 25 percent, Crawford County 57 percent, Clarion County 30 percent, and Pike County 33 percent. A review of additional CAOs monitored by DPW in 2009/10 season found significant error rates from monitoring reports from: Fulton 21 percent, Cumberland 46 percent, Lebanon 40 percent, Susquehanna 62 percent, and Wayne 98 percent. All of these monitored locations that were reported to have had error rates that exceeded 20 percent were not subsequently revisited during the 2009/10 LIHEAP season and thus the monitoring instrument of unscheduled visits was not utilized.

Deficiency: The monitors did not address the process of how Crisis Contractors/CAOs process bar coded applications.

Agency Response: DPW agrees that the monitors did not specifically address the process described in the finding. The processing of all applications, whether bar coded or not, was the subject of our application monitoring protocols. Therefore, DPW does not believe that performing this procedure should result in a finding.

Auditors' Conclusions: The review of the bar-coded application process is a written requirement within DPW's monitoring guidelines. As such, DPW was not in compliance with these written procedures.

Deficiency: The monitors did not address the processing of exceptional crisis applications, nor did they ask the CAO about potential fraud as required by monitoring guidelines.

Agency Response: DPW disagrees with this finding. The monitors addressed the processing of exceptional crisis applications ("CEP") and made inquiries relating to fraud while in the field. The targeting of applications for review will result in the selection of exceptional crisis applications as well as applications that have been identified as having the highest potential for fraud.

In addition to CAO based CEP monitoring as described above, at the conclusion of the LIHEAP season a specific review was performed of over 200 CEP cases specifically designed to determine:

- Is the CEP request made by the applicant prior to 1/4/10? (Y/N/NA)
- Is the CEP made in conjunction with an approved Cash grant? (Y/N/NA)
- Is the approved CEP amount at/below the \$400 max limit? (Y/N/NA)
- Is the approved CEP for the amount of the delivery or utility reconnection per the required vendor trip ticket or verification of utility reconnection? (Y/N/NA)
- Is the required vendor trip ticket or verification of utility reconnection provided prior to CAO approval of the CEP? (Y/N/NA)
- Is the vendor trip ticket or verification of utility reconnection for the correct household and address? (Y/N/NA)
- If a regular Crisis grant was later approved for the LIHEAP household during the LIHEAP season was the combined total of the CEP and Crisis grant at/below the \$400 max limit? (Y/N/NA)

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The workpapers for this CEP review, including the procedures and the results of the DPW review, were provided to the auditors (on November 28, 2010) in connection with this audit.

Auditors' Conclusions: DPW did not report/document inquiry of the CEP process in two of the three counties we reviewed for monitoring as required in the field visit procedures for monitoring. The CEP monitoring conducted by DPW at the end of the LIHEAP season of over 200 CEP cases was test work of applications only, it did not include any inquiry or verification of how they are processed in accordance with guidelines. Also, it appears the statewide CEP review completed by DPW did not include all 67 counties.

Deficiency: The monitors did not assess the timeliness of posting applications to the eCIS system.

Agency Response: DPW disagrees with this finding. During interviews with CAO staff and management the issue of timeliness of posting applications is discussed. Additionally, OIM's Bureau of Operations is responsible for ongoing monitoring of timeliness of application processing.

Auditors' Conclusions: Timeliness was not addressed as required in monitoring procedures in four of six crisis contractors and one of three CAOs we reviewed as part of our test work.

Deficiency: Monitoring reports were omitting pertinent information disclosed at LIHEAP field locations. For example, one monitoring report stated that "the Crisis Contractor had numerous issues we know are being addressed by the CAO and Harrisburg staff so we will not repeat them in this report".

Agency Response: DPW does not believe this situation warrants a finding. We assume this relates to the Lackawanna Crisis Contractor; however the comment is not specific. This Crisis Contractor had performance issues and issues relating to their cooperation with the Lackawanna CAO which were well known by numerous OIM staff in multiple departments (the CAO, OIM's Bureaus of Policy, Operations, Program Support and Program Evaluation) at the highest levels. The contract for this Crisis Contractor was not renewed for 2010/2011. DPW believes that trying to summarize the often changing and complex issues in a monitoring report would have served no purpose relating to the goals of the monitoring program. If, in fact, the Crisis Contractor issues were well known and being addressed by the CAO and Headquarters staff, there does not appear to be any deficiency in the monitor's activities.

Auditors' Conclusions: As part of the monitoring of an agency, the monitors omitted pertinent information disclosed at a LIHEAP field location. DPW's response states performance issues and issues relating to cooperation with the local CAO were occurring. By definition monitoring is a process to ensure that good order or proper conduct is maintained. Thus, reporting on current issues being encountered at the monitored field location is relevant and necessary to ensure LIHEAP benefits are issued and processed correctly, efficiently, and economically. Omitting pertinent information on issues relevant to LIHEAP, in a monitoring report, falls short of the purpose of monitoring LIHEAP. Furthermore, in the instance described above, documenting the weaknesses/issues was paramount for DPW to support its position in the event of a legal issue and/or support reasonable cause to separate the local agency from its duties of administering LIHEAP crisis.

Agency Response: Thank you for the opportunity to respond to this audit. Based on the DPW response to this audit, DPW has successfully demonstrated that the auditor conclusions in the "Nature of Disclosure" section of the audit finding of Significant Deficiency, and Material Weakness are not accurate, and respectfully request that the auditors revisit these conclusions prior to issuing a final audit report.

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Auditors' Conclusions: We have provided our detailed conclusions on each issue throughout the finding. While we acknowledge DPW's disagreements as disclosed in its agency responses, we believe our conclusions are accurate and our recommendations are reasonable to improve internal controls in DPW's administration of LIHEAP. Therefore, the finding and recommendations for our current year remain as previously stated and we will review any additional corrective action implemented by DPW in our subsequent audit.

Questioned Costs: The amount of questioned costs cannot be determined.

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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Finding 10 – 86:

CFDA #93.569 – Community Services Block Grant

CFDA #93.710 – ARRA – Community Services Block Grant

Noncompliance and Internal Control Weakness Over Subgrantee Payments at DCED (A Similar Condition Was Noted in Prior Year Finding #09-61)

Federal Grant Numbers: 08B1PACOSR, 09B1PACOSR, 0901PACOS2, and 10B1PACOSR

Condition: The Department of Community and Economic Development (DCED) requires subrecipients to submit a “Request for Payment” invoice to request cash reimbursements for Community Service Block Grant (CSBG) expenditures. During the period of our audit, a new invoice procedure and “Request for Payment” form was implemented which required the subrecipient to provide information, including the following: Total Disbursements to Date, Accrued Costs, and a Timeframe of Expenditures. In addition, an Authorized Official is required to certify the Request for Payment. However, in our testing of subrecipient invoices, we noted that 9 (amounting to \$2,094,404) of the 40 invoices reviewed (which totaled \$12,574,742) did not have the “Timeframe of Expenditures” field completed on the invoice. Additionally, the DCED did not return the invoice to the subrecipient to obtain this information prior to payment of the invoice. As a result, it is unclear when the underlying disbursements and accrued expenditures were actually paid by the subrecipient. Based on this, there may be instances in which DCED advanced or reimbursed subrecipients for costs that were expended outside the period of availability without this being detected by DCED. Five of the nine invoices which did not include the Timeframe for Expenditures information were under the American Recovery and Reinvestment Act (ARRA) of 2009 grant.

As part our testing of monitoring, we also reviewed 12 Fiscal Status Reports submitted by subrecipients. In the case of three subrecipients we noted that, based on the date of the last disbursement to the subrecipients in SAP and the date of the report, the subrecipients reported excess cash at June 30, 2010 of \$2,751,323. The total amount expended to the 12 subrecipients under the contract tested was \$12,708,270.

Criteria: Regarding the expenditures of funds, 45 CFR, Part 96.14(b) states:

(a) Expenditure. No limitations exist on the time of 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:

(15) Grantees shall adhere to a provision of law under the Consolidated Appropriations Act of 2005 which requires that to the extent [FY 20XX] CSBG funds are distributed by a State to an eligible entity, and have not been expended by such eligible entity, they shall remain with such eligible entity for carryover and expenditure into the next fiscal year. If FY 20XX funds are carried forward by such eligible entity into [the next fiscal year,] they must be fully expended and services provided on or before September 30 [of the next fiscal year].

U.S. 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.

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Cause: No controls were in place to monitor the Fiscal Status Reports for excess cash and the Request for Payment form is not reviewed for incomplete data fields. The Fiscal Status reports are only submitted twice a year, with the first report due by January 30th and the second report due July 30th. For contracts longer than one year, an additional report is due 30 days after the end of the contract period.

DCED has indicated that they are in the process of implementing a new payment system under which subrecipients would submit monthly (after the initial drawdown) invoices. DCED is also revising the Fiscal Status Report to require subrecipients to submit the report quarterly. These changes were not implemented during the period of our audit.

Effect: Payments to subrecipients are not being limited to immediate cash needs in violation of federal cash management regulations and subrecipients expenditures could be occurring outside the period of availability. DCED did not validate at the state level that \$2,094,404 in subrecipient expenditures were incurred within the period of availability of the grant under which they were awarded.

Recommendation: We recommend that DCED improve its invoicing and payment system to properly ensure that CSBG subrecipients are limited to immediate cash needs, and to properly document and ensure that CSBG expenditures are incurred by subrecipients within the period of availability.

Agency Response: DCED acknowledges that the invoicing process needs to be improved. During the review period, CSBG staff resources were limited, which negatively impacted some abilities for specific controls. Some internal controls were not strongly enforced in an effort to effectively serve our grantees.

Auditor's Conclusion: We acknowledge the agency's response. The finding and recommendation remain as previously stated. We encourage the agency to formalize a corrective action plan to ensure that subrecipients are limited to immediate cash needs and that subrecipient expenditures are incurred within the period of availability of the grant to which they are being charged. We will review any corrective action in the subsequent audit.

Questioned Costs: The amount of questioned costs cannot be determined.

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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Finding 10 – 87:

CFDA #93.569 – Community Services Block Grant

CFDA #93.710 – ARRA – Community Services Block Grant

Noncompliance and Internal Control Weakness in Subrecipient Monitoring

Federal Grant Numbers: 08B1PACOSR, 09B1PACOSR, 0901PACOS2, and 10B1PACOSR

Condition: In our testing of subrecipient monitoring we made inquiries to DCED program staff to determine whether DCED checked the Central Contractor Registration (CCR) to determine whether subrecipients were currently registered. Based on our discussions with DCED staff, the CCR was not checked during the American Recovery and Reinvestment Act (ARRA) of 2009 award period. In our testing of ARRA Special Tests and Provisions, we made inquiries to Federal Accounting to determine whether the State notified subrecipients at the time of each disbursement of ARRA funds of the Federal award number, CFDA number and the amount of ARRA funds disbursed. Federal Accounting indicated that a hard copy paper advice, copies of which were not retained to provide an audit trail, was sent to each subrecipient at the time of the disbursement of funds, which included the subrecipient's DCED ARRA specific contract number, which implicitly identified the funds as ARRA funds. However, they did not include the ARRA federal award number or CFDA number on the advice.

Criteria: Regarding the requirement to determine whether subrecipients were registered in the CCR, 2 CFR, section 176.50 states:

(c) Recipients and their first-tier recipients must maintain current registrations in the Central Contractor Registration at all times during which they have active federal awards funded with Recovery Act funds.

Part 3 of the A-133 Compliance Supplement, Section M states an audit objective for auditors is as follows:

Determine whether the pass-through entity reviewed whether subrecipients receiving ARRA funding have current CCR registrations and performed periodic checks to ensure that subrecipients are updating information, as necessary.

With regard to the requirement that the State identify to each subrecipient and documenting at the time of disbursement of ARRA funds, the Federal award number, CFDA number and the amount of ARRA funds, 2 CFR, section 176.201 states:

(c) Recipients agree to separately identify to each subrecipient, and document at the time of...disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds.

Cause: Based on our discussions with DCED staff, although they did ensure that subrecipient contracts for ARRA funds included the requirement that the subrecipient maintain current registration with the CCR, they did not verify that subrecipients were in compliance with the requirement.

Federal Accounting indicated that the Commonwealth did identify to subrecipients, at the time of each disbursement of ARRA funds, the ARRA specific contract number under which the payment was being made. However, no documentation was retained as evidence that this was done.

Effect: Subrecipients receiving ARRA awards may not have been registered on CCR during their ARRA award period. In addition, subrecipients may not have had the information necessary to separately identify ARRA funds received in order to properly account for them in their financial records or to correctly report them on their Schedule of Expenditures of Federal Awards and SF-SAC as required. Questioned costs were not identified; amounts disbursed under ARRA awards for the year ended June 30, 2010 totaled \$26,758,471.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 87: (continued)

Recommendation: We recommend that DCED improve its procedures to monitor grant requirements and ensure procedures are in place to comply with Federal CCR registration requirements. We further recommend that the Bureau of Commonwealth Accounting ensure that sufficient documentation of compliance related communications (CFDA number and federal award number) with ARRA subrecipients is provided and retained to provide an audit trail.

DCED and Office of Comptroller Operations Response: We disagree with this finding. The criteria noted by the auditors in 2 CFR, section 176.50 describes reporting and registration requirements. Our interpretation of the CFR is that an entity is only required to register in CCR if they are required to file 1512 Reports. In an effort to ensure we were compliant with the guidance we contacted OMB for clarification on the need to register in CCR.

OMB clarified that only ARRA subrecipients that have been delegated the reporting requirement from the Prime grant recipient are required to register in CCR in order to report in Federalreporting.gov. The Commonwealth files the ARRA 1512 report for all federal pass thru funds, and does not delegate reporting requirements to its subrecipients. Based on the Commonwealth's central reporting structure and the CCR registration exceptions noted by OMB, the Commonwealth is in compliance with CCR registrations as applicable to 1512 reporting.

In response to the auditors' contention that they must rely on HHS-OIG rather than on the OMB guidance that we provided them, we followed up by submitting the OMB guidance to HHS-OIG and asking HHS-OIG to review the specific guidance provided to the Commonwealth by OMB and consider whether, based on this guidance and the central ARRA 1512 reporting practice in Pennsylvania, this issue should be considered an audit finding. HHS-OIG directed the Commonwealth to "follow OMB guidance." We provided both the OMB and HHS-OIG documents to the auditors. Based on the guidance provided by OMB and affirmed by HHS-OIG, we maintain that by centrally filing the 1512 report for all federal pass thru funds the Commonwealth is in compliance with the federal reporting requirements for CCR registrations.

As stated in the cause, the auditors were provided with samples of remittances that entities receive allowing subrecipients to separately identify ARRA funds based on the ARRA specific contract number at the time of each disbursement. The ARRA specific contract includes the Federal award number, CFDA number, and amount of Recovery Act funds. Remittances are produced for all payments, including both checks and ACH, and mailed to subrecipients. This process is part of the commonwealth's normal disbursement process and it is not cost effective to retain copies of all remittances. A sample was pulled at the time of the request to verify that it was actually occurring and provided to the auditors.

Auditors' Conclusion: As the criteria above clearly states, determining that the pass-through entity checked the CCR registrations of its ARRA subrecipients is a key audit objective in our Single Audit. In our separate auditor correspondence with HHS-OIG, our federal cognizant agency for Single Audit, HHS-OIG agreed with our above finding that DCED is required to check its ARRA subrecipients for CCR registrations. Since DCED clearly did not do this, DCED needs to work with Federal audit resolution officials to resolve the issue.

Regarding ARRA disbursements, no new information was provided in the agency response to resolve the condition in the finding. As a result, our finding and recommendation, with the above clarifications, remain as previously stated, and we will review any corrective action in our subsequent audit.

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 88:

CFDA #93.569 – Community Services Block Grant

CFDA #93.710 – ARRA – Community Services Block Grant

Noncompliance and Internal Control Weakness over Financial Reporting

Federal Grant Numbers: 08B1PACOSR, 09B1PACOSR, 0901PACOS2, and 10B1PACOSR

Condition: In our testing of Federal reporting, we found that the Comptroller Office, Federal Accounting submitted only two of the six required Financial Status Reports (SF-269A) during the period of our audit: the final report for the 2008 award and the interim report for the 2009 award. The four required quarterly reports for the American Recovery and Reinvestment Act (ARRA) grant were not completed or filed. In addition, we noted the following deficiencies for the reports that were completed:

- The final SF-269A for the 2008 grant showed a grant period of October 1, 2007 to December 31, 2009; however, we noted that the period of October 1, 2007 to September 30, 2009 should have been used to correspond to the period of the expenditures being reported.
- The interim SF-269A for the 2009 grant indicated that the basis of accounting was cash basis; however the amounts reported were on the accrual basis.
- The SF-269A for the 2009 grant was submitted as covering the period October 1, 2008 to September 30, 2009; however, the underlying accounting records utilized to prepare the report were for the period October 1, 2008 to December 21, 2009. As a result, the total outlays were overstated in the report by \$4,821,489.26 and the unliquidated obligations were understated by \$4,683,351.29.

Criteria: The revised Terms and Conditions for the CSBG ARRA Grant, Financial and Program Progress Reporting, state:

15. In accordance with 45 CFR 96.30, ARRA status expenditure reports must be submitted quarterly using Short Form SF-269A. The report is due within 10 days after each quarter has ended.

For the SF-269A reports for the 2008 and 2009 grants, an adequate internal control system, including a review of the report cut-off date, would ensure that the review and approval process detects errors in the report preparation and that such errors are corrected.

Cause: Based on our discussions with Federal Accounting staff, they were unaware of the requirement that quarterly SF-269A reports were required for the CSBG ARRA grant.

Federal Accounting indicated that the staff errors in preparation of the SF-269A reports appear to be due to human errors which were not detected in the review of the reports.

Effect: The SF-269A report for the 2009 CSBG grants did not correctly report the basis of accounting on which the report was prepared. The SF-269A report for the 2008 grant incorrectly reported the grant period. The SF-269A report for the 2009 CSBG grant was prepared using accounting reports as of December 21, 2009 and therefore overstated expenditures and understated unliquidated obligations. The required quarterly SF-269A reports for the CSBG ARRA grant were not submitted. Although basis of accounting and cut-off for report were not properly reported, there are no known questioned costs.

Recommendation: We recommend that Federal Accounting improve its procedures to monitor grant reporting requirements and ensure procedures are in place to comply with all Federal requirements. We further recommend that Federal Accounting strengthen its internal control procedures to ensure that reports are completed accurately with the appropriate cut-off and proper basis reported.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 88: (continued)

Agency Response: Comptroller Operations agrees with the condition stating that OCO Federal Accounting only submitted two of the six required Financial Status Reports (SF-269A). No reference or notice to visit a web site for additional information was included with the grant guidelines, nor was the respective State agency notified of any additional reporting requirements.

Comptroller Operations agrees with the condition stating the final SF-269A for the 2008 grant showed a grant period of October 1, 2007 to December 31, 2009; however, the period of October 1, 2007 to September 30, 2009 should have been used to correspond to the period of the expenditures being reported.

Comptroller Operations disagrees with the condition stating the interim SF-269A for the 2009 grant indicated that the basis of accounting was cash basis; however the amounts reported were on the accrual basis. OCO Federal Accounting prepared the report on a modified cash basis.

Comptroller Operations agrees with the reporting time periods stated, whereby the SF-269A for the 2009 grant was submitted as covering the period October 1, 2008 to September 30, 2009; but the underlying accounting records utilized to prepare the report were for the period October 1, 2008 to December 21, 2009.

Auditors' Conclusion: We acknowledge the agency's response. Modified cash basis is not an acceptable basis of accounting on the SF-269A report; amounts must be reported on either a cash basis or an accrual basis of accounting. The finding and recommendation remain as previously stated. We encourage the agency to formalize a corrective action plan to ensure that required reports are prepared as required, with the appropriate cut-off and that the basis of accounting is correct on the reports. We will review any corrective action in the subsequent audit.

Questioned Costs: None

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, 2010

Finding 10 – 89:

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 Exist Over DPW’s Subrecipient Expenditures Claimed For Federal Earmarking Requirements

Federal Grant Number: 0801PACCDF

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) 2008 grant (0801PACCDF), infant and toddler earmark applicable to Pennsylvania for our current audit period was \$2,985,175. As of June 30, 2010, DPW reported infant and toddler earmark expenditures of \$3,099,227 on its final ACF-696 report for this grant. Per review of actual expenditures as provided in a spreadsheet by DPW personnel, actual earmark expenditures totaled \$3,281,987, which exceeded the required earmark by \$296,812. However, our testing in eight of the nine prior audit years disclosed that infant and toddler earmark expenditures charged to the CCDF program by DPW were not adequately tracked by DPW since DPW could not provide adequate documentation to properly support the expenditures claimed for the infant and toddler minimum earmark.

The \$3,099,227 of expenditures noted above were claimed under six different subrecipient contracts, per a worksheet provided by DPW, and from which we selected two larger dollar contracts with expenditures totaling \$1,705,143 for testing. Our testing of these two contracts disclosed only \$1,516,895 in supporting expenditures as follows: SAP vendor number 117466 had infant and toddler costs claimed of \$1,149,291 but supporting documentation for the earmark only added up to \$808,852, and vendor number 119287 had infant and toddler costs claimed of \$555,852 with supporting documentation adding up to expenditures of \$708,043 per the DPW spreadsheet. Therefore, for these two test items together, DPW overclaimed a total of \$188,248 in infant and toddler costs on the ACF-696 Report, based on the support provided.

As a result of our above testwork, we determined that the prior years’ internal control deficiencies still exist in our current year since DPW is still not properly tracking and accurately claiming its subrecipients’ infant and toddler costs on its ACF-696 Report. Since the total amount of infant and toddler expenditures per the DPW-prepared spreadsheet exceeds the required \$2,985,175 infant and toddler earmark by \$296,812, DPW appears to have met the statewide earmark for current-year infant and toddler. However, given the weaknesses at DPW in tracking and reporting these subrecipient costs, there may be other inappropriate or inaccurate subrecipient expenditures claimed by DPW and its subrecipients that result in the earmark not being met for the FFY 2008 CCDF grant.

Criteria: Our current year review criteria are the terms and conditions issued with the FFY 2008 Child Care and Development Fund grant award, which state:

Discretionary Fund

Earmarks associated with the Discretionary Fund

The Department of Labor, HHS, Education, and Related Agencies Appropriations Act, 2006 earmarked specific amounts for these activities:

- *Infant and Toddler Quality Improvement*

The amount of these earmarks **is included** as part of the Discretionary Fund in calculating the “not less than 4 percent quality expenditure requirement” of Section 658G of the CCDBG Act.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 89: (continued)

In addition, HHS's Final Allocation for the FFY 2008 Final Allotments and Earmarked Funds established Pennsylvania's infant and toddler earmark was \$2,985,175.

Cause: Concerning the costs over-claimed under vendor number 117466, DPW officials believe there was an error in compiling the adjustment request spreadsheet that was presented to the comptroller's office. However, with the exception of the prior year, DPW had a similar finding for seven consecutive years which we believe may be the result of the facilities (day care centers) incurring the costs and entering the costs incorrectly into the infant and toddler category on the Keystone-Stars Information Data System due to a lack of communication and direction from DPW.

Effect: DPW appeared to over-claim \$188,248 in unsupported infant and toddler expenditures for the two subrecipients we tested. Although total infant and toddler earmarking requirements for the FFY 2008 grant appear to have been met, there may be other inappropriate or inaccurate subrecipient amounts reported by DPW or its subrecipients which could result in the 2008 grant earmark not being met. We believe the infant and toddler expenditures are being reported inaccurately by the day care facilities because of the lack of direction from DPW as evidenced by the fact that this finding has been reported in eight of the past nine audit years. In the future, there is the potential that other inappropriate costs were or will be charged which could cause the infant and toddler earmark to not be met.

Recommendation: We recommend that DPW provide prompt and accurate guidance to both the subrecipients and day care facilities to improve the current methods/categorization of reporting infant and toddler related expenditures. Also, current procedures for compiling the adjustment request spreadsheet should be reviewed with the comptroller's office and revised if necessary.

Agency Response: The DPW, Office of Child Development and Early Learning (OCDEL) agrees that the total amount of CCDF Infant and Toddler Earmark expenditures reported by DPW on the final ACF-696 report for FFY 08 total to \$3,099,227. The expenditures were claimed under six Regional Key contracts. The two initial Regional Key contract expenditures selected for sampling were Caring People Alliance (Southeast Regional Key) in the amount of \$1,149,291 and Lehigh County (Northeast Regional Key) in the amount of \$555,852 for a total of \$1,705,143. The documentation provided by OCDEL reflected actual expenditures of \$808,852 and \$708,043, respectively. Although there is a discrepancy between each individual Regional Key Infant and Toddler contract cost (whether they are over or under-claimed) totaling \$3,099,227, the actual allowable expenditures (which were reflected on the documentation provided by OCDEL) total \$3,281,987, which not only met but exceeded the minimum required earmark.

Auditor's Conclusion: We believe that because of the internal control weaknesses at DPW, the potential exists that inappropriate or inaccurate subrecipient costs were reported on the FFY 2008 696 Report which could cause noncompliance since the infant and toddler earmark may not be met. As stated in the cause section of the finding, the origin of the finding is likely due to the day care facilities incorrectly entering the costs into the infant and toddler category in the Keystone Stars Information Data System due to a lack of communication and direction from DPW. As such, the actual costs claimed for FFY 2008 do not agree to the earmark amount for the six regional key contracts which is indicative of internal control weaknesses surrounding the tracking and reporting of infant and toddler earmark expenditures.

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

Questioned Costs: None

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, 2010

Finding 10 – 90:

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 Exist Over DPW's Charging of Costs Not Approved in The CCDF State Plan Resulting in Noncompliance and Questioned Costs of \$282,546 (A Similar Condition Was Noted in Prior Year Finding #09-62)

Federal Grant Numbers: 0901PACCDF and 0801PACCDF

Condition: We requested a listing from DPW of the SAP accounting system payments made to vendors related to the Nurse Family Partnership (NFP) program and the Parent Child Home Program (PCHP) providers. The NFP is a service program that provides in-home nurse visitations for first-time low-income mothers and their infants up through two years of age. However, these NFP costs were specifically disallowed in DPW's CCDF State Plan by the U.S. Department of Health and Human Services (HHS) and in a letter to DPW dated January 25, 2007. PCHP is a home-based early literacy program for eligible families with infants and toddlers. Home visitors model for parents how to read and play with their children to promote positive parent-child interaction, literacy development, and a language-rich home environment. Expenditures for PCHP are unallowable to be charged to CCDF because they were not approved within DPW's CCDF State Plan. Therefore, the PCHP costs of \$57,383 and NFP costs of \$225,163, or \$282,546 in total, are questioned as unallowable program expenditures during SFYE June 30, 2010.

Criteria: 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.*

A U.S. Department of Health and Human Services letter to DPW dated January 25, 2007 rejected DPW's request for an amendment to the state plan to include Nurse Family Partnership costs for infant and toddler quality initiatives. This letter also stated that if expenditures are claimed under Pennsylvania's CCDF program for the Nurse Family Partnership program that such claims are unallowable. Also, review of expenditures for Parent Child Home Program allocated to infant and toddler are unallowable to be charged to CCDF because they were not approved within the DPW's CCDF State Plan.

Cause: As for the NFP costs, DPW's Agency Response to this finding for SFYE June 30, 2009 stated that "beginning July 1, 2009, all Nurse Family Partnership funding in the SAP accounting system has been established using 100 percent state funds". In response to this finding for SFYE June 30, 2008, DPW officials stated that "to resolve any disagreements or misunderstanding, DPW removed all NFP expenditures from the CCDF funding beginning FFY 2007". Obviously, neither of these representations has proven to be true. Concerning PCHP costs, DPW was unaware that PCHP costs were allocated and charged to the CCDF program for SFYE June 30, 2010.

Effect: We question \$225,163 and \$57,383 of NFP and PCHP costs respectively, or \$282,546 in total, as an unallowable use of CCDF funds, specifically disallowed by HHS.

Recommendation: We recommend that DPW pursue appropriate settlement with HHS regarding the \$282,546 in questioned costs. In addition, DPW should ensure that all expenditures used for CCDF activities are approved in the CCDF State Plan by HHS prior to being charged to the CCDF program.

Agency Response: The OCDEL agrees that PCHP expenditures in the amount of \$57,383 and NFP expenditures in the amount of \$225,163 were charged to FFY2008 CCDF. The aforementioned expenditures represent final State Fiscal Year 08-09 payments to eight separate vendors that were all disbursed in July 2009 for expenditures incurred during

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 90: (continued)

June 2009, which fell within the SFYE June 30, 2009 audit period. The OCDEL did not reimburse expenditures with CCDF funding after July 2009, due to the removal of CCDF funding from all PCHP and NFP contracts with an effective date of July 1, 2009.

Auditors' Conclusion: As for the NFP and PCHP expenditures charged to the CCDF program for the SFYE June 30, 2010, DPW's claim that these costs were incurred by the subrecipient vendors in June 2009 and were then reimbursed by DPW in July 2009 at the beginning of our audit period has no bearing on the fact that they are unallowable charges by DPW to CCDF at the time they were incurred by the subrecipients and billed under CCDF. OCDEL insisted in response to our finding for the SFYE June 30, 2008 that they "removed all NFP expenditures from CCDF funding beginning in FFY 2007". Also, in response to our finding for the SFYE June 30, 2009, OCDEL stated that "beginning July 1, 2009 all Nurse Family Partnership funding in the SAP accounting system has been established using 100 percent state funds". Obviously since NFP costs are still being charged to the CCDF program, OCDEL does not have adequate control over costs entering the program, and these costs remain questioned. Based on the above, our finding and recommendation, with the above clarification, remain as previously stated.

Questioned Costs: \$282,546

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, 2010

Finding 10 – 91:

CFDA #93.667 – Social Services Block Grant

CFDA #93.959 – Substance Abuse Prevention and Treatment Block Grant

Weaknesses in DPW Program Monitoring of SSBG and SAPT Subgrantees (A Similar Condition Was Noted in Prior Year Finding #09-64)

Federal Grant Numbers: 0901PASOSR, 1001PASOSR, and T1010044-10

Condition: For the eighteenth 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 and Mental Retardation subgrantees, DPW did not adequately monitor SSBG subgrantees, which comprised \$41 million (or 42 percent) of total SSBG program expenditures of \$98 million on the current SEFA, for compliance with applicable federal regulations during the award since on-site visits by state officials did not occur. We determined that the same Homeless Services program subgrantees that received SSBG funding, and were not adequately monitored by DPW personnel, also received \$1,983,000 in CFDA #93.959-Substance Abuse Prevention and Treatment (SAPT) Block Grant funding during SFYE June 30, 2010. Total SAPT expenditures on the current SEFA were \$63.4 million.

Furthermore, for the compliance requirement related to cash management, we noted that DPW advanced funds to SSBG subgrantees in 5 of 9 SSBG program areas representing \$38 million (or approximately 39 percent) of SSBG program expenditures without adequate monitoring during the year to ensure subgrantee cash balances were reasonable. In particular, for the Legal and Homeless Services components of the SSBG program, DPW advanced funds to subgrantees on a monthly basis. For SSBG Mental Health, Mental Retardation, and Child Welfare, DPW advanced funds to subgrantees on a quarterly basis. Our inquiries with applicable DPW program administrators disclosed that DPW did not adequately monitor any of its SSBG subrecipients for compliance either at the time of payment or at any other time during the current state fiscal year.

While Circular A-133 audits of SSBG and SAPT 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 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.

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.*

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 91: (continued)

In addition:

In discussions with our office, federal agencies have stated that cash advance balances on hand at subrecipients are reasonable if they approximate the grantee's (state's) payment cycle to the subgrantee. In light of the (state agencies) administrative system of making (daily, weekly or monthly) payments by check to subrecipients, a (daily, weekly or up to one month) cash advance on hand monitored at least quarterly is reasonable.

Cause: Except for the Subsidized Child Day Care and the Community Mental Retardation programs, DPW places reliance primarily on A-133 subgrantee audits to ensure after the fact that its SSBG and SAPT subgrantees administer their programs in compliance with federal regulations. Therefore, program monitoring did not occur during the award and on-site during the audit period.

Consistent with prior year audits, DPW management has again noted that, for the current audit period, there have been no changes to the payment methodology for the Legal Services, Homeless 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.

Effect: DPW did not adequately perform 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 and SAPT subgrantees to ensure timely compliance with all applicable federal regulations. On-site monitoring visits by state officials should be supported by documentation showing the monitoring performed, areas examined, conclusions reached, and performed in compliance with applicable 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: The Department of Public Welfare (DPW) expends Social Services Block Grant (SSBG) funds through several program offices, and directly on certain contracts. In order to effectively monitor all funded programs, the DPW has approved a new SSBG monitoring position within the Office of Administration, Bureau of Financial Operations. This position provides the benefit of centralized monitoring and evaluation through both on-site monitoring visits and review of supporting documentation. The SSBG Monitor started effective November 20, 2010.

It is the SSBG Monitor's responsibility to ensure fiscal and programmatic compliance of subrecipients with established federal and state regulations and policies. At the initial stage of the process, the monitor met with each program office to understand the structure, program requirements and fiscal regulations for services funded with SSBG.

The counties are chosen for monitoring in accordance with a risk assessment based on the SSBG total allocations to each county and the presence of program findings noted in each county's single audit report. Counties with higher allocations and findings are considered to be high risk and therefore, they are being monitored first.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 91: (continued)

The SSBG Monitor ensures that costs are assigned and tracked in compliance with federal requirements and that SSBG funding is used only for authorized purposes in compliance with federal cost principles and in compliance with subrecipient's county contracts in the current fiscal year. The fiscal monitoring tool was developed to monitor such core areas as Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Eligibility, Period of Availability of Funds, Suspension and Debarment, Reporting, Subrecipient Monitoring, Special Tests and Provisions, and Conflict of Interest.

The programmatic monitoring tool is used to monitor general areas related to compliance with Federal laws, Eligibility, Personnel, Civil Rights Laws, Health Insurance Portability and Accountability Act (HIPAA).

Onsite visits are completed with counties and providers receiving SSBG. The information obtained during the visits is documented. Deficiencies are identified in the final letters to the county commissioners and corrective action plans are issued, if necessary.

Currently, the BFO is in the process of monitoring the Mental Health Program, Legal Services and Homeless Assistance Program (HAP). The SSBG Monitor will also review the funding for Domestic Violence, Rape Crisis, County Assistance Office Case Management, Child Welfare, and Family Planning services. Community Mental Retardation services will be monitored, if determined necessary.

Auditors' Conclusion: DPW began the SSBG monitoring system in November 2010. We will review that system in our subsequent audit. Based on the agency response, the finding and recommendation remain as previously stated.

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 92:

CFDA #93.667 – Social Services Block Grant

Inadequate Controls Over Charging of YDS Personnel Costs

Federal Grant Number: 1001PASOSR

Condition: Our examination of DPW’s Youth Development Services (YDS) funding stream for SSBG noted that expenditures charged to DPW’s state-owned Youth Development Centers (YDCs) were not supported by adequately approved documentation. The federal YDC appropriation #70-160 recorded \$10,000,000 in SSBG expenditures on the SAP accounting system for the SFYE June 30, 2010, representing 10.2 percent of total SSBG program expenditures reported on the SEFA. YDC employees’ salaries/wages and benefits were charged 100 percent to the SSBG Program up to the \$10,000,000 authorized (i.e., appropriated) federal amount for the year, and any additional YDC personnel costs were charged to a state-funded appropriation.

Time sheets and job descriptions signed by the employees and employee supervisors are required to be maintained for YDC staff in order to document the time and activities charged. Based on the results of our reviews of job descriptions, we found that YDC personnel activities were allowable under the SSBG program in the current year. However, of the five YDC employees sampled in our testing of SSBG personnel costs, one employee’s timesheets were not properly signed for all hours worked as required per the Bureau of Juvenile Justice Services (BJJS) policy. There were also instances of this employee’s supervisor signing on the employee’s behalf. For another employee, for the pay periods tested, one timesheet could not be located and there were two instances of timesheets appearing to have been signed by someone other than the employee. The BJJS was unable to determine for certain if they were the employee’s signatures. The job description for this employee contained supervisory approval but lacked an employee signature. In addition, two employees’ timesheets contained supervisory approval dated prior to the time worked.

Criteria: 45 CFR 96.30(a), Subpart C – Financial Management, applicable to SSBG states:

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.

Cause: Lack of compliance with the DPW, BJJS Timekeeping policy and internal control deficiency in procedures. Based on discussions with DPW BJJS, the lack of employee approval of the job description was due to the annual job description update being initiated by the employee’s supervisor just a few weeks prior to the individual being out for an extended period of time due to a work related injury. The Commonwealth’s electronic On-line Position Description format overwrites previously approved versions of the position description.

Effect: Although our audit determined SSBG personnel costs to be allowable, the lack of proper approvals for job descriptions and timesheets represent internal control weaknesses in the required documentation to demonstrate allowability of costs. These deficiencies have the potential to result in future unallowable costs being charged to the SSBG program.

Recommendation: DPW management should strengthen SSBG internal controls to ensure properly approved job descriptions are on file for all YDS staff and to ensure all timesheets are signed by both the employee and the employee’s supervisor in accordance with State procedures.

Agency Response: The Office of Children, Youth and Families (OCYF) agrees with facts of the preliminary findings. OCYF will work to strengthen SSBG internal controls to ensure properly approved job descriptions are on file for all staff and to ensure that all timesheets are signed by both the employee and the employee’s supervisor in accordance with Bureau of Juvenile Justice Services (BJJS) policy.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 92: (continued)

It should be noted that quarterly random position description audits have been conducted during the last two state fiscal years in order to ensure properly approved position descriptions are on file for all YDC/YFC staff. As noted in the preliminary finding, of the employees sampled in the audit, one position description contained supervisory approval but lacked the employee signature. This occurred as a result of the selected employee being injured and absent for an extended period shortly after the electronic position description process was initiated. The individual has not yet returned and therefore has been unable to update and acknowledge the position description to date.

In addition, OCYF will implement a monthly auditing process to ensure that all timesheets are signed by both the employee and the employee's supervisor or the shift supervisor as required in the Bureau of Juvenile Justice Service's Timekeeping Policy 8.19.

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.

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 93:

CFDA #93.713 – ARRA – Child Care and Development Fund

DPW Did Not Utilize Available ARRA Grant Award Funds While Significant Waiting Lists Existed For Child Care Assistance For Low-Income Families (A Similar Condition Was Noted in Prior Year Finding #09-65)

Federal Grant Number: 0901PACCD7

Condition: On April 9, 2009 The PA Child Care and Development Fund received a grant award of \$60,146,767 of American Recovery and Reinvestment Act (ARRA) funding to assist low income families needing child care assistance. This ARRA funding is in addition to regular federal funding already provided by the U.S. Department of Health and Human Services as part of the Child Care and Development Fund Block Grant.

At June 30, 2009 we reported 12,891 low income families on a waiting list for child care services. However, DPW's office of Child Development and Early Learning (OCDEL) did not start spending ARRA funds until April 2010, approximately one year after the grant award was received. Our current year testing disclosed that although OCDEL's waiting list was reduced, the count remained significant at June 30, 2010 with 4,044 low income families on the list. Our analysis disclosed that OCDEL utilized only \$20,760,967 of their available ARRA funds or 34.5 percent of their ARRA grant award at June 30, 2010, or over a year after receiving the award.

Criteria: Per Program Instruction CCDF-ACF-PI-2009-03 issued by the Administration for Children and Families (ACF) with the ARRA funding, the ARRA funding provides CCDF lead agencies (i.e. states) with an important opportunity to assist those most impacted by the economic recession through the provision of funds to expand services to additional children and families facing difficult economic circumstances. In addition, ARRA funding was provided with the general purpose of helping to stabilize state and local budgets and was intended to be utilized quickly by recipients in order to promote economic recovery.

Cause: Officials in DPW's OCDEL stated they did not plan to spend ARRA dollars when they became available to the state in April 2009 and their plan was to allocate ARRA dollars sometime in FY 2009-10, 2010-11 and the first quarter of 2011-12. Officials further stated that this plan was the most prudent considering the release of federal program guidance as it relates to the reporting requirements per section 1512 of ARRA. However, the fact that DPW had a significant waiting list as of April 2009 serves as evidence that there was ample opportunity for DPW to utilize the ARRA funding to assist low income families needing child care assistance as soon as the ARRA funding became available and long before they actually began using the funds in April 2010.

Effect: As a result of DPW's OCDEL not timely utilizing ARRA funds that became available on April 9, 2009, many eligible families awaiting child care assistance went needlessly without this assistance for unreasonable and excessive time periods, which is not consistent with the intent and objective of the ARRA funding provided to states. Also, timely spending of ARRA funds once available could have reduced the number of low income families waiting for child care services as of June 30, 2010 even further, to assist those most impacted by the economic recession and promote recovery.

Recommendation: DPW should have procedures in place to timely utilize ARRA funds in order to reduce the waiting list for child care services even further and promote timely economic recovery as intended by ARRA. In addition, DPW should utilize the remaining ARRA funds that are now available for those families who have been identified as being on the waiting list for the longest period of time and in desperate need for assistance.

DPW Response: We disagree with the finding pertaining to DPW's use of ARRA funding. The Terms and Conditions of the supplemental Discretionary Child Care Development Fund Award made by the American Recovery and Reinvestment Act of 2009 indicates that the "Discretionary funds must be obligated by September 30, 2010 and liquidated by September 30, 2011. Discretionary funds are 100 percent Federal funds and no State match is required. The ARRA directs that the Discretionary funds shall be used to supplement, not supplant, State general revenue funds for child care assistance for low income families." Clearly, DPW's plan, shared on an ongoing basis with ACF, does not violate the obligation and/or liquidation terms of the award.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 93: (continued)

OCO Response: We disagree with this topic being reported as a Single Audit finding. The issue and criteria presented by the auditors provides no basis for a compliance finding as described by the Single Audit Act of 1984 and represents a subjective interpretation by the auditors. The Single Audit is not a forum for subjective auditor presentations on performance related interpretations. The Single Audit law was passed to ensure consistency and uniformity among Federal agencies for the audits of States, local governments and non-profits expending Federal grant awards. The Single Audit Act of 1984 (as amended) requires auditors to report the following as audit findings:

1. Significant deficiencies in internal control over major programs.
2. Material non-compliance with the provision of laws, regulations, contracts or grant agreements related to a major program.
3. Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a Federal Program.
4. Known questioned costs which are greater than \$10,000 for a Federal program which is not audited as a major program.
5. Circumstances concerning why the auditor's report on compliance for major programs is other than an unqualified opinion.
6. Known fraud affecting a Federal Award.
7. Instances of the auditee materially misrepresenting the status of any prior audit findings.

The topic and criteria presented by the auditors does not meet any of the seven conditions for reporting a single audit finding.

Also, as evidenced in the Agency Response included above, the DPW adhered to the compliance requirements of this grant and coordinated grant implementation with the federal Administration for Children & Families (ACF). The terms noted in the Agency Response match the provisions in the A-133 Compliance Supplement. In the CCDF Cluster, Section III H, pages 4-93.575-7 and 4-93.575-8, the information clearly shows that the obligation of funds must be made by September 30, 2010 and that the obligation must be liquidated by September 30, 2011.

Auditors' Conclusion: DPW failed to timely use the ARRA funding which became available for obligation and expenditure in April 2009. DPW's comments in their agency response about obligating and liquidating ARRA funds in 2010/2011 and supplementing/not supplanting requirements are irrelevant to our finding that DPW did not meet the intent and objective of ARRA funding provided to states, and do not address the recommendation.

Regarding the OCO response, we believe the OMB A-133 Compliance Supplement represents the minimum audit work that should be performed in a given major program and was never intended to limit Single Audit procedures or reporting on federal programs. Auditors performing Single Audits have always had the option of reporting major program issues outside of what is in the Compliance Supplement based on auditor judgment for a given program. We also believe that this issue is particularly worthy of a finding as it represents the failure of DPW to attain a major objective of ARRA funding, to quickly utilize the additional funding made available.

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

Questioned Costs: None

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, 2010

Finding 10 – 94:

CFDA #93.714 – ARRA – Emergency Contingency Fund for TANF State Programs

DPW Failed to Adequately Support a Transfer of LIHEAP Funds Charged to TANF ARRA Resulting in \$20,907,200 in Questioned Costs (A Similar Condition Was Noted in Prior Year Finding #09-58)

Federal Grant Numbers: 0901PATAN2 and 1001PATAN2

Condition: During our prior year audit of the TANF program administered by DPW for SFYE June 30, 2009, we noted \$26,134,000 in costs reported on the SEFA under a new category of expenditures called TANF Home Energy Assistance (DPW Internal Order #G29375168440). Beginning January 1, 2009, DPW had decided to utilize TANF Block Grant funds to pay for household energy crisis payments made to, or on behalf of, TANF family recipients under LIHEAP, another major federal program administered by DPW. As a result, DPW transferred \$26,134,000 of expenditures, which were originally charged to the LIHEAP crisis grant during the period from October 2008 through April 2009, to the FFY 2009 TANF grant during SFYE June 30, 2009. We noted in our prior audit finding #09-58 the following major documentation deficiencies and internal control weaknesses associated with the allowability of this \$26,134,000 transfer.

- Since none of the documents originally provided by DPW to support the \$26,134,000 transfer to TANF included a list of the detail transactions involved (e.g., recipient identification and individual payment amounts), we requested a detail listing of the transactions included in the transfer. In response to our request, DPW provided a file of LIHEAP energy crisis payments made during the entire 2008-09 fiscal year that totaled to \$55,710,870, which is significantly more than the \$26,134,000 transfer to TANF and, therefore, DPW claims is valid support. However, the payment file total does not agree to the transfer amount, so no specific identification of the actual detail transactions totaling to and agreeing to the actual amount transferred to TANF or TANF ARRA (i.e., an audit trail) could be provided.
- Further, for a sample of five cases included in the file of LIHEAP energy crisis payments provided by DPW to support the transfer to TANF, we tested these cases and reviewed the case files in our audit of LIHEAP, and we found that, while the participants were found to be eligible for LIHEAP, no evidence could be provided from the LIHEAP files or from the DPW Client Information System (CIS) to document that any of the five cases were actually TANF families.
- We also noted that subgranted TANF funding provided to Local Workforce Investment Act (LWIA) contractors to assist TANF recipients in obtaining employment and training can also include payments to TANF recipients for utility bills; however, as noted in other prior year findings, these payments are not recorded or reported on the statewide SAP accounting system or DPW's CIS, and DPW did not monitor any utility payments issued by LWIA subrecipients to determine the eligibility and accuracy of these benefits issued to clients, to include verifying that duplicate energy crisis benefits are not inappropriately issued by CAOs and the LWIA subrecipients.

Because of the lack of an audit trail or other detail documentation to support the allowability of the transfer amount noted above, and based on discussions with and guidance received from HHS OIG, our Federal Cognizant Agency for Single Audit, we questioned the entire \$26,134,000 in LIHEAP energy crisis costs transferred to, and claimed and reported on the prior-year SEFA under TANF in our prior-year Single Audit Finding #09-58.

During SFYE June 30, 2010, DPW transferred \$20,907,200 of this \$26,134,000 in questioned Home Energy Assistance payments claimed under the non-ARRA TANF Block Grant on the June 30, 2009 SEFA to the ARRA – Emergency Contingency Fund for TANF State Programs (TANF ARRA) and reported this amount on the SEFA for SFYE June 30, 2010. Total TANF ARRA reported on the SEFA for SFYE June 30, 2010 was \$37,778,877, including the \$20,907,200 mentioned above. During our current audit we followed up with DPW to determine if any corrective action was taken on the noncompliance, internal control weaknesses, and questioned costs disclosed in prior-year finding #09-58, we found that no corrective action or Federal resolution occurred as of our May 2011 testing date. As a result, the same noncompliance noted in the prior year continued into the current year for the \$20,907,200 transfer to ARRA, and the \$20,907,200 remains questioned from the current-year SEFA.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 94: (continued)

Criteria: 45 CFR 92.20 Standards for financial management systems, paragraph (2) Accounting records states:

Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.

45 CFR 92.20 Standards for financial management systems, paragraph (5) Allowable costs states:

Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

OMB Circular A-87 Cost Principles for State, Local, and Indian Tribal Governments, Attachment A - General Principles for Determining Allowable Costs, Section C Basic Guidelines, paragraph 1. Factors affecting allowability of costs states:

To be allowable under Federal awards, costs must meet the following general criteria:

g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.

j. Be adequately documented.

The TANF State Plan Section VI A., 3 states:

Heating Utility Expenses

Effective January 1, 2009, this initiative provides funds to TANF families who are experiencing a crisis situation that may be resolved with a one-time payment to:

- *Prevent homelessness or eviction; or*
- *Pay heating expenses.*

The gross annual income for the family may not exceed 235percent of FPIGs.

Cause: DPW did not establish adequate written procedures for the documenting, reviewing, and charging of TANF ARRA funds and TANF household energy crisis payments.

Effect: As a result of not properly documenting, reviewing and claiming TANF ARRA household energy crisis payments, \$26,134,000 of household energy crisis payments transferred from LIHEAP to TANF were questioned in our prior-audit finding #09-58, and \$20,907,200 out of this amount transferred from TANF to TANF ARRA (FFY 2009 grant number 0901PATAN2) in the current year remains questioned. The noncompliance and internal control weakness reported in our prior year finding continued through SFYE June 30, 2010.

Recommendation: We recommend that DPW pursue appropriate settlement with HHS regarding the \$20,907,200 in unsupported questioned costs charged to TANF ARRA for the SFYE June 30, 2010. DPW should also implement corrective action in its procedures to ensure the internal control weaknesses noted above are resolved.

Agency Response: TANF Emergency Fund, from ARRA, Title IV, Part A, Section 2101, Pub. L. 111-5 (42 U.S.C § 603(c)): The objective of the program is to provide up to \$5 billion for states, territories, and tribes in fiscal year (FY) 2009 and FY 2010 that have an increase in assistance caseloads and/or certain types of expenditures. The Pennsylvania Department of Public Welfare (DPW) had to use these non-recurrent short term benefit TANF funds in accordance with section 404 of the Act (42 U.S.C § 604), including to provide low income households with assistance in meeting home heating and cooling costs. The DPW used new TANF funds to provide additional heating and cooling assistance to low income households, and those funds were separate from the LIHEAP program funds already used for heating assistance for low-income families.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 94: (continued)

The \$55.711 million represents the total cost of the program with 46.9 percent of eligible expenses paid with TANF funding (ARRA 80 percent and Regular TANF 20 percent) and the remaining 54.1 percent of payment being provided with Federal LIHEAP funding.

Individuals receiving energy crisis payments with TANF and TANF-ARRA funds were limited to Low Income Families. TANF eligibility in PA for Non-Recurrent Short Term Benefits is limited to Low Income families in accordance with Federal Law. A low income family in PA is defined as a family (must include a relative child) under 235 percent of the Federal Income Poverty Guidelines (FPIG). A client does not need to receive a TANF Cash Assistance benefit to be eligible for Non-Recurrent Short Term Benefits (see OMB Control #0970-0366 below).

The energy crisis payment was limited to 60 percent of median income (around 210 percent of the FPIG) which is well under the TANF income limit. The backup totaling \$55.711 million in claims was limited to households verified to meet the TANF family definition (households containing a relative child).

Excerpt from OFA-100 instructions (OMB Control #0970-0366): Non-recurrent short-term benefits: Consistent with the definition at 45 CFR 260.31 (b) (1) and 45 CFR 286.10 (b) (1), non-recurrent short-term benefits means benefits designed to deal with a specific crisis situation or episode of need, that are not intended to meet recurrent or ongoing needs, and that will not extend beyond four months. This is the same definition that the ACF-196 (line 6g) uses.

It should be noted that these benefits include those provided directly to a family and those paid to others on behalf of the family, such as a payment to a landlord. Both families receiving other forms of “assistance” and families that do not otherwise receive ongoing assistance may receive non-recurrent short-term benefits.

Per our Master Guidelines, which guide service provision of our contracted programs, the following definitions and guidance exist.

- Supportive Service – A supportive service is an item or service needed by a participant to prepare for, seek, accept, or maintain employment, education, or training and can be issued by CAO and/or contractors. If a client is facing the potential of having utilities terminated, it becomes a barrier for them to be able to participate in E&T programming.
- Allowances used by the contractor for supportive services are based on the availability of program funds and should supplement, not duplicate, allowances that are available to the participant from the CAO.
- The contractor will confirm with the local CAO the allowances available to participants receiving Cash Assistance and the allowances available to participants receiving SNAP.
- Related to paying for utility bills, contractors are permitted to make issuances as required to alleviate needs not already covered by other supportive services allowances. These would be considered non-recurring crisis needs-based payments.
- The documentation of all supportive services is to be noted in the client case records, documented in Commonwealth Workforce Development System (CWDS) and maintained in contractor fiscal records per GAAP.

DPW initially paid the entire \$26.134 million out of Federal TANF funds pending Federal approval of the use of ARRA funds for this program. Upon receipt of approval and a TANF-ARRA grant award, the Department transferred 80 percent of the new TANF program funds to TANF-ARRA in accordance with Federal guidelines.

TANF Emergency Fund, from ARRA, Title IV, Part A, Section 2101, Pub. L. 111-5 (42 U.S.C § 603(c)): LIHEAP funds are not included or used in the calculation, because those program funds are separate from the TANF funds used. Because these TANF funds were used for the first time in FY 2009 to provide low income households with assistance in meeting home heating and cooling costs separate from the LIHEAP program, every dollar of those TANF funds used in FY 2009 was a new expenditure not made in FY 2007, and these expenditures, therefore, meet the non-recurrent short term expenditure requirement in Section 2101 (42 U.S.C § 603(c)(3)(B)(ii)).

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 94: (continued)

Auditors' Conclusion: The DPW response does not provide information or documentation to resolve the noncompliance or weaknesses noted in the condition, including supporting that the funds transferred from LIHEAP included only TANF families as defined by the TANF State Plan. Based on guidance received from HHS OIG, the costs remain questioned.

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

Questioned Costs: \$20,907,200

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, 2010

Finding 10 – 95:

CFDA #93.767 – State Children’s Insurance Program

Lack of Documentation to Support Subrecipient Contracting and Procurement

Federal Grant Numbers: 05-0905PA5021 and 05-1005PA5021

Condition: In our prior-year Single Audits of the Commonwealth for the fiscal years ended June 30, 2000 to June 30, 2009 (or for ten fiscal years in a row), we reported that we could not test the Commonwealth’s compliance with procurement regulations because management refused to provide us with key procurement documentation to enable us to audit the PA Insurance Department’s (PID’s) awarding of CHIP subrecipient contracts and to verify compliance with Commonwealth procurement regulations.

Our current year follow up for the fiscal year ended June 30, 2010 to determine if management would provide us with key procurement documentation to enable us to audit the awarding of all CHIP insurance contracts to subrecipients (97 percent of CHIP expenditures on current-year SEFA) and to verify compliance with Commonwealth procurement regulations disclosed that, while management has now provided us with most key procurement documentation to enable us to audit the awarding of these contracts to verify compliance with Commonwealth procurement regulations, the names of proposal evaluation committee members were not provided to us since all detail scoring sheets provided had the evaluator names redacted. Without the names of proposal evaluation committee members, we could not fully test for compliance, nor could we ascertain if proper controls are in place to prevent potential conflicts of interest, fraud, abuse, or other inappropriate activity from occurring during the CHIP contract procurement process.

Criteria: 45 CFR 92.36 Procurement states, in part:

(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 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 to prevent conflicts of interest, etc., 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 has maintained that the identity of evaluation committee members is considered confidential information that auditors are not entitled to review. Management has also maintained that these documents are not within the scope of the Single Audit.

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.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 95: (continued)

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 mentioned above. More specifically, we could not verify that management had proper controls in place to prevent conflicts of interest, 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 procurement 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: The Insurance Department (Department) strongly disagrees with this finding. Sufficient information and documents were supplied to the Office of the Auditor General (AG) to allow for a complete audit of this CHIP procurement. As the auditors admit, the department did provide key procurement documentation. The department provided all of the RFP documents and detailed scoring sheets as permitted by commonwealth policy. The only items redacted from the scoring sheets were the names of the evaluators.

Per the established Office of the Budget protocol for responding to Auditor General procurement audits, agencies are authorized to provide only the following:

- Copies of losing vendor proposals (as retained in accordance with published document retention schedules effective at time of procurement).
- Detailed scoring sheets showing the scores of each committee member by category with committee member names redacted.

The Commonwealth believes that the individual names of the RFP evaluation committee is information which is not necessary for the AG's review of whether the committee and the agency acted in accordance with procurement laws and practices. Further, the disclosure of this information as a general matter will have a chilling effect upon employee participation on procurement committees.

The AG alleges that without the names of the individual Commonwealth employees, it cannot verify that the Department adhered to Commonwealth procurement standards and laws, or exercised due diligence in awarding the contracts mentioned above. The Department's position is that all necessary information was provided to the AG. As to the allegation that the AG could not determine that due diligence was exercised in awarding this contracts that is especially without merit in this audit. This procurement was to secure insurance contractors for Pennsylvania children eligible for CHIP health care coverage. Due to the Commonwealth's policy to offer as much choice to these children and their families as possible, and the various geographical regions (all 67 counties) contracts were awarded to all of the bidders. In fact, the Department encouraged as many bidders as possible to give the families of CHIP recipients as much choice as possible.

In addition, cost was not scored in this procurement. Under section 2311 (b)(l) of the Children's Health Care Act, CHIP rates must be set on an " actuarially sound and adequate review." To accomplish this, the Department reviews the rates submitted by contractors, performs an independent actuarial review, and takes into account and overlays its policy considerations. The rates or contract costs are not determined or set within the RFP process.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 95: (continued)

Auditors' Conclusion: The agency response, including PID management's assertion that contracts were awarded to all bidders, does not change our finding as written. We have requested that PID identify the RFP evaluation committee members to us and allow us to verify that RFP Evaluation Committee Certification of Confidentiality, No Conflict of Interest, and Ethics Forms were properly completed and reviewed. Without knowing the identity of current procurement committee members, we cannot test for the existence of any conflicts of interest in the CHIP program for the current year. Also, we need to know the identity of committee members in order to have the opportunity to confirm PID management's statements that these individuals actually participated in the RFP evaluation and to confirm/verify that each scoring sheet as provided to us by PID management accurately reflects how the evaluator scored the contract. However, these requests were denied by management. Therefore, due to management not providing documentation to allow us to test for compliance and that proper controls are in place to prevent conflicts of interest, fraud, abuse, or other inappropriate activity from occurring during the contract procurement process, our finding and recommendation, with the above clarifications, remain as previously stated.

Questioned Costs: The amount of questioned costs cannot be determined.

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, 2010

Finding 10 – 96:

CFDA #93.778 – Medical Assistance Program (including ARRA)

DPW Failed to Obtain an Outside Service Auditor’s Report for a Third Party Drug Rebate Processor (A Similar Condition Was Noted in Prior Year Finding #09-67)

Federal Grant Numbers: 1005PA5028, 5-1005PAARRA, 0905PA5028, and 5-0905PAARRA

Condition: In the MA program, DPW utilizes a third party processor to perform all drug rebate program functions other than receiving and depositing the rebate funds. The third party processor’s responsibilities include verifying interest payments, billing and reconciliation of all accounts, dispute resolution and reporting all quarterly figures to DPW. Our review of the controls over drug rebates disclosed that for the year ended June 30, 2010, DPW failed to obtain a service auditor’s report that included coverage of the drug rebate functions of the third party processor in accordance with Statement on Auditing Standards #70 (SAS #70) – *Reports on the Processing of Transactions by Service Organizations*. This third party processor was responsible for over 93 percent, or \$195.4 million of the \$210.2 million, of MA drug rebates collected by DPW during the year ended June 30, 2010. Of the \$195.4 million in drug rebates collected, \$107.0 million was related to the regular Federal Medical Assistance Percentage (FMAP) and \$21.6 million was ARRA FMAP, for a total FMAP of \$128.6 million. Total Medicaid Cluster Federal expenditures for SFYE June 30, 2010 are \$12.3 billion of which \$1.9 billion is ARRA funding.

Criteria: Good internal control dictates that a material outsourced computer operation or network have a SAS #70 review to ensure the system has proper controls in place and is complying with program regulations.

Cause: DPW and OB-BOA stated that the third party processor contract did not include a clause to require a SAS #70 review of the drug rebate program functions for the fiscal year ended June 30, 2010. As noted in DPW’s prior year response to this finding, DPW management stated it would review the third party contract as it extends to sub-contractors and determine how to incorporate an additional contract clause requiring a drug rebate SAS 70 review. Any necessary amendments would be made to the corresponding contract, but this did not occur.

Effect: Without a drug rebate SAS #70 review for the current year, DPW has limited assurance that the contractor’s processes and controls over the drug rebate program functions were in compliance with MA regulations.

Recommendation: We recommend that DPW ensure a SAS #70 review is performed at least annually of the third party processor which includes the contractor’s processes and controls over the drug rebate program functions to better ensure that it is being administered in compliance with MA regulations.

Agency Response: The Bureau of Data and Claims Management (BDCM) within the Office of Medical Assistance Programs (OMAP) has responsibility and oversight for the PROMISE contract of which a sub-contract is held with a third party processor for drug rebate. BDCM concurs with the Auditor General’s Recommendation (#93778A) and will ensure a SAS 70 review is performed for the third party processor that includes processes and controls over the drug rebate program.

While a SAS 70 audit has not been performed to date, the Office of Inspector General, in February 2008, conducted a follow-up audit of the drug rebate program and provided much information about their controls as part of this audit. The objective of that audit was to "to determine whether the State agency had (1) implemented the recommendations made in our previous audit of the Pennsylvania drug rebate program and (2) established controls over collecting rebates on single source drugs administered by physicians." They had no findings and reported "Although the State agency did not concur with our findings, it did implement the recommendations made in our previous audit. The State agency introduced a new Medicaid Management Information System, the PROMISE System, which corrected the weaknesses noted in our prior review. In addition, the State agency established controls over collecting rebates on single source drugs administered by physicians. Accordingly we have no recommendations at this time."

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Finding 10 – 96: (continued)

Auditors' Conclusion: Since management relies on its outside contractor and has not established its own controls to ensure drug rebate compliance, the finding and recommendation remain as previously stated. We will review any corrective action in our subsequent audit.

Questioned Costs: The amount of questioned costs cannot be determined.

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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Finding 10 – 97:

CFDA #93.778 – Medical Assistance Program (including ARRA)

Lack of Timely Periodic Reconciliations of the PROMISE Provider Payment System to the SAP General Ledger Accounting System

Federal Grant Numbers: 1005PA5028, 5-1005PAARRA, 0905PA5028, and 5-0905PAARRA

Condition: In the MA program, DPW utilizes PROMISE, a system administered by a third party processor, to perform all provider payment functions other than issuing checks and electronic payments. On a weekly and a monthly basis a summary of provider payments is interfaced into the Commonwealth's SAP accounting system. SAP is the official general ledger accounting system of the Commonwealth and is utilized to prepare the SEFA. At year end a reconciliation of PROMISE to SAP is performed by OB – OCO to ensure the accuracy of all SAP postings interfaced from PROMISE for the entire year; however, no documented periodic reconciliations are performed during the fiscal year to ensure that any significant errors or potential internal control weaknesses are identified, investigated, and corrected timely. In addition, we reported weaknesses in general computer controls within the Statewide SAP system in our current-year audit of the Commonwealth's BFS which may increase the risk of errors for the MA program in the SAP system during the fiscal year, so the lack of timely reconciliations of PROMISE to SAP during the fiscal year is considered a material weakness for MA.

Total federal share of provider payments processed through PROMISE during the year ended June 30, 2010 was \$11.7 billion, and \$9.8 billion was related to the regular Federal Medical Assistance Percentage (FMAP) and \$1.9 billion was ARRA FMAP. Total Medicaid Cluster Federal expenditures for SFYE June 30, 2010 are \$12.3 billion.

Criteria: Good internal control dictates that periodic reconciliations should be performed between the SAP accounting system and any subsidiary accounting systems, especially if IT general controls over SAP are weak.

Cause: Comptroller personnel stated that they review the PROMISE payment files that compares the SAP posting file to the TABS payment file, verify each individual SAP posting as they are interfaced from PROMISE and compare them to PROMISE reports, and perform monthly comparisons of PROMISE reports to the monthly SAP postings. However, no documentation is retained to support the performance of these procedures.

Effect: Without timely, adequately documented reconciliations of PROMISE to SAP during the fiscal year, inappropriate activity, internal control weaknesses, or errors could occur in either system and may not be detected by management and corrected on a timely basis. In addition, MA amounts reported to HHS on the quarterly CMS-64 report during the year may not be accurate if PROMISE or SAP amounts are not correct.

Recommendation: We recommend that the Comptroller perform and adequately document timely reconciliations between PROMISE and SAP during each fiscal year.

Agency Response: The Bureau of Commonwealth Accounting strongly refutes finding CFDA #93.778 and the contained statements of condition and cause, specifically 1) *no periodic reconciliations are performed during the fiscal year to ensure that any significant errors or potential internal control weaknesses are identified, investigated, and corrected timely*, 2) *that there is a lack of timely reconciliations of PROMISE to SAP during the fiscal year*, and 3) *no documentation is retained to support the performance of these procedures*. Detail arguments against this finding are noted below.

PROMISE to SAP reconciliations occur, daily, weekly and monthly for all PROMISE cycles as each file is created. Multiple various comparisons are completed to ensure accounting records are correct. The first daily method of verification is to review the PROMISE Computer Output Laser Disk (COLD) FIN-0750 FB50/TABS Reconciliation Report. This report lists all vouchers for each cycle and the voucher's FB50 file and compares it to the TABS payment file. This ensures that the claims and adjustments processed through the cycle in PROMISE equal the SAP posting and

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the amount paid by Treasury. If PROMISe were to produce an FB50 file that differed from the files and vouchers that would go to Treasury, this would be reflected in the difference column of the FIN-0750 FB50/TABS Reconciliation Report.

The second daily method of verification is to use the PROMISe COLD FIN-0750 FB50/TABS Reconciliation Report. This report is used as a checklist. We compare the total voucher amount listed on this report to the SAP FB03 posting for that voucher. Once each voucher is verified as posted in SAP correctly, the voucher number on the FIN-0750 report is checked off.

The third weekly method of verification is to use the PROMISe COLD FIN-0206 Report. Each time a PROMISe cycle is processed and the SAP files are interfaced into SAP, all vouchers are entered into a manually created excel worksheet by SAP fund. The FIN-0206 report is used to ensure that all PROMISe vouchers have been interfaced into SAP and that the grand total of the Cycles worksheet matches the total of the cycle.

All COLD reports and PROMISe data are retained for five years in the live system and archived for an additional five years. SAP retains documents indefinitely (at this time; archiving may be implemented in the future) so at any point in time we can historically verify that the voucher produced in PROMISe has posted correctly in SAP.

If any of the three previous verification methods failed to detect an issue, our fourth verification is the monthly SAP to Treasury reconciliation completed and documented monthly. This reconciliation is appropriate for reconciling PROMISe because the detail that Treasury posts was interfaced directly from PROMISe, whereas the information in SAP is posted separately via the vouchers. Any variance between the three systems would appear in this reconciliation and indicate an issue. The SAP to Treasury reconciliation was completed monthly in a timely fashion throughout the fiscal year.

The final verification we complete is the Annual SAP to PROMISe reconciliation, which was noted in the finding by the auditors. This report is provided to the auditors for review.

As noted in the Condition, paragraph one, sentence number five “In addition, we reported weaknesses in general computer controls within the Statewide SAP system...” This statement is unclear to General Accounting as we are not aware of any weaknesses in SAP controls and therefore cannot be responded to.

Auditors’ Conclusion: While all the verifications or reconciliations noted in the agency response are important control steps to help ensure that the various systems are in agreement, they only take place at the time of MA payments, which occur weekly (for non-capitation) and monthly (for capitation) in the MA program. Because these controls don’t detect differences between PROMISe and SAP for all MA transactions, especially for SAP adjustments, we conclude that they do not properly address the lack of a timely reconciliation of PROMISe to SAP. We consider the PROMISe to SAP reconciliation to be an important overall detect control that covers the entire MA program, and reconciling items and differences between the systems should be followed up on and resolved more often than just once per year. Regarding general computer controls, the weaknesses in SAP were specified in current-year BFS Finding #10-12 and increase the risk of unauthorized MA postings to SAP during the year, and these may be inappropriate if not posted into the PROMISe system, with no timely reconciliation or follow up by DPW to ensure both systems are correct.

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

Questioned Costs: None

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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Finding 10 – 98:

CFDA #93.917 – HIV Formula Care Grants

Weaknesses in Internal Controls Over Eligibility Determinations and Administration of Third Party Contractor Results in Questioned Costs of \$37,185 (A Similar Condition Was Noted in Prior Year Finding #09-69)

Federal Grant Numbers: 2X07HA00021-20 and 2X07HA00021-19

Condition: Within the HIV Formula Care 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, and this administration is the responsibility of DPW's Special Pharmaceutical Benefits Program (SPBP). During the current fiscal year ended June 30, 2010, the SPBP charged \$18,079,059 in drug costs to the HIV Program.

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 a 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 subsequent to June 30, 2006 and a higher Type A threshold since then, we no longer audited the program as a major Type A program, but we conducted limited follow-up on the prior year finding referred to above. The results of our current year follow up in June 30, 2010 on these prior year issues are noted below.

Also, as noted in the prior year, DPW uses a third party contractor to administer all pharmacy benefit claims, the annual re-certification process, and the third party liability process for the HIV Formula Care grant. The primary oversight of the third party contractor is performed by the PA Department of Aging (PDA) since the same contractor administers the Pharmaceutical Assistance Contract for the Elderly (PACE) program, a state funded program at PDA. As part of our inquiry of the controls in place over this third party contractor, we found that while PDA obtained a financial and compliance Yellow Book audit of the third party contractor covering the SFYE June 30, 2010, the opinion is rendered on the receipts and disbursements taken as a whole and not on a program basis. Since the HIV Formula Care grant funds only about 18 percent of the total receipts and disbursements processed by the third party contractor, DPW cannot rely on the audit for reasonable and proper coverage of HIV program pharmacy benefit claims administration.

As a result of the above noted lack of audit coverage of HIV Formula Care grant pharmacy benefit claims, the annual re-certification process, and the third party liability process the propriety of reimbursements to the third party contractor, and in turn to the pharmacies, cannot be assured.

In prior year audits we noted sampled case files containing documents which indicated possible residency in other states (New Jersey, New York, and Ohio), and therefore, possible ineligibility to receive benefits in Pennsylvania. In response to our follow-up for SFYE June 30, 2010, DPW personnel stated they still maintain a policy of not following-up with the other states where residency was indicated to ensure applicants were not already receiving benefits in other states due to confidentiality issues. Also, in prior year audits we noted sampled case files with approved participants containing no Social Security Number and no personal identification showing Pennsylvania residency, only letters from relatives, health providers or social service agencies were obtained to support residency. DPW personnel stated that during SFYE June 30, 2010 SPBP still does not require a Social Security Number (SSN) to participate in the program nor does it

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require personal identification. However, the U. S. Government Accountability Office (GAO) guidance on establishing an effective fraud prevention system recommends at a minimum that applicants for benefit programs be required to give SSNs for themselves and household members and those SSNs be used to validate identity and income.

Further, during our current Single Audit, since HIV is no longer a Type A program as explained above, we performed limited follow-up testing of two cases that were approved by DPW for HIV ADAP assistance with payments in SFYE June 30, 2010 that had significant discrepancies to determine the amount of questioned costs, if any, as follows:

- 1) Case file SPxxxxx42 dated June 22, 2009: Participant had no income, and no Social Security Number (SSN). The only identification provided was an Ecuadorian passport dated August 2, 2008. Further, the application was not signed by a Licensed Physician, but was signed by a Certified Registered Nurse Practitioner. Also, no Client Information Systems (CIS) check was completed, and there was no indication in the case file that Medical Assistance and a Social Security Number was applied for by the participant, since no income was reported the participant may have been eligible for Medical Assistance instead of HIV. Further, the participant lived with his sister but her income and information was not included in the application even though SPBP procedures require family members of the applicant's household to report income for eligibility purposes.

DPW personnel stated SPBP does not monitor citizenship; therefore, if the applicant does not present a SSN, program staff does not pursue the reason. Without a SSN the applicant does not qualify for Medical Assistance (MA) and therefore even if the income of that person is zero, SPBP would be the payer of last resort as the individual would be ineligible for MA. We disagree, without proof of citizenship or residency, no SSN, no U. S. personal identification, and the other discrepancies noted above we believe the SPBP claims of \$26,583, federal share of \$17,722, paid during SFYE June 30, 2010 for this participant are unallowable.

- 2) Case file SPxxxxx54 dated June 2, 2009: Participant had no income, no Social Security Number (SSN), and no identification. The only evidence to support identity and residency was a letter from a community services agency. While the letter indicated the participant applied for a Social Security Number, no follow-up was documented to obtain the Social Security Number of the participant. Also, the application was not signed by a Licensed Physician, but was signed by a Certified Registered Nurse Practitioner. Further, there was no indication in the case file that Medical Assistance applied for by the participant, since no income was reported the participant may have been eligible for Medical Assistance instead of HIV.

DPW personnel stated SPBP has verified that the applicant has since received an SSN and was recently enrolled in the MA program and is receiving benefits from MA, and the applicant's SPBP benefits were cancelled. However, prior to SPBP benefits being cancelled, SPBP claims of \$29,194, federal share of \$19,463, paid during SFYE June 30, 2010 for this participant are unallowable.

Also, on November 15, 2010 HHS OIG released an audit of the ADAP portion of the HIV Formula Care Grants program covering the period April 1, 2004 to March 31, 2007. The HHS OIG disclosed 12 of 133 payments sampled were made in error, 5 payments were for participants who did not meet eligibility requirements and 7 payments were for participants who had private health insurance that would have covered the drugs. The HHS OIG also tested all payments to participants aged 65 or older and disclosed most participants were enrolled in the PACE program and most claims should have been paid by PACE rather than the HIV Formula Care Grant. As a result HHS OIG questioned over \$2.1 million in federal share of drug payments. DPW responded that changes to SPBP were made prior to the start of SFYE June 30, 2010 to resolve all the issues in the HHS OIG report such as implementing an annual re-certification process, the initiation of a monthly insurance match, and changing the claims processing to make SPBP the payer of last resort when participants are enrolled in both PACE and SPBP. However, since all these procedures that DPW implemented are performed by the third party contractor the effectiveness of these procedures cannot be determined due to the lack of audit coverage of the third party contractor for the HIV program.

Due to the lack of audit coverage of the third party contractor in the HIV program, and the lack of documentation in the HIV participant case files supporting eligibility, such as SSNs and personal identification documents, for the seventh year in a row DPW did not adequately document the eligibility and allowability of the drug portion of the HIV program

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as a whole in accordance with OMB Circular A-87. Also, as a result of the errors in our follow-up on two of the cases tested above, we question \$37,185 in drug costs charged to HIV during the fiscal year June 30, 2010. In addition, it is likely that further questioned costs are present due to the above noted weaknesses.

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 contains an Attestation Statement that states:

MUST BE SIGNED AND DATED BY A LICENSED PHYSICIAN

In addition, good internal controls dictate that all documentation supporting the participant's eligibility such as identification and residency documents, 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.*

DPW Guidelines for the SPBP Eligibility Criteria and Documentation Requirements Section B. 1. under Requirements states:

Applicants are required to provide income information for self and each member of the family. Family is defined as any individual or child under age 21, who is related to the applicant by blood, marriage, or adoption, and who resides in the applicant’s household.

Cause: Regarding the lack of audit coverage of the third party contractor that administers the pharmacy benefit claims, the annual re-certification process, and the third party liability process, SPBP personnel indicated that an audit committee was formed to resolve this issue and the audit of the third party contractor for SFYE June 30, 2010 would obtain adequate audit coverage; however, as noted above in the condition the audit for SFYE June 30, 2010 still did not obtain adequate audit coverage.

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Regarding the two cases noted above, SPBP personnel indicated that SPBP policy does not require an applicant to provide a Social Security Number, and with respect to residency, its policy has been to accept letters from social service agencies, health care providers or relatives stating that the applicant lives in Pennsylvania.

Effect: Based on the lack of audit and monitoring coverage of the third party contractor that administers the HIV pharmacy benefit claims, the annual re-certification process, and the third party liability process, DPW cannot provide assurance on the propriety of HIV pharmacy benefit claims, the annual re-certification process, and the third party liability process.

Due to our follow-up on the two cases with documentation weaknesses noted above, we question \$37,185 in drug costs charged to HIV during the fiscal year June 30, 2010. Also, as a result of weaknesses related to not adequately documenting the allowability and eligibility, and a weak fraud prevention system, not requiring applicants to provide SSNs or personal identification, within the drug portion of the HIV program as a whole it is likely that there are additional questioned costs for the current year under audit.

Recommendation: SPBP should pursue appropriate settlement with HHS of the \$37,185 in questioned costs. 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 and monitoring is performed on the third party contractor that administers the pharmacy benefit claims, the annual re-certification process, and the third party liability process, to ensure that an appropriate sample of HIV program claims is audited and tested at the third party contractor. Also, DPW should strengthen their fraud prevention system within SPBP.

Agency Response: The following is the Office of Medical Assistance Programs' (OMAP) response to the Single Audit Finding.

Recommendation 1: SPBP should pursue appropriate settlement with HHS on the undetermined amount of current-year questioned costs reported on the SEFA.

DPW-SPBP Response: Agree in part. The DPW will pursue settlement with the Department of Health and Human Services (HHS) as appropriate. However, the DPW takes exception with the amount of questioned costs shown by the auditors, as it was based on an extremely small sample which is not statistically valid and should not be cited in the finding.

Recommendation 2: 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-SPBP Response: Agree. DPW's SPBP continues to assess policy and procedures for opportunities to improve both in efficiency and efficacy. As cited in last year's response, SPBP staff developed an internal eligibility procedure manual. To further enhance improvement efforts and ensure consistency, in February 2011, the SPBP transitioned the processing of its enrollment applications to Magellan Health Services (MHS), the vendor responsible for the SPBP's recertification and pharmacy claims processing activities. Since then the SPBP has:

- Electronically imaged all client files in order to create a single electronic record for each cardholder. All correspondence and information received is imaged into the record and available to the SPBP.
- Developed a decision logic table (DLT) which outlines Pennsylvania's eligibility requirements and the acceptable documentation for verification.
- Began drafting a Case Manager handbook for the purpose of providing clear direction and information to Case Managers when supporting potential clients to apply for benefits. The first section "Application Process" has been completed. Additional chapters are currently under construction.
- Has created a DLT Oversight team which reviews all policy and makes recommendations on the acceptability of documents to validate eligibility requirements to the Program Administrator.
- Instituted timelines for all phases of the application process,

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Through the transition of this process to the vendor, the SPBP is able to take advantage of the following vendor services, which ultimately benefits the SPBP to include:

- A Quality Assurance Department which completes a 100% quality check on all completed applications.
- An automated process which provides edits for income limits, generates all required correspondence and system alerts
- Continued system matches with Medical Assistance (MA), Medicare and other third party payers to verify the existence of other insurance resources.
- Recovery services through the vendors contract with Health Management Systems (HMS) for reconciliation of TPL benefits and MA reimbursements.

Additionally, this will allow SPBP staff the opportunity to focus on program policy and customer service concerns.

Recommendation 3: DPW should also ensure that proper auditing and monitoring is performed on the third party contractor that administers the pharmacy benefit claims process, the annual re-certification process, and the third party liability process, to ensure that an appropriate sample of HIV program claims is audited and tested at the third party contractor.

DPW-SPBP Response: Agree. As previously stated, the vendor's Quality Assurance process completes a 100% review of all applications processed. Additionally, the vendor provides daily logs to the SPBP in which the vendor documents all received applications and supporting information. A separate log is provided documenting all applications that have been processed and pended and the reason for the activity. This log also includes any applications determined by the QA process that require corrections.

The SPBP's DLT Committee is in the process of identifying additional reporting requirements and monitoring standards as the process progresses. Measures will be established and utilized to monitor performance.

Auditors' Conclusion: Regarding the small sample, since the HIV Formula Care Grants is not a major Single Audit program for June 30, 2010, we did not perform a full-scale audit of the program; however, as required by OMB Circular A-133 and *Government Auditing Standards*, we must follow-up on all findings from the prior year Single Audit. Therefore, we only performed limited procedures to determine if the weaknesses noted in prior year audits still existed during SFYE June 30, 2010 and if those weaknesses could result in likely question costs of \$10,000 or more, and we must reissue the finding in our current year Single Audit. Based on the discrepancies noted in our limited sample, we noted questioned costs of more than \$10,000 which resulted in the reissuance of the finding for SFYE June 30, 2010, in accordance with federal A-133 audit standards.

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

Questioned Costs: \$37,185

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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Finding 10 – 99:

CFDA #93.959 – Substance Abuse Prevention and Treatment Block Grant

Inadequate Program Monitoring of Department of Health SAPT Subrecipients (A Similar Condition was Noted in Prior Year Finding #09-70)

Federal Grant Numbers: TI010044-10 and TI010044-09

Condition: In prior years, DOH has performed during-the-award monitoring of SAPT subrecipients through on-site visits conducted on an annual basis, referred to by DOH as the Quality Assurance Assessment (QAA) process. However, due to budgetary and staffing issues, DOH suspended the on-site program reviews for SFYE June 30, 2010. DOH instead initiated a desk review process for program monitoring of SAPT subrecipients during SFYE June 30, 2010. However, these desk reviews were only performed for 17 of 51 DOH SAPT subrecipients, including 15 Single County Authorities (SCA) and two limited scope agreements during SFYE June 30, 2010. Therefore, DOH did not perform any desk reviews for 34 of the 51 SAPT subrecipients, or 67 percent. Out of the total SAPT expenditures of \$63.4 million for SFYE June 30, 2010, DOH subrecipient expenditures totaled \$52.9 million, or about 83 percent. The 34 subrecipients not monitored through this desk review process during SFYE June 30, 2010 received \$31.0 million, or 59 percent, of the total subrecipient SAPT expenditures.

These program monitoring reviews are scheduled and performed as prescribed in DOH's SAPT Block Grant Application approved by HHS annually as part of the Federal award process. DOH stated in its FFY 2010 (October 1, 2009 to September 30, 2010) SAPT Block Grant Application submitted in the fall of 2009 that it would suspend on-site subrecipient monitoring visits for SFYE June 30, 2010, and instead perform desk reviews through document submission and then resume its on-site program monitoring of subrecipients beginning July 1, 2010. However, since no on-site program monitoring of subrecipients was performed combined with the fact that 34 of 51 subrecipients, or 67 percent also did not receive any program monitoring through a desk review process, DOH's during-the-award monitoring of SAPT subrecipients is not considered adequate for SFYE June 30, 2010.

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.

Additionally, 45 CFR 96.30(a) states in regard to fiscal control and accounting procedures that:

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.

Furthermore, the Commonwealth's SAPT Block Grant Application for Federal Fiscal Year 2010 states throughout that DOH's Bureau of Drug and Alcohol Program's Division of Program Monitoring will routinely monitor compliance by SCAs to all SAPT Block Grant requirements.

Cause: DOH's Bureau of Drug and Alcohol Programs (BDAP) had been operating on a timeline to monitor each SCA annually between July 1 and June 30. According to DOH management, all SCAs were initially scheduled on this timeline for prior SFYE June 30, 2009; however, BDAP incurred staff shortages after a hiring freeze which began in October 2008. An internal decision was made to take the SCAs originally scheduled from January 1, 2009 through June 30, 2009 and extend that six-month monitoring period out though December 2009. Therefore, what was a 12-month monitoring schedule was delayed to an 18-month schedule.

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When the six-month extension was implemented, the intent was to monitor the remaining 15 SCAs not monitored during prior year ended June 30, 2009 using BDAP's SFY 2008-2009 QAA process. However, due to the extended delay in approval of the Governor's Proposed Budget for SFY 2009-10 and restricted staff travel associated with that delay, on-site QAA visits were suspended. The inability to provide on-site QAA visits resulted in the creation of a modified QAA process. This modified QAA process BDAP implemented was to be used through the end of the 2009 calendar year. The modified QAA process involved BDAP monitoring personnel performing a desk review of SCAs' documents and policies followed up with a conference call to determine compliance with federal requirements. Beginning January 1, 2010, with six months remaining in the current five-year grant agreement with the SCAs, further QAA monitoring was suspended until issuance of a new five-year grant agreement to begin on July 1, 2010.

Effect: DOH did not adequately perform during-the-award monitoring of SAPT subrecipients, and failed to comply with its annual FFY 2010 SAPT Block Grant Application submitted to HHS, to ensure compliance with applicable federal regulations, including no on-site monitoring of any SCA's and no desk reviews for 67 percent of its subrecipients which comprised 59 percent of the subrecipient expenditures during SFYE June 30, 2010. Therefore, DOH cannot provide assurance of subrecipient compliance with federal requirements for a material amount of expenditures during SFYE June 30, 2010. As a result, SAPT subrecipients could be operating out of compliance with federal regulations with no DOH oversight and follow-up.

Recommendation: DOH should perform adequate during-the-award monitoring procedures for all SAPT subrecipients during each grant year in accordance with its SAPT Block Grant Application to ensure timely compliance with all applicable federal regulations.

Agency Response: DOH maintains its disagreement with this finding, as outlined in the initial response provided to Finding #09-70 for the prior single audit period ending June 30, 2009.

DOH performs during-the-award monitoring of its subrecipients in several ways, including on-site visits, desk reviews, and analyzing financial and annual program reports. As a result, DOH contends that it is properly monitoring the subrecipients to ensure proper compliance with federal award regulations and that stated performance goals are achieved.

Auditors' Conclusion: We disagree with DOH's response that it is properly monitoring subrecipients to ensure compliance with federal award regulations and that stated performance goals are achieved. DOH is required to monitor subrecipient's use of federal awards through on-site visits or other means to provide reasonable assurance that the subrecipient administers awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. DOH did not provide a risk-based monitoring plan or adequate documentation of other during-the-award monitoring procedures performed to compensate for its lack of on-site monitoring. DOH suspended its on-site program reviews for SFYE June 30, 2010 and instead initiated a desk review process for program monitoring of SAPT subrecipients during SFYE June 30, 2010. However, we consider this material noncompliance and a material weakness since DOH did not adequately monitor 34 of the 51 SAPT subrecipients which received \$31.0 million during SFYE June 30, 2010, or 59 percent of the total SAPT subrecipient expenditures.

Therefore, our finding and recommendation remain as previously stated.

Questioned Costs: The amount of questioned costs cannot be determined.

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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Finding 10 – 100:

CFDA #93.994 – Maternal and Child Health Services Block Grant

Noncompliance and Internal Control Weaknesses Result in \$16,520 in Questioned Personnel Costs (A Similar Condition Was Noted in Prior Year Finding #09-71)

Federal Grant Number: B04MC11160

Condition: In our prior year Single Audit for SFYE June 30, 2007, we audited the MCH 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 DOH's administration of MCH. Because of the reduction in MCH program expenditures in fiscal years ended June 30, 2008, 2009 and 2010 we no longer audited the program as a major Type A program, but we conducted limited follow-up on the prior year findings. The results of our current year follow up on prior-year finding #09-71 are noted below.

During our prior year testing we disclosed that one employee worked on other activities in addition to MCH; however, DOH charged 100 percent of that employee's salary and fringe benefits to MCH during the prior year. As a result, we reviewed this employee's costs charged to MCH and job description again for SFYE June 30, 2010. Our testing found that there was inadequate documentation to support the charging of 100 percent of the \$16,520 in salary and benefits to the MCH program for this employee for SFYE June 30, 2010.

Therefore, the results of our testing disclosed a total of \$16,520 in unsupported personnel charges to the MCH Block Grant for SFYE June 30, 2010.

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: For the direct charge employee, the job description was not 100 percent MCH-related duties.

Effect: Our testing disclosed \$16,520 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 \$16,520 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: DOH agrees with the finding.

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Finding 10 – 100: (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.

Questioned Costs: \$16,520

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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Finding 10 – 101:

CFDA #10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

CFDA #93.563 – Child Support Enforcement (including ARRA)

CFDA #93.568 – Low-Income Home Energy Assistance

CFDA #93.658 – Foster Care – Title IV-E (including ARRA)

CFDA #93.659 – Adoption Assistance (including ARRA)

CFDA #93.667 – Social Services Block Grant

CFDA #93.778 – Medicaid Cluster (including ARRA)

CFDA #93.575, 93.596, and 93.713 – Child Care Development Fund Cluster (including ARRA)

CFDA #93.558 and 93.714 – Temporary Assistance for Needy Families Cluster (including ARRA)

CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse

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 #09-72)

Federal Grant Numbers: 1002PATANF, 0902PATANF, 1004PA4002 (ARRA), 1004PA4004, 0904PA4004, 0904PA4002 (ARRA), 1001PATANF, 0901PATANF, 1001PATAN2 (ARRA), 1001PACCDF, 0901PACCDF, 0801PACCDF, 0901PACCD7 (ARRA), 1001PA1401, 1001PA1402 (ARRA), 0901PA1401, 0901PA1402 (ARRA), 1001PA1403 (ARRA), 1001PA1407, 0901PA1403 (ARRA), 0901PA1407, 1001PASOSR, 0901PASOSR, 051005PA5048, 051005PAARRA (ARRA), 050905PAARRA (ARRA), 051005PA5028, 050905PA5048, and 2B09TI010044-10

Condition: As part of our current year follow-up on our prior year finding, 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. Our follow-up disclosed that DPW's Audit Resolution Section began performing SEFA reconciliations for counties and other subrecipients as part of the subrecipient audit resolution process for subrecipient audit reports with audit periods of FYE December 31, 2008 which were due for submission on September 30, 2009, and DPW notified subrecipients of differences disclosed by the SEFA reconciliations. However, we found that DPW's SEFA reconciliation procedures are not adequate for the sixth year in a row since discrepancies between DPW's records and the audited SEFAs are not investigated and corrected, and reconciliations are not always performed on a timely basis. In addition, DPW did not have written procedures to document the SEFA reconciliation process including procedures related to investigation and correction of differences between DPW's records and the audited SEFAs. We detail tested 40 subrecipient audit reports with findings at four different funding agencies which included 12 subrecipient audit reports at DPW. Eleven of the 12 subrecipient audit report SEFAs tested at DPW contained significant uncorrected SEFA errors, and 1 out of 12 subrecipient audit report SEFAs was received by DPW over 11 months earlier but was not yet reconciled at the time of our testing in May 2011, so we concluded that DPW's overall SEFA reconciliation, follow-up, and resolution procedures were inadequate to ensure its subrecipient funds are being properly subject to Single Audit under OMB Circular A-133 every year as required.

The above control deficiency, considered in combination with a separate finding included elsewhere in this report disclosing DPW's inadequate communication of federal award information in subrecipient award documents, is material to the major federal programs listed above.

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:*

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Finding 10 – 101: (continued)

- (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.*

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 are properly resolved.

Cause: Personnel in DPW's Audit Resolution Section stated that the implementation of the SEFA reconciliation process involved effort to perfect the extraction of the proper subrecipient payment data from the Commonwealth's SAP system, so there was no follow up of differences due to staffing and workload issues. The Audit Resolution Section chose to instruct the respective subrecipients to ensure that the data reported on the audited SEFAs was accurate.

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 misspending and/or inappropriately tracking and reporting federal funds over multiple-year periods, and these discrepancies may not be properly monitored, timely detected, and corrected by DPW as required. No questioned costs were disclosed for this finding.

Recommendation: We recommend that DPW strengthen its controls over its A-133 subrecipient SEFA reconciliation process in the agency to ensure all subrecipient SEFA amounts are timely reconciled to state payment records each year, and discrepancies are properly followed up on and corrected as soon as possible. This process should be more effectively monitored within the agency to enforce better timeliness and consistency each year in ensuring subrecipients properly spend and account for federal funds. DPW should also complete, as soon as possible, the reconciliations that have not yet been done.

Agency Response: The DPW, Audit Resolution Section has begun reconciling subrecipient SEFAs starting with fiscal years ended after June 30, 2008. Since no prior policies and/or procedures were in place to reconcile SEFAs, the ARS developed procedures to enable for accurate review of the federal expenditures. The ARS intends to have documented policies and procedures for this process; however, remedies for discrepancies within the reconciliation may not be possible, as the DPW records payments disbursed and the subrecipients record expenditures. Often expenditures are not equal to payments issued due to the nature of the accruals and deferrals that exist with accrual-basis accounting.

Auditors' Conclusion: Based on the agency response, in order for DPW's SEFA reconciliation procedures to be deemed adequate, there must be documented procedures in place for DPW to perform the SEFA reconciliations and follow up and resolve significant reconciling differences on a timely basis. The finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

Questioned Costs: The amount of questioned costs cannot be determined.

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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Finding 10 – 102:

- CFDA #10.557 – Special Supplemental Nutrition Program for WIC**
- CFDA #10.558 – Child and Adult Care Food Program**
- CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds (including ARRA)**
- CFDA #81.042- Weatherization Assistance for Low-Income Persons (including ARRA)**
- CFDA #84.367 – Improving Teacher Quality State Grants**
- CFDA #93.069- Public Health Emergency Preparedness**
- CFDA #93.563 – Child Support Enforcement (including ARRA)**
- CFDA #93.568 – Low-Income Home Energy Assistance**
- CFDA #93.658 – Foster Care – Title IV-E (including ARRA)**
- CFDA #93.659 – Adoption Assistance (including ARRA)**
- CFDA #93.667 – Social Services Block Grant**
- CFDA #93.767 – Children’s Health Insurance Program**
- CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse**
- CFDA #10.553, 10.555, 10.556, and 10.559 – Child Nutrition Cluster**
- CFDA #14.228 and 14.255 – CDBG – State-Administered Small Cities Program Cluster (including ARRA)**
- CFDA #17.258, 17.259, and 17.260 – WIA Cluster (including ARRA)**
- CFDA #20.205, 20.219, and 23.003 – Highway Planning and Construction Cluster (including ARRA)**
- CFDA #84.010 and 84.389 – Title I, Part A Cluster (including ARRA)**
- CFDA #84.027, 84.173, 84.391, and 84.392 – Special Education (IDEA) Cluster (including ARRA)**
- CFDA #93.044, 93.045, 93.053, 93.705, and 93.707 – Aging Cluster (including ARRA)**
- CFDA #93.268 and 93.712- Immunization Cluster (including ARRA)**
- CFDA #93.558 and 93.714 –Temporary Assistance for Needy Families Cluster (including ARRA)**
- CFDA #93.569 and 93.710- Community Services Block Grant Cluster (including ARRA)**
- CFDA #93.575, 93.596, and 93.713 – Child Care Development Fund Cluster (including ARRA)**
- CFDA #93.775, 93.777, and 93.778 – Medicaid Cluster (including ARRA)**

Noncompliance and Control Deficiencies Exist in the Commonwealth’s Subrecipient Audit Resolution Process (A Similar Condition Was Noted in Prior Year Findings #09-73 and #09-74)

Federal Grant Numbers: Various grant numbers per each CFDA listed above.

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 audit exceptions:

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Finding 10 – 102: (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 fifth year in a row. Based on our sample of 40 subrecipient audit reports (with and without findings) which we detail tested and analysis of all audits desk reviewed during SFYE June 30, 2010, we noted the average time OB-BOA took to forward the desk reviewed reports to the funding agencies for further resolution, including SEFA reconciliation, was approximately five months, which represents 83 percent of the federal requirement to resolve subrecipient findings within six months after receipt. Our analysis of 13 audits with findings out of our sample of 40 subrecipient audit reports disclosed that the average time OB-BOA took to forward the desk reviewed audit reports with findings to the funding agencies for further resolution was approximately two months, which represents 33 percent of the federal requirement to resolve subrecipient findings within six months. 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 sixth 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 40 reports with findings at a sample of four different funding agencies (PennDOT, PDE, Insurance, and DPW), we noted 26 (or 65 percent) with findings at PennDOT, PDE, Insurance, and DPW that were resolved between approximately seven months to over 20 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.

Additional audit exceptions noted in our testing at the individual funding agencies are as follows:

- Our detailed testing of PDE's subrecipient audit resolution procedures disclosed that for 8 subrecipient audit reports with findings out of 21 subrecipient audit reports we tested, the time period for making management decisions on findings ranged from over 7 months to over 13 months from the date that PDE received the audit reports. Our current year testing also disclosed that for 1 out of 21 subrecipient audit reports we tested, the SEFA reconciliation process was not started for over 10 months from the date that PDE received the audit report.
- Our detailed testing of Insurance's subrecipient audit resolution procedures disclosed that for one subrecipient audit report with findings, the time period for making management decisions on findings was over nine months from the date that Insurance received the audit report.
- Our detailed testing of DPW's subrecipient audit resolution procedures disclosed that for all 12 subrecipient audit reports with findings tested, the time period for making management decisions on findings ranged from approximately 6.5 months to over 18 months, respectively, from the date that DPW received the audit reports.
- Our review of the DOH agency listing disclosed that for 2 out of 4 subrecipient audit reports with findings, the time period for making management decisions on findings was over 9 months and over 11 months, respectively, from the date that DOH received the audit reports.
- Our review of the L&I agency listing disclosed that for 1 audit report with findings (note that this was the only audit report with findings which required follow-up by L&I), the time period for making a management decision on findings was over 10 months from the date L&I received the audit report.
- Our review of the Pennvest agency listing and inquiry of Pennvest personnel disclosed that for 1 out of 10 subrecipient audit reports with findings, the time period for making management decisions on findings was over eight months from the date that Pennvest received the audit report.

In addition, as part of our current year follow up on the adequacy of the Commonwealth's procedures for ensuring timely audit submission for two subrecipients (Crawford County and Bucks County) which received material federal funding under multiple major federal programs/clusters as cited in our prior year Single Audit Finding #09-74, we noted

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Finding 10 – 102: (continued)

that although Crawford County submitted Single Audit Reports to OB-BOA for FYE December 31, 2007 and FYE December 31, 2008, these audits were 26.5 and 19 months late, respectively, based on respective due dates of September 30, 2008 and September 30, 2009. Although we noted that Bucks County submitted a Single Audit Report for FYE December 31, 2008 to OB-BOA, this audit was 11 months late based on the September 30, 2009 due date.

Finally, end users in OB-BOA use a Microsoft Access database to maintain the subrecipient audit universe. Although some policies and procedures have been established over access controls and operations/backup of end user computing programs and supporting data, policies and procedures are not adequate to ensure IT general controls over program change and program development are in place for this application.

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.*
 - (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.

OMB Circular A-133, 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.*

A well designed system of internal controls dictates that sound general computer controls (which include adequate segregation of duties, access controls to programs and data, program change controls, program development controls, and computer operations controls) be established and functioning to ensure that agency operations are conducted as closely as possible in accordance with management's intent.

Cause: The common reason provided by Commonwealth personnel for untimely audit resolution in all the agencies and the late submission of subrecipient audit reports was either a change in staff or a lack of staff to follow up on and process A-133 subrecipient audit reports more timely. The deficiencies in end user computing policies and procedures are a result of limited staffing and budgets.

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Finding 10 – 102: (continued)

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 control deficiencies are not corrected on a timely basis, and there is an increased risk of unallowable charges being made to federal programs if corrective action and recovery of questioned costs is not timely. With respect to the SEFA reconciliations which are not being performed timely and late audit report submissions, 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 on a timely basis as required.

With regard to the subrecipient audit universe, if general computer controls over end user computing are not improved, agency operations may not be conducted in accordance with management's intent.

Recommendation: We recommend that the above weaknesses that cause untimely OMB A-133 audit resolution, including untimely SEFA reconciliations, late audit report submissions, and untimely finding resolutions, be corrected to ensure compliance with federal audit resolution requirements and to better ensure more timely subrecipient compliance with program requirements. We also recommend that Commonwealth management review the general computer control deficiencies related to end user computing noted above and take the necessary action to resolve them.

Agency Response:

BOA Response: We disagree with the finding.

The Bureau of Audits (OB-BOA) performed technical desk reviews of approximately 1,400 subrecipient single audit reports during the FYE June 30, 2010. Of those 1,400 reports, 179 contained findings relative to federal awards. OMB Circular A-133, Section 400, requires the pass through entity to issue a management decision on audit findings pertaining to federal awards within six months after receipt of the subrecipient's audit report. Through their analysis, the external auditors have determined that it took OB-BOA 2.1 months (35 percent of the six month time frame) to complete our technical review and provide reports to the pass-through funding agency for continued resolution of the federal award findings. OB-BOA's target for providing reports with federal award findings to the pass-through agency is two months. Therefore, we believe that the external auditors' results are within our expected measures.

The external auditors contend that two months is not reasonably timely. However, they have refused to provide OB-BOA with their definition of "reasonably timely", despite the fact that *Government Auditing Standards* relating to financial audits (Section 4.15 of the Yellow Book) require the auditors to define criteria, including expectations of what should exist and benchmarks against which performance is compared or evaluated.

Furthermore, the auditors believe that an internal control weakness exists because their sample of 40 single audit reports (both with and without federal award findings) took an average of 5.3 months to be transmitted to pass-through entities for resolution. However, there is no OMB requirement to process single audit reports, without federal award findings, within a six month period of time. We contend that no weakness exists as every single audit report is subject to a technical desk review, which includes a review of the SEFA, prior to the reports being transmitted to the pass-through funding agency. We have already established that funding agencies are receiving reports with federal award findings within 2.1 months. The reports which are being transmitted to funding agencies in excess of 5 months contain no findings that require resolution.

Finally, end-user controls do exist over the Microsoft Access database used to maintain OB-BOA's subrecipient audit universe. There are only ten users within the Office of Comptroller Operations that have security permission to access the folder in which this database resides. The security of this folder was tested by the external auditors' staff. In addition, permission to access this folder is authorized by one individual within OB-BOA, but granting access to this folder is executed by OA-OIT. Furthermore, to access the server which contains this folder, you must have a valid CWOPA ID and password.

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PennDOT Response: As part of this review PennDOT was asked to provide six audit reports with findings to be tested by the auditors. All six reports were processed within three months after PennDOT received the reports from the Bureau of Audits. Based on this fact PennDOT was in full compliance with OMB circular A-133 subrecipient audit requirements during the fiscal year ending 06-30-10 and PennDOT currently remains in full compliance with the federal circular.

PDE Response: The Pennsylvania Department of Education, Division of Budget, Audit Section understands the importance of the OMB Circular A-133, Section 400 regulation to resolve findings within a six month period. The auditor's recommendation indicates correcting the weaknesses which caused the untimely audit resolution. Under the current circumstances, the Audit Section will continue striving to achieve the goal of audit review compliance.

Insurance Response: We are not in disagreement with the finding and have taken corrective action to preclude having this finding from reoccurring.

DPW Response: The DPW, Audit Resolution Section (ARS) is in the process of eliminating the backlog of subrecipient audit report reviews. Currently, the backlog of reports to be reviewed still remains past the required 6 month determination period. The addition of school districts single audits has significantly increased the number of reviews the ARS needs to process. The ARS has developed procedures to reduce the scope of the review for agencies that receive less than \$100,000 in pass through federal funding from the DPW.

DOH Response: DOH recognizes the requirement in OMB circular A-133 for resolution of findings within six months of receipt of the subrecipient audit report. The reason for DOH's untimely audit resolution of the cited reports was a lack of adequate staff. We now have an additional staff member and have streamlined our procedures to insure that we will respond in a timely manner in the future.

L&I Response: It was determined that the delay in processing of the one A-133 report with a finding that was received during the audit testing period was due to a turnaround of personnel. It is expected that with more consistent staffing and the utilization of the Bureau of Financial Management's Audit Tracking System that adherence to compliance of a six-month management decision will be achieved.

Pennvest Response: PENNVEST Management agrees with the finding A133B. PENNVEST agrees that sub-recipient audit processing may not have been timely with the available staff member. PENNVEST will devote an additional staff member to the loan monitoring program to assist in the audit reviews and response activities in order to make timely management decisions on any findings.

Auditors' Conclusion: Regarding the reasonableness of the time period involved, we are auditing to determine whether the Commonwealth is in compliance with the criteria of a six month time period established in OMB Circular A-133 as cited in the Criteria section above. Therefore, we have clearly defined our criteria in accordance with the Yellow Book. OB-BOA and the various Commonwealth agencies need to work jointly together and coordinate their efforts to develop and implement reasonable timeframes, policies, and procedures which ensure that the subrecipient audit reports are reviewed and have management decisions made on findings within the overall time period of six months cited in OMB Circular A-133. As noted in the above Condition, our testing disclosed a 65 percent error rate for subrecipient audits with findings which were resolved between approximately seven months to over 20 months after they were initially received by OB-BOA for processing. Therefore, the two month time period for OB-BOA's processing time of audits with findings is clearly contributing to the Commonwealth's overall processing time which results in the Commonwealth's noncompliance with the six month period cited in OMB Circular A-133.

The review of the SEFA which is performed by OB-BOA as part of their desk review process is limited to ensuring that any federal programs for which the Commonwealth's records show payments to a particular subrecipient are included on the respective subrecipient's SEFA. This review does not include actual reconciliations between the subrecipient expenditures per the Commonwealth's records and the subrecipient audit report SEFA expenditures with a follow up and resolution of differences. Therefore, this review of the SEFA is not detailed enough to take the place of the SEFA reconciliations performed by the Commonwealth funding agencies. Since the average time period for OB-BOA to

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Finding 10 – 102: (continued)

process and transmit subrecipient audits without findings to Commonwealth funding agencies is approximately 5.3 months, this time period is not reasonable when combined with the Commonwealth funding agencies' additional processing time to ensure that the funding agencies perform SEFA reconciliations and follow up and resolve differences for these subrecipients on a reasonably timely basis.

Regarding the end-user controls over the Microsoft Access database used to maintain OB-BOA's subrecipient audit universe, the response from OB-BOA only addressed access controls. Our original inquiry of OB-BOA personnel disclosed that 15 users (four management personnel and 11 staff members of the Desk Review Unit) have full access to the folder in which the database resides. Although there appeared to be some access controls over the folder in which the database resides and computer operations controls to ensure proper backup of the data, no further documentation was provided to mitigate the IT general controls weaknesses and OB-BOA's end user policies and procedures did not include program change controls and program development controls. Therefore, the end-user policies and procedures for this application were not adequate to ensure the integrity of the data is maintained and no unauthorized alterations/deletions of the data occur.

Based on the various Commonwealth agency responses, the agencies should continue to work on implementing adequate procedures to ensure that subrecipient audit resolution is performed in a timely manner and in compliance with federal regulations in future audit periods. We will review any corrective action in our subsequent audit, and our finding and recommendation remain as previously stated.

Questioned Costs: None

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, 2010

Finding 10 – 103:

CFDA #10.551 and 10.561 – SNAP Cluster

CFDA #16.610 – Regional Information Sharing Systems

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

CFDA #93.558 – Temporary Assistance for Needy Families

CFDA #93.563 – Child Support Enforcement

CFDA #93.569 – Community Services Block Grant

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

Unallowable Payments for Unused Employee Leave Result in \$453,533 in Questioned Costs (A Similar Condition Was Noted in Prior Year Finding #09-75)

Federal Grant Numbers: H126A090056, G08B1PACOSR, and G0901PACCDF

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, 2010, 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, 2010, and they are as follows:

CFDA #	Program Name	Amount
16.610	Regional Information Sharing Systems	\$85,459
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	\$24,804
93.569	Community Services Block Grant	\$10,942
93.575	Child Care and Development Block Grant	\$71,695
	Total Leave Payouts Over \$10,000 Per Program/Cluster:	<u>\$192,900</u>

We also noted that similar leave payouts of \$581,541 were allocated and charged to various state and federal welfare programs through DPW's department-wide cost allocation plan (or CAP). We estimated that 45.408 percent of these leave payouts, or \$264,066, 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. Of the federal total of \$264,066, only \$260,633 was charged to federal programs which had leave payouts in excess of \$10,000 each. The breakout of the \$260,633 by federal program was estimated by the auditors as follows:

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 103: (continued)

CFDA #	Program Name	Amount
93.778	Medical Assistance	\$118,302
Various	SNAP Cluster (CFDA #10.551 and 10.561)	\$80,540
93.558	Temporary Assistance for Needy Families	\$30,632
93.563	Child Support Enforcement	\$13,203
93.667	Social Services Block Grant	\$17,956
	Total Leave Payouts Over \$10,000 Per Program/Cluster From the DPW Cost Allocation Plan:	<u>\$260,633</u>

Total unallowable costs for leave payouts inappropriately charged to the above federal programs were \$453,533 for the year under audit.

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.*

OMB Circular A-133, in Section _____.510, Audit Findings, 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: In prior years, 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. In response to the prior year findings, Commonwealth management indicated that they were aware of the situation and implemented corrective action effective July 1, 2009. However, as noted above, direct charges to federal awards programs continued to occur during the fiscal year ended June 30, 2010.

Effect: At least \$453,533 in unused annual and sick leave payments charged to the above federal programs are questioned as unallowable.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 103: (continued)

Recommendation: We recommend that Commonwealth management pursue appropriate settlement with the Federal Government regarding the \$453,533 in questioned costs. Finally, we recommend that management ensure that any future methodology for charging unused leave payouts is in accordance with applicable federal regulations.

Agency Response: The corrective action that was implemented in July, 2009 was applied to payroll expenditures for pay periods ending after July 1, 2009. The Commonwealth's payroll cycle has a two week lag, i.e. payments to individuals are for pay periods ending two weeks prior. As a result, the first payroll that posted in July, 2009 was for a pay period ending in June, 2009 and the corrective action was not applied to this first payroll. Going forward, for fiscal year ending June 30, 2011 the corrective action plan is fully implemented. Our monitoring of the corrective action plan during the fiscal year ending June 30, 2011 indicates that there are no expenditures for direct leave payout posted to federal programs and charges are in accordance with all applicable federal regulations.

Auditors' Conclusion: Based on the agency response, the corrective action implemented in July 2009 did not include the first payroll that posted in July 2009. Therefore, residual leave payout expenditures were directly charged to Federal programs during SFYE June 30, 2010. Since we are required by OMB Circular A-133 to report known questioned costs greater than \$10,000 for Federal programs, the finding and recommendation remain as previously stated.

Questioned Costs: \$453,533

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, 2010

Finding 10 – 104:

- CFDA #10.555 – National School Lunch Program for Children
- CFDA #10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children
- CFDA #10.558 – Child and Adult Care Food Program
- CFDA #10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
- CFDA #66.458 – Clean Water – State Revolving Fund
- CFDA #84.010 – Title I Grants to Local Educational Agencies
- CFDA #84.027 – Special Education – Grants to States
- CFDA #84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States
- CFDA #84.367 – Title II - Improving Teacher Quality State Grants
- CFDA #93.558 – Temporary Assistance for Needy Families
- CFDA #93.563 – Child Support Enforcement (including ARRA)
- 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 (including ARRA)
- CFDA #93.659 – Adoption Assistance (including ARRA)
- CFDA #93.667 – Social Services Block Grant
- CFDA #93.767 – State Children’s Insurance Program
- CFDA #93.778 – Medical Assistance Program (including ARRA)
- 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 \$767,220 Known Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding #09-77)

Federal Grant Numbers: 1PA300305, 2009IW100341, 2009IW100641, 2010IW100341, 2010IW100641, 2008IW500341, 2008IW551041, 2008CW500341, CS-42-0001-09, CS-42-0001-07, CS-42-0001-08, 2W42000209(ARRA), S010A080038A, H027A080093, H126A090056, H126A080056, H126A070056, S367A080051A, 0902PATANF, 1002PATANF, 100PATAN2 (ARRA), 0901PATAN2 (ARRA), 0904PA4004, 0904PA4002 (ARRA), 1004PA4004, 1004PA4002 (ARRA), 08B1PALIEA, 09B1PALIEA, 0901PALIE2, 1001PACCDF, 0901PACCDF, 0801PACCDF, 1001PA1401, 1001PA1402 (ARRA), 0901PA1401, 0901PA1402 (ARRA), 0901PA1403 (ARRA), 0901PA1407, 1001PA1407, 1001PA1403 (ARRA), 1001PASOSR, 0901PASOSR, 51005PA5021, 50905PA5021, 0905PA5028, 5-0905PAARRA, 1005PA5028, 5-1005PAARRA, 0905PA5048, 1005PA5048, TI010044-09, TI010044-08, and 04-1004PAD100

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 17th year in a row, since the initial implementation of the CMIA in the Commonwealth during SFYE June 30, 1994, numerous control weaknesses remain unresolved.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 104: (continued)

During our prior audit period, the Commonwealth implemented new ADC patterns based on a new check clearance study for the first time since 2000. However, we noted the following exceptions in our statewide testing of the check clearance patterns and in our overall testing of major program drawdowns based on these clearance patterns:

- The ADC patterns were developed based on business days, while the ADC patterns implemented by the Commonwealth to actually draw the funds on CDS are based on calendar days. Therefore, beginning July 1, 2009, for most major programs subject to CMIA, the Commonwealth has been drawing funds early and owes interest to the federal government. Furthermore, the annual CMIA State-Treasury Agreement requires actual drawdown patterns to be based on business days, not calendar days, so the CDS drawdown methodology is in violation of the State-Treasury Agreement.
- Also, due to general computer control weaknesses noted in the SAP system as reported in findings in our current-year audit of the Commonwealth's BFS, we could not place any reliance on dates interfaced into CDS from SAP. While we could confirm the date of receipt of federal funds because PA Treasury manually date stamped each Transmittal of Revenue document, no dates were recorded on invoices to support the SAP posting and "clearance" dates (date invoice was sent to PA Treasury) recorded in SAP, which are interfaced to CDS.
- Within the State-Treasury Agreement for the WIC program (CFDA #10.557), we noted that the categories of expenditures identified were WIC Benefit Payments at 93 percent and Payroll/Direct payments at 7 percent. Our review of the expenditure categories disclosed that this breakout was not accurate, as Benefit Payments represent only about 77 percent and Payroll/Direct are 23 percent of the WIC program, respectively. Further, since nearly all of the Payroll/Direct category actually represents outside payments to subgrantees and contractors, the one-day clearance pattern reported in the State-Treasury Agreement (normally used for payroll only) is too short given the normal payment process for these outside costs.
- Our testing of monthly draws for the Supplemental Nutrition Assistance Admin (CFDA #10.561) and Medical Assistance Program (CFDA #93.778) program costs allocated through DPW's department-wide Cost Allocation Plan (CAP) disclosed that Comptroller Office did not draw these federal funds in accordance with the CMIA Treasury-State Agreement. The Treasury State Agreement requires monthly draws for DPW CAP costs to be made at the beginning of each month to fund activity of the prior month and shall be an estimate based on an average of the actual allocation of costs for the preceding twelve months and reconciled monthly. However, DPW's monthly draws for its CAP costs were not based on this required methodology, but were routinely based upon actual DPW CAP costs for the previous month and were made approximately 20 to 30 days after month end. This draw procedure violated the Treasury-State Agreement.
- Within the RSBS program, CFDA #84.126, we noted that the Comptroller Office posted expenditure adjustment #7803394130 on December 30, 2009 for \$2,965,000, to transfer federal expenditures to the state ledger. The transfer was made to increase underfunded state expenditures to the required state match percentage for the RSBS grant that was closing out on September 30th. Prior to this transfer, there was an excess federal cash balance in violation of the CMIA State-Treasury Agreement, since the funds had already been drawn down and deposited as federal for the expenditures transferred. Further testing revealed that as of June 30, 2010, or nine months later, the required state match for the two open RSBS grants was still underfunded by approximately \$4.8 million, so the excess federal cash remained on hand. Although this is a violation of CMIA, the CDS system does not record a state interest liability in situations where state matching funds are not being timely posted and excess federal cash is drawn down early to temporarily fund program state match. As a result, an unknown amount of CMIA interest is owed on this excess RSBS federal cash for SFYE June 30, 2010 to be remitted during SFYE June 30, 2011.

Also, the State interest liability on the CMIA Annual Report for SFYE June 30, 2009 which was submitted to the U.S. Treasury during our current audit period SFYE June 30, 2010, was understated by a minimum of \$767,220 as follows:

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 104: (continued)

- 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 \$137,661,552 at June 30, 2009, with a carry-forward balance from the prior fiscal year of \$118,081,451. 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 \$127.87 million during the June 30, 2009 fiscal year, the state's interest liability was understated by an estimated \$767,220 for the Medical Assistance program, CFDA#93.778. We also found that the excess cash in this account was \$161.82 million as of June 30, 2010, so additional CMIA interest is owed for SFYE June 30, 2010 to be remitted during SFYE June 30, 2010.
- Within our testing of Federal Revenue Collected in Advance, we noted a \$1,765,605 balance at the Department of Labor and Industry that was carried forward from our prior audit period. Our inquiry of Comptroller Office personnel during our prior audit disclosed that this balance represented the remaining balance of SSA reimbursements received. In addition, these funds were to be treated as program income and expended before any additional federal funds were to be drawn. Since additional SSA funds have been drawn since these funds were initially received, the Commonwealth would owe an undetermined amount of interest on these funds.

Further, we noted that the check clearance study was performed by one person and not subject to supervisory review.

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.

The Commonwealth's CMIA Agreement with the U.S. Treasury Department Section 6.2.4 related to the monthly draws under Cost Allocation Plans states:

Monthly Draws

The State shall request funds at the beginning of each month to fund the activity of the prior month. The amount of the request for a given month's activity shall be an estimate based on the actual allocation of costs for the preceding 12 months and shall be reconciled monthly. This funding technique is interest neutral.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 104: (continued)

31 CFR 205.14(a)(2), pertaining to federal interest liabilities, states:

(2) *If a State pays out its own funds for Federal assistance program purposes without obligational authority, the Federal Program Agency will incur an interest liability if obligational authority subsequently is established. However, if the lack of obligational authority subsequently is established. However, if the lack of obligational authority is the result of the failure of the State to comply with a Federal Program Agency requirement established by statute, regulation, or agreement, interest liability may be denied. A Federal interest liability will accrue from the day a State pays out its own funds for Federal assistance program purposes to the day Federal funds are credited to a State bank account.*

31 CFR 205.15 states the following pertaining to state interest liabilities:

- (a) *General rule. State interest liability may accrue if Federal funds are received by a State prior to the day the State pays out the funds for Federal assistance program purposes. State interest liability accrues from the day Federal funds are credited to a State account to the day the State pays out the Federal funds for Federal assistance program purposes.*
- (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.*
- (d) *Mandatory matching of Federal funds. In programs utilizing mandatory matching of Federal funds with State funds, a State must not arbitrarily assign its earliest costs to the Federal government. A State incurs interest liabilities if it draws Federal funds in advance and/or in excess of the required proportion of agreed upon levels of State contributions in programs utilizing mandatory matching of Federal funds with State funds.*

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 State 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.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 104: (continued)

Cause: Regarding the ADC patterns in the check clearance study being based on business days, while the draws were based on calendar days, Office of Comptroller Operations (OCO) personnel indicated that they identified this error in February 2010 and developed a computer program to calculate the interest owed to the federal government. Upon completion of the interest calculation, any interest owed will be submitted to the federal government. OCO personnel indicated that the amount of interest owed for 2009-10 was \$116,055, and that this amount was paid to U.S. Treasury on March 31, 2011.

Regarding the large differences within the expenditure categories noted in the State-Treasury Agreement in the WIC program versus actual, OCO personnel indicated that they would verify the breakout of expenditures with Comptroller personnel to verify the accuracy of the expenditure breakout.

For other items addressed in the condition relating to errors and weaknesses in the CMIA interest calculation, Commonwealth personnel indicated they would review the documents identified and determine if they agree that the transactions created an interest liability or the transactions arose outside of CDS and were not considered when preparing the Annual Report of CMIA interest liabilities.

Effect: As a result of the weaknesses noted, the Commonwealth is not in compliance with the CMIA regulations and procedures for clearance pattern requirements and for the interest calculation in the CMIA Annual Report as stated in 31 CFR 205.

The state and federal interest liability amounts reported on the CMIA Annual Report for SFYE June 30, 2009 are not accurate. Our testing disclosed a minimum estimate of \$767,220 in understatements in the state interest liability to the federal government.

Because of the overall pervasiveness of the check clearance discrepancies involving drawing funds based on calendar days versus business days, and differences in expenditure populations, etc., 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, etc. are not recognized by CDS as interest-generating transactions. Since manual adjustments are not always made to compensate for this system weakness, the Commonwealth's CMIA interest calculation is further understated by an undetermined amount.

Finally, these cash management deficiencies have a material impact on compliance with federal regulations in the Commonwealth's ARRA-funded programs.

Recommendation: We recommend that OCO pursue appropriate settlement with the federal government regarding the \$767,220 in additional interest owed to the U.S. Treasury.

For its check clearance studies, we recommend OCO personnel implement a strong control 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, and include supervisory reviews of the study and implementation of the study.

In addition, OCO personnel should determine the additional amount of June 30, 2010 CMIA interest due to the federal government as a result of all of the additional above noted discrepancies for CMIA-covered programs, and report and remit this additional interest liability to the U.S. Treasury.

Also, we recommend that OCO modify the CDS system or have Comptroller personnel review possible interest generating transactions occurring outside of CDS so that all transactions that generate CMIA interest are accurately included in the CMIA interest calculation.

Further, we recommend that OCO calculate any prior-year additional June 30, 2009 CMIA interest due to the U. S. Treasury as a result of the drawdown system weaknesses disclosed above and repay the amount calculated or pursue additional settlement with U.S. Treasury.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 104: (continued)

Finally, we recommend OCO consider amending the Commonwealth's CMIA State-Treasury Agreement to reflect the current actual monthly draws methodology used by the Comptroller for DPW's CAP costs. The CMIA State-Treasury Agreement should also be in agreement with the CDS drawdown system methodology in terms of using business days vs. calendar days in applying the draw delay for each major program.

Agency Response: Comptroller Operations agrees with the condition that the commonwealth drew funds based on calendar days when the State-Treasury Agreement stated that activity would be based on business days. As noted by the auditor this was identified and the commonwealth has reimbursed the US Treasury for applicable interest as of March 31, 2011.

Comptroller Operations disagrees with the condition that computer control weaknesses prevented the auditor from relying on the dates interfaced into CDS from SAP. There was no specific information provided as to why they were unable to rely on the dates. A similar condition was noted last year and discussions occurred that explained how the system derives the "clearance" dates. The "clearance" date is a system generated date and it is extracted to CDS based on the DFS program logic. The DFS program logic is available to the auditor for review. The fact that the dates are system generated and unable to be edited by users should provide assurance to the auditors. We further disagree with the condition that suggests the commonwealth should be manually recording dates to support the posting of activity, this is an inefficient and archaic method.

For the noted condition related to the WIC program (CFDA #10.557), the Office of Comptroller Operations disagrees with the audit methodology used to derive their expenditure category percentages. For the purposes of the TSA, the percentage identified under the Payroll/Direct expenditure category represents the program expenditures incurred by the state agency. The audit calculated percentage for the Payroll/Direct expenditure category included payments to grantees, which provided program benefits to eligible participants. Since the grantee payments allow the grantees to provide program benefits to eligible participants, these expenditures should be included under the WIC Benefit Payments category and not the Payroll/Direct expenditure category. The percentage of expenditures incurred during the SFYE match those in the State-Treasury Agreement.

For the Supplemental Nutrition Assistance Admin (CFDA #10.561) and Medical Assistance Program (CFDA #93.778), the Office of Comptroller Operations agrees that the identified condition related to monthly draws for DPW's CAP costs as identified in the fourth bullet, exists.

Comptroller Operations disagrees with the auditor's position that excess federal cash is being drawn down early to temporarily fund program state match. The commonwealth does not arbitrarily assign expenditures to federal funds first and federal dollars are only drawn when federal expenditures are incurred. Invoices are split funded between federal and state when they are initially processed. However, there are instances where adjustments are necessary, such as the liquidation of a commitment, which can affect the match for a short period of time. However, Comptroller Operations and the agency identify and implement corrections as needed to ensure the grant is matched appropriately.

Comptroller Operations disagrees with the auditor's condition that states the commonwealth owes interest on money currently held by PDE for the Medical Assistance Program. This program was established as a result of the Medicare Catastrophic Coverage Act (PL 100-360). This law stated that federal Medicaid funds must be available to reimburse for the cost of health related services found in a child's IEP, individualized service plan, or individualized family service plan (IFSP). As a result of this state education agencies are eligible for federal reimbursement for the health related services they are providing to children who are eligible for Medicaid. The Pennsylvania Department of Education developed the School Based ACCESS program (SBAP) as a method to claim reimbursement for the costs of the related services provided to Medical Assistance (MA) eligible students. CO disagrees that interest is owed on the balances maintained by PDE in the restricted accounts because the program operates on a reimbursement basis and the claims have already been funded by state funding. The commonwealth has decided to fund these expenses up front and then provide the Federal Financial Participation to the school to reinvest in the program. The auditor's assertion that a large carry-forward balance exists and that PDE is not reimbursing the schools timely is not accurate. The accounts have large dollar amounts that continuously are deposited and disbursed to the schools from the account and a snapshot at year end is not a fair representation of the account.

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Federal Award Findings and Questioned Costs - June 30, 2010

Finding 10 – 104: (continued)

With regards to the SSA Federal Revenue Collected in Advance, we disagree with the condition that these funds are required to be spent prior to incurring additional federal expenditures. The reimbursement, to which this balance is applicable, was received prior to SSA Policy Directive RSA-PD-92-04 issued on December 6, 1991 that required this reimbursement be treated as program income to be expended before any additional funds are drawn. Therefore, there is no interest liability associated with these funds. Although there is no requirement to do so, L&I has historically used these funds for designated program expenditures and as a result no additional federal funds were drawn for the designated expenditures.

Auditors' Conclusion: Regarding the weakness in general computer controls, whenever general controls are weak, in this case as documented in Finding #10-11, application controls cannot be relied upon; therefore, reviewing the DFS program logic as stated by Comptroller Operations (CO) would not allow us to rely on SAP system generated dates. Further, we do not suggest that dates be manually recorded on all documents, but the Commonwealth should correct all general computer controls weaknesses.

Regarding the WIC program issue payments to subgrantees are not part of the WIC Benefits Payments category as the Benefits Payments are paid out of the WIC Bank Account for Food Instrument costs, and payments to subgrantees are not funded out of the WIC Bank Account.

Regarding the CO response on excess Federal cash within the RSBS program, federal regulation 31 CFR 205.15(d), which applies to cash management of all Federal programs, clearly states:

Mandatory matching of Federal funds. In programs utilizing mandatory matching of Federal funds with State funds, a State must not arbitrarily assign its earliest costs to the Federal government. A State incurs interest liabilities if it draws Federal funds in advance and/or in excess of the required proportion of agreed upon levels of State contributions in programs utilizing mandatory matching of Federal funds with State funds.

Since L&I was not properly matching RSBS funds due to adjustments made between Federal and State ledgers the Commonwealth owes interest to the Federal Government for any periods when the match is not adequately funded by the Commonwealth.

Regarding the excess Medicaid cash on hand at PDE, no new relevant information was provided in the agency response and, as in prior years, 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. Further, as of June 30, 2010 over \$16 million is owed to LEAs. The Commonwealth should resolve this issue with U.S. Treasury.

Regarding the SSA Federal Revenue Collected in Advance, program income has always been required to be deducted from total program outlays to determine net program outlays. During 1991 and prior, the period noted in the agency response, program income requirements were part of OMB Circular A-102 which is applicable to SSA programs.

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. We will review any corrective action in the subsequent audit.

Questioned Costs: \$767,220

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, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2009:</u>			
OFFICE OF THE BUDGET (OB)			
09-27	Noncompliance and Deficiencies in Internal Control Over Charging of Project Costs Results in Questioned Costs of \$14,004	DOD	Unresolved – Corrective action is in process, and SF-270 reports are reviewed and approved by management prior to submission.
09-31	Internal Control Deficiency Over Expenditure Information Reported on the Financial Status Reports by Comptroller Operations (Prior Year Finding #08-30)	DHS DOJ	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Awaiting federal audit resolution action.
09-34	Internal Control Deficiency Over Expenditure Information Reported on the SEFA by L&I and Comptroller Operations Personnel	DOL	Resolved – Final determination letter dated December 27, 2010 received from DOL.
09-36	Internal Control Deficiency Over Expenditure Information Reported on the SEFA	DOT	Resolved – Final determination letter dated November 8, 2010 received from DOT/FHWA.
09-51	Internal Control Weaknesses Over Reviewing, Approving and Reporting Regular, ARRA, and Supplemental Payments to Subrecipients (Prior Year Finding #08-57)	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-58	DPW Failed to Adequately Support and Account For a Transfer of LIHEAP Funds Charged to TANF and Failed to Qualify for a \$28,507,184 TANF Emergency Fund Grant Award Under ARRA, Resulting in SEFA and ACF-196 Quarterly Reporting Errors and \$26,134,000 in Questioned Costs	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process and OB is pursuing written federal guidance.
09-62	DPW's Expenditures For Costs Not Approved in The CCDF State Plan Result in Noncompliance and Known Questioned Costs of at Least \$2,624,449 (Prior Year Finding #08-56)	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-73	Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding #08-68)	HHS USDA EPA USDE HUD DOJ DOL DOT	Unresolved – Corrective action as stated in the Single Audit report is in process by some agencies and has been implemented by others. Awaiting further federal audit resolution action. Resolved – Final determination letter dated December 13, 2010 received from DOT/FHWA.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
OFFICE OF THE BUDGET (Continued)			
09-74	Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements (Prior Year Finding #08-69)	HHS USDA EPA USDE HUD DOJ DOL DOT	Unresolved – Corrective action as stated in the Single Audit report is in process by some agencies and has been implemented by others. Awaiting further federal audit resolution action. Resolved – Final determination letter dated December 13, 2010 received from DOT/FHWA.
09-75	Unallowable Payments for Unused Employee Leave Result in \$1,854,993 in Questioned Costs (Prior Year Finding #08-70)	HHS DOD USDA DOT USDE DOL	Unresolved – Corrective action has been implemented and accepted by DOD. Awaiting further federal audit resolution action. Resolved – Final determination letter dated December 27, 2010 received from DOL.
09-77	Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$3.4 Million Known Understatement of the CMIA Interest Liability (Prior Year Finding #08-73)	HHS USDA DOT EPA USDE SSA	Unresolved – Corrective action as stated in the Single Audit report is in process, and CMIA interest related to the average day clearance pattern has been reported to US Treasury with payment scheduled for March of 2011.
DEPARTMENT OF AGING (PDA)			
09-49	PDA Monitoring of AAA Subrecipients Needs Improvement	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process. In addition, review checklists for AAA monitoring have been completed. The frequency and scope of reviews are expected to increase with the addition of staff.
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)			
09-29	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #08-29)	HUD	Unresolved – Corrective action as stated in the Single Audit report is in process. A HUD monitoring visit in October of 2010 recognized that the addition of two staff has created progress in meeting the monitoring requirement.
09-30	Noncompliance and Internal Control Deficiencies in DCED's Section 3 Summary Report	HUD	Unresolved – Corrective action as stated in the Single Audit Report is in process. In addition, HUD discussed changes they expect to make to the report and DCED incorporated the information into its internal controls for reporting in the future.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (Continued)			
09-39	Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of Weatherization Subrecipients (Prior Year Finding #08-51)	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-61	Noncompliance and Internal Control Weaknesses Over Subgrantee Payments at DCED (Prior Year Finding #08-55)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Finding #07-54, a prior year finding on this subject, has been resolved by HHS.
DEPARTMENT OF EDUCATION (PDE)			
09-23	Deficiencies in Information Technology Controls Over the Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (CN-PEARS)	USDA USDE	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-40	Internal Control Deficiencies in PDE Monitoring of Subrecipient Cash Management (Prior Year Finding #08-37)	USDE	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-41	Noncompliance and Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #08-38)	USDE	Unresolved – Corrective action as stated in the Single Audit report has been implemented. PDE provided additional information to USDE on October 29, 2010. Awaiting federal audit resolution action.
09-42	Internal Control Deficiencies in PDE During-the-Award Monitoring of Title I and Title II Subrecipients (Prior Year Finding #08-35)	USDE	Unresolved – Corrective action is in process, and PDE provided additional information to USDE on October 29, 2010. Awaiting federal audit resolution action.
09-43	Noncompliance and Internal Control Deficiencies in PDE Monitoring of IDEA-B Subrecipients	USDE	Unresolved – Corrective action as stated in the Single Audit report is in process and was initially put into place with the 2010-11 school year.
09-44	Inadequate Controls at PDE Over Exceeding Maximum Earmarking Requirements in the CTE Program	USDE	Unresolved – Corrective action as stated in the Single Audit report is in process. PDE provided additional information to USDE on November 17, 2010. Awaiting federal audit resolution action.
DEPARTMENT OF HEALTH (DOH)			
09-24	Weaknesses in Department of Health Monitoring of WIC Local Agencies	USDA	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Awaiting federal audit resolution action.

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Summary Schedule of Prior Audit Findings – June 30, 2010

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
DEPARTMENT OF HEALTH (Continued)			
09-25	Noncompliance and Internal Control Weaknesses Related to Voided Food Instruments and Vendor Overcharges Result in Known Questioned Costs of \$70.00 (Prior Year Finding #08-25)	USDA	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Awaiting federal audit resolution action. Finding #08-25, the prior year finding on this subject, has been resolved by USDA.
09-70	Inadequate Program Monitoring of Department of Health SAPT Subrecipients	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Awaiting federal audit resolution action.
09-71	Noncompliance and Internal Control Weaknesses Result in \$139,469 in Questioned Personnel Costs (Prior Year Finding #08-65)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented, and DOH will pursue resolution of the questioned costs with HHS. Awaiting federal audit resolution action. Finding #08-65, the prior year finding on this subject, has been resolved by HHS.
DEPARTMENT OF LABOR AND INDUSTRY (L&I)			
09-35	Deficiencies in Information Technology Controls at the Department of Labor & Industry (Prior Year Finding #08-72)	DOL USDE	Partially Resolved – Corrective action as stated in the Single Audit report is in process. Final determination letter dated December 27, 2010 received from DOL. Awaiting audit resolution action from USDE. Finding #08-72, the prior year finding on this subject, has been resolved.
09-45	A Control Deficiency Exists Over the Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA (Prior Year Finding #08-40)	USDE	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Awaiting federal audit resolution action.
09-46	A Control Deficiency Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #08-41)	USDE	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-47	A Control Deficiency Exists in L&I's Procedures for Performing Eligibility Determinations	USDE	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-48	Control Deficiencies Exist in L&I's Procedures for Awarding ARRA Funding and Subgrants Resulting in Questioned Costs of \$405,675	USDE	Unresolved – Corrective action as stated in the Single Audit report is in process.
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)			
09-28	Noncompliance and Deficiencies in Internal Control Over Charging of Personnel Costs (Prior Year Finding #08-27)	DOD	Unresolved – Corrective action has been implemented. Awaiting federal audit resolution action.

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Summary Schedule of Prior Audit Findings – June 30, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)			
09-32	Noncompliance and Internal Control Deficiency Over Period of Availability Requirements Results in Questioned Costs of \$26,613 (Prior Year Finding #08-32)	DHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented and DHS extended the 2005 grant period. Awaiting federal audit resolution action.
09-33	Unallowable Equipment Purchases and Unallowable Cash Payments Result in Questioned Costs of \$37,150 and Internal Control Deficiencies and Noncompliance in PEMA's Subrecipient Monitoring (Prior Year Finding #08-31)	DHS	Unresolved – Corrective action as stated in the Single Audit report is in process, and program monitoring was implemented in July of 2010.
PENNSYLVANIA INSURANCE DEPARTMENT (PID)			
09-66	Inadequate Controls Over Subrecipient Monitoring (Prior Year Finding #08-62)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Awaiting HHS/CMS on-site visit scheduled for February 2011.
PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY (PENNVEST)			
09-37	Internal Control Deficiencies Cause Errors in the CWSRF Annual Report Submitted to EPA	EPA	Resolved – Final determination letter dated December 6, 2010 received from EPA.
09-38	Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority	EPA	Resolved – Final determination letter dated December 6, 2010 received from EPA.
DEPARTMENT OF PUBLIC WELFARE (DPW)			
09-21	Internal Control Deficiencies at DPW Related to Returned EBT Cards (Prior Year Finding #08-22)	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-22	Internal Control Deficiencies at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #08-23)	HHS USDA	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-26	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs (Prior Year Finding #08-26)	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-50	DPW Did Not Always Specify CFDA Number and Other Required Award Information in Subrecipient Award Documents, Resulting in Noncompliance With OMB Circular A-133 (Prior Year Finding #08-45)	HHS	Unresolved – Corrective action as stated in the Single Audit report will be implemented with the 2010-2011 allocation letters. Awaiting federal audit resolution action.

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Summary Schedule of Prior Audit Findings – June 30, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF PUBLIC WELFARE (Continued)			
09-52	Weaknesses Exist in DPW's Contracting and Program Monitoring of Child Care Subgrantees (Prior Year Finding #08-48)	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-53	Weaknesses in DPW Office of Children, Youth and Families Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients (Prior Year Finding #08-58)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Awaiting federal audit resolution action.
09-54	DPW Failed to Adequately Monitor the Processing of LIHEAP Cash and Crisis Applications (Prior Year Finding #08-53)	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-55	DPW Did Not Perform Adequate During-The-Award Monitoring of TANF Subrecipients (Prior Year Finding #08-46)	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-56	Internal Control Deficiencies in DPW's Administration of LIHEAP Cash and Crisis Benefits (Prior Year Finding #08-52)	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-57	Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$1,704 in LIHEAP (Prior Year Finding #08-54)	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-59	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #08-47)	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-60	Internal Control Deficiencies Over PACSES Contractor Costs Result in Questioned Costs of \$67,021	HHS	Resolved – Final determination letter dated November 3, 2010 received from HHS/ACF.
09-63	Unallowable Costs Charged from the DPW Cost Allocation Plan Result in Questioned Costs of \$1,538,422 (Prior Year Finding #08-59)	HHS	Resolved – Final determination letter dated August 30, 2010 received from HHS/DCA.
09-64	Weaknesses in DPW Program Monitoring of SSBG and SAPT Subgrantees (Prior Year Finding #08-61)	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-65	DPW Did Not Utilize Available ARRA Grant Award Funds While Significant Waiting Lists Existed For Child Care Assistance For Low-Income Families	HHS	Unresolved – Corrective action has been implemented. Awaiting federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2010

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
DEPARTMENT OF PUBLIC WELFARE (Continued)			
09-67	DPW Failed to Obtain an Outside Service Auditor's Report for a Third Party Drug Rebate Processor	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-68	Material Noncompliance and Weaknesses in Internal Controls Over Medical Assistance Provider Audits	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Awaiting federal audit resolution action.
09-69	Weaknesses in Internal Controls Over Eligibility Determinations and Administration of Third Party Contractor Result in Likely Questioned Costs Over \$10,000 Up To \$27,388,425 (Prior Year Finding #08-63)	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-72	Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (Prior Year Finding #08-67)	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process.
09-76	Deficiencies in Information Technology Controls at DPW (Prior Year Finding #08-71)	HHS	Unresolved – Corrective action as stated in the Single Audit report is in process. User accounts are now automatically being provisioned and de-provisioned.

FINDINGS FOR THE YEAR ENDED JUNE 30, 2008:

OFFICE OF THE BUDGET (OB)

08-30	Internal Control Deficiency Over Expenditure Information Reported on the SEFA and Financial Status Reports by PPR Comptroller	DHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented, and a final adjustment was made to the June 30, 2010 SEFA. Awaiting federal audit resolution action.
08-57	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #07-57)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. In addition, child identification numbers are being changed from county-specific numbers to statewide numbers. Additional information provided to HHS on November 23, 2009 and December 2, 2009. Awaiting federal audit resolution action.
08-66	Internal Control Deficiencies in Systems of Cash Management and Federal Reporting for PAG Program (Prior Year Finding #07-69)	DHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented by OB, DCNR, and PEMA, and FEMA site inspections are in process. Awaiting federal audit resolution action.

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Summary Schedule of Prior Audit Findings – June 30, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
OFFICE OF THE BUDGET (Continued)			
08-68	Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding #07-72)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Additional information provided to HHS on December 2, 2009. Awaiting federal audit resolution action.
08-70	Unallowable Payments for Unused Employee Leave Result in \$3,826,028 in Questioned Costs (Prior Year Finding 07-74)	HHS USDA DOD DOT USDE DHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on December 2, 2009, and February 24, 2010. Some HHS sub-agencies have resolved portions applicable to them. Awaiting further federal audit resolution action.
08-73	Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$5.6 Million Known Understatement of the CMIA Interest Liability (Prior Year Finding #07-75)	HHS	Unresolved – Corrective action has been implemented, but there is continued disagreement over the CMIA interest liability. Additional information provided to HHS on December 2, 2009. BFM is currently documenting program information with the Pennsylvania Department of Education in regard to the ACCESS program. In addition, changes were implemented to ensure that funds are being drawn in accordance with the Treasury-State Agreement. A new SAP drawdown system will be implemented in March of 2011.
08-74	CFDA Numbers and Program Names Were Not Properly Reported on the Schedule of Expenditures of Federal Awards	HHS	Unresolved – Corrective action has been implemented and this finding was not repeated in the subsequent audit. Additional information provided to HHS on December 2, 2009. Awaiting federal audit resolution action.
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)			
08-29	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #07-27)	HUD	Unresolved – Corrective action as stated in the Single Audit report has been implemented, but staffing limitations hinder the clearance of backlogs. However, a HUD monitoring visit in October of 2010 recognized that the addition of two staff has created progress in meeting the monitoring requirement. Awaiting further federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (Continued)			
08-51	Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of LIHEAP Weatherization Subrecipients (Prior Year Finding #07-50)	HHS	Unresolved – Initial corrective action as stated in the Single Audit report has been implemented. Additional information provided to HHS on November 25, 2009. Recent corrective action steps include monthly invoicing and the scheduling of webinars and increased fiscal monitoring and program reviews. Awaiting further federal audit resolution action.
08-55	Noncompliance Over Subgrantee Payments at DCED (Prior Year Finding #07-54)	HHS	Unresolved – Additional information provided to HHS on November 25, 2009. Corrective action is in process to ensure compliance from community action agencies. They are now required to report actions taken to ensure compliance monthly (previously this was done in six month increments). Finding #07-54, the prior year finding on this subject, has been resolved by HHS. Awaiting federal audit resolution action.
DEPARTMENT OF EDUCATION (PDE)			
08-24	PDE Failed to Reconcile PEARS Meal Count and Expenditure Information to the SAP Accounting System	USDA	Resolved – Final determination letter dated May 25, 2010 received from USDA.
08-35	PDE During-The-Award Monitoring Failed to Document and Ensure Subrecipient Compliance With Title I and Title II Regulations	USDE	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Additional information provided to USDE on December 3, 2009. Awaiting federal audit resolution action.
08-36	Inadequate Controls Over Ensuring Compliance With MOE Requirements (Prior Year Finding #07-33)	USDE	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Additional information provided to USDE on December 3, 2009. Awaiting federal audit resolution action.
08-37	Inadequate PDE Monitoring Controls Over Subrecipient Compliance With Cash Management Regulations	USDE	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Additional documentation provided to USDE on November 24, December 3, and December 10, 2009. Partial resolution received from USDE/OSEP for IDEA Part B. Awaiting USDE audit resolution action in regard to the Title I and Title II portions of the finding.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2010

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
DEPARTMENT OF EDUCATION (Continued)			
08-38	Noncompliance and Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #07-34)	USDE	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Additional information provided to USDE on December 3, 2009. Awaiting federal audit resolution action.
08-39	Errors and Internal Control Weaknesses in PDE's Career and Technical Education Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (Prior Year Finding #07-35)	USDE	Resolved – Final determination letter dated November 22, 2010 received from USDE.
08-44	Control Deficiency in PDE's Monitoring of Federal Earmarking Requirements Results in Questioned Costs of \$199,709 (Prior Year Finding #07-40)	USDE	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Additional information provided to USDE on December 3, 2009. Awaiting federal audit resolution action.
DEPARTMENT OF HEALTH (DOH)			
08-64	Noncompliance and Internal Control Weaknesses Result in \$2,048 of Questioned Personnel Costs	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. DOH informed HHS on November 24, 2009 that its corrective action remains as stated. Awaiting federal audit resolution action.
DEPARTMENT OF LABOR AND INDUSTRY (L&I)			
08-33	Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (Prior Year Finding #07-30)	DOL	Resolved – Final determination correspondence dated May 26, 2010 received from DOL.
08-34	Internal Control Weakness and Inaccurate Reporting on the ETA 9130 Reports	DOL	Resolved – Final determination correspondence dated May 26, 2010 received from DOL.
08-40	Control Deficiency Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA Results in Unsupported Program Income (Prior Year Finding #07-38)	USDE	Resolved – Final determination letter dated April 7, 2010 received from USDE.
08-41	A Control Deficiency exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #07-36)	USDE	Resolved – Final determination letter dated April 7, 2010 received from USDE.

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Summary Schedule of Prior Audit Findings – June 30, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF LABOR AND INDUSTRY (Continued)			
08-42	Noncompliance and Control Deficiency Over Charging of Personnel Costs Results in Unknown Questioned Costs of at Least \$72,851 (Prior Year Finding #07-39)	USDE	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Additional information was provided to USDE upon request. Finding #07-39, the prior year finding on this subject, has been resolved by USDE. Awaiting federal audit resolution action.
08-43	Noncompliance and a Control Deficiency Over Preparation and Submission of the Annual RSA-2 Report	USDE	Resolved – Final determination letter dated April 7, 2010 received from USDE.
08-72	Deficiencies in Information Technology Controls at L&I	DOL	Resolved – Final determination correspondence dated July 28, 2010 received from DOL.
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)			
08-27	Noncompliance and Deficiencies in Internal Control Over Charging of Personnel Costs (Prior Year Finding #07-25)	DOD	Unresolved – Corrective action as stated in the Single Audit report has been implemented and is currently under review by DOD. DMVA is scheduled to meet with DOD in March of 2011. Awaiting federal audit resolution action.
08-28	Improper FFP Rate Results in Questioned costs of \$44 and Likely Questioned Costs Over \$10,000	DOD	Unresolved – Corrective action as stated in the Single Audit report has been implemented. In addition, policy was implemented and submitted to DOD for review. Awaiting federal audit resolution action.
PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)			
08-31	Unallowable Equipment Purchase Results in Questioned Costs of \$10,204 and Internal Control Deficiencies and Noncompliance in PEMA's Subrecipient Monitoring	DHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Letter dated July 13, 2009 received from DHS/FEMA in which costs were determined to be eligible. PEMA's subrecipient monitoring plan was submitted to FEMA in early 2010 and implemented in June of 2010. Awaiting final federal audit resolution.
08-32	Noncompliance and Internal Control Deficiency Over Period of Availability Requirements Results in Questioned Costs of \$251,420 (Prior Year Finding #07-29)	DHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. DHS/OIG recommended procedures for timely filing of FSRs which was accomplished through the implementation of the policy manual. Awaiting federal audit resolution action.

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Summary Schedule of Prior Audit Findings – June 30, 2010

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
PENNSYLVANIA INSURANCE DEPARTMENT (PID)			
08-62	Inadequate Controls Over Subrecipients Result in Unknown Questioned Costs (Prior Year Finding #07-62)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Final review and decision requested from HHS/CMS. Awaiting CMS on-site visit scheduled for February of 2011.
DEPARTMENT OF PUBLIC WELFARE (DPW)			
08-22	Internal Control Weaknesses at DPW Related to Returned EBT Cards (Prior Year Finding #07-23)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented, and a supervisor now witnesses the opening and destruction of returned cards. Awaiting federal audit resolution action.
08-23	Internal Control Deficiencies at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #07-22)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Follow-up letter dated February 23, 2010 received from HHS/ACF indicating that future monitoring is required to ensure compliance with program requirements. DPW has mandated monthly supervisory unit meetings with IMCW staff to review DPW policies and procedures.
08-26	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs (Prior Year Finding #07-49)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Follow-up letter dated February 23, 2010 received from HHS/ACF indicating that future monitoring is required to ensure compliance with federal regulations. New procedures have been developed to increase the integrity and accuracy of the SAR review process.
08-45	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 #07-47)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Awaiting federal audit resolution action.
08-46	DPW Did Not Perform Adequate During-The-Award Monitoring of TANF Subrecipients	HHS	Unresolved – Corrective action has been implemented. Follow-up letter dated February 23, 2010 received from HHS/ACF indicating that future monitoring is required to ensure compliance with federal regulations. Steps taken to ensure timeliness and accuracy of monitoring protocols include the review of procedures with staff and the establishment of management protocols to track the monitoring visit schedule. Administrative support systems were streamlined in regard to the processing, reviewing, and releasing of the reports.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF PUBLIC WELFARE (Continued)			
08-47	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #07-48)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Follow-up letter dated February 23, 2010 received from HHS/ACF indicating that future monitoring is required to ensure compliance with report documentation reviews. DPW is continuing to initiate rigorous quality control measures to review the eligibility of clients, the completeness of case files, and to verify the data reported to HHS.
08-48	Weaknesses in DPW Program Monitoring of Child Care Subgrantees (Prior Year Finding #07-55)	HHS	Unresolved – Corrective action has been implemented. Follow-up letter dated February 23, 2010 received from HHS/ACF indicating that future monitoring is required to ensure compliance with federal regulations. Program invoices are reviewed monthly, and at that time overpayments would be recovered.
08-52	Internal Control Deficiencies in DPW's Administration of LIHEAP Cash and Crisis Benefits (Prior Year Finding #07-51)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been mostly implemented. Additional information provided to HHS on November 23, 2009. The LIHEAP Information System was integrated into the electronic-Client Information System for the 2009-10 program year in order to provide greater detail and accuracy concerning client information and benefit calculations.
08-53	DPW Failed to Adequately Monitor the Processing of LIHEAP Applications (Prior Year Finding #07-52)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. During the 2009-10 LIHEAP season, OIM Bureau of Program Evaluation coordinated monitoring activity between the OIM team and the forensic accountants. Awaiting federal audit resolution action.
08-54	Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$2,315 in LIHEAP (Prior Year Finding #07-53)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been mostly implemented. Additional information provided to HHS on November 23, 2009. For the 2009-10 season, data exchanges are being generated for all individuals in a household for use in an automated verification process.

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Summary Schedule of Prior Audit Findings – June 30, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF PUBLIC WELFARE (Continued)			
08-56	Internal Control Weaknesses Result in Noncompliance with Federal Earmarking Requirements and Questioned Costs of at Least \$569,175 (Prior Year Finding #07-56)	HHS	Unresolved – Corrective action as stated in the Single Audit Report has been implemented. Additional information provided to HHS on November 23, 2009. As of July 1, 2009, all Nurse Family Partnership funding has been established using 100% state funds.
08-58	Weaknesses in DPW Office of Children, Youth and Families Monitoring of Foster Care and Adoption Assistance Subrecipients (Prior Year Finding #07-59)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. The Office of Children, Youth and Families is monitoring the program through licensing and quality assurance reviews.
08-59	Unallowable Costs Charged from the DPW Cost Allocation Plan Result in Questioned Costs of \$1,530,316	HHS	Resolved – Final determination letter dated August 30, 2010 received from HHS.
08-60	Inadequate Controls Over Charging of YDS Personnel Costs	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Additional information provided to HHS on November 23, 2009. This finding was not reissued in the 2008-09 audit. Awaiting federal audit resolution action.
08-61	Weaknesses in DPW Program Monitoring of SSBG and SAPT Subgrantees (Prior Year Finding #07-60)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. A follow-up letter dated July 18, 2010 was received from HHS/ACF and a response is being drafted.
08-63	Weaknesses in Internal Controls Over Eligibility Determinations Result in an Undetermined Amount of Questioned Costs Up To \$18,684,980 (Prior Year Finding #07-63)	HHS	Unresolved – Corrective action has been implemented, and the SPBP Recertification Master Action Plan has been revised. Additional information provided to HHS on November 23, 2009. The SPBP Enrollment Application is currently undergoing revision. Awaiting federal audit resolution action.
08-67	Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (Prior Year Finding #07-71)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Additional information provided to HHS on November 23, 2009. ARS has begun reconciling the SEFAs of counties for FYE December 31, 2008 to accounting system data.

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Summary Schedule of Prior Audit Findings – June 30, 2010

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
DEPARTMENT OF PUBLIC WELFARE (Continued)			
08-69	Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements (Prior Year Finding #07-73)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. A new process is in place to provide a determination letter to the subrecipient upon receipt and review of the findings contained in their audit report. Awaiting federal audit resolution action.
08-71	Deficiencies in Information Technology Controls at DPW	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Awaiting federal audit resolution action.
<u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2007:</u>			
OFFICE OF THE BUDGET (OB)			
07-41	Noncompliance and Internal Control Weakness in the LECS Comptroller Office System of Cash Management (Prior Year Finding #06-40)	USDE	Unresolved – Corrective action has been implemented, and procedures were put into place to help prevent excess cash disbursements to RFP subrecipients. Additional information provided to USDE from September 2008 to April 2009 in response to requests from USDE. All corrective action was completed as of December 31, 2009. Awaiting federal audit resolution action.
07-58	Internal Control Weakness Over Expenditure Information Reported on the SEFA (Prior Year Finding #06-65)	HHS	Unresolved – Corrective action has been implemented, and policy has been updated to include federal guidance on reporting deferrals and disallowances on the SEFA. Additional information provided to HHS on November 24, 2009. Awaiting federal audit resolution action.
07-70	Internal Control Deficiency Over Expenditure Information Reported on the SEFA by PPR Comptroller and PADOT Comptroller	DHS	Unresolved – Corrective action has been implemented. Final determination letter dated October 29, 2009 received from DOT/FHWA resolved the PennDOT portion of the finding. Awaiting further federal audit resolution action.
07-72	Noncompliance and Internal Control Weaknesses Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding #06-73)	HHS	Unresolved – Corrective action has been implemented, and all Single Audit reports with findings are immediately given priority and processed for completion. Additional information provided to HHS on November 24, 2009. Awaiting federal audit resolution action.

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Summary Schedule of Prior Audit Findings – June 30, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
OFFICE OF THE BUDGET (Continued)			
07-74	Unallowable Payments for Unused Employee Leave Result in at Least \$10,436,574 in Questioned Costs	HHS USDA DOJ DOT EAC NFAH VA USDE SSA DOD	Unresolved – Corrective action has been implemented. Additional information provided to HHS on February 24, 2010. Some HHS sub-agencies have resolved portions applicable to them. Awaiting further federal audit resolution action.
		DOL	Resolved – Final determination letter dated November 14, 2009 received from DOD.
		DOL	Unresolved – Final determination letter dated December 27, 2010 received from DOL which resolved related finding 09-75. Awaiting DOL audit resolution action in regard to this finding.
07-75	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)	HHS	Unresolved – Corrective action has been implemented, but there is continued disagreement over the CMIA interest liability. Additional information provided to HHS on November 24, 2009. In April of 2010 BFM participated in a call from HHS in an attempt to settle this issue without interest payment. BFM is currently documenting program information with the Pennsylvania Department of Education.
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)			
07-26	Noncompliance and Internal Control Deficiencies Over Federal Reporting	HUD	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued, HUD is not currently following up on the finding, and no management decision was issued.
07-27	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #06-21)	HUD	Unresolved – Corrective action has been implemented and continues to progress but is hindered by staffing limitations. However, a HUD monitoring visit in October of 2010 recognized that the addition of two staff has created progress in meeting the monitoring requirement. Awaiting federal audit resolution action.
07-50	Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of LIHEAP Weatherization Subrecipients (Prior Year Findings #06-53 through 06-58)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 25, 2009. Fiscal monitoring and program reviews are scheduled from January through June of 2011. Awaiting federal audit resolution action.

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Summary Schedule of Prior Audit Findings – June 30, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (Continued)			
07-54	Noncompliance and Internal Control Deficiencies at DCED Over Subgrantee Payments (Prior Year Finding #06-59)	HHS	Resolved – Final determination letter dated August 26, 2010 received from HHS.
DEPARTMENT OF EDUCATION (PDE)			
07-33	Inadequate Controls Over Ensuring LEA Compliance With MOE Requirements (Prior Year Finding #06-31)	USDE	Unresolved – Corrective action has been implemented. Additional information provided as requested in a letter dated August 13, 2008 from USDE. Although an email from USDE/OESE was received indicating that the finding is resolved, PDE is awaiting receipt of a final Program Determination letter from USDE.
07-40	Internal Control Weakness in PDE's Monitoring of Federal Earmarking Requirements (Prior Year Finding #06-38)	USDE	Unresolved – Corrective action has been implemented. Additional documentation provided to USDE on September 24, 2008. Awaiting federal audit resolution action.
07-42	Internal Control Weaknesses and Noncompliance With Earmarking Requirements Result in Questioned Costs of \$213,734 (Prior Year Finding #06-41)	USDE	Unresolved – Corrective action has been implemented. Additional information provided as requested in a letter dated August 13, 2008 from USDE. Further information provided to USDE in March of 2010. Awaiting federal audit resolution action.
07-43	Noncompliance Noted in PDE's Allocations of Reading First Subgrant Awards to LEAs (Prior Year Finding #06-39)	USDE	Unresolved – Corrective action has been implemented. Additional information provided as requested in a letter dated August 13, 2008 from USDE. Awaiting federal audit resolution action.
DEPARTMENT OF ENVIRONMENTAL PROTECTION (DEP)			
07-32	Internal Control Weakness in State Matching Procedures at DEP for DWSRF	EPA	Resolved – Final determination letter dated June 8, 2010 received from EPA.
DEPARTMENT OF HEALTH (DOH)			
07-45	Noncompliance and Internal Control Weaknesses in Charging Personnel Costs (Prior Year Finding #06-43)	HHS	Resolved – Final determination letter dated June 28, 2010 received from HHS.
07-46	Weaknesses in DOH Program Monitoring of CDC Subgrantees (Prior Year Finding #06-44)	HHS	Resolved – Final determination letter dated June 28, 2010 received from HHS.
DEPARTMENT OF LABOR AND INDUSTRY (L&I)			
07-30	Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (Prior Year Finding #06-24)	DOL	Resolved – Final determination correspondence dated August 10, 2010 received from DOL.

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Summary Schedule of Prior Audit Findings – June 30, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)			
07-25	Noncompliance and Deficiencies in Internal Control Over Charging of Personnel Costs (Prior Year Finding #06-20)	DOD	Unresolved – DMVA submitted a detailed corrective action plan to the U. S. Property and Fiscal Officer for Pennsylvania on January 7, 2009. DMVA is scheduled to meet with DOD in March of 2011.
PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)			
07-28	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)	DHS	Unresolved – Corrective action is in process, and PEMA's subrecipient monitoring plan was submitted to FEMA in early 2010. Program monitoring visits were implemented in June of 2010. Awaiting federal audit resolution action.
07-29	Noncompliance and Internal Control Deficiency Over Period of Availability Requirements Results in Questioned Costs of \$1,632,447	DHS	Unresolved – Corrective action has been completed with the implementation of grant closeout timelines within the policy manual on July 1, 2009. Awaiting federal audit resolution action.
07-69	Internal Control Deficiencies in Systems of Cash Management and Federal Reporting for PAG Program (Prior Year Finding #06-71)	DHS	Unresolved – Corrective action has been implemented. Awaiting federal audit resolution action.
PENNSYLVANIA INSURANCE DEPARTMENT (PID)			
07-61	Noncompliance With Procurement Standards Related to Ensuring Actuarial Soundness of Monthly Premium Rates (Prior Year Finding #06-67)	HHS	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued and HHS is not currently following up on the finding.
07-62	PID Did Not Perform Adequate During-The-Award Monitoring of CHIP Subrecipient Insurance Providers (Prior Year Finding #06-68)	HHS	Unresolved – Corrective action has been implemented. Final review and decision requested from CMS. Awaiting CMS on-site visit scheduled for February of 2011.
DEPARTMENT OF PUBLIC WELFARE (DPW)			
07-22	Internal Control Weaknesses at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #06-18)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Follow-up letter dated February 17, 2010 received from HHS/ACF indicating that future monitoring is required to ensure compliance with program requirements.
07-23	Internal Control Weaknesses at DPW Related to Returned EBT Cards	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Awaiting federal audit resolution action.

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Summary Schedule of Prior Audit Findings – June 30, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF PUBLIC WELFARE (Continued)			
07-47	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)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Awaiting federal audit resolution action.
07-48	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #06-47)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Follow-up letter dated February 17, 2010 received from HHS/ACF indicating that future monitoring is required to ensure compliance with report documentation reviews.
07-49	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)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Follow-up letter dated February 17, 2010 received from HHS/ACF indicating that future monitoring is required to ensure compliance with federal regulations.
07-51	Internal Control Deficiencies in DPW's Administration of LIHEAP Cash and Crisis Benefits (Prior Year Findings #06-50 and #06-51)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
07-52	DPW Failed to Adequately Monitor the Processing of LIHEAP Applications (Prior Year Finding #06-52)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Awaiting federal audit resolution action.
07-53	Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$7,101 in LIHEAP (Prior Year Finding #06-49)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
07-55	Weaknesses in DPW Program Monitoring of Child Care Cluster Subgrantees (Prior Year Finding #06-62)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Awaiting federal audit resolution action.
07-56	Internal Control Weaknesses Result in Noncompliance with Federal Earmarking Requirements and Questioned Costs of at Least \$912,853 (Prior Year Finding #06-61)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2010

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
DEPARTMENT OF PUBLIC WELFARE (Continued)			
07-57	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #06-63)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Awaiting federal audit resolution action.
07-59	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)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Awaiting federal audit resolution action.
07-60	Weaknesses in DPW Program Monitoring of SSBG Subgrantees (Prior Year Finding #06-62)	HHS	Resolved – Final determination letter dated August 26, 2010 received from HHS/ACF.
07-63	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)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
07-71	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)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
07-73	Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.

FINDINGS FOR THE YEAR ENDED JUNE 30, 2006:

OFFICE OF THE BUDGET (OB)

06-40	Noncompliance and Internal Control Weakness in the LECS Comptroller Office System of Cash Management	USDE	Unresolved – Corrective action as stated in the Single Audit report has been implemented. Additional information provided to USDE from September 2008 to April 2009 in response to requests from USDE. Awaiting federal audit resolution action.
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Summary Schedule of Prior Audit Findings – June 30, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
OFFICE OF THE BUDGET (Continued)			
06-65	Internal Control Weakness Over Expenditure Information Reported by PHHS Comptroller on the SEFA (Prior Year Finding #05-6)	HHS	Unresolved – Procedures have been implemented to ensure that federal deferral, disallowance, and settlement activity is appropriately disclosed in the notes to the SEFA. Awaiting federal audit resolution action.
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 – Corrective action as stated in the Single Audit report has been implemented, and a process has been implemented whereby BOA receives subrecipient audit reports electronically. BOA provided additional information to HHS on May 30, 2008 and October 6, 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 – Corrective action as stated in the Single Audit report has been implemented. BFM provided additional information to HHS on May 30, 2008 and January 26, 2009. Awaiting federal audit resolution action.
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)			
06-21	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #05-8)	HUD	Unresolved – Corrective action has been implemented to the extent possible with staffing limitations. However, a HUD monitoring visit in October of 2010 recognized that the addition of two staff has created progress in meeting the monitoring requirement. Awaiting federal audit resolution action.
06-53	Control Weaknesses and Potential Abuse Found in Administering the Weatherization Assistance Program Result in Potential Questioned Costs	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. DCED appealed the repayment of questioned costs and submitted a response to HHS on November 25, 2009. Additional information was provided to HHS on November 5, 2010. Awaiting federal audit resolution action.
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 – Corrective action as stated in the Single Audit report has been implemented. DCED appealed the repayment of questioned costs and submitted a response to HHS on November 25, 2009. A meeting was held with two Philadelphia agencies on December 21, 2010 to discuss their progress on non-duplication efforts. Awaiting federal audit resolution action.

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Summary Schedule of Prior Audit Findings – June 30, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (Continued)			
06-55	DCED Does Not Adequately Review Weatherization Assistance Program Expenditures for Accuracy Prior to Approving Local Agency Grant Payments	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented and additional steps have been added which include monthly invoicing and the scheduling of a webinar in January of 2011. DCED submitted a response to HHS on November 25, 2009. Awaiting federal audit resolution action.
06-56	Weaknesses in Contracting for Services Exist at Local Agencies	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. DCED submitted a response to HHS on November 25, 2009. In addition, fiscal monitoring and program reviews are scheduled for the first half of 2011. Awaiting federal audit resolution action.
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 – Corrective action as stated in the Single Audit report has been implemented. DCED submitted a response to HHS on November 25, 2009. In addition, further review and data collection efforts are occurring to eliminate waiting lists. Awaiting federal audit resolution action.
06-58	DCED Failed to Adequately Monitor Local Agencies	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented. DCED submitted a response to HHS on November 25, 2009. In addition, fiscal monitoring and program reviews are scheduled for the first half of 2011. Awaiting federal audit resolution action.
06-59	Weaknesses in Internal Controls Over Subgrantees Result in \$37,772 in Questioned Costs (Prior Year Finding #05-33)	HHS	Unresolved – DCED has repaid the \$37,772 in questioned costs and has also appealed the repayment. DCED submitted a response to HHS on November 25, 2009. It is noted that both the prior (05-33) and subsequent (07-54) findings have been resolved by HHS. Awaiting federal audit resolution action.
06-60	Weaknesses in Internal Controls Over DCED On-Site Monitoring of Subgrantees	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented, and DCED is utilizing a system to track the receipt and review of monitoring reports. HHS letter of January 13, 2009 stated that auditors should verify in the next audit that procedures have been implemented. Awaiting federal audit resolution action.

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Summary Schedule of Prior Audit Findings – June 30, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF EDUCATION (PDE)			
06-29	Internal Control Weaknesses in PDE Scheduling of On-Site Monitoring Visits to LEAs	USDE	Unresolved – Corrective action as stated in the Single Audit report has been implemented. PDE provided additional information and documentation to USDE on December 4, 2009. Awaiting federal audit resolution action.
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 as stated in the Single Audit report has been implemented. PDE provided additional information to USDE on December 3, 2008. Awaiting federal audit resolution action.
06-31	Inadequate Controls Over Ensuring LEA Compliance With MOE Requirements	USDE	Unresolved – Corrective action as stated in the Single Audit report has been implemented. PDE provided additional information and documentation to USDE on December 4, 2009. Awaiting federal audit resolution action.
06-37	Internal Control Weakness in the OMB Circular A-133 Subrecipient Audit Monitoring System	USDE	Unresolved – Corrective action as stated in the Single Audit report has been implemented. PDE provided additional information and documentation to USDE on December 4, 2009. Awaiting federal audit resolution action.
06-38	Internal Control Weakness in PDE's Monitoring of Federal Earmarking Requirements	USDE	Unresolved – Corrective action as stated in the Single Audit report has been implemented. PDE provided additional information and documentation to USDE on December 4, 2009. Awaiting federal audit resolution action.
06-39	Noncompliance Noted in PDE's Allocations of Reading First Subgrant Awards to LEAs	USDE	Unresolved – Corrective action as stated in the Single Audit report has been implemented. PDE provided additional documentation to USDE on September 28, 2007. Awaiting federal audit resolution action.
06-41	Internal Control Weaknesses and Noncompliance With Earmarking Requirements Result in Questioned Costs of \$1,669,416	USDE	Unresolved – Corrective action as stated in the Single Audit report has been implemented. PDE provided additional documentation to USDE in March of 2010. Awaiting federal audit resolution action.

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Summary Schedule of Prior Audit Findings – June 30, 2010

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
DEPARTMENT OF LABOR AND INDUSTRY (L&I)			
06-25	Unallowable Benefit Payments Result in Questioned Costs of \$638 (Prior Year Finding #05-16)	DOL	Unresolved – Corrective action as stated in the Single Audit report has been implemented and the questioned costs of \$638 were remitted to USDOL on November 25, 2008. Additional information was provided to USDOL on December 14, 2010. Awaiting federal audit resolution action.
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)			
06-20	Noncompliance and Weakness in Internal Control Over Charging of Personnel Costs	DOD	Unresolved – Corrective action as stated in the Single Audit report has been implemented and is under review by DOD. DMVA is scheduled to meet with DOD in March of 2011.
PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)			
06-22	Internal Control Weaknesses and Noncompliance in PEMA's Subrecipient Monitoring (Prior Year Finding #05-11)	DHS	Unresolved – Corrective action has been implemented, and an updated grant program manual was effective July 1, 2009. PEMA's subrecipient monitoring plan was submitted to FEMA in early 2010. Program monitoring visits were implemented in June of 2010. Awaiting federal audit resolution action.
06-71	Internal Control Weaknesses in PEMA's Systems of Cash Management and Federal Reporting (Prior Year Finding #05-19)	DHS	Unresolved – Corrective action has been implemented and DHS provided direction on the filing of interim FSRs. Awaiting federal audit resolution action.
PENNSYLVANIA INSURANCE DEPARTMENT (PID)			
06-67	Internal Control Weakness in PID Procedures to Ensure Actuarial Soundness of Monthly Premium Rates (Prior Year Finding #05-39)	HHS	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued and HHS is not currently following up on the finding.
06-68	PID Did Not Perform Adequate Monitoring of CHIP Subrecipient Insurance Providers (Prior Year Finding #05-38)	HHS	Unresolved – Corrective action as stated in the Single Audit report has been implemented and additional information was provided to HHS/CMS on May 14, 2010 and June 30, 2010. CMS expected to be on site at PID in February of 2011.
DEPARTMENT OF PUBLIC WELFARE (DPW)			
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 – Corrective action has been implemented. Additional information provided to HHS on June 24, 2008. Awaiting federal audit resolution action.

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Summary Schedule of Prior Audit Findings – June 30, 2010

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF PUBLIC WELFARE (Continued)			
06-47	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #05-29)	HHS	Unresolved – DPW disagrees with this finding. Awaiting further federal audit resolution action.
06-48	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs of at Least \$28,252 (Prior Year Finding #05-30)	HHS	Unresolved – Corrective action has been implemented. Awaiting further federal audit resolution action.
06-49	Systemic Weaknesses Exist in LIHEAP That Resulted in Potential Fraud and Abuse and Questioned Costs	HHS	Unresolved – HHS letter dated January 12, 2009 requested return of questioned costs of \$475,974. This amount was returned on January 29, 2009, but DPW also filed an appeal on that date. Awaiting federal audit resolution action.
06-50	Control Weaknesses Found in Administering LIHEAP Cash Benefits Result in Questioned Costs	HHS	Unresolved – Corrective action has been implemented. HHS letter dated January 12, 2009 indicated that the auditors should verify implementation in the next audit. Awaiting further federal audit resolution action.
06-51	Control Weaknesses Found in Administering LIHEAP Crisis Benefits Result in Questioned Costs	HHS	Unresolved – Corrective action has been implemented. HHS letter dated January 12, 2009 indicated that the auditors should verify implementation in the next audit. Awaiting further federal audit resolution action.
06-52	DPW Failed to Adequately Monitor the Processing of LIHEAP Applications	HHS	Unresolved – Corrective action has been implemented. HHS letter dated January 12, 2009 indicated that the auditors should verify implementation in the next audit. Awaiting further federal audit resolution action.
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 – Questioned costs of \$3,135,166 for FFY 2004 and \$2,276,806 for FFY 2005 were returned on November 18, 2008. DPW appealed these determinations, but HHS issued a denial of reconsideration of earmarking for FFY 2004. Awaiting federal audit resolution action.
06-62	Weaknesses in DPW Program Monitoring of Subgrantees (Prior Year Finding #05-34)	HHS	Unresolved – Corrective action has been implemented. HHS/ACF letter of October 20, 2008 states that ACF concurs with the auditors' recommendation and will review any corrective action in the subsequent audit. Subsequent finding #07-60 has been resolved and DPW will request that this finding be considered resolved as well.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2010

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
DEPARTMENT OF PUBLIC WELFARE (Continued)			
06-63	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #05-36)	HHS	Unresolved – Corrective action has been implemented. DPW provided additional information to HHS. Awaiting federal audit resolution action.
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 – Corrective action has been implemented. DPW provided additional information to HHS. Awaiting federal audit resolution action.
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 – Corrective action has been implemented. DPW provided additional information to HHS. Awaiting federal audit resolution action.
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 – Corrective action has been implemented. DPW provided additional information to HHS. Awaiting federal audit resolution action.

FINDINGS FOR THE YEAR ENDED JUNE 30, 2005:

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)

05-8	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #04-6)	HUD	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued, HUD is not currently following up on the finding, and no management decision was issued.
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DEPARTMENT OF EDUCATION (PDE)

05-21	Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #04-18)	USDE	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued, USDE is not currently following up on the finding, and no management decision was issued.
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DEPARTMENT OF PUBLIC WELFARE (DPW)

05-2	Internal Control Weaknesses at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #04-3)	HHS	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued, HHS is not currently following up on the finding, and no management decision was issued.
05-29	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #04-24)	HHS	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued, HHS is not currently following up on the finding, and no management decision was issued.

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Summary Schedule of Prior Audit Findings – June 30, 2010

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
DEPARTMENT OF PUBLIC WELFARE (Continued)			
05-30	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Questioned Costs of \$271,758	HHS	Unresolved – Corrective action has been implemented. Awaiting further federal audit resolution action.
05-34	Weaknesses in DPW Program Monitoring of Subgrantees (Prior Year Finding #04-29)	HHS	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued, HHS is not currently following up on the finding, and no management decision was issued.
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 – Questioned costs of \$3,135,166 for FFY 2004 and \$2,276,806 for FFY 2005 were returned on November 18, 2008. DPW appealed these determinations, but HHS issued a denial of reconsideration of earmarking for FFY 2004. Awaiting further federal audit resolution action.
05-36	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #04-30)	HHS	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued, HHS is not currently following up on the finding, and no management decision was issued.
05-37	DPW Office of Children, Youth and Families Documentation Supporting the Licensing of Foster Care and Adoption Assistance Agencies is Incomplete	HHS	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued, HHS is not currently following up on the finding, and no management decision was issued.
05-40	Internal Control Weaknesses in the Administration of the MA Program (Prior Year Finding #04-32)	HHS	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued, HHS is not currently following up on the finding, and no management decision was issued.

FINDINGS FOR THE YEAR ENDED JUNE 30, 2004:

DEPARTMENT OF EDUCATION (PDE)

04-16	Internal Control Weakness in Monitoring Subrecipient Compliance With Maintenance of Effort Requirements	USDE	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued, USDE is not currently following up on the finding, and no management decision was issued.
04-17	Inadequate Controls in PDE's On-Site Monitoring of Subrecipients	USDE	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued, USDE is not currently following up on the finding, and no management decision was issued.

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Summary Schedule of Prior Audit Findings – June 30, 2010

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
DEPARTMENT OF EDUCATION (Continued)			
04-18	Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card	USDE	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued, USDE is not currently following up on the finding, and no management decision was issued.
DEPARTMENT OF PUBLIC WELFARE (DPW)			
04-24	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #03-21)	HHS	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued, HHS is not currently following up on the finding, and no management decision was issued.
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 – Questioned costs of \$3,135,166 for FFY 2004 and \$2,276,806 for FFY 2005 were returned on November 18, 2008. DPW appealed these determinations, but HHS issued a denial of reconsideration of earmarking for FFY 2004. Awaiting further federal audit resolution action.
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	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued, HHS is not currently following up on the finding, and no management decision was issued.
04-30	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients	HHS	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued, HHS is not currently following up on the finding, and no management decision was issued.

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Corrective Action Plans



Commonwealth of Pennsylvania

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Corrective Action Plans - June 30, 2010

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-01	OCO-BCA	Heather Morgan, Accountant 3, Federal Accounting, Employment Security	<p>Material Weaknesses Over Financial Reporting in the Unemployment Compensation Fund (A Similar Condition Was Noted in Prior Year Finding #09-06)</p> <p>To ensure that federal withholdings will not be missed in future years, beginning February 1, 2011, a voucher transmittal (VT) will be submitted to Treasury on a daily basis that will post the federal withholding payments to Treasury's Automated Booking System. In addition, Comptroller Operations will do a manual SAP entry for the VTs that are sent to Treasury. Therefore, a yearly GAAP entry will not be necessary since the transactions related to activity will be entered into the SAP accounting system. A VT will be processed for the period July 1, 2010 through January 31, 2011 in order to post the payments that were made prior to February 1, 2011.</p> <p>To ensure that the interstate payments made from the Pennsylvania Trust Fund are included in future packages, a monthly expenditure entry will be input in SAP to account for this activity. Therefore, no year-end GAAP entry will be necessary.</p>	February 2011
	L&I	Lori Pitulski, Head, Benefit Payment Control	<p>The Department is working with the Comptroller's Office and OIT to develop a review and analysis of the overpayment collection from 2002 to the current year in order to apply that data to a new methodology for GAAP reporting purposes. The review will include separating fault and non-fault overpayments, principal and interest, and also a further review of what may need to be designed for use in the soon-to-be-implemented UC Modernization System (UCMS).</p> <p>Note: The new methodology may be an option for the 2011 GAAP Audit with our current UC system. However, once UCMS is in use, the method for the GAAP audit must be reconstructed, and may not be ready for 2012 as actual claims processing takes priority since the GAAP changes were not written into the program for UCMS. We will try to prepare for this contingency as much as we can in our current ongoing analysis. Our goal is to have the new method for GAAP reporting purposes implemented by June 15, 2011, barring any unforeseen circumstances arising such as Law changes.</p>	June 15, 2011
10-02	OCO- BFM	Lauren Dungan, Assistant Director	<p>Material Weaknesses Over Financial Reporting of Debt in Various GAAP Templates</p> <p>To ensure that the TANs liability is properly relieved and reported in the GAAP financial statements, BFM will review the financial statements for issuance of a TAN and, if necessary, post adjustments to reflect the proper accounting. This will be part of the financial review process prior to releasing draft financial statements to the auditors.</p>	November 2011

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Corrective Action Plans - June 30, 2010

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-03	L&I	Elizabeth Crum, Deputy Secretary for Compensation and Insurance	<p>Noncompliance With Statutory Limits for Equity Investments (A Similar Condition Was Noted in Prior Year Finding #09-08)</p> <p>Corrective Action is not necessary. The Department of Auditor General (DAG) has misinterpreted SWIF's investment authority. The provision upon which DAG relies is very clearly limited to stock savings banks and mutual savings banks, of which SWIF is neither. SWIF would have no basis for choosing which of the two standards in § 504(b)(vi)(B)(i) and (ii) would apply to calculate the amount of SWIF's equity investments and DAG has not explained how it believes SWIF would select one of those two standards. DAG is unreasonably attempting to apply a standard that clearly was not intended to apply to SWIF.</p> <p>SWIF's equity investments are limited to seven and one-half percent of the book value of its assets, as set forth in § 504(b)(vi)(B) of the Banking Code. SWIF complies with this restriction. As of December 31, 2009, equity investments made up 6.4% of SWIF's investment portfolio.</p> <p>DAG's assertion that the current provisions of the Workers' Compensation Act do not authorize equity investments is erroneous. The plain language of the statute authorizes SWIF to invest surplus or reserve in accordance with Section 504 of the Banking Code. 77 P.S. § 2612.</p> <p>SWIF's management of its investment portfolio investments is carried out in a manner consistent with its fiduciary responsibilities under both the Workers' Compensation Act and the Banking Code.</p>	N/A
10-04	OCO-BFM	Lauren Dungan, Assistant Director	<p>Lack of Procedures to Monitor, Assess, and Report the Impact of Highway and Bridge Infrastructure Replacement Activity in the BFS (A Similar Condition Was Noted in Prior Year Finding #09-03)</p> <p>BFM will meet with PennDOT to review their proposed methodology to properly monitor highway and bridge replacement activity and its impact on infrastructure amounts.</p>	November 2011
	PennDOT	Steve Josephs, Accountant 3	<p>During the past quarter, PennDOT BOS met with OB-BFM to review the implementation proposed in the October 2010 CAP update. There is basic agreement on the proposed methodology. As a result of our meeting, an additional task was added to the CAP. PennDOT BOS will be formally defining what projects extend useful life and serviceability of infrastructure assets in accordance with GASB 34, as well as when the removal of roadway infrastructure is deemed a retirement. Highway infrastructure is being addressed during FY 2010 and bridge infrastructure will be addressed in FY 2011. The definitions outlined above are</p>	June 2012

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Corrective Action Plans - June 30, 2010

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-04 (cont'd)			scheduled for completion during the current fiscal year.	
10-05	OCO-BCA	Vanessa Gibboney, Commonwealth Accountant Manager	<p>Weaknesses in BFS Reporting of Motor License Fund Encumbrances and Liabilities</p> <p>GAAP preparer has already implemented a process to properly exclude federal encumbrances from the Reserve for Encumbrances, and applied this process in preparing the 2009-2010 GAAP report. Preparer used reports generated from Business Warehouse to list encumbrances, identified federal programs in reported State appropriations on the report, and then applied the federal weighted average to funds associated with these federal programs to isolate the federal portion related to federal projects. This calculation was necessary since federal projects require a federal, State, and sometimes local contribution; and federal reimbursement rates vary on federal projects. Preparer properly calculated the adjustment and journal entry for the Reserve for Encumbrances on the GAAP report for fiscal year ending June 30, 2010 before the report was submitted to the AG auditors. Therefore, OCO disagrees with this finding since the report was prepared correctly before submission and no correcting auditor adjustment was necessary. Preparer will continue to adjust for all federal encumbrances in the future as described above; however, as previously stated a proper procedure is already in place and additional corrective action is not needed.</p> <p>In relation to the issue to monitor and evaluate impact of old MLF projects that did not go to construction, OCO will inquire to the agency annually as to whether the agency has such items, and will evaluate the need for an adjustment to future GAAP reports. Since only the agency is privy to direct information and possesses knowledge concerning construction projects, they will be responsible for monitoring and evaluating old MLF projects that will not go to construction. OCO is not in the position to evaluate projects and disagrees with the finding stating that OCO should monitor and evaluate projects.</p>	Completed
10-06	Treasury	Cynthia Cranmer, Treasury Comptroller	<p>Internal Control Weaknesses in Monitoring of Alternative Investments</p> <p>Treasury will develop an estimate of the fair value of alternative investments. Treasury Investment Center will request most recent financial statements from alternative investment managers. Treasury staff will review transactions if available to determine estimate of fair value at June 30.</p>	June 30, 2011

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Corrective Action Plans - June 30, 2010

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-07	OCO-BFM	Lauren Dungan, Assistant Director	<p>Internal Control Deficiency Over Reporting of Intangible Assets</p> <p>BFM will improve upon the data collection of intangible asset information by implementing the following steps:</p> <ol style="list-style-type: none"> 1. Provide instructions to agencies defining the reporting requirements for intangible assets. 2. Provide a definitive due date when agencies need to provide responses to BFM. 3. Review agency responses for year-over-year consistency. 4. Follow-up with any agencies that do not adhere to reporting timeline. 	November 2011
10-08	Treasury	Cynthia Cranmer, Treasury Comptroller	<p>Internal Control Weaknesses in Investment Disclosure Reporting (A Similar Condition Was Noted in Prior Year Finding #09-11)</p> <p>Treasury will compile fund disclosures separately to reduce the number of securities being evaluated. Further, Treasury will document each reclassification and review all funds for these securities to ensure consistency.</p> <p>A consolidation sheet will be developed and reconciled to the component parts. This consolidation will be submitted to BFM.</p>	June 30, 2011
	OCO-BFM	Lauren Dungan, Assistant Director	<p>BFM will meet with Treasury in the spring of 2011 to review the Note D and GASB 40 financial reporting responsibilities and discuss BFM's review of the files compiled by Treasury. BFM and Treasury will also agree to the investment categories and a timeline for data preparation. BFM will also recommend to Treasury that files supporting the compilation of Note D not be provided to the auditors until BFM and Treasury have an opportunity to complete a final review of the disclosure data.</p>	November 2011
10-09	Treasury	Cynthia Cranmer, Treasury Comptroller	<p>Internal Control Weaknesses in Accounting for Securities Lending</p> <p>Treasury will ensure proper holdings allocations by applying analytical procedures to the holdings report to mitigate errors.</p>	June 30, 2011
10-10	OCO-	Lauren Dungan,	<p>Internal Control Deficiencies Over Financial Reporting in the Preparation of the Basic Financial Statements</p> <p>For each of the six points identified in the finding, BFM and BCA will, where appropriate, incorporate</p>	November

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Corrective Action Plans - June 30, 2010

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-10 (cont'd)	BFM	Assistant Director	changes into the preparation and review procedures for the June 30, 2011 GAAP template preparation. In addition, the GAAP template preparation training will be conducted in July, and individuals with GAAP template preparation responsibility will be scheduled to attend.	2011
10-11	OA	John Clark, Special Assistant to the Secretary of Administration Andrew Hacker, Deputy Chief Information Security Officer	<p>General Computer Controls in Various Commonwealth Agencies Need Improvement (A Similar Condition Was Noted in Prior Year Finding #09-16)</p> <ol style="list-style-type: none"> 1. Complete the assessment 2. Identify critical vulnerabilities 3. Communicate findings to agencies 4. Receive impact analysis of remediation from agencies including expected remediation timelines 5. Close-out assessment/remediation effort 	March 31, 2011
	OCO- BQA	Josh Naylor, Chief, Quality Assurance	Error resolution procedures have been established to comply with the Office of Administration's policy memo dated 7/23/10 from James Honchar to HR Directors (subject: Policy on Retroactive Processing in SAP HR/Payroll System) that mandates the correction of all errors for dates greater than three years. Procedures are currently in place to follow-up on the 90 day report. In order to expedite the resolution of errors, additional steps have been taken to initiate a 180 day report that progressively escalates the report distribution to the HR Director level and higher, if needed.	May 1, 2011
	OCO- BCPO	David Kessler, Director	<p>We plan to work with IES to obtain a report listing transactions made by BCPO staff. Senior management at BCPO will randomly review such transactions for appropriateness. Meetings are planned to address.</p> <p>There are controls in place to monitor transactions made by HR/IES staff – T&A transactions are reviewed by BQA and complement-related transactions are reviewed by BCPO and agencies.</p>	July 1, 2011

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Corrective Action Plans - June 30, 2010

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-11 (cont'd)	Lottery	Rebecca Roush, ITGA2	<p>1. Privileged network access is granted to members of the Lottery Support Division. The privileged network access is required to perform work responsibilities. When an employee departs from this work unit the Lottery Security Liaison notifies Revenue BIS Security and the privileged users account access is removed from CWOPA network access. A Lottery Security Request form is submitted and the user is disabled from the Back Office System. New users are required to submit a Lottery Security form with their supervisor's signature and the Lottery Security Liaison's signature before their access is set up in the Back Office System. BIS Lottery will create and implement a user-access review policy and procedure, as summarized below:</p> <ul style="list-style-type: none"> • The Lottery Security Liaison will maintain an inventory of Back Office business owners and system developers/administrators. On an annual basis, the Lottery Security Liaison will request a current list of application users from the system developers/administrators. • The Lottery Security Liaison will send the list of users to the designated business owner. • The business owner will approve or reject users and/or groups of users, and return the list to the Lottery Security Liaison. • The Lottery Security Liaison will complete the appropriate Lottery Security form to remove access and will instruct the system developers/administrators to remove access, as required. 	June 15, 2011
		Rebecca Roush, ITGA2	2. Lottery's vendor for the MIS application has modified the password requirements to force password complexity and lockout accounts after a predetermined number of unsuccessful login attempts. The change was implemented in the MIS application on 2/22/2011 and was tested in production on 2/23/2011.	Completed
		Kevin Sarnowski, Senior Application Developer	3. We have reviewed the number of Administrators in the Back Office System and have reduced the number of administrators to 5 users who need to have this access.	Completed
		Kevin Sarnowski, Senior Application Developer/Rebecca Roush-ITGA2	4. The Lottery will implement an internal change management process which will require signoffs and testing before changes are moved into production. A review of the process as well as the individuals that are required to make these changes to the production system will be conducted.	June 15, 2011
		Jay Venkatadri, Lottery Security/	5. The current listing of users that have physical access to the computer room has 44 users, not 69. These	April 15, 2011

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Corrective Action Plans - June 30, 2010

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-11 (cont'd)		Rebecca Roush – ITGA2	<p>users include Security Guards and Security Officials, Building managers who need access to the HVAC and fire systems, Drawing Officials, internal IT professionals and IT BIS professionals from downtown who support the firewalls, routers, phone systems, and various network servers and systems in the computer room. We will review the number of users with Lottery Security that have physical access to the computer room and see if this number can be reduced.</p> <p>On 05/04/2011 an email was sent to Doug Miller requesting to revoke their physical access to the Lottery Computer Room. Mr. Miller approved on 05/05/11.</p> <p>HID card access removal was formally submitted to Lottery Security to have these users removed. Waiting for an updated listing from Lottery Security after the removal takes place.</p>	
	L&I	Steve Yurich, BES Security Division Chief Ed Bowlen, Acting BEA Director David Andrews, BBAD Director	<ol style="list-style-type: none"> 1. L&I acknowledges that there is no standard written system outlined for the Department. Coordination between Application Development & Architecture Bureaus is underway to produce a policy to define this standard process for the Department. This process will incorporate the data migration finding outlined in #2 for SWIF as well. 2. While a manual process is in place to track these changes, L&I acknowledges that an automated one does not exist for our current mainframe systems. The version of the application change control software (Endevor) does not offer this functionality. With the retirement of this system scheduled prior to the end of this calendar year it is not anticipated that this will be addressed for the legacy systems. UCMS Release 3 (10/3/11) 3. Due to the ongoing modernization project for the UC systems, lack of full time staff has led to these duties being assumed by contractor staff. UCMS Release 3 (10/3/11) 	<p>December 31, 2011</p> <p>October 3, 2011</p> <p>October 3, 2011</p>
	L&I-SWIF	Steve Yurich, BES Security Division Chief Ed Bowlen, Acting BEA Director	<ol style="list-style-type: none"> 1. L&I OIT has developed and is currently testing a solution utilizing monitoring systems already in place in the agency. Utilizing our Tivoli Monitoring solution we have determined the directories on the Application and Data Base servers for the SWIF application to be monitored. Any changes to the files in these directories will result in immediate notifications to be sent out to pertinent staff. Testing is ongoing in the development environment. 2. This will be incorporated into the policy to be defined as per the #1 finding for L&I UC. 	<p>August 31, 2011</p> <p>December 31, 2011</p>

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Corrective Action Plans - June 30, 2010

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-11 (cont'd)		David Andrews, BBAD Director		
	PennDOT	Roger Riley, Director, Bureau of Business Solutions and Services	<p>1. ECMS has implemented written procedures to administer biannual reviews that will manage appropriateness of users with privileged access.</p> <p>MPMS conducts reviews of its security for ALL users every six months. This was noted as part of the recent review in answer for TAB3 - Process Change - Bi-Annual calendar reminder of security clean up for Kent Smithmyer.pdf. This illustrates the reviews are scheduled and are occurring. As part of the follow up to that review was a copy of our security sheet noting the deletion of a user. This was noted as TAB3 - Program Change - Removal from MPMS docs.pdf. As part of the review each District Office MPMS contact is asked to review their staff for any changes that may have occurred in jobs (someone moved or left the Department). This review takes into account all levels of security, those persons who may have changed job functionality/status and for system inactivity which is followed up on to take action to either change or delete the user, if appropriate.</p> <p>MPMS, ECMS, DL&C and CARATS support personnel: Periodic reviews of user privileges at the system level, like a system engineer or database administrator, are in place. An effort to examine and clean up RACF accounts was completed.</p> <p>2. This item remains open. The Source Justification Form for dotGrant software enhancement, provided by Agate Software, is currently routing internally through the Bureau of Office Services. Following Office Services internal reviews, the documents will be provided to the Office of Chief Counsel and Deputy Secretary for Administration for their review and approval. Anticipated time frame for all PennDOT reviews completion is in May 2011 at which time the Source Justification Form will be submitted to DGS for review/approval. The estimated date a purchase order will be issued is June 2011. Once we have an executed contract we expect the password security changes to be completed by December 2011.</p> <p>3. This item is resolved with this update. A logical access process has been implemented for dotGrants. Written procedures to formalize this process were completed in January 2011 and written procedures to formalize user access accounts were completed in March 2011.</p>	<p>Completed</p> <p>December 2011</p> <p>Completed</p>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-11 (cont'd)	DPW	Thomas Zarb, Information Technology Generalist Administrator 2 (BIS)	BIS User Access: 1. The DPW is working to get a User and Access Certification policy implemented. The policy should be official within 60 days. 2. The corrective action was that management followed up with staff to re-emphasize current processes and procedures. 3. The DPW is upgrading its OpCons application on 3/4/11. With this upgrade will also include the elimination of shared user IDS and anyone that has access to use this application will have their own user account created. At a minimum we will be configuring OPCONS to adhere to the current CWOPA password policies. 4. The DPW is working on migrating the CIS mainframe over to use CWOPA and Managed domain accounts with comply with the password policies.	June 30, 2011
		Blair Pence, Audit Specialist 2 (EBT)	5. The DPW is working on migrating the CIS mainframe over to use CWOPA and Managed domain accounts with comply with the password policies.	Completed
		EBT – DPW required the EBT contractor to provide corrective actions for findings noted within the SAS 70. The corrective actions are listed below:	Completed	
		5. PWC confirmed through inquires with management and inspection of user job titles, access for these users excluded from the recertification was appropriate based on job responsibilities. No other relevant exceptions were noted.	Completed	
		6. As a compensating control, systems are recertified by appropriate management at regular intervals, as defined by policy guidelines. The approver confirms that access remains commensurate with the individuals' job responsibilities, or requests change/revocation to access.	Completed	
		7. As of January 1, 2011 GTI management enhanced their process related to the review of user access following a transfer event. As of April 1, 2010 additional escalation procedures were implemented to support the transfer process to ensure that GTI users access to operating systems was being amended or revoked, where appropriate, after a transfer event. For the period April 1, 2010 this control was tested without exception for GTI users. No other relevant exceptions noted.	Completed	
		DOH	Mike Matter, DOH Security	1. During the audit period, the Bureau of Human Resources initiated distribution of a monthly report of separated employees. Bureau of Information Technology computer security staff began a practice in

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10-11 (cont'd)		Officer Barbara Negrete, DOH Administrative Officer	<p>June 2010 of distributing, by e-mail, a quarterly compilation of those reports to the department's Administrative Coordinators. This group manages routine administrative matters for their respective work units, including the assignment of computer access.</p> <p>The first e-mail and list covered the period of August 2009 through May 2010. Similar e-mails have been sent twice since the end of the audit period.</p> <p>The lists are distributed with the following directing text:</p> <p>"Staff come and go, but data file folder permissions or computer system access accounts are not always updated upon their departure. BIT receives a monthly list of separations from the Human Resources office which we review for data and system access update needs. We've used that list to prepare this attachment. As an example, bureau or division distribution list deletions often get overlooked when employees depart. Computer systems with separate user ids and passwords can be overlooked. I realize that some of the separated staff may have since returned as annuitants. If so, you can certainly continue the account and access permissions. The Human Resources employee separation checklist includes check-offs for similar actions; this serves as a double-check reminder and does not take the place of that process. It is our intent to provide this information on a quarterly basis for your review. Please review the attached list. Should you find any changes which require BIT assistance, please submit a Remedy request. Thanks for your help in maintaining our strong computer security profile."</p>	
		Mike Matter, DOH Security Officer	2. The identified individual's access will be restricted. The individual will not have write access to the production folders as part of the implementation of the DOH Enterprise Release Management process for Production Regions.	January 2012
		William Miller, Director of Development Services	Promotions to the Production region will follow the DOH Enterprise Release Management process, which will ensure multiple levels of approval and documentation before a change can be made to the Production region.	
		Scott Kister, Application Development Administrator	Develop and review Release Management process: 07/30/2011 Begin pilot and revise Release Management process: 08/01/2011 Implement Release Management process within CORE: 01/2012	

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
<p>10-11 (cont'd)</p>		<p>Scott Kister, Application Development Administrator</p> <p>Kevin Geist, Senior Application Developer</p> <p>Shirley Sword, WIC Program Director, Acting</p> <p>Jessica Thomas, Application Development Administrator</p> <p>Mike Matter, DOH Security Officer</p>	<p>3. The Core application will be changed to comply with Commonwealth password policies. Passwords will be configured to enforce password history and invalid password lockout threshold.</p> <p>Perform analysis and requirements: 4/25/2011 Perform general and detailed design: 5/9/2011 Perform system development: 5/23/2011 Perform system testing: 6/23/2011 Perform user acceptance testing: 6/28/2011 Release to production: 7/19/2011</p> <p>4. Per Program Area policy, user account creation is a Local Agency / Program function and not performed by BIT staff, except when the new user is a member of the IT staff. The majority of users are created by the Local Agency security officer for the QuickWIC system. This is the policy of the WIC Program Office. The WIC Program policy has been attached.</p> <p>When new user requests are made for IT staff (state and contractor), we will continue to follow the existing IT policy of requiring the request to be submitted in writing. In the audit period, the submittal was performed via e-mail, but we will now use Remedy to submit requests for new IT users of the QuickWIC system.</p> <p>5. Multiple technical staff have access to the room for their day to day tasks (network staff, database staff, server team staff). Also, administrative and maintenance staff have infrequent access. Senior management have access to provide unplanned, accompanied access during after-hours responses. One area of review is access granted solely for use of a large format plotting printer which was placed in the restricted area several years. With office relocation, it is now possible to relocate that device and reduce the number of staff with room access.</p> <p>Relocate the plotter out of server room by 4/30/2011. Review and reduce badges with entry authorization by 5/31/2011.</p>	<p>July 19, 2011</p> <p>Completed</p> <p>May 31, 2011</p>
	<p>PDE</p>	<p>Portal Security Administrator, IT Support Division</p>	<p>1. Complete review of eGrants access review pilot. Approve pilot process for implementation. Identify in-scope applications for review. Document privileged access procedures and approvers. Draft communication to user groups within PDE. Send user/role listings to PDE, CDQ</p>	<p>June 30, 2011</p>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-11 (cont'd)		Director, Bureau of Budget & Fiscal Management	<p>approvers. Receive review/update confirmations from approvers.</p> <p>2. The Pennsylvania Department of Education's Basic Education Funding (BEF) calculation files are initially developed to support the Governor's proposal for BEF. Proposed legislation is prepared based on the parameters in the Governor's proposal. As the Governor's Office and the General assembly negotiate the formula that is enacted in legislation, the calculation file is adjusted to reflect changes. Various staff in the Governor's Office and the General Assembly independently creates calculation files. If any of these files do not match PDE's file, PDE is contacted to determine if corrections need to be made.</p> <p>The Pennsylvania Department of Education, Bureau of Budget and Fiscal Management, maintains BEF calculation files in a restricted-access network folder and are password-protected. In addition, a document is prepared each year before allocations are finalized at the end of the fiscal year. This document includes instructions for the staff creating the allocation file as well as a table on which the Division Chief (or Bureau Director) independently records state totals for each of the various data elements used in creating the allocations. This document was created for use beginning with the revised BEF allocations for 2003-2004, prepared in May 2005. However, use of an updated and more detailed document is being instituted beginning with the final calculation for the 2010-2011 payable year.</p>	Completed
		LAN Team Chief, IT Support Division	3. Develop policy, procedures for updates. Develop password change script to run on all physical and virtual servers. Run password change. Implement regular quarterly password change.	June 30, 2011
		LAN Team Chief, IT Support Division	4. Remove administrator from FAI group. Remove all CWOPA and PDE accesses for this user upon retirement.	Completed

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10-11 (cont'd)	DOR	Jeff Games, Information Security Specialist 3	<p>1. Privileged network access is granted to members of two work units in BIS (The Infrastructure and Operations Division, and the Security and Audit Review Office). The privileged network access is required to perform work responsibilities. When an employee departs from either of these work units, the Security and Audit Review Office immediately disables the privileged network access.</p> <p>For privileged user access to individual business applications, DOR intends to create and implement a user-access review policy and procedure, as summarized below:</p> <ul style="list-style-type: none"> • The Security and Audit Review Office will maintain an inventory of business privileged applications, business owners, and system developers/administrators. • On an annual basis, the Security and Audit Review Office will request a current list of application users from the system developers/administrators. • The Security and Audit Review Office will send the list of users to the designated business owner. • The business owner will approve or reject users and/or groups of users, and return the list to the Security and Audit Review Office. • The Security and Audit Review Office will notify the Security Liaisons within the bureaus/offices of the disapproved users. • The Security and Audit Review Office will remove access or will instruct the system developers/administrators to remove access, as required. 	September 30, 2011
		Lori Eckhart, Director, Bureau of Information Systems	<p>2. On 1/3/2010 DOR implemented an interim solution utilizing our System Implementation Document (SID). For each change implemented in production, we now require the programmer to receive management approval prior to moving the change into production. The approval is documented on the internal DOR system approval document (SID) and the document will be stored with the project request information in the Bureau of Information System's online project request system.</p> <p>DOR has contracted with Accenture to implement a SAP-based tax system solution. This integrated tax system will provide role-based functionality and access, and will provide segregation of duties once implemented. Corporation Tax is the first tax system slated to be implemented in July 2012, with other systems following later as the project progresses, ending in July 2015 with Miscellaneous Tax.</p>	July 1, 2015
		Marcia Englar,	<p>3. Since 2009, DOR has developed and utilized a Quality Assurance (QA) testing methodology that includes data validation, including sign-offs. This process is documented as "BIS Software Testing –</p>	November

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-11 (cont'd)		Application Developer Administrator	<p>Test Plan Guidelines/Procedures.”</p> <p>The QA testing methodology in DOR is a process of checking software to verify that it satisfies identified requirements to support an intended business need, to detect errors/defects and validate data. To accomplish these goals, typical software implementations (mainframe or client/server) will follow the test phases as outlined in the methodology.</p> <p>At a high level, the following test phases are planned and executed in a typical software implementation:</p> <ul style="list-style-type: none"> • Unit test • Integration test • System test/regression test • Regression • User Acceptance Test • Post production <p>DOR utilizes standard testing scripts throughout the phases. Standardized test script templates provide a standard format for documenting tests, and capturing the results of those tests. Overall, the QA testing methodology provides a framework and provides a standardized approach to DOR’s internal testing processes and procedures that support our development activities.</p>	2009
	LCB	Mary Benner, CIO	<p>1. Point of Sale (POS) – This will be corrected with the new POS System being rolled out second quarter 2011.</p> <p>Warehouse Management System (WMS) – Physical access controls were not addressed this year due to the possibility of warehouse consolidation. This is planned prior to the end of Fiscal Year 2010-2011.</p> <p>2. WMS – The Warehouse Management System incorporates the following criteria for user password standards: 90-day expiration, minimum 7 characters, no uppercase, cannot be the same as the last 5 passwords, 5 unsuccessful tries in 5 minutes locks the user’s screen for 5 minutes.</p> <p>POS – Our current password standards are as follows: 90 expiration, must consist of (8) letters and numbers, cannot contain consecutive numbers, spaces or special characters in sequence and the</p>	<p>September 2011</p> <p>June 30, 2011</p> <p>Completed</p> <p>Completed</p>

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10-11 (cont'd)			<p>password cannot be the same as the last (6) passwords used. POS will automatically logoff the user after 15 minutes of inactivity. If an individual's password is not known the only way an employee can obtain a new password is to call the help desk. The help desk will delete the employee and assist in adding the employee in Employee Control Maintenance.</p> <p>Oracle – We need to work within the constraints of the Oracle software product. At present, there is no way for the end user to change their password in RMS, so as a result our Security section sends out new passwords to the end users every 90 days. As far as the rest of the Oracle systems, they function in a similar fashion to CWOPA where by asking the end user to change their password every 90 days. There are however, different application specific password standards in Oracle.</p> <p>3. Our Oracle RMS software does not currently allow individual users to change their own passwords. We hope this feature will be available in upcoming releases. We do however, change Oracle RMS passwords every 90 days and distribute them to users. The passwords are randomly generated so there is no specific pattern to their makeup.</p> <p>4. Changes to the Robocom Inventory Management System (RIMS) are managed centrally and pushed out to the warehouses by Tech Support. As with any application system where the servers are remotely managed there is the possibility for changes to be introduced. The PLCB will research ways to better monitor the application servers in the warehouses.</p> <p>5. Oracle – At the meeting held, February 24, 2011, privileged access was defined as anyone who has the ability to change data, settings or configuration or to access tables directly from the backend. As a result of this audit the PLCB has started to review access by contractors, its own COE and end user community. It is the intent of the PLCB to review this access annually at a minimum.</p> <p>POS – User access of “Admin” in Point of Sale is only granted to specific users – Help Desk, Second Level Technical Support and Technical Support. This access is only granted by Dee Mayer, Jason Smith or Robin Fears.</p> <p>6. At the meeting held, February 24, 2011, “super user” access was defined as administrative or privileged access. There are a series of agency IT specific policies on Production Environment Security Administration, Required Use of Unique Application User IDs, Generic System Admin Level User ID Usage and Granting Access to LCB Systems. In addition, the PLCB has started to review access by contractors, its own COE and end user community. It is the intent of the PLCB to review</p>	<p>Completed</p> <p>Completed</p> <p>June 30, 2011</p> <p>Completed</p> <p>Completed</p> <p>Completed</p>

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10-11 (cont'd)			this access annually at a minimum.	<p>February 2013</p> <p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p> <p>Completed</p> <p>June 2011</p>
			7. The PLCB will be transitioning over the next two years to adopt ITIL standards. As a result the PLCB will be starting to conduct post implementation reviews for all projects over a given number of hours.	
			8. POS – We currently use Storegazer software to monitor access and user activity, plus we send message and audit log file data to the Central Office on a nightly basis.	
			WMS – There is an OS level report generated on a daily basis that details user activity and notates those users who had difficulty signing onto the WMS in the last 24 hours.	
			9. Oracle – The PLCB recognizes that we need to strengthen our monitoring for segregation of duties issues especially as it relates to contractors hired to make system changes. As such, the agency is implementing periodic reviews of all persons with privileged or administrative access on an annual basis at a minimum.	
			WMS – Currently there is no UNIX based system generated evidence of segregation of duties. Only our Tech Support section has access to the root user profile to make changes to production.	
			POS – During development and pilot, our vendor SkillNet, has separate application developers vs the database administrators who deploy code to production. It is PLCB’s intention to follow the same methodology internally after rollout.	
			10. The agency is continuing to evolve its change control process and the IT Steering Committee for prioritization of projects. The Change Control Board is being changed to a Change Advisory Board (CAB). ITIL standards are being introduced into the organization and an OA Remedy Help Desk solution is scheduled to be rolled out in 2011. With an OA Remedy Change Management pilot closely following thereafter. All of this is an effort to make the systems and processes more stable and repeatable. The agency has also recently hired a Quality Assurance Manager and a Testing Manager.	

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10-12	OA-IES	Greg Kendig, IES Security Administration Manager	<p>Statewide Weaknesses Within the SAP Accounting System Related to Potential Segregation of Duties Conflicts (A Similar Condition Was Noted in Prior Year Finding #09-15)</p> <ol style="list-style-type: none"> Starting in June 2011, all IES support staff, including developers, will be required to use SAP GRC Access Control software Firefighter User ID to execute support transactions in production. Use of the Firefighter IDs will automate the monitoring of support activity and each transaction will be logged for review by management. Note: The IES change transport procedures require 1st level review and approval by a developer's supervisor or manager and a 2nd level review and approval by the IES Quality Assurance Team. Application program changes cannot be moved to production until both levels of review and approval are completed. IES developers do not have the security access to perform program development or maintenance directly in the production environment. Application changes must be reviewed and approved by IES management before they are promoted to production (see note above). Detailed functional specifications must be submitted by IES Business Teams and reviewed by IES Application Developer supervisors for all application development. Initial IES tasks for SAP GRC AC software are complete (technical environment build and facilitation of knowledge transfer from SAP to OB resources). OB initiated the Business Process Owner activities related to role review and segregation of duties on March 8, 2011. After the BPO completes review of the Risks, IES will update the GRC Rules and begin analysis and role cleanup. The SAP GRC AC software includes reports that provide justification of SOD conflicts and the ability for management, or other authorized staff, to review and monitor the transactional activity of users with SOD conflicts. In March 2011, IES will implement the GRC Access Control FireCall process for IES support staff to access production systems utilizing transactions that have restricted use. FireCall access requires IES manager approval. All support activities are logged for manager review and audit. The GRC Firefighter procedures for recurring IES SAP support activities will be implemented in June, 2011. The implementation of the GRC Firefighter software and procedures will be completed by May 31, 2011. This implementation includes the removal of all critical support roles from our IES teams and SAP Support user IDs. All access to the production system for maintenance and troubleshooting will 	May 31, 2011
				Change control in place prior to audit period.
				FireCall March, 2011; Firefighter May 31, 2011
				May 31, 2011

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10-12 (cont'd)			be executed with Firefighter user IDs. The Firefighter user IDs require approval and documentation of the reason for access, and each executed transaction is logged. These logs will be reviewed by the persons (normally Functional Team Leaders and Managers) who approved the usage of the Firefighter ID to determine which transactions had been executed.	
	OCO-BQA	Josh Naylor, Assistant Director, Bureau of Quality Assurance	<p>The Office of the Budget – Bureau of Quality Assurance (BQA) is leading a project to utilize the Governance, Risk and Compliance (GRC) module of SAP to identify and remediate segregation of duties conflicts. The project team includes individuals from central support agencies including Comptroller Operations, DGS, and OA/HR. These team members are termed Business Process Owners (BPOs). The team also includes IES technical staff (Business Process Analysts – BPAs) and security staff.</p> <ol style="list-style-type: none"> The project team has analyzed and classified the risks identified within the GRC module. These risks will be used to determine the segregation of duty rules to be established. A review of roles established within SAP is to be conducted to identify transactions that may not be in alignment with the intent of the role. Within each role, the project team will utilize GRC to review the individual transactions that make up the roles to determine if/where there may be segregation of duty conflicts. Once segregation of duty conflicts within the roles are identified, the roles will be updated to eliminate the conflicts. 	<p>Completed</p> <p>July 2011</p> <p>November 2011</p>
10-13	Treasury	Cynthia Cranmer, Treasury Comptroller	<p>General Computer Controls in the PA Department of Treasury Need Improvement</p> <ol style="list-style-type: none"> Treasury is aware of the finding related to expiration of mainframe passwords. This functionality is not intrinsic to our mainframe environment. Treasury is in the process of moving TABS from the mainframe to distributed computing environments where this control exists. Testing of the server environment hosting TABS is underway by the IT staff. The transition is expected to be complete by September 2011. The Bureau of Human Resources (HR) will notify the IT Director via e-mail when a Treasury department employee is transferred or terminated. Treasury's Bureau of Information Technology agrees to monitor user privileges periodically. 	<p>September 30, 2011</p> <p>March 31, 2011</p> <p>June 30, 2011</p>

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10-13 (cont'd)			<p>4. The Bureau of Human Resources (HR) notifies the BUCD Director via a Personnel Transaction Form, which must be signed by the director when a Treasury department employee is hired, transferred or terminated. A subsequent email usually follows.</p> <p>5. Treasury will take steps to deactivate accounts that are not in use.</p> <p>6. BUCD will develop a change control schedule.</p> <p>7. OnBase is an enterprise content management system with strong inherent internal controls. Treasury BUCD relies on the system generated documentation for successful testing changes.</p> <p>8. Windows patches and updates have been applied. Future updates will occur consistent with the change control schedule.</p> <p>9. It is the policy of the Department of Labor and Industry to provide police and fire personnel access to all areas of the building. The access to the data center includes 145 Capitol Police and fire officials as required by Labor and Industry. These individuals have been established as a separate access group. This group will be reviewed and confirmed by the Department of General Services periodically.</p> <p>10. Compensating password controls serve to protect the users in the OnBase application. Before accessing OnBase, a user must log on to the unique BUCD domain using both user name and an eight character alpha numeric password. The domain name must match the pre-established user account. This domain password is changed at sixty day intervals.</p>	<p>N/A</p> <p>March 31, 2011</p> <p>April 30, 2011</p> <p>N/A</p> <p>April 30, 2011</p> <p>April 30, 2011</p> <p>N/A</p>

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10-14	OCO-BFM	Mike Burns, Director	<p>Lack of Documentation to Support Proper Contracting and Procurement (A Similar Condition Was Noted in Prior Year Finding #09-13)</p> <p>Upon reviewing the auditor’s conclusion, we reaffirm our disagreement with this finding.</p> <p>The auditors were informed in writing that they could initiate requests to interview individual evaluation committee members if they identified compelling reasons to do so within the scope of specific audits and Commonwealth representatives concurred with the compelling reasons put forth by the auditors. In an effort to alleviate the auditors’ remaining issues with the Commonwealth’s procurement audit disclosure policy, the Commonwealth will initiate conversations with audit staff to discuss potential alternate compromises to releasing evaluation committee member names.</p> <p>Regarding whether Commonwealth management properly verified prospective vendor cost proposals as reasonable to avoid additional subsequent contract amendments, DGS has developed comprehensive procurement policies and procedures designed to incorporate uniform procedures and result in maximum value to the Commonwealth. DGS publishes an RFP Scoring Category Guide which details percentage weighting recommendations for the technical, cost, and disadvantaged business for both service and materials procurements. Additionally, DGS publishes a standard cost formula that is applied for competitive sealed proposals.</p>	N/A
10-15	OCO-BCA	Cathy Kelly, Commonwealth Accountant Manager	<p>Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System and Inappropriate Role Assignments (A Similar Condition Was Noted in Prior Year Finding #09-18)</p> <ol style="list-style-type: none"> 1. The Office of Comptroller Operations (OCO) does not agree with this item in that it is not applicable or feasible for all refunds. There are a number of refunds that are processed by the Revenue and Cash Management unit that are for groups of checks. Examples include, but are not limited to, LIHEAP and TPL for the Department of Welfare. These can number from 2 to 500 checks per refund. These groups of checks are not input individually into SAP as this would create an unnecessary inefficiency and uneconomical use of COPA resources, but are posted as one item per code in SAP. These refunds are posted to one-time vendor accounts since they are refunds for programs that are processed by agency system applications rather than through SAP. As a result, the name identified on the one-time vendor account reflects the program that is being refunded rather than an individual name. For these transactions, an original SAP document is not applicable and non-SAP system payment cannot be easily matched to the SAP summary VT posting, nor would it provide the detail information behind it. 	N/A

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10-15 (cont'd)			Relative to all refunds processed, the OCO refunds to the code where the program expenses originally posted. Where the original document is known, it is either referenced on the SAP posted entry or is included in the attachments linked to the SAP posted entry via DocFinity. A corrective action plan is not applicable.	
	OCO-BPS	Deb Chernicoff, Director	<ol style="list-style-type: none"> 2. A workgroup is being formed within CO to discuss policy relating to one-time vendors. 3. Refunds processed through Payable Services should contain the reason in the text. Additional training will be given to invoice processors. 4. Analysis is currently being done by the Bureau of Quality Assurance and this will be addressed by the workgroup developing new policy. 5. This issue relates to condition #1, already addressed by BCA. 6. The appropriate use of one-time vendors for interface payments will be discussed with the workgroup and addressed with new policy. 7. If a one-time vendor is entered by a Comptroller Office Supervisor the Manager, Assistant Director or Director will be required to unblock that invoice in order to separate the entry and approval process. 	<p>August 31, 2011</p> <p>June 30, 2011</p> <p>August 31, 2011</p> <p>N/A</p> <p>August 31, 2011</p> <p>June 30, 2011</p>
10-16	OCO-BPS	Deb Chernicoff, Director	<p>Weaknesses in Invoice Processing Procedures and Maintenance of Vendor Master Data and General Ledger Account Master Data</p> <ol style="list-style-type: none"> 1. For invoices outside of Finance Transformation workflow an approved invoice must be attached to the transaction in SAP in order for the invoice to be paid by Treasury. 2. For the individual identified, a USAR will be prepared, approved and submitted to OA LAN to remove this individual from access to maintain vendor data. 3. For the individual identified, USARs will be prepared, approved and submitted to OA LAN to remove these individual from adding/changing/or deleting vendor records. 6. The Office of the Budget – Bureau of Quality Assurance (BQA) is leading a project to utilize the 	<p>N/A</p> <p>June 30, 2011</p> <p>June 30, 2011</p>

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10-16 (cont'd)			<p>Governance, Risk and Compliance (GRC) module of SAP to identify and remediate segregation of duties conflicts. The project team includes individuals from central support agencies including Comptroller Operations, DGS and OA/HR. These team members are termed Business Process Owners (BPO's). The team also includes IES technical staff (Business Process Analysts – BPA's) and security staff.</p> <p>a. The project team has analyzed and classified the risks identified within the GRC module. These risks will be used to determine the segregation of duty rules to be established.</p> <p>b. A review of roles established within SAP is to be conducted to identify transactions that may not be in alignment with the intent of the role.</p> <p>c. Within each role, the project team will utilize GRC to review the individual transactions that make up the roles to determine if/where there may be segregation of duty conflicts. Once segregation of duty conflicts within the roles are identified, the roles will be updated to eliminate the conflicts.</p> <p>7. Additional training will be conducted regarding the necessary steps needed to reverse a document correctly.</p> <p>8. The Exceptions Unit is providing monthly error reports to each Manager and Supervisor by employee and type of error in order to identify those employees who need additional training.</p> <p>10. The Supervisor will monitor the printing of the checks as well as the check stock to ensure there is a separation of duties.</p> <p>11. A workgroup has been formed to draft a new Management Directive and Manual to cover the current advancement account procedures.</p>	<p>Completed</p> <p>July 2011</p> <p>November 2011</p> <p>June 30, 2011</p> <p>Completed</p> <p>June 30, 2011</p> <p>August 1, 2011</p>
	OCO-BFM	Lauren Dungan, Assistant Director	<p>4. The roles for the two individuals that had the account code custodial role in error, has been corrected.</p> <p>5. For 14 individuals identified, USARs will be prepared, approved and submitted to OA LAN to remove the BFM Reviewer-Commonwealth-wide Reporting role. This will be completed by June 30, 2011.</p> <p>9. The Office of the Budget – Bureau of Quality Assurance (BQA) is leading a project to utilize the</p>	<p>Completed</p> <p>June 30, 2011</p>

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10-16 (cont'd)			<p>Governance, Risk and Compliance (GRC) module of SAP to identify and remediate segregation of duties conflicts. The project team includes individuals from central support agencies including Comptroller Operations, DGS and OA/HR. These team members are termed Business Process Owners (BPO's). The team also includes IES technical staff (Business Process Analysts – BPA's) and security staff.</p> <p>a. The project team has analyzed and classified the risks identified within the GRC module. These risks will be used to determine the segregation of duty rules to be established.</p> <p>b. A review of roles established within SAP is to be conducted to identify transactions that may not be in alignment with the intent of the role.</p> <p>c. Within each role, the project team will utilize GRC to review the individual transactions that make up the roles to determine if/where there may be segregation of duty conflicts. Once segregation of duty conflicts within the roles are identified, the roles will be updated to eliminate the conflicts.</p>	<p>Completed</p> <p>July 2011</p> <p>November 2011</p>
10-17	DPW	Alexander Matolyak, Acting Division Director Jill Reeder, Division Director Mac Spiker, Division Director	<p>Internal Control Deficiencies Exist at DPW Over Procurements for Various Federal Programs</p> <p>The DPW disagrees with this finding. The DPW is following established procedures related to procurement, and the awarded contract is reviewed by both DGS and the Governor's Office of Administration to ensure these procedures were followed.</p> <p>Therefore, no corrective action is needed.</p>	N/A
10-18	DPW	Ralph Reichert, Director, Office of Income Maintenance	<p>Internal Control Deficiencies at DPW Related to Returned EBT Cards (A Similar Condition Was Noted in Prior Year Finding #09-21)</p> <p>On August 4th, 2010, an "Electronic Benefits Transfer (EBT) Returned Cards" policy and procedure was initiated that addressed the central processing of undeliverable and returned EBT cards. It identified the procedures to be followed for the return of EBT cards to the Office of Income Maintenance (OIM), tracking and shredding of these cards, and notification to the applicable County Assistance Office (CAO) for appropriate actions. This policy has been updated twice since initially being issued.</p>	Completed

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10-18 (cont'd)			<p>Based on follow-up visits, the AG believes sufficient corrective actions have been taken and, therefore, this finding will not be repeated for 2010/11.</p> <p>The Dept. of Public Welfare (DPW) continually evaluates and updates its security policies and procedures. To reinforce the importance of EBT card security, DPW initiated CAO training and developed an E-Learning presentation for EBT Security Procedures in March of 2010.</p>	
10-19	DPW	<p>Thomas Zarb, Information Technology Generalist Administrator 2 (BIS)</p> <p>Blair Pence, Audit Specialist 2 (EBT)</p>	<p>Weaknesses in DPW IT Systems Used for TANF, CSE, Foster Care and Adoption Assistance, DPW Monitoring of CSE County Subrecipient IT User Controls, and Internal Control Deficiencies and Material Noncompliance Related to SNAP IT Systems</p> <p>BIS User Access</p> <ol style="list-style-type: none"> 1. The DPW is working to get a User and Access Certification policy implemented. The policy should be official within 60 days. 2. The corrective action was that management followed up with staff to re-emphasize current processes and procedures. 3. The DPW is upgrading its OpCons application on 3/4/11. With this upgrade will also include the elimination of shared user IDS and anyone that has access to use this application will have their own user account created. At a minimum we will be configuring OPCONS to adhere to the current CWOPA password policies. 4. The DPW is working on migrating the CIS mainframe over to use CWOPA and Managed domain accounts with comply with the password policies. <p>EBT – The DPW, OIM will require the EBT contractor to provide a response and corrective action to any findings noted within the SAS 70. The corrective action is noted below:</p> <ol style="list-style-type: none"> 5. PWC confirmed through inquires with management and inspection of user job titles, access for these users excluded from the recertification from the recertification was appropriate based on job responsibilities. No other relevant exceptions were noted. 6. As a compensating control, systems are recertified by appropriate management at regular intervals, as defined by policy guidelines. The approver confirms that access remains commensurate with the individuals' job responsibilities, or requests change/revocation to access. 7. As of January 1, 2011 GTI management enhanced their process related to the review of user 	Completed

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10-19 (cont'd)			access following a transfer event. As of April 1, 2010 additional escalation procedures were implemented to support the transfer process to ensure that GTI users access to operating systems was being amended or revoked, where appropriate, after a transfer event. For the period April 1, 2010 this control was tested without exception for GTI users. No other relevant exceptions noted.	
	OIG	William S. Barrett, Director of the OIG Bureau of Information Systems Janis L. Bell, Chief of the OIG Business Applications Development Division	The Office of Inspector (OIG) will maintain a log of changes that a developer programs. Then another designated OIG staff (who is not a developer), or the backup in this person's absence, in the OIG Bureau of Information Systems will implement the changes on the production server. The OIG will implement this procedure as a corrective action by June 30, 2011. Also the OIG will review the following guidance from the auditors for implementation in the future, if possible: The best solution would be to implement a migration tool that would provide an automated workflow based on roles. This solution is geared at preventing unauthorized changes in the production environment. The goal of this solution is to lock out programmers from making direct changes to production code, and requires a supervisor-level employee to log into the workflow tool and approve any code changes before the change can be scheduled for implementation. Using this model, all affected code should be validated and tested and automatically scheduled for implementation using the migration tool.	Completed
10-20	DPW	Blair Pence, Audit Coordinator	Internal Control Deficiencies at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (A Similar Condition Was Noted in Prior Year Finding #09-22) DPW, OIM disagrees with this finding. Adequate Internal Controls are in place, at the DPW County Assistance Offices. Accordingly no corrective action is needed.	N/A
10-21	PDE	Division Chief, Division of Food and Nutrition	PDE Did Not Specify Required Federal Award Information in Subrecipient Award Documents The Pennsylvania Department of Education, Division of Food and Nutrition (DFN) continues to maintain that it is not out of compliance with this issue and disagrees with this finding. Corrective action will be taken when the US Department of Agriculture provides State Agencies with specific guidance and	N/A

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10-21 (cont'd)			direction on this issue or the Commonwealth issues specific guidance on this issue. Subrecipients are notified of their award and program name at the time of each payment.	
10-22	PDE	Division Chief, Division of Food and Nutrition	<p>Deficiencies in Information Technology Controls Over the Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (CN-PEARS) (A Similar Condition Was Noted in Prior Year Finding #09-23)</p> <p>The Pennsylvania Department of Education, Division of Food and Nutrition (DFN) has hired a Business Analyst. This person will serve as the liaison between the DFN staff and IT vendors, and monitor compliance with IT requirements. As noted, DFN is in the process of converting to a .NET platform which will enhance the security abilities of CN PEARS.</p>	May 2012
10-23	DOH	Shirley H. Sword, MS, RD, LDN Acting WIC Director	<p>Weaknesses in Department of Health Monitoring of WIC Local Agencies (A Similar Condition was Noted in Prior Year Finding #09-24)</p> <p>A paper form will be available for signature by the participant and local agency clinic staff for contingency purposes as a back-up when DOH's QuickWIC computer system is down. DOH's WIC Policy and Procedure manual will be modified to show this change, and local agency staff will be trained on this by January 2012.</p> <p>Digitized signatures for capturing certifier and participant signatures are planned as a future enhancement to DOH's QuickWIC computer system. This enhancement is scheduled for implementation in September 2011.</p>	January 2012
10-24	DOH	Shirley H. Sword, MS, RD, LDN Acting WIC Director	<p>Noncompliance and Internal Control Weaknesses Related to Rebates Resulting in Questioned Costs of \$310,230</p> <p>A meeting was held on March 24, 2011 to discuss a change to the rebate queries in DOH's QuickWIC system so they pick up the infant formula and infant cereal check redemptions, even if the check redemption information is received by DOH's Division of WIC two or more months following the redemptions, as occurred with the missed rebates discovered in the audit. This change was implemented immediately and has been in use ever since.</p> <p>When check redemption information is received from the bank, a <i>rebate applied date</i> is given to each</p>	August 31, 2011

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10-24 (cont'd)			<p>infant formula and infant cereal check in DOH's QuickWIC system. This <i>rebate applied date</i> is the 14th of the month following the month the check redemption information is received. The audit finding was a result of an unusual incident where the bank was unable to send check redemption information for the two dates in question. The check redemption information was sent a few months after the actual redemptions occurred. The queries involved in the finding required the redemption month to be the month just prior to the rebate applied date. These queries to DOH's QuickWIC system were changed to use the rebate applied date, but allow the redeemed checks to have redemption dates in any month. WIC checks that received rebates will have an indicator in the database signifying that a rebate was received.</p> <p>The January and February 2010 redeemed infant formula check rebate queries were re-run, along with the rebate reports, and include the rebates that were initially missed. The infant cereal rebate query will be re-run by July 14, 2011 and will include the rebates that were initially missed. Nestle and Gerber will be billed for the missed rebates by August 1, 2011. Payment for the rebates is required within 30 days of the rebate billing, so the rebates should be received by August 31, 2011.</p>	
10-25	DOH	Shirley H. Sword, MS, RD, LDN Acting WIC Director	<p>Noncompliance and Internal Control Weaknesses Related to Voided Food Instruments (A Similar Condition Was Noted in Prior Year Finding #09-25)</p> <p>DOH's Division of WIC created and is utilizing a spreadsheet for the "Redeemed/Voided, Lost or Stolen FI Monthly Report" and the "10 Percent Random Sample of Voided FI's with Void Code Other than "R" Monthly Reports." This spreadsheet assists in tracking and monitoring receipt of the Local Agency documentation within the 120 day time-frame. The spreadsheet has a row for each Local Agency and tracks:</p> <ol style="list-style-type: none"> 1. Whether a report was generated that month for a Local Agency; 2. The date the Local Agency was notified the reports were available; 3. Who at the Local Agency was notified that the reports are available; 4. Due date; 5. Date report received; 6. Delinquent email sent; 7. Due date; 8. Date report received; 9. First warning letter sent allowing 10 days for receipt; 10. Date report received; 	Completed

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10-25 (cont'd)			<p>11. Date of telephone call from State WIC Director to Local Agency allowing 5 days for receipt; 12. Date report received; 13. Date of letter to Local Agency Executive Director allowing 5 days for receipt; 14. Date report received; 15. Date begin withholding of payment; and 16. Date report received.</p> <p>This spreadsheet is utilized on a continual basis by the WIC Representative in the Participant Program Monitoring Unit in DOH's Division of WIC. The WIC Supervisor of that unit follows up at least twice a month with the WIC Representative to check the progress of the receipt of documentation. DOH's Division of WIC Director follows up with the WIC Supervisor on at least a monthly basis.</p>	
10-26	DOH	Shirley H. Sword, MS, RD, LDN Acting WIC Director	<p>Various Weaknesses and Noncompliance Noted in a Separate Bureau of Audits Performance Audit of the WIC Program Including Questioned Costs of \$15,000</p> <p>Finding #1: The DOH WIC program has many IT controls currently in place that affect local agency operations. There is an equipment password that clinic staff uses to sign into any WIC equipment. This password is computer generated and reset every 90 days. Also, local agencies must comply with policies and procedures specific to user IDs and passwords. Passwords in DOH's QuickWIC system are reset every 60 days and the system inactivates these passwords after 30 days of non-use. User IDs are created by each local agency security officer based upon a standard policy. DOH's QuickWIC system will inactivate these user IDs after 120 days of non-use. According to WIC policy, security officers are to inactivate user IDs and passwords no later than 48 hours after staff have terminated their employment.</p> <p>Each local agency has a biannual clinic review. As of October 1, 2010, the reviews include the assurance that local agency security officers inactivate user IDs according to policy. As part of the WIC local agency program reviews the list of current clinic employees is cross-referenced to the active QuickWIC users. Necessary action is taken to correct any discrepancies.</p> <p>Training was conducted at the January 2011 WIC Local Agency Director's meeting to ensure all WIC local agencies are aware of IT security policies and their requirement of policy implementation. The entire WIC Policy and Procedure manual section 8.02, QuickWIC Password Security, including the security controls for equipment passwords, was discussed at the meeting. Further, the DOH developed a user access form and confidentiality agreement which requires the signature of all authorized users of the</p>	Completed

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-26 (cont'd)			<p>QuickWIC system. The form was approved by USDA.</p> <p>Finding #3: The DOH has had policy in place to follow up on instances of potential fraud. The policy was revised in July 2010 to reinforce detection and prevention of fraudulent activities. The DOH also launched an educational campaign in WIC clinics to make participants aware of the restrictions on selling or trading their WIC benefits and the possible consequences of such actions. Posters were placed in all WIC clinics as part of this campaign.</p> <p>Finding #4: The DOH has a current WIC Policy in place regarding segregation of duties. The DOH reinforced that policy during training at the January 2011 WIC Director's Meeting. Additionally, the DOH began review of segregation of duties procedures during Program Reviews conducted on or after January 1, 2011.</p> <p>Finding #5: The DOH concurs. This system change was implemented September 15, 2010.</p> <p>Finding #6 The DOH will pursue appropriate settlement with USDA for the \$15,000 in questioned costs associated with this finding. The DOH has investigated this finding and found that there was a programming error in the software of the Special Formula Distribution Center (SFDC). All Billings were reviewed and <i>the SFDC reimbursed the DOH for overbillings in July 2010</i>. The SFDC has worked with their software provider and fixed the error that caused the overbillings. Both the SFDC and the DOH put controls in their respective systems to identify potential overbillings. DOH has a report that shows any billing by the SFDC that is at least 25 percent greater than the maximum allowable price for the WIC check.</p>	
10-27	PDE	Chief, Division of Food and Nutrition	<p>Internal Control Weakness Resulting in Questioned Costs of \$2,780</p> <p>The Pennsylvania Department of Education, Division of Food and Nutrition (DFN) implemented procedural changes to be initiated when sponsors are terminated both for convenience and for cause. This process, effective October 1, 2010, allows the terminating sponsor to claim meals during the sixty day period after the last claim month without allowing for meals to be claimed beyond the date of termination.</p> <p>The Subrecipient was notified to submit payment in the amount of \$2,780.00 and has been placed on the National Disqualified List. The Subrecipient will not be able to return to the program until financial obligations are met and documentation is provided indicating appropriate corrective action which resulted</p>	Completed

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10-27 (cont'd)			in the termination have been permanently corrected.	
10-28	PDE	Division Chief, Division of Food and Nutrition	<p>Lack of Staffing Resources Results in For-Profit Subrecipients Not Being Properly Audited</p> <p>As explained by the Office of Comptroller Operations, Bureau of Audits (BOA), a new audit procedure which determines the audit selection of the For-Profit Entities was implemented for audits of FFYE September 30, 2011. Also, as previously explained, the Pennsylvania Department of Education, Division of Food and Nutrition (DFN) is exceeding the federal audit requirements of For-Profit Entities. Providing resources and funding are available, DFN will continue to exceed the requirements to protect the integrity of the Program. However, program growth and financial and human resource limitations have necessitated a change in procedure. For-Profit Entities expending federal funding in the amount of \$500,000 or more will continue to be audited each cycle, as required by federal regulations. The For-Profit Entities expending less than \$500,000 will be assigned a risk level. The DFN and BOA will continue discussions regarding this procedure and any adjustments will be made as necessary. The number of audits to be conducted each year (ranked according to risk analysis) will be discussed annually and will be based upon available BOA and DFN resources.</p>	Completed
10-29	PDE	Division Chief, Division of Food and Nutrition	<p>Internal Control Deficiencies in PDE Monitoring of CACFP Subrecipients</p> <p>The Pennsylvania Department of Education, Division of Food and Nutrition (DFN) has implemented a procedure with the intent to shorten the timeframe for closing reviews. The current policy provides the sponsors an opportunity of two to three attempts to resubmit their Corrective Action which inherently delays the ability to close the review. This new procedure limits the number of times sponsors are permitted to resubmit their Corrective Action before Field Services forwards to the program staff for initiation of the serious deficiency process. If the Corrective Action submitted by the sponsor is insufficient, incomplete, etc., the Regional Supervisor will provide technical assistance to the sponsor and a due date for resubmission of the Corrective Action. If the resubmitted Corrective Action remains insufficient, it will then be forwarded to program staff.</p> <p>These procedures have been reviewed with both the Regional Supervisor and Field Advisor regarding the on-site monitoring and non-profit status questions on the review form.</p>	August 1, 2011

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10-30	DPW	<p>Byron Noon, Director, Bureau of Employment and Training Programs</p> <p>Deborah Glosek, Director, Division of Management and Budget</p> <p>Lourdes Padilla, Director, Bureau of Operations</p> <p>Suzanne Connolly, Director, Bureau of Program Evaluation</p>	<p>Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Questioned Costs of at Least \$27,429 (A Similar Condition Was Noted in Prior Year Finding #09-26)</p> <p>1) DPW’s Lax Oversight Promotes an Environment That is Conducive to Potential Fraud and Abuse of Special Allowance Payments to Recipients by County Assistance Offices.</p> <p>Audits have been issued for CAOs in five operating areas and several EARN centers. As a result of the CAO audits, OIM has taken actions to strengthen policies and procedures to increase controls and eliminate waste:</p> <ul style="list-style-type: none"> • Additional training to clarify the need and requirement of the SPAL verification form. • A review of changes in the Operations Memorandum-Employment & Training, OPS090801 for processing overpayments in cases where clients failed to provide receipts for SPALs that were issued by the CAO. • A review of the policy for recovering over-payments as detailed in the OIM Supplemental Handbook, Chapter 910-Overpayment and Recovery. • A review of the limits and coding for SPALs. • Requiring supervisors and managers to review special allowance requests using a checklist to ensure SPALs are verified and documented prior to issuance. • Operations Memorandum-Employment & Training OPS110504 was issued on May 19, 2011. The Memorandum discontinues the issuances of SPALs to SNAP only participants for Operator Fees, Vehicle Purchase, Personal Computers, Relocation Expenses, Union Dues and Professional Fees, and Vehicle Insurance by CAOs and E&T contractors. The policy became effective May 23, 2011. <p>DPW has implemented several policy and procedural changes to strengthen the administration and improve the integrity of special allowance payments:</p> <ul style="list-style-type: none"> • The Master Guidelines that govern contractor issuances of supportive services were refined and simplified in order for contracted services providers to more easily interpret and understand the necessary steps to increase the integrity of their supportive services payments in coordination with CAO special allowances. The Master Guidelines and contractor training addressed the following issues: <ul style="list-style-type: none"> ➤ Contractors cannot pay for the supportive service authorized by the CAO even if the client needs it prior to its receipt. The contractor must work with CAO to resolve any supportive service conflicts with CAO before authorizing an issuance to the client. 	September 2011

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10-30 (cont'd)			<ul style="list-style-type: none"> ➤ Supportive services must be paid to the client in advance of the need. If the client has the resources to cover the cost up front, then generally, they do not meet the eligibility criteria for “need”. ➤ Contractors cannot give clients a set amount in anticipation of the mileage requirement. If anticipated mileage is exceeded, policy allows for reimbursement of the additional amount since the need was unforeseen (appropriate when the client has to borrow, use credit card, etc. for the unexpected need). If mileage does not achieve the anticipated amount, then the CAO proceeds with an overpayment for the mileage paid that that was not verified. ➤ Verification Form: <ul style="list-style-type: none"> ○ Contractors issuing the supportive services must have a completed verification form within the case record. ○ Use collateral contacts to verify the requirement and, whenever necessary, to ensure payment is made in advance of the date it is required by the provider of the service or item. ○ Assist the client in obtaining the verification, when necessary. ○ Contractors will begin over-payment and collection processes if a client fails to document proper use of the supportive services. ➤ Contractors are required to data enter supportive services into the Comprehensive Workforce Development System (CWDS) as outlined in CWDS training and in the CWDS manual. ➤ Contractors must establish a written special allowance management plan that addresses how they will assist CAOs to ensure compliance with CAO SPAL issuance requirements: <ul style="list-style-type: none"> ○ The completed plan must be submitted annually by the CAO to the Bureau of Operations area manager and by the contractor to BETP. For contractors, the plan is due as part of the annual budget submission process. ○ Contractors serving more than one CAO may have multiple CAOs sign off on its plan. However, if the coordination procedures are different across counties, then a Special Allowance Management Plan must be separately submitted for each. 	
			<p>To ensure that contractors are adhering to the supportive services and special allowance procedures, a new effort is underway to integrate monitoring and technical assistance. The intent of this effort is to ensure that contractor management staff is taking an active role in overseeing compliance with special allowance and supportive services requirements. Self-monitoring guides focus on this area of program operation and are sent to contractors for completion throughout the course of the year. The completed guides will be submitted to the DPW/BETP’s monitoring and technical assistance staff for review.</p>	

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10-30 (cont'd)			<p>Subsequently, as part of intensive, ongoing monitoring efforts, BETP staff will confirm that assessments made during contractor self-monitoring were accurate and that aggressive steps were taken to correct problems uncovered. They may also target additional areas of program operations for review</p> <p>Revised special allowance regulations were promulgated in November 2010, with a July 2011 implementation date, that will significantly improve accountability and integrity.</p> <ul style="list-style-type: none"> • Assures that policy is clear that only items actually needed for job or training are purchased by replacing the word “needed” with the word “required” throughout the package. • Assures that special allowances are issued only for actual costs by eliminating set amounts and allowing payment only for actual cost. • Reduces instances of multiple purchases by changing frequency from “as required” to a limited amount within a 12 month period (in the case of vehicles it has been limited to once in a lifetime). • Establishes recoupment of payments from recipients if payments are not used for the intended purpose or where other instances of fraudulent activity are found. <p>2) Weaknesses Found in the Accounting, Processing, and Controlling of EBT Cards Used to Purchase Items and Withdraw Cash from ATM Machines.</p> <p>DPW is strengthening its monitoring of EBT transactions by creating an EBT Fraud and Abuse Analyst position to analyze internal and external vendor data to identify patterns and trends to help identify potential fraudulent and abusive activity. The anticipated date to fill the position is September 2011.</p> <p>3) Significant Systemic Management Control Weaknesses Exist Throughout County Assistance Offices.</p> <p>As noted previously, Operations Memorandum 09-08-01 Special Allowances for Supportive Services – Policies and Procedures was issued August 5, 2009 and updated July 19, 2010. This memorandum was issued to reinforce policy and procedures for special allowances to ensure program integrity:</p> <ul style="list-style-type: none"> • A full review of the current special allowance policy was conducted in every CAO with all Income Maintenance Caseworker (IMCW) staff. • Emphasis of the client’s responsibility to demonstrate the requirement for the special allowance was re-emphasized throughout the organization. • In order to document the requirement of the special allowance, a Self-Reliance Check List was developed for completion by the IMCW with the client. • Each CAO was required to establish a written special allowance management plan that complied with 	

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10-30 (cont'd)			<p>current policy and provide a copy to the Bureau of Employment Training (BETP).</p> <ul style="list-style-type: none"> • Recurring special allowances for supportive services are no longer available for use. <p>To further strengthen the verification process, the following requirements have been established:</p> <ul style="list-style-type: none"> • Individuals requesting special allowances for supportive services must verify that the item or service is required by the employer or training provider in order for the individual to participate. • A receipt verifying that the special allowance was used for its intended purpose must be provided by the individual within 14 days of receiving the benefit. <p>DPW has taken the initiative to expand and improve the scanning and imaging of case file information including required verification. This will assist in ensuring that documents to justify special allowances are available.</p> <p>BETP has updated policy and procedures in recent memoranda and is currently in the process of statewide CAO training to ensure understanding and compliance with updates.</p> <p>4) DPW's Division of Quality Control (QC) Failed to Adequately Monitor Special Allowance Payments</p> <p>Corrective actions have been implemented at the CAO's.</p> <ul style="list-style-type: none"> • Development of internal SPAL checklists • Development of internal SPAL narrative templates • Use of in-house SPAL tracking databases • Use of SPAL form packets • Implementation of internal SPAL procedures clearly defining for staff the SPAL issuance process • Supervisory monitoring of SPAL issuances and follow up • Training to review proper narration, completion of CIS screens and SPAL policy • Use of additional work items created on eCIS Workload Dashboard to track SPAL receipts 	
10-31	DMVA		<p>Deficiencies in Internal Control Over Compliance With Allowability and Matching Requirements (A Similar Condition Was Noted in Prior Year Finding #09-27)</p> <p>No separate corrective action plan was submitted by DMVA for this finding.</p>	

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10-32	DMVA	Patricia Derry, Director, Bureau of Budget and Finance	<p>Internal Control Deficiencies in Federal Reporting and Cash Management (A Similar Condition Was Noted in Prior Year Finding #09-27)</p> <p>DMVA has made an inquiry to the United States Property and Fiscal Office to change the contract documents to require quarterly billings.</p> <p>DMVA will complete a study on the billing process and the feasibility of receiving federal reimbursement on an expense prior to the Commonwealth of Pennsylvania paying a vendor. DMVA will also review all National Guard regulations to determine the allowable billing factors.</p>	Unknown
10-33	DGS	Herbert Pfuhl, Director Bureau of Professional Selections and Administrative Services Beverly Hudson,	<p>Lack of Documentation to Support Contracting and Procurement</p> <ul style="list-style-type: none"> • Public Works’ Project Manager will be required to send all bidding documents to the Bureau of Professional Selections and Administrative Services for incorporation into BPSAS’ bidding files. • Employees will be reminded of the Record Retention Policy. • Public Works’ departing employee, supervisor, and/or manager shall work together to verify that the appropriate records remain with Public Works, pursuant to the records retention and disposition schedules, including e-mail records, and shall do the following: <ul style="list-style-type: none"> ○ Consult with the Agency Records Coordinator in determining proper disposition of records; ○ Ensure that Public Works’ records under the control of the departing employee, including e-mails and other electronic records, are transferred to the control of the supervisor (i.e. moved from the network drive of the employee to the network drive of the supervisor or that paper records are left in the office of the departing employee) or otherwise retained for the successor employee following appropriate records retention and disposition schedules; ○ Comply with restrictions on the copying or destruction of records that may be subject to a litigation hold, audit reporting requirements, confidentiality provisions, archival review or other considerations noted in the appropriate general or Public Works specific records retention and disposition schedules. • Any records the separating employee may have will be sent to the Public Works’ Central File or, when applicable, to the RFP Coordinator. • Public Works’ record retention and disposition schedule shall be adhered to. <p>In regard to disclosing evaluation committee member names:</p>	Completed

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10-33 (cont'd)		Special Assistant to the Secretary of DGS DGS Audit Coordinator	<p>DGS disagrees with this finding, and provided the following in response. The second paragraph indicates DGS' willingness to work collaboratively with Commonwealth and outside Audit staff in identifying alternative, mutually agreeable information while maintaining the anonymity of the evaluation team members.</p> <p>DGS maintains that the evaluation committee member names are not necessary in an auditor's review of whether the committee and the agency acted in accordance with procurement laws and practices. In addition, we have asserted that disclosure of these names as a general matter will have a chilling effect upon both our employees' willingness to participate and on their candor during the evaluation process. This does not mean, however, that we will prohibit audit staff from obtaining related information. In fact, as part of this audit, DGS offered several alternatives to the committee members' names, including an Affidavit from the AFQ chairperson, indicating evaluators had completed required Confidentiality and No Conflict of Interest forms and describing the qualifications of the members. Redacted summary score sheets were also offered. Unfortunately, audit staff did not accept either alternative for their review.</p> <p>As a result of this finding and others relative to the provision of evaluation committee member names, DGS has initiated conversations with Commonwealth and outside audit staff to discuss potential compromises to releasing evaluation committee member names. We recognize the importance of audit staff's ability to properly test our internal controls and want to work cooperatively to ensure audit staff understands our desire to provide each Commonwealth employee who agrees to serve as a committee member the opportunity to evaluate candidly. Our first meeting resulted in an action plan to continue to collaborate on ideas for alternative information which would allow for thorough compliance testing while maintaining the anonymity of the evaluation team members.</p> <p>While no specific action is required, DGS has already begun an engagement with the Commonwealth's Bureau of Audits to contemplate alternatives to providing evaluation committee members' names.</p>	
10-34	DMVA	Mandy Kroh, Director, Bureau of Office Services	<p>Equipment Management Internal Control Deficiencies and Noncompliance</p> <p>The Procurement & Contracting and Division of the Office of Administration has drafted a Policy Information Memorandum (PIM) for issuance to DMVA employees. This PIM will be released by July 31, 2011. It includes the use of a new system that will allow for federal indicators and a field for the internal order number to distinguish which federal grant was used to purchase the item. DMVA will have</p>	October 31, 2011

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10-34 (cont'd)			all information transferred into the new system by August 31, 2011. Starting October 1, 2011, the listing of all federal property will be provided to USPFO annually by 30 October and this will be included in the PIM. In addition, effective July 1, 2011 the form that is filled out by the purchasing agents listing required items for contracts that includes the fixed asset number that is obtained by BBF will be required to be completed and attached to all contracts that are processed to ensure that a fixed asset number is in place for all applicable purchases.	
10-35	DMVA		Reporting, Cash Management, and Period of Availability Weaknesses Cause Noncompliance and Result in Questioned Costs of \$331,073 No separate corrective action plan was submitted by DMVA for this finding.	
	OCO-BCA	Ron Hoy, Commonwealth Accountant Manager Danny Novak, Assistant Director	We have reviewed the auditor's conclusion and reiterate our disagreement with the finding and think that a corrective action plan is not necessary. Please refer to the finding for details regarding the disagreement.	N/A
10-36	DCED	Lauren Atwell, Division Chief	Internal Control Deficiency Over Period of Availability Requirement DCED is required to maintain internal controls that insure grant funds are utilized within the period of availability. This is accomplished by appropriate monitoring of grant status and by the timely closing of grants in the Department of Housing and Urban Development's (HUD) Integrated Disbursement and Information System (IDIS) system. DCED acknowledges that staff has not been able to perform regular reviews of financial data on expired contracts and has not been able to address the close out of older grants. Increased demands on existing personnel related to grant awards received under new Federal stimulus programs (HERA and ARRA), as well as personnel vacancies, inhibited staff from the regular, timely, documented reviews of the status of grants and the timely closing of these contracts. The Division Chief will request a quarterly report through IDIS to identify open grants that have expired contracts. The list will be provided to staff to address the closeout issues/requirements. Additionally, the	Completed

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10-36 (cont'd)			<p>IDIS coordinator will be requested to terminate IDIS access for the identified grants. This step to terminate funding will assure that funds are not expended outside the period of availability.</p> <p>Staff, given their current workloads and requirements, will attempt to review the reports on a monthly basis and close these grants out if their workloads permit.</p>	
10-37	DCED	Lauren Atwell, Division Chief	<p>Noncompliance and Internal Control Deficiencies in DCED's Section 3 Summary Report (A Similar Condition Was Noted in Prior Year Finding #09-30)</p> <p>DCED, with the receipt of federal stimulus funds in calendar year 2009, took on additional responsibilities for these programs with compliance and reporting requirements. Additional staff was added to the complement to help with the new requirements. Staff needed to be trained and brought up to speed with all the requirements and the Division Chief needed to put in place protocols for the additional work. Unfortunately due to the additional work required and training of staff, the necessary reviews and evaluations of the data could not be conducted in the timeframe necessary for the submission of the CAPER.</p> <p>Training of new staff on federal HUD programs has been completed. DCED will establish an earlier and manageable timeline to complete the CAPER. DCED will undertake additional steps to evaluate and improve data collection and verification. DCED will implement separation of duties and appropriate division of labor to facilitate producing an accurate and high-quality CAPER, consistently assign the same staff to complete the same task from year to year to assure an historical understanding of the data/results.</p>	Completed
10-38	DCED	Donna M. Enrico, Community Development Operations Division	<p>DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (A Similar Condition Was Noted in Prior Year Finding #09-29)</p> <p>DCED respectfully disagrees with this finding. Staff is required to monitor approximately 150 grant contracts each year. If this year's progress for monitoring was looked at alone, DCED staff did monitor an adequate number of grantees this year to meet the annual goals.</p> <p>Staff face the challenge of completing the backlog of work that over the past several years was the result of personnel retiring, personnel leaving to pursue other employment, staff being reassigned to other areas of the department, as well as the addition of several new programs under HERA and ARRA legislation. If you review the chart below, you will see that staff completed more than 150 contracts, adding 58 additional</p>	June 30, 2014

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10-38 (cont'd)			<p>HERA and ARRA contracts to their workload. It is our contention that adequate monitoring did take place, however the backlog has not been completed as of this date.</p> <table border="1" data-bbox="659 565 1451 1003"> <thead> <tr> <th></th> <th>Proposed</th> <th>Completed</th> <th>% Completed</th> </tr> </thead> <tbody> <tr> <td>CDBG</td> <td>334</td> <td>162</td> <td>48.50%</td> </tr> <tr> <td>CDBG-C</td> <td>33</td> <td>16</td> <td>48.48%</td> </tr> <tr> <td>CDBG-R</td> <td>117</td> <td>52</td> <td>44.44%</td> </tr> <tr> <td>CDBG-RC</td> <td>4</td> <td>4</td> <td>100.00%</td> </tr> <tr> <td>NSP</td> <td>2</td> <td>2</td> <td>100.00%</td> </tr> <tr> <td></td> <td>490</td> <td>236</td> <td>48.16%</td> </tr> </tbody> </table> <p>With the addition of the stimulus programs starting in calendar year 2009, DCED received increased funding that totaled a little more than \$95 million and more than 280 additional applications. At the time, DCED was utilizing its existing complement of staff to undertake the reviews. In November 2009, the Center for Community Financing was able to hire an additional Grant Manager and several additional staff to help with compliance. Two new Associate Grant Manager positions were also authorized and these new staff members have and will be attending training on the programs. A second Grant Manager position was announced and interviews commenced.</p> <p>While additional staff were brought on and some additional work was accomplished, DCED in 2010 lost a Grant Manager position to retirement, an Associate Grant Manager to reassignment, and a third position was filled but turned over and remained vacant from January 2011 to present. DCED staffing remains at 6 Grant Manger positions with one associate Grant Manager position at this time. The additional work that existing staff are required to undertake with the stimulus program requires does not allow sufficient out-of-office time for monitoring visits.</p>		Proposed	Completed	% Completed	CDBG	334	162	48.50%	CDBG-C	33	16	48.48%	CDBG-R	117	52	44.44%	CDBG-RC	4	4	100.00%	NSP	2	2	100.00%		490	236	48.16%	
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10-39	OCO – BCA	Barbara Bradley, Manager Employment Security Federal Accounting Heather Morgan, Accountant 3	<p>A Material Weakness Exists Over Expenditure Information Reported on the SEFA by L&I and Comptroller Operations Personnel (A Similar Condition Was Noted in Prior Year Finding #09-34)</p> <p>In response to the \$695,205,857 adjustment, beginning February 1, 2011, a voucher transmittal (VT) is submitted to Treasury on a daily basis that posts the federal withholding payments to Treasury’s Automated Booking System. In addition, Comptroller Operations posts a manual entry for the VTs that are sent to Treasury. Therefore, a yearly accrual entry will not be necessary since the transactions related to activity will be in the SAP accounting system. A VT will be processed for the period July 1, 2010 through January 31, 2011 in order to post the payments that were made prior to February 1, 2011.</p> <p>To insure that the interstate payments made from the Pennsylvania Trust Fund are included in the future, a monthly expenditure entry is being input in SAP to account for this activity. Therefore, no year-end accrual entry will be necessary.</p>	February 2011
10-40	L&I	Ryan Hyde, Assistant Bureau Director, Bureau of Vocational Rehabilitation Services Coletta Railing, Audit Coordinator	<p>Deficiencies in Information Technology Controls at the Department of Labor & Industry (A Similar Condition Was Noted in Prior Year Finding #09-35)</p> <p><u>CWDS</u></p> <p>We recommend that OVR management develop a strategy and written procedures for maintaining the Fee Schedule, including procedures to separate approval of fee changes from actual data entry of the fee changes into the system.</p> <p>Steps:</p> <ul style="list-style-type: none"> • Identify a dedicated staff position to manage the Fee Schedule. <u>Status: complete</u> • Develop, review, revise, publish written procedures: <u>July 18, 2011 – December 16, 2011</u> <p>We recommend that management analyze the current role assignments in CWDS, especially the COFA role, to ensure proper segregation of incompatible duties. At a minimum, role assignments should not allow the same person to change the Fee Schedule and approve invoices for payment.</p> <p>Steps:</p> <ul style="list-style-type: none"> • Convene Ad-Hoc workgroup to review roles and work assignments to assure appropriate separation of duties. <u>July 18, 2011 – December 16, 2011</u> • Revise job descriptions as needed. <u>January 31, 2012</u> 	January 31, 2012

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10-40 (cont'd)			<p>We also recommend OVR management periodically review access to the COFA role (and other powerful roles) to ensure that continued access is consistent with management intent.Management should require a periodic access review of all privileged users, not just a random sample of users.</p> <p>Steps: In the future, OVR will implement a specific review of all users with Superuser and COFA abilities to ensure the users remain appropriate.</p> <ul style="list-style-type: none"> • Complete an initial review and adjust roles/permissions. <u>August 19, 2011</u> • Create a quarterly review schedule and document findings of each review. <u>September 30, 2011</u> <p><u>UCMS</u> It is expected the UCMS system will be implemented by December 2011.</p>	
10-41	L&I	Michael K. Fuller, Division Chief Performance Bureau of Workforce Development Partnership	<p>Control Weaknesses Exist in Eligibility Determinations for Individuals</p> <p>In response to the auditors’ recommendations, L&I will instruct LWIBs that, if not already being conducted and documented, administrative staff responsible for participant eligibility under WIA must conduct and document that an eligibility review is conducted for each participant eligibility determination.</p> <p>BWDP currently conducts annual monitoring reviews of each LWIA as prescribed by the WIA. As part of those monitoring visits, BWDP staff review how LWIAs monitor their subcontractors with regard to participant eligibility. In response to the single audit finding and the auditors’ recommendation, BWDP staff will add questions related to the documentation collected in support of the eligibility finding. In addition, BWDP will add questions to the Bureau’s monitoring tool regarding Data Element Validation, including what were the results of the data validation site visit and were there any corrective actions implemented as a result of the findings. BWDP will be more proactive in providing feedback and recommendations (as necessary) to LWIAs regarding Data Element Validation review results. Specific “strengths” and “weaknesses” will be cited, as appropriate.</p> <p>The BWDP Monitoring Tool will be updated by July 29, 2011. The next time site feedback will be available for implementing more structured Data Element Validation feedback will be March 31, 2012.</p>	March 31, 2012

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10-42	OCO-BCA	Barbara Bradley, Manager Employment Security Federal Accounting Heather Morgan, Accountant 3	<p>Internal Control Weaknesses Exist Over Financial System Reconciliations and Information Reported on the ETA-9130 Financial Status Reports</p> <p>The Employment Security team was short staffed and to meet other operational needs, there was a delay in preparing the reconciliations. The reconciliations are cumulative and were ultimately caught up. As it relates to the “Control Dockets”, we are currently reviewing and identifying the most efficient manner to manage the operations while maintaining accuracy. Comptroller Operations will take the auditors comments into consideration, but we do not think a corrective action plan is necessary at this time.</p>	September 30, 2011
10-43	L&I	David Bohanick Chief, Financial Coordination Services Bureau of Workforce Development Partnership	<p>Control Weaknesses at L&I and Noncompliance Regarding Subrecipient Expenditures Resulting in Questioned Costs of at Least \$80,924</p> <p>BWDP respectfully refutes the finding of the audit as it pertains to the lack of invoice review by BWDP, control weaknesses and noncompliance regarding subrecipient expenditures resulting in questioned costs of at least \$80,924. BWDP believes the auditor’s lack of program knowledge of WIA has hindered the auditor’s ability to understand the complex financial transaction that take place. The Commonwealth’s financial management system sufficiently provides information for federally required records and reports that are uniform in definition, accessible to authorized Federal and State staff, and verifiable for monitoring, reporting, audit, program management, and evaluation purposes. In addition, the system provides for internal control and accounting procedures that:</p> <ul style="list-style-type: none"> • Are in accordance with generally accepted accounting principles including: <ul style="list-style-type: none"> ▪ Provision of information pertaining to subgrant and grant awards, obligations, unobligated balances, assets, liabilities, expenditures and income; ▪ Effective internal controls to safeguard assets and assure their proper use; ▪ Assessment of actual expenditures with budgeted amounts for each subgrant and grant; ▪ Source documentation to support accounting records; and ▪ Proper charging of costs and cost allocation; and • Are sufficient to: <ul style="list-style-type: none"> ▪ Permit preparation of required reports; ▪ Permit the tracing of funds to a level of expenditure adequate to establish that funds have not 	N/A

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10-43 (cont'd)			<p>been spent unlawfully; and</p> <ul style="list-style-type: none"> ▪ Permit the tracing of program income, potential stand-in costs, and other funds that are allowable. • Comply with applicable uniform cost principles included in appropriate OMB circulars for the type of entity receiving funds. <p>Beginning July 10, 2010 BWDP began, as further evidence, strengthening internal controls regarding the draw down of funds by grantee by requiring that that the RFF in CWDS is accompanied with a corresponding line item allocation by cost category. While there are no federal requirement for this, BWDP believes this is one step in the right direction of ensuring funds are being drawn for there intended use. Additionally, all grantees are bonded in accordance with OMB Circular A-87 (revised 5/10/2004) Attachment B; 2 CFR 225, Appendix B; 2 CFR 230, Appendix B to safeguard assets.</p> <p>The Commonwealth adheres to cash management regulations at 31 CFR Part 205 in addition to the requirements of 29 CFR 97.21. The 31 CFR Part 205 regulations implement the CMIA of 1990.</p> <p><u>REGULATIONS AND REQUIREMENTS</u></p> <p>The requirements for the administrative and financial management systems applicable to governmental entities are specified in 29 CFR Part 97. Under the section titled Standards for Financial Management Systems, 29 CFR 97.20(a) specifies the requirements for administrative and financial management systems for States, and 97.20(b) contains the requirements for local governments, Federally recognized Indian tribes, and subgrantees.</p> <p>For States, adherence to the requirements of 29 CFR 97.20(a) will mean that each State must expend and account for grants in accordance with the State laws and procedures for expending and accounting for its own funds as long as State procedures do not conflict with the WIA or other Acts, grant requirements, or DOL regulations. Where State procedures are in conflict, such conflict must be resolved in favor of the Federal requirements.</p> <p><u>FINANCIAL MANAGEMENT SYSTEM STANDARDS</u></p> <p>Both 29 CFR 97.20(b) and 95.21(b) establish a set of standards that must be included in the financial management systems of grantees and subgrantees. Each of these seven standards is discussed below:</p> <p><u>Financial Reporting.</u> Accurate, current, and complete disclosure of the financial results of ETA grant</p>	

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10-43 (cont'd)			<p>activities must be made in accordance with ETA grant reporting requirements. This means that the allowable costs reported to the Federal funding source must be traceable to accounting records. In addition, all allowable costs and activities must be reported, and the reports must be submitted in the format specified by the ETA. For WIA Title IB grants, this report is the WIA Quarterly Financial Status Report (ETA 9076A-F). For the WtW program, the format is the ETA 9068. The approved report format for INA programs is the ETA 9080, and for the TAA/NAFTA/TAA program, the ETA 9023. For other grants addressed in this TAG, and for TAA benefits funds, the report is the SF 269. ETA requires reports to be made on an accrual basis. A further discussion of reporting requirements is found in Chapter II-9, Financial Reporting.</p> <p><u>Accounting Records.</u> All grantees must keep records that adequately identify ETA grant funds. The records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income. The records must be maintained in accordance with Generally Accepted Accounting Principles (GAAP). Grantees and subgrantees may use either the cash or the accrual method of accounting; however, expenditures must be reported to the ETA on an accrual basis. If the records are maintained on a cash basis, the grantee or subgrantee must usually maintain a set of linking records, typically accrual spreadsheets, so that the reported costs are traceable during monitoring or auditing to the official accounting records or books of account.</p> <p><u>Internal Control.</u> Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Internal controls are designed to provide safeguards for Federal funds. For example, payments may not be authorized solely by an employee who also has the authority to sign checks. Internal controls for property often are inherent in the inventory system that tracks purchases and locations or use of property procured with grant funds. Grantees must adequately safeguard all such property and must assure that it is used solely for authorized ETA grant activities, including shared One-Stop activities.</p> <p><u>Budget Control.</u> Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. This is often referred to as a “planned vs. actual” analysis. The results of such analysis are used to preclude overspending and/or to modify contracts and grant agreements. For non-formula grants, the information is also used to ensure compliance with the budget line item flexibility provision specified in the grant terms and conditions. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. This information should be used in developing plans and July 2002 II-2-2</p>	

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10-43 (cont'd)			<p>Financial Management Systems monitoring. A further discussion of budgets as they relate to the shared costs of One-Stop operations is found in Chapter I-2, Shared Costs Budgets.</p> <p><u>Allowable Costs.</u> Applicable OMB cost principles, ETA grant regulations, and the terms of the grant and subgrant agreements must be followed in determining the reasonableness, allowability, and allocability of costs. Only allowable costs may be charged to an ETA funded grant, and no grant may pay for more than its fair share of the costs (allocability). This means that the grantee must determine what costs incurred by the organization are allowable, following the guidelines specified above. A more detailed discussion of allowable costs is found in Chapters II-3, Cost Principles, and II-4, Allowable Costs.</p> <p><u>Source Documentation.</u> Accounting records must be supported by source documentation such as canceled checks, invoices, purchase orders, paid bills, payrolls, time and attendance records, contract and subgrant award documents, tax records, etc. Source documentation is the proof that costs reported to the granting agency are, in fact, allowable and allocable to the grant. This source documentation must be available for review by awarding agency representatives and auditors and directly relate to the costs claimed on financial reports.</p> <p><u>Cash Management.</u> Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees must be followed whenever advance payment procedures are used. When advances are made by Payment Management System (PMS)/electronic transfer of funds (ETF) methods, the grantee must forecast cash needs to ensure that cash is received as close as possible to the time of actual disbursement. Grantees must also monitor the cash received by their subgrantees to minimize cash on hand. In addition, they must ensure that the subgrantees' cash management procedures conform substantially to the same standards of timing and amount that apply to the awarding entity. A further discussion of the cash management requirements is found in Chapter II-6, Cash Management.</p> <p>In addition, 29 CFR 95.21(a) requires that all nongovernmental recipients relate the financial results of the program to program performance information and develop unit cost data "whenever practicable." In practical terms, this requirement specifies that grantees compare the costs associated with the program to the results achieved by that program. A simple example of this would be to divide the costs of a job placement contract by the number of placements, resulting in a "cost per placement." An awarding entity may review the adequacy of the administrative and financial management system of any grantee/subgrantee/competitive grantee/cost contractor as part of a pre-award review or at any time subsequent to award. At a minimum, these systems will be reviewed as part of the required annual audit of the organization. Processes and procedures should be documented through the development of manuals or</p>	

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10-43 (cont'd)			<p>policy directives that clearly state exactly how the grantee/subgrantee/cost contractor will adhere to these requirements. The adequacy of the systems may impact on future funding or result in the imposition of corrective action plans. The standards contained in this chapter form the basis for the overall financial management of ETA grant funds. Many of the subsequent chapters of this TAG are designed to July 2002 II-2-3 Financial Management Systems provide ETA grant operators with practical guidance on methods for developing adequate systems and complying with these Federal financial management requirements.</p> <p>BWDP maintains that we adhere to all federal regulations and, in particular, to WIA Section 184; OMB Circulars A-102 and A-110, TEGL 14-08, and 20 CFR 667.410(b)(2). Pursuant to WIA regulations at 20 CFR 667.410, each state recipient and subrecipient of Recovery Act funds must conduct regular oversight and monitoring of its WIA and Wagner-Peyser Employment Services activities and those of its subrecipients and contractors in order to determine that expenditures have been made against the appropriate cost categories and within the cost limitations. Oversight and monitoring should determine whether or not there is compliance with programmatic, accountability, and transparency provisions of the Recovery Act and TEGL 14-08, as well as the regular provisions of WIA and the Wagner-Peyser Act, as amended by WIA, and their regulations and other applicable laws and regulations. States are also required to provide technical assistance as necessary and appropriate. In the State Plan modification described in Section 18 and Attachment A, the Governor must be able to demonstrate, through a monitoring plan or otherwise, that the state monitoring system meets the requirements of 20 CFR 667.410(b)(2) and that the state's plan includes monitoring and oversight of the additional funds provided under the Recovery Act. It is not BWDP's intent to require a drawdown explanation form for all ARRA expenditures, only those that were formula WIA funds. BWDP has to balance program management with administrative burdens. Implementing the ARRA drawdown explanation form for formula funds was a risk management tool, but it was not required by law. In regards to BWDP not providing the subrecipient certain information including the federal grant number and CFDA number at the time of payment, BWDP respectfully refutes this statement. BWDP does provide the subrecipient the federal grant number and CFDA number on the Notice of Obligation. At the time of payment, BWDP provides the contract number, which is tied to the NOO number, which is tied to the CFDA and grant numbers. BWDP believes it would be absurd to contact the LWIA each time a request for funds is made. Again, BWDP believes the auditor's lack of program knowledge of WIA has hindered the auditor's ability to understand the complex financial transaction that take place.</p> <p>Pursuant to 20 CFR 667.410(b)(2) 2) The State monitoring system must:(i) Provide for annual on-site monitoring reviews of local areas' compliance with DOL uniform administrative requirements, as required by WIA section 184(a)(4);</p>	

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10-43 (cont'd)			<p>Furthermore, Fiscal Agents and subrecipients, including local governments, non-profit, and commercial-for-profit organizations receiving Federal financial assistance during their fiscal year, either directly from the Federal government or indirectly from a recipient of Federal funds, must have an audit conducted. Entities that expend \$500,000 or more in Federal awards, received either directly from the Federal government or indirectly through a recipient of Federal funds, shall have an audit conducted in accordance with the provisions of OMB Circular A-133, Audits of States, Local Governments and Nonprofit Organizations and 29 CFR 99.105. Each recipient and subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractors in order to determine whether or not there is compliance with provisions of the Act and applicable laws and regulations and provide technical assistance as necessary and appropriate (20 CFR section 667.400(c)).</p> <p>As a requirement by OMB Circular A-133, BWDP conducts an annual on-site monitoring review of each local area's compliance with the Department Of Labor uniform administrative requirements, including the appropriate administrative requirements and cost principles for subrecipients and other entities receiving WIA funds. BWDP ensures that prompt corrective action be taken if any substantial violations are identified and impose the sanctions provided in WIA section 184(b) and (c) if a subrecipient fails to take required corrective action. In regards to the one expenditure the auditors detected that included the purchase of alcohol which is unallowable, BWDP's position as aforementioned is to mitigate findings. BWDP resolved this prior to the final audit and feels mentioning it in the final audit serves no purpose.</p> <p>BWDP stands by their response that we do not review detailed invoices at the time of reimbursement because the federal government does not require it. BWDP does have the opportunity to request detailed invoices to support an expenditure if needed. As long as the LWIB has funds available for the respective program according to the notice of obligation, BWDP approves the request and authorizes payment. It would be financially unfeasible and counter-productive to review every single invoice submitted for BWDP for approval. Therefore, BWDP requires all grantees to sign fully executed grant agreements. Within those grant agreements contains A) Grant Provisions that state "Funds provided under this grant agreement must be expended in accordance with the applicable statutes, regulations and policies and procedures of the State and Federal government and any applicable Local Plan" as well as Assurances and Certifications that state grantees will, "comply with all applicable fiscal laws, regulations, policies and procedures required of any entity administering a federal program including, but not limited to, OMB Circular A-110, OMB Circular A-122, and OMB Circular A-133."</p> <p>All grant agreements make mention and are covered under BWDP's Workforce Information Investment Notices (WIINs). Of particular interest is WIIN 2.00 Change 2: This Financial Management Technical</p>	

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10-43 (cont'd)			<p>Assistance Guide has been designed for the Commonwealth’s workforce development system to provide operational guidance, strengthen fiscal accountability and provide necessary information for analysis, monitoring, and evaluation as it pertains to the Workforce Investment Act (WIA) and WIIN 3.00 Change 2: intended to provide guidance to Local Workforce Investment Boards (LWIBs) and their Youth Councils regarding the minimum requirements for monitoring, oversight and evaluation necessary to ensure compliance with the Workforce Investment Act of 1998, federal regulations, and state policies. Continuous improvement and the provision of technical assistance, as needed, will result from instituting the policy in this WIIN.</p> <p>BWDP respectfully would like to point out that it did not take five months and three separate requests to reconstruct details of expenditures. BWDP received the initial single audit on January 4, 2011. BWDP responded to the initial request by January 14, 2011. The second request by the auditors was sent on March 8, 2011 with a due date of March 9, 2011, requesting additional information that was not contained in the document previously provided by the auditors. Each of the fiscal agents do have sufficiently recorded, organized and maintained supportive documentation, but it takes more than one day to reconstruct the information. BWDP requested an extension until March 15, 2011. BWDP submitted the additional information on March 15, 2011. On May 6, 2011, BWDP received the preliminary finding, which indicated a response was due by noon on Tuesday May 10, 2011. BWDP asked for an extension until May 19, 2011, to gather additional information to justify the unallowable expenditures. After each request made by the auditors, BWDP made every effort to expedite the collection and submission of the details of expenditures; therefore, not taking five consecutive months to obtain information as mentioned in the final audit.</p>	
10-44	L&I	Michael K. Fuller, Division Chief Performance Bureau of Workforce Development Partnership	<p>Inaccurate Reporting on the ETA-9149 “Youth Served with WIA Recovery Act Resources Monthly Report”</p> <p>Regarding the recommendation the “<i>L&I should pursue appropriate corrective action with USDOL on erroneous ARRA data submitted in its prior ETA-9149 Reports,</i>” L&I does not agree that this is necessary. Given that the ETA-9149 is a monthly report capturing both monthly activity from the previous month as well as cumulative data from the beginning of the program, if it is determined at a later date that participants may have been incorrectly included or incorrectly omitted from a particular month’s report, once those participants’ service records were corrected, the correct data would be reported on the subsequent ETA-9149 reports. In other words, once the data entry correction was made, these participants became part of the correct reporting cohort and subsequent ETA-9149 reports would correctly reflect their</p>	August 31, 2011

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10-44 (cont'd)			<p>participation.</p> <p>With respect to the recommendation that L&I should strengthen our existing monitoring procedures over the LWIB Recovery Act data collection and entry procedures, L&I did conduct monitoring of the PA Way to Work (PWTW) American Recovery and Reinvestment Act (ARRA)/Summer Youth Employment Program (SYEP.) As such, monitors reviewed a number of program areas including, but not limited to Eligibility and Verification, Assessment of work-readiness, Reporting, Monitoring and Funding. While this monitoring was not intended to review individual participant case files, it did review the policies/procedures implemented by the subrecipients to ensure compliance with ARRA requirements as it related to eligibility and verification, assessment of work-readiness, and reporting.</p> <p>We also wish to point out that Youth Recovery Act funded activities ended as of June 30, 2011. To that end, L&I recently provided LWIB staff with instructions for closing out ARRA activities and transitioning participants to formula-funded activities. This includes Adults, Dislocated Workers as well as Youth. These reports are intended to ensure that LWIBS review Youth ARRA participant activities and services/outcomes are accurately and appropriately captured and reported. L&I will work with LWIBs to ensure proper close-out of the ARRA Youth activities.</p>	
10-45	PennDOT	Cindy Myers, Chief, Finance & Travel Operations Division, Bureau of Office Services Kevin Connors, Chief, Highway Applications Division, Bureau of Business Solutions & Services	<p>Material Weaknesses Exist Due to the Lack of Reconciliations Between SAP and PADOT's ECMS System and Poor IT General Controls</p> <p>We are in general disagreement with the finding that states material weaknesses exist due to the lack of reconciliations between SAP and PADOT's ECMS. Our audit finding response states what procedures are currently taking place at Comptroller Operations regarding the reconciliations between the two systems. However, we will meet with Comptroller Operations to discuss and determine if any additional procedures are needed in order to ensure that both SAP and PADOT ECMS are in agreement on an on-going basis.</p> <p>Regarding the IT general controls issues the following is planned by the Engineering Computing Management Division (ECMD) within the Bureau of Project Delivery:</p> <p>Will draft a Strike Off Letter so that Bureau of Project Delivery staff are informed/re-informed that there will be NO changes to roles (including termination) without a properly completed user request form and that all creation/changes to roles will be done by the help desk.</p>	October 31, 2011

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<p>10-45 (cont'd)</p>			<p>Will redesign the user request form to include capturing information about when ECMS users are in "acting" positions and create a new form for role changes.</p> <p>Will review and/or revise as needed procedures for providing access to ECMS.</p> <p>For the six users without documentation, will ensure that the paperwork is recreated and properly filed in ECMD. The applicable Districts have already been contacted regarding this issue.</p> <p>Forms without proper signatures – will ensure that all missing and/or incomplete documentation is recreated, properly signed and filed in ECMD. The applicable Districts have already been contacted regarding this issue.</p> <p>Will put a change request in with the Bureau of Business Solutions and Services for the ability to maintain ECMS paperwork in the Electronic Data Management System. This will provide quick search and retrieval capability as well as the ability to inquire using selected indexes. ECMD personnel will be trained in how to scan and index ECMS User Access Request Forms into ECMS.</p> <p>Will change the parameter on the Inactivity Greater Than 60 Days Report to 90 days. The report is currently generated and is reviewed and acted upon by the ECMD Help Desk staff.</p> <p>Will request that District IT Coordinators inform them when an employee departs (more timely than waiting until individuals appear on the inactivity report). ECMD should also contact a users approving authority listed on the User Access Request Form to determine if ECMS access is still required (confirmation step). If not, a request form for removing access will be requested from the approving authority and access revoked upon receipt of the form.</p> <p>Will verify with ECMS subject matter experts regarding which ECMS roles should be mutually exclusive (i.e., one person should not have both roles- such as ACE/ACM (or any role that allows approval of invoices) and Inspector in Charge). ECMD will create a report of users with these mutually exclusive roles. These individuals will then be contacted by ECMD to determine which role is needed and request a form for removal of the role no longer needed.</p> <p>Will work on redesigning the form to include capturing information about when ECMS users are in "acting" positions and create a new form for roles changes.</p>	

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10-45 (cont'd)			<p>For any missing and/or incomplete User Access Request Forms identified as part of the audit or discovered thru internal review, ECMD will ensure that the necessary paperwork is recreated and properly filed in ECMD.</p> <p>The Bureau of Business Solutions and Services will develop a report that lists persons who have any of the mutually exclusive roles. This will be a scheduled monthly report.</p>	
	OCO-BCA	Jeff Rellick, Manager Christine Baldini, Assistant Director	We have reviewed the auditor's conclusion and reiterate our disagreement with the finding. Please refer to the finding for details regarding the disagreement.	N/A
10-46	PennDOT	Rebecca Burns, Acting Director, Bureau of Construction & Materials	<p>Internal Control Deficiencies Related to Buy American ARRA Provisions</p> <p>PennDOT will be taking the following steps regarding this finding:</p> <ul style="list-style-type: none"> • The Bureau of Construction and Materials will meet with PennDOT's Office of Chief Counsel to determine the appropriate definition of unidentified steel. • Propose publication 408 (Specifications) changes to insert revised definition of unidentified steel, if approved by Office of Chief Counsel. • Propose publication 2 (Project Office Manual) changes to address unidentified steel required documentation. • Circulate publication changes via the clearance transmittal process. • Collect comments on clearance transmittal and revise both publications 408 and 2. • Issue strike-off letter implementing changes and emphasizing compliance with the provisions of publications 408 and 2. 	September 30, 2011
10-47	PennDOT	Mike Long, Chief, Contract Management Division, Bureau of Construction & Materials	<p>Internal Control Weaknesses Related to Monitoring of Locally Sponsored Subrecipient Projects</p> <p>PADOT will update publication 2 (Project Office Manual) to require the use of the checklist for future projects in order to assure statewide consistency. PADOT will also assure proper reference in publication 39 (Procedures for the Administration of Locally Sponsored Projects).</p>	October 1, 2011

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10-48	PennDOT	Dave Azzato, PADOT ARRA Coordinator, Bureau of Project Delivery	<p>Internal Control Deficiencies in PADOT’s Monitoring of Locally Sponsored ARRA Projects</p> <p>For the reasons stated in the Department’s audit response to the three causes noted in the finding, PADOT concludes that a corrective action plan is not necessary.</p>	N/A
10-49	Pennvest	Jerry W. Allen, II Deputy Executive Director	<p>PENNVEST Did Not Specify Required Federal Award Information in Subrecipient Award and Disbursement Documents Resulting in Noncompliance With OMB Circular A-133</p> <ol style="list-style-type: none"> 1. PV will email CFDA number, Federal Capitalization Number and detailed America Reinvestment Recover Act (ARRA) funding information to borrower for each ARRA disbursement 2. PV will post CFDA number, Federal Capitalization and detailed ARRA funding information on PENNVEST Fund Disbursement electronic payment submission system Budget Page which the PENNVEST borrower has to review prior to submitting a payment application or check on the status of the project funding. 	<p>July, 2011</p> <p>December, 2011</p>
10-50	Pennvest	Jerry W. Allen, II Deputy Executive Director	<p>Material Weaknesses Cause Errors in the CWSRF Annual Report Submitted to EPA (A Similar Condition Was Noted in Prior Year Finding #09-37)</p> <ol style="list-style-type: none"> 1. PENNVEST management will coordinate interdepartmental reviews and compare Annual Report Charts and addendum with the Commonwealth Comptroller Office financial information prior to finalization of the Environmental Protection Agency (EPA) Annual Report in starting in July 2011 through September 2011. 2. PENNVEST has contacted EPA Region III staff and has been instructed to make 2010 corrections on the 2011 Clean Water State Revolving Fund Annual Report submitted by October 1, 2011. 	<p>July, 2011 to October, 2011</p>

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10-51	OCO-BCA	Danny Novak, Assistant Director Richard Cardamone, Director	<p>Misinterpretation of Regulations Resulted in Noncompliance With ARRA Requirements</p> <p>We have reviewed the auditor’s conclusion and reiterate our disagreement with the finding and think that a corrective action plan is not necessary. Please refer to the finding for details regarding the disagreement.</p>	N/A
10-52	Pennvest	Jerry W. Allen, II Deputy Executive Director	<p>Control Deficiencies Exist in PENNVEST’s Subrecipient Audit Resolution Process</p> <p>PENNVEST disagreed with the findings conclusion but the following actions would have been planned before the finding was issued.</p> <ol style="list-style-type: none"> 1. No PENNVEST American Reinvestment Recovery Act (ARRA) funded project is able to finalize their funding and receive funding hold-back funding and/or final amortized until all audit issues are resolved, including corrective action plans are satisfactorily resolved. Scheduled completion date December 2012. 2. PENNVEST has devoted additional staff to the loan monitoring program to assist in the audit review and response activities in order to provide a more timely resolution to any issues identified in the correction action plans. Job descriptions have been submitted to Office of Administration Human Resource Department – Schedule recruitment date September 1, 2011. 	September 1, 2011
10-53	Pennvest	Jerry W. Allen, II Deputy Executive Director	<p>Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (A Similar Condition Was Noted in Prior Year Finding #09-38)</p> <p>Agreement is made with the finding statements that changes implemented as part of the corrective actions, were implemented after June 30, 2010 and records audited under the FY2010 audit period would not have had the corrective actions applied at the time of the transaction. Corrective Action Plan in a limited staff Information Technology department take time to be implemented and that a subsequent audit will have to done to conclude resolution.</p>	

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10-53 (cont'd)			<ol style="list-style-type: none"> 1. Review and expand existing Change Management policy and procedures to implement stricter separations of Information Technology staff duties. Target start date September 2011. 2. Deploy SQL 2008 server software which provides logging of database activities and allows independent monitoring of activities against the production database environment. Target start date November 2011. 	<p>December 2011</p> <p>January 2012</p>
10-54	DCED	Lynette Praster, Deputy Director Office of Energy Conservation and Weatherization	<p>Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of Weatherization Subrecipients (A Similar Condition Was Noted in Prior Year Finding #09-39)</p> <p>The Office of Energy Conservation and Weatherization was organized in response to the 2007 audit by the Pennsylvania Auditor General and with the availability of ARRA Stimulus funding (March 2009- March 2012). Over the last two years, every system, process and procedure has been reviewed and has been or is in the process of being changed. The vast majority of these changes have taken place since the summer of 2010.</p> <p>Although the leadership for the Office of Energy Conservation and Weatherization was in place in June 2009, the ramp up for the central office was in process gradually and in phases from December 2009 – January 2011 with the re-organization of seven (7) existing DCED staff and the addition of fourteen (14) new staff.</p> <p>From that point on, the office has taken the following steps and will continue to implement:</p> <ol style="list-style-type: none"> 1. Eight (8) policy directives have been either re-issued or newly-authored and distributed to the agencies. For example, the directive clarifying client eligibility was sent on February 2, 2011. The intent of this directive was to align LIHEAP eligibility to DOE standards. The analysis and review of old directives will continue and new ones will be re-issued or made a part of the final Weatherization Policy and Procedures Manual. 2. Although a significant advance of working capital was provided to agencies in November and December of 2009, all agencies have been operating through a monthly invoicing process since January 2011. This office will continue to review all monthly expenses to the submitted invoices and also confirm the information submitted on the Financial Status Reports (FSR) sent with each invoice monthly in order to keep the monthly invoicing operational. 3. The requirement by the federal Department of Energy that fiscal and full, comprehensive monitoring of all Weatherization agencies need to be completed once per year will be continued in the 2011-12 	January 31, 2012

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10-54 (cont'd)			<p>program year. Fiscal and Full program monitoring teams are preparing a schedule for 2011-12 and will be strategic in their efforts to follow-up on any corrective action plans in place since the monitoring was conducted in the 2010-11 fiscal year. In addition, DCED will continue to enhance the monitoring of all agencies conducting LIHEAP crisis work and address programmatic issues.</p> <ol style="list-style-type: none"> 4. Field monitors have added and are using an "in progress" monitoring component of homes in a strategic way to determine the root cause of problematic retrofitting. 5. The Performance Standards are currently being implemented which moves the program into an applied business and performance-based management model. This office will continue to implement and enhance the use of the performance standards (production, quality, reporting, and compliance) and performance funding model. 6. DCED has required full use of the Hancock Energy Software (HES) system by the agencies so that the information that is input can provide the needed framework for DCED to analyze their weatherization process, consider costs and operations and also review expenditures for consideration of approval of invoices. DCED will continue to conduct HES training and technical assistance as needed so that all agencies are at required full use of the system. 7. This office and the IT staff will continue revising and reprogramming the software to better manage the state oversight functions and data collection/reporting functions. The office reporting staff will create and run reports from HES that advise management staff of the trends, fiscal expenditures and actual outcomes of the weatherization work conducted by the agencies. DCED's IT office has agreed to utilize the Department's IT Project Request Form to document and track any future changes made to the HES system. <p>Therefore, DCED understands the need for the audit findings and recommendations for the 2009-10 audit review as described, however contends that all efforts are being put into place to eradicate all significant deficiencies as noted.</p>	
10-55	DCED	Lynette Praster,	<p>Noncompliance and Internal Control Deficiencies at DCED Result in Questioned Costs of \$260,668 in the Weatherization Assistance Program and \$19,308 in the Low Income Home Energy Assistance Program</p> <p>DCED did not specifically address the first 10 bullets in this audit, because a response to each specific</p>	N/A

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<p>10-55 (cont'd)</p>		<p>Deputy Director Office of Energy Conservation and Weatherization</p>	<p>finding within the various reports was provided to the organization that issued the finding. Corrective action has been taken or is in process, where applicable.</p> <p>Bullet 11 – Files not provided. Documentation for the 11 missing projects was provided to the Auditor General on July 13, 2011. At this time, until a final review of the provided documentation is completed and a response is received from the Auditor General’s office, no corrective action is necessary.</p> <p>Bullet 12 – Deceased clients. DCED continues to disagree with this finding. DCED did not state that the eligibility of the remaining household member(s) for 5 of 6 items was determined after the applicant’s death. DCED stated that the agencies followed the eligibility criterion at the time of application and services were provided within one year. The eligibility only needs to be re-certified after a period of one year. Therefore, no corrective action is necessary.</p> <p>Regarding the deceased client, since the Auditor will turn the file over to the Office of Inspector General (OIG) for investigation, DCED will work with OIG as appropriate.</p> <p>Bullet 13 – Renters that pay no rent. DCED continues to disagree with the finding and therefore no corrective action is needed. Income is the criteria to determine eligibility, not renter status. However, DCED will discuss eligibility requirements with U.S. Department of Energy to determine if changes in the eligibility requirements are needed.</p> <p>Bullet 14 – Inflated prices for ARRA projects. We continue to question this finding. ARRA requires Davis-Bacon wages, determined by the US Department of Labor, which are higher than the standard weatherization program. DCED needs specific details regarding work classification and jobs tested in order to respond appropriately to this finding. There may be special circumstances that require a different wage, such as classification for a particular job, overtime rates, etc. We will provide a corrective action plan if the finding is confirmed.</p> <p>DCED objects to the phrases “marked-up to” and “to inflate prices” which suggest an intention that may in fact be a benign mistake or no mistake at all.</p> <p>Bullet 15 – Duplicate weatherization services. DCED disagrees with this finding. LIHEAP Crisis Interface, funded by the Department of Health and Human Services and administered by the Department of Public Welfare, is not considered a weatherization service. It is a crisis situation that needs to be addressed within 48 hours. The regulation at 10 C.F.R. 440.18 refers only to “grant funds” that are awarded by the</p>	<p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p>

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10-55 (cont'd)			<p>U S Department of Energy. The client applied for and was deemed eligible for standard weatherization services, after the crisis was handled. After an energy audit was conducted, it was found that the heating system was undersized and needed to be replaced according to heat load calculations. The home was then weatherized for the first time with ARRA funds. Therefore, no corrective action is necessary.</p> <p>Bullet 16 – Ineligible LIHEAP applicants. DCED continues to disagree with this finding and therefore no corrective action is needed. DCED has aligned our eligibility criteria to our approved state plan and also to the rules and regulations of the grantor as follows: § 440.22 Eligible dwelling units. (a) A dwelling unit shall be eligible for weatherization assistance under this part if it is occupied by a family unit: (1) Whose income is at or below 200 percent of the poverty level determined in accordance with criteria established by the Director of the Office of Management and Budget, (2) Which contains a member who has received cash assistance payments under Title IV or XVI of the Social Security Act or applicable State or local law at any time during the 12-month period preceding the determination of eligibility for weatherization assistance; or (3) If the State elects, is eligible for assistance under the Low-Income Home Energy Assistance Act of 1981, provided that such basis is at least 200 percent of the poverty level determined in accordance with criteria established by the Director of the Office of Management and Budget.</p> <p>DCED reviewed the 2009-2010 DPW income eligibility standards which were 150% of poverty. Clients that are disqualified for LIHEAP services that are between 150% and 200% of poverty do qualify for Weatherization services. The clients identified in this finding, were eligible for services based on income eligibility as determined and verified by the agency.</p> <p>DCED will continue to work with DPW to assure that all individuals on the LIHEAP list are eligible for weatherization services.</p> <p>Bullet 17 – Weatherization standards violation. DCED will follow up with the applicable Weatherization Agency and obtain the repayment of disallowed costs, if appropriate.</p> <p>Additional Exceptions – Patterns of abuse by applicants. DCED continues to disagree with this finding and therefore no corrective action is needed. Income is the criteria used by the US DOE to determine eligibility, not renter status. However, DCED will discuss eligibility requirements with US DOE to determine if changes in the eligibility requirements are needed.</p> <p>Additional Exceptions – Conflict of interest. DCED is developing a Conflict of Interest Directive.</p>	<p>N/A</p> <p>August 2011</p> <p>N/A</p> <p>Fall, 2011</p>

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10-56	DCED	Lynette Praster, Deputy Director Office of Energy Conservation and Weatherization	<p>Noncompliance With ARRA Regulations and Inadequate Controls Over ARRA Payments</p> <p>DCED plans to:</p> <ul style="list-style-type: none"> • Modify the existing invoice form that agencies use to request their monthly funds to include the federal award number. The CFDA number and the amount of ARRA funds to be dispersed is already listed. • Require the inclusion of CCR registration details as a part of the Federal funding Accountability and Transparency Act Sub-recipient Data sheet (FFATA). The CCR registration dates (for confirmation) will be a required field on the FFATA, ensuring that funds are appropriated to grantees with up-to-date registrations. This new FFATA data sheet will be required with all new Weatherization contracts. Additionally, DCED will be amending their electronic application system to ensure that the completed FFATA is a required addendum for all federally funded programs. • Issue corrective letters advising subgrantees of the appropriate federal award number and attach to existing ARRA contracts which are already in place and will end March 31, 2012. In addition, federal award number will be added to monthly invoices as per first bullet above. 	August 31, 2011
	OCO-BCA	Danny Novak, Assistant Director Richard Cardamone, Director	We have reviewed the auditor’s conclusion and reiterate our disagreement with the finding and think that a corrective action plan is not necessary. Please refer to the finding for details regarding the disagreement.	N/A
10-57	PDE	Division Chief, Division of Performance, Analysis and Reporting	<p>Noncompliance and Inadequate Controls Over PDE’s Consolidated State Performance Report and the Annual State Report Card (A Similar Condition Was Noted in Prior Year Finding #09-41)</p> <p><u>Part 1.2.6, CSPR – Participation of Students with Disabilities in Science Assessment:</u> In 2009, it was incorrectly believed that this information would be automatically populated from the EDFACTS Report into the CSPR. In 2010, the information was manually populated into the CSPR and this will continue to be the procedure in future submissions.</p> <p><u>SRC - State PSSA Results in Grade 11 Science, State PASA Results in Grades 4, 8, and 11 Science:</u> Data validation checks for completeness will be further strengthened with independent verification and supervisory review. Detailed procedures will be published to document the process through the use of an</p>	Not Determined

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10-58 (cont'd)		Child Development and Early Learning Executive Stimulus Coordinator, Office of Administration		
	OCO-BCA	Danny Novak, Assistant Director Richard Cardamone, Director	We have reviewed the auditor's conclusion and reiterate our disagreement with the finding as it relates to the CCR registration and think that a corrective action plan is not necessary. Please refer to the finding for details regarding the disagreement.	N/A
10-59	PDE	Chief, Division of Federal Programs Assistant Director, Bureau of Special Education Administrative Supervisor, Bureau of Special Education	Internal Control Deficiencies in PDE Monitoring of Subrecipient Cash Management (A Similar Condition Was Noted in Prior Year Finding #09-40) The Pennsylvania Department of Education (PDE) will continue to use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds. The PDE is currently, and will continue working with the relevant US Department of Education offices to ensure our process, including Subrecipient monitoring, are consistent with applicable regulations and guidance of the satisfaction of the awarding agency.	Completed

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10-59 (cont'd)		Administrative Officer, Office of Child Development and Early Invention Executive Stimulus Coordinator, Office of Administration		
10-60	PDE	Chief, Division of Federal Programs Executive Stimulus Coordinator, Office of Administration	<p>Internal Control Deficiencies in PDE During-the-Award Monitoring of Title I and Title II Subrecipients (A Similar Condition Was Noted in Prior Year Finding #09-42)</p> <p>The Pennsylvania Department of Education is currently, and will continue working with the relevant US Department of Education offices to ensure PDE's process, including Subrecipient monitoring, are consistent with applicable regulations and guidance to the satisfaction of the awarding agency.</p>	Completed
10-61	PDE	Administrative Supervisor, Bureau of Special Education Assistant Director, Bureau of Special Ed	<p>Noncompliance and Internal Control Deficiencies in PDE Monitoring of IDEA-B Subrecipients (A Similar Condition Was Noted in Prior Year Finding #09-43)</p> <p>The Pennsylvania Department of Education, Bureau of Special Education (BSE) has been in contact with the U.S. Office for Special Education Programs (OSEP) regarding the OIG Report requirements, and the BSE's March 2011 Monitoring Report to the November 2010 Special Education and OSEP IDEA-ARRA Fiscal Verification Monitoring Visit. The BSE have forwarded to OSEP any required documentation regarding corrective action. Upon receipt of additional direction or requests from OSEP regarding the OIG Report, the OSEP Monitoring and IDEA-ARRA Fiscal Report, BSE will implement any additional corrective action if required by OSEP.</p>	June 2011

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10-62	L&I	Ryan Hyde, Assistant Bureau Director OVR, Program Operations	<p>A Material Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (A Similar Condition Was Noted in Prior Year Finding #09-46)</p> <p>We are working on refining the debarment query/report right now. I anticipate by the end of July it will be fully tested and implemented. We will have to do an initial review of all of the old ones that haven't been checked in a while and then can start running it monthly. Running it monthly will keep the numbers down. We have been in the midst of a larger provider folder clean up and have been waiting until that has been completed until we started running the additional debarment query/report. Essentially, we have been in the process of inactivating a significant number of unused providers. By doing this first we then reduce the number of providers that we have to manually check for debarment since they will no longer be used once inactivated.</p> <p>As far as the on screen enhancements that is tentatively scheduled for the October release of CWDS (Release 5.4). Technically Release 5.4 doesn't exist yet because we are at the end of our contract and in the process of an extension approval. Once that goes through then we will get it in for the first available release which should either be October or December of 2011.</p>	December 2011
10-63	L&I	Nesta Livingston, Director, OVR Bureau of Central Operations	<p>A Material Weakness Exists Over the Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA (A Similar Condition Was Noted in Prior Year Finding #09-45)</p> <ol style="list-style-type: none"> 1. The VR Provider Claim form and supporting claim documentation must be kept in Central Office. This procedure change eliminated the problem with missing VR Provider Claim forms in this year's audit. <u>This step is currently in effect.</u> 2. OVR will establish and implement an on site review process to assure district offices are filing all copies of the paid OVR-208 or provider invoices in the case file as instructed . Documentation of the review and findings, if any, will be submitted to the Bureau Directors. <u>The plan will be developed and disseminated no later than 12/31/11, with review beginning no later than 4/2/12.</u> 3. District Offices have been instructed to do a complete review of Social Security cases prior to filing the case to ensure all the necessary invoices are part of the supporting case file. <u>This step was effective May 2011 and will be monitored for compliance as part of the plan described in step 2.</u> 	December 31, 2011

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-64	L&I	Scott Hetrick, Acting Director Bureau of Financial Management	<p>Noncompliance Exists Due to the Lack of Federal Review and Approval of the Hiram G. Andrews Center Cost Allocation Plan</p> <p>L&I strongly disagrees with the finding. An Indirect Cost Allocation Plan for the department is submitted annually to the department’s federal cognizant agency; Department of Labor (DOL). The plan includes cost analysis for the Hiram G Andrews Center (HGAC). Rates are established on an annual basis and approved by DOL. Copies of the Indirect Cost Allocation Plan and DOL approval are available for the auditor’s review. Also, federal confirmation of the plan can be confirmed by Stephen Cosminski; DOL Regional Cost Negotiator (215) 257-8712.</p> <p>In addition, Comptroller Operations has been in contact with USDE in regards to the submission of the plan. USDE’s position is that they accept the department wide cost allocation plan, including HGAC, submission to the federal cognizant agency. USDE feels a separate submission for HGAC is not necessary.</p>	N/A
10-65	L&I	Denise Verchimak, Director, Bureau of Vocational Rehabilitation Services	<p>A Material Weakness Exists in L&I’s Procedures for Performing Eligibility Determinations (A Similar Condition Was Noted in Prior Year Finding #09-47)</p> <ol style="list-style-type: none"> 1. OVR has a policy in place to reinforce the 60 day timeline. <u>Status: Complete</u> 2. The current audit finding information was shared with the three specific District Administrators who had cases noted. The District Administrators will be providing counseling sessions to the two remaining counselors (one counselor left OVR employment) on the importance of meeting this deadline. <u>Counseling to be completed by: June 30, 2011.</u> 3. OVR rolled out training called Back to Basics for all counseling staff. Module II was implemented in March 2010 and covers the eligibility process. The policy is clearly reinforced in this training and should prevent audit findings for future years <u>Status: Complete</u> 4. OVR will institute quarterly compliance reviews with District Administrators in BVRS and BBVS to assure the guideline is being met and appropriate documentation for extensions is on file. Reviews will begin: August 1, 2011. 	December 31, 2011

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10-66	L&I	Nesta Livingston, Bureau Director for Central Operations Kelly Allen, Division Chief, Budget, Grants and Administrative Services	<p>A Material Weakness Exists Over the Preparation and Submission of the Annual RSA-2 Report</p> <p>By 9/30/11 the CWDS run schedule for the source document will be revised to assure it is run the first week in December for the previous FFY. This will assure full FFY data is in the report, but should not delay completing the report by December 31 annually.</p> <p>By 9/30/ 11 the manual for preparing the report will be revised to include the correct run dates for all source documents to prevent incorrect documents from being used.</p> <p>Starting 11/1/11 the Division Chief will review all federal reports prior to their final submission. The review packet will include the source documents to add an extra layer of assurance the correct documents have been used.</p> <p>By 9/30/11 The Division Chief will provide a task timeline and progress reports for submission of all federal reports, including those for which the division provides information to other submitters, to the Bureau Director.</p> <p>By 6/15/11 OVR will consult with the Rehabilitation Services Administration re submission of a revised report to USDE and comply with their guidance.</p>	December 31, 2011
10-67	PDE	Title II Program Manager, Division of Federal Programs	<p>Noncompliance and Internal Control Deficiencies in PDE's Review and Approval of Title II Subrecipient Applications Resulting in Questioned Costs of \$1,268,363</p> <p>The PDE has implemented modifications to the eGrants System to ensure that LEAs are required to provide information regarding needs assessments. The application cannot be completed by the LEA if the question indicates "NO" or if there is no response to the question.</p>	Completed
10-68	PDE	Executive Stimulus Coordinator,	<p>Noncompliance and Internal Control Deficiencies in PDE Monitoring of State Fiscal Stabilization Fund Subrecipients</p> <p>The Pennsylvania Department of Education (PDE) is currently, and will continue working with the relevant US Department of Education offices to ensure PDE's process, including Subrecipient monitoring, are consistent with applicable regulations and guidance to the satisfaction of the awarding agency.</p>	Completed

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-68 (cont'd)		Office of Administration		
10-69	OCO-BCA	Rich Cardamone, Director, Bureau of Accounting Danny Novak, Assistant Director, Federal Accounting	<p>Internal Control Deficiency Results in Inaccurate ARRA Section 1512 Reporting</p> <p>Currently the Central Access to Recovery Data System (CARDS) is locked on the last day of the quarter through 29th day after the quarter-end. This measure was implemented to terminate the SAP data import process and prevent changes to the CARDS financial data through the end of the ARRA reporting change period.</p> <p>In addition, if during the change period a Federal agency requires a change to the submitted non-financial information, key financial data elements such as the total amounts of prime recipient federal ARRA expenditure are examined to ensure that the same amounts are reported on the resubmission.</p>	Completed
10-70	DGS	Beverly Hudson, Special Assistant to the Secretary Department of General Services	<p>Noncompliance With Allowability Requirements Results in \$111,548 In Questioned ARRA Costs</p> <p>We appreciate that the Auditor General’s final conclusion acknowledges that work plans or statements of work from the Chief Accountability Officer (CAO) were not required by DGS under the contract. While the Auditor General states that they “should have been required,” DGS contends that the contract was fully vetted through both the Office of General Council and the Office of Attorney General and was approved as executed, without additional requirements, by both entities.</p> <p>DGS would have welcomed the opportunity to meet with the audit staff to walk through the voluminous information presented publicly at www.recovery.pa.gov, which we assert provides more than the federally required “reasonable documentation” of the CAO’s work as part of the stimulus management team. In fact, the website even contains links to streaming video of every Stimulus Oversight Commission meeting chaired by the CAO; these videos clearly demonstrate the CAO’s engagement in and management of the Commonwealth’s stimulus funded programs.</p> <p>Finally, DGS provided no additional information or documentation in our response to support payment to the CAO because no additional information or documentation was required under the contract. We maintain that although the auditors believe additional information should have been required, the documentation provided by the CAO with his monthly invoices clearly included a listing of the activities performed and the hours spent conducting those activities as required by the contract. Daily hours were</p>	N/A

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-70 (cont'd)			<p>not specifically required to be kept or provided on the monthly invoices. We also maintain that all invoices were reviewed by the Chief Implementation Officer, a critical member of the state's stimulus management team, who had personal knowledge of both the time dedicated and activities addressed by the CAO throughout the course of the contract. In addition, all invoices were reviewed, approved and forwarded for payment by Comptroller Operations, and ultimately approved for payment by Treasury.</p> <p>DGS disagrees with all findings and maintains that payments made to the Chief Accountability Officer under the SFSF Government Services Program were allowable and are supported. As a result, no Corrective Action Plan is required.</p>	
10-71	DOC	Harry P. Jones, Acting Director Bureau of Administration	<p>Noncompliance and Weaknesses in DOC Procedures for Recording of Payroll Expenditures and Retention of Payroll and Attendance Records Leads to \$29,526 in Questioned Costs</p> <p>A total of \$22,047 in payroll costs were questioned as unallowable; an additional \$7,479 was unallowable due to an inactive employee status - total questions costs = \$29,526. DOC will substitute other qualifying expenses.</p> <p>The Dept of Auditor General provided DOC specific staff names with payroll dates that were questionable. DOC identified payroll costs totaling \$43,192.59 for the questionable staff charges and disallowable costs from inactive status totaling \$7,582.20 for a total cost of \$50,774.79.</p> <p>All identified payroll costs (\$50,774.79) are to be removed and substituted with \$50,774.79 in qualified employee costs.</p>	June 30, 2011
10-72	Aging	Robert D. Heinlen, Aging Services Specialist	<p>Material Weaknesses Exist in PDA Procedures for the Awarding and Disbursement of Subrecipient Funding Resulting in Noncompliance with OMB Circular A-133</p> <p>The federal award number and the associated CFDA number for the remaining ARRA allocation will be included in the narrative section of the funding directive for FY 2011-12. A review of the federal award documents for the non-ARRA grants did not disclose a requirement that this information be provided to subrecipients. Notifying subrecipients of A-133 audit requirements related to ARRA should not be necessary as any new audit requirements are provided to the independent auditor in their annual training requirements. For the single instance of a subrecipient receiving the incorrect CFDA number, the</p>	September 15, 2011

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-72 (cont'd)			department has provided a revised disbursement document to the agency. A review of the associated documents found this to be an isolated incident and therefore no further action is deemed necessary.	
10-73	Aging	Carol Boyle, Aging Services Supervisor	<p>PDA Monitoring of AAA Subrecipients Needs Improvement (A Similar Condition Was Noted in Prior Year Finding # 09-49)</p> <ul style="list-style-type: none"> • The monitoring instrument has been completed. • The instrument has been constructed to cover the following areas: <ul style="list-style-type: none"> ○ Administrative review, Personnel Requirements, General Requirements, Program Specific Requirements (FCSP and OPTIONS are still in draft), Waiver Direct Service Provider Requirements, and Fiscal Requirements. ○ Requirements have a citation affiliated and verification source identified. • STiP's (Standards Implementation Plans) will be issued for requirements that are below the threshold. <p>Monitoring Activity:</p> <ul style="list-style-type: none"> • Pre-Admission monitoring section of the instrument was tested in the Fall 2010. 1 STiP was issued with follow up due in May 2011. • Administrative Review, General Requirements, Personnel Requirements, and Fiscal Review sections of the instrument were tested in March 2011. No STiPs have been issued at this time. <p><u>Next Steps:</u></p> <ul style="list-style-type: none"> • It is anticipated that AAA monitoring will be completed for all 52 AAAs within 2 years. 	Completed
10-74	DOH	Heather Stafford Director, Division of Immunizations	<p>Unsupported Payroll Charges Results in \$2,513,164 in Questioned Costs</p> <p>Create an employee certification form to be signed semi-annually by all employees funded through the Immunization and Vaccines for Children grant. Form completed on March 15, 2011. Forms signed by employees for first half of calendar year, June 30, 2011.</p>	June 30, 2011

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-75	DOH OCO-BCA	Heather L. Stafford Director, Division of Immunizations Karen L. Hare Chief, Health and Medical Assistance Section	<p>Internal Control Deficiency at DOH and the Commonwealth Comptroller Office Over SEFA Reporting</p> <p>The Centers for Disease Control and Prevention (CDC) provides the state with estimated budgets for the vaccines provided under the Immunization Grants program which serve as a ceiling for vaccine orders for each grantee. The CDC estimated budgets for the vaccines provided under the Immunization Grants program are broken out into the two parts of the program - the Vaccines for Children Program (VFC) and the discretionary Section 317 Direct Assistance (317DA) immunization grants. CDC then provides the state's enrolled VFC and 317DA providers vaccine based on orders received and reflects the dollar amount of these orders in a monitoring report so that grantees are aware of what they have drawn down from their individual spend plans and essentially what amount they have left to order from. The CDC typically provides the information from the monitoring report through an award letter on a quarterly basis. DOH's Bureau of Communicable Diseases, Division of Immunizations (DOI) typically receives the monitoring reports from the CDC within two weeks of the end of each quarter. Upon receipt, DOH's DOI will share the award letter with the Office of the Budget, Bureau of Commonwealth Accounting's Division of Federal Accounting (OB/BCA/DFA). However, the actual dollar amount of vaccine received will not be known until the end of the state fiscal year (audit period). DOH's DOI should receive the final vaccine monitoring report from the CDC within two weeks after the end of the audit period. After it receives the final vaccine monitoring reports from the CDC, DOH's DOI will then share the final vaccine monitoring report (showing the total dollar amount of vaccine received for the audit period) with OB/BCA/DFA. Once OB/BCA/DFA receives the final vaccine monitoring report they will make the necessary entry to report the dollar amount of the vaccine on the SEFA.</p>	October 31, 2011
10-76	DPW	Shari Yiengst, Budget Analyst 4 Maranatha Earling, Audit Specialist 3	<p>Weaknesses Exist in DPW's Contracting and Program Monitoring of Child Care Subgrantees (A Similar Condition Was Noted in Prior Year Finding #09-52)</p> <p>The DPW disagrees with this finding. The Office of Child Development and Early Learning feels that a more accurate comparison would be to compare the percentage of personnel benefits to total personnel (salaries and wages plus benefits), and the DPW, Audit Resolution Section continues to reconcile the payments to audited expenditures for these grants.</p>	N/A

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-77	DPW	Maranatha E. Earling, Audit Specialist 3	<p>DPW Did Not Specify CFDA Number and Other Required Award Information in Subrecipient Award and Disbursement Documents, Resulting in Noncompliance With OMB Circular A-133 (A Similar Condition Was Noted in Prior Year Finding #09-50)</p> <p>The DPW feels that it has provided subrecipients with the required information noted within OMB circular A-133. Therefore, no corrective action is needed.</p>	N/A
	OCO-BCA	Richard Cardamone, Director	We have reviewed the auditor's conclusion and reiterate our disagreement with the finding. Please refer to the finding for details regarding the disagreement.	N/A
10-78	DPW	Blair Pence, Audit Coordinator	<p>Inaccurate Reporting on the TANF ACF-199 Data Report (A Similar Condition Was Noted in Prior Year Finding #09-59)</p> <p>DPW, OIM disagrees with this finding.</p> <p>All but one of the cases cited by the audit finding as having "errors and/or documentation discrepancies" meets DPW's verification requirements as approved by HHS. Therefore, we do not agree with the auditor's conclusion that "DPW did not comply with federal reporting requirements or its HHS-approved TANF Work Verification Plan." DPW is in compliance with the reporting requirements and has taken steps to correct the lone error cited in the audit finding.</p> <p>Accordingly no corrective action is needed.</p>	N/A
10-79	DPW	Cliff Crowe, Acting Bureau Director, Bureau of Budget and Fiscal Support	<p>Weaknesses in DPW Office of Children, Youth and Families Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients (A Similar Condition Was Noted in Prior Year Finding #09-53)</p> <p>OCYF's Quality Assurance review of children's eligibility for Title IV-E Foster Care reimbursement is consistently applied to all sample cases. The OCYF review tool, approved by the Administration for Children and Families (ACF), confirms <u>all</u> regulatory requirements for a child's and placement eligibility. In addition, the Title IV-E invoicing system assures many of the eligibility requirements for each child in Foster Care. The System prevents claims for children who have aged out, duplicate claims, non-foster care</p>	October 2011

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-79 (cont'd)			<p>settings and other.</p> <p>OCYF concurs with the auditor concerning the weakness related to Adoption Assistance and TANF eligibility. OCYF has been working with ACF to obtain a review tool for these programs. ACF has not developed review tools for these programs. Therefore, OCYF is developing review tools to incorporate into the County Quality Assurance reviews starting in October of 2011.</p>	
10-80	DPW PID	Pam Skelton, Information Security Specialist 1	<p>HHS-Required ADP Risk Analysis and System Security Review Was Not Performed for Various DPW and Insurance Department Systems (A Similar Condition Was Noted in Prior Year Finding #09-76)</p> <p>The department is configuring a security solution using a third party tool named RSA – Archer. This tool contains all of the laws, regulations, policies, standards and procedures that we must abide by. We hope to begin the risk assessment in the third quarter of this year (2011).</p>	September 30, 2011
10-81	DPW	Blair Pence, Audit Specialist 2	<p>Material Internal Control Deficiencies Over \$24.7 Million in Federal ARRA CSE Incentive Payments Result in Noncompliance With Matching and Supplanting Requirements and Questioned Costs of \$6,861,313</p> <p>OIM, Bureau of Child Support Enforcement disagrees with this finding. The BCSE complied with all requirements of the ARRA award letter in supplementing vs. supplanting funds. As these funds were supplementing, the DPW feels no questioned costs exist. Therefore, no corrective action is needed.</p>	N/A
10-82	DPW	Blair Pence, Audit Coordinator	<p>Internal Control Deficiencies in DPW's Administration of LIHEAP Cash and Crisis Benefits (A Similar Condition Was Noted in Prior Year Finding #09-56)</p> <p>DPW, OIM disagrees with this finding.</p> <p>Adequate Internal Controls are in place to ensure that applicant information and supporting documentation are sufficient to determine eligibility in accordance with state and federal regulations. DPW conducts thorough training of LIHEAP staff to ensure:</p> <ul style="list-style-type: none"> • LIHEAP policy is applied correctly for applicants • Verification provided by applicants is interpreted and properly entered into eCIS 	N/A

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-82 (cont'd)			<ul style="list-style-type: none"> • Information know to CIS and available through data exchanges is reviewed and used properly • Applications and verification is stored in restricted areas and until they are able to be scanned into imaging <p>Accordingly no corrective action is needed.</p>	
10-83	DPW	Blair Pence, Audit Coordinator	<p>Noncompliance With Contract Terms and Unallowable Contract Expenditures Result in \$478,157 In Questioned Costs</p> <p>DPW, OIM disagrees with this finding.</p> <p>The law firm referred to in this finding hired an independent subcontractor, LECG, LLC to perform the majority of procedures relating to this contract, with the approval of DPW and the Office of General Counsel. DPW staff closely monitors the activities and costs incurred by the outside monitor compared to their work plan. The \$478,157 identified as 2009/10 payments is misleading. This represents payments made during the fiscal year, which includes several payments for the prior fiscal year.</p> <p>Accordingly no corrective action is needed.</p>	N/A
10-84	DPW	Blair Pence, Audit Coordinator	<p>Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$64,781 in LIHEAP (A Similar Condition Was Noted in Prior Year Finding #09-57)</p> <p>DPW, OIM disagrees with this finding.</p> <p>Adequate Internal Controls are in place to ensure the accuracy of processed LIHEAP applications.</p> <p>DPW maintains the total payments made due to error were \$27,475.15. Of this amount, DPW will pursue restitution for \$14, 916.00 as the remaining funds are administrative errors and not subject to reimbursement.</p> <p>Accordingly no corrective action is needed.</p>	N/A

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-85	DPW	Blair Pence, Audit Coordinator	<p>DPW Failed to Adequately Monitor the Processing of LIHEAP Cash and Crisis Applications (A Similar Condition Was Noted in Prior Year Finding #09-54)</p> <p>DPW, OIM disagrees with this finding.</p> <p>DPW, Division of Corrective Action documented a comprehensive monitoring plan which was provided to the Auditor General at the inception of this audit (October 7, 2010), as well as in our response to the fiscal year 2008 finding regarding the monitoring program. A monitoring schedule was developed that ensured independent monitoring was performed during the LIHEAP season that provided for real time in-season feedback to DPW management.</p> <p>Accordingly no corrective action is needed.</p>	N/A
10-86	DCED	Vicki Lori, Community Empowerment	<p>Noncompliance and Internal Control Weakness Over Subgrantee Payments at DCED (A Similar Condition Was Noted in Prior Year Finding #09-61)</p> <p>DCED acknowledges that the invoicing process needs to be improved. DCED is nearing the completion of a new invoice and fiscal status report document and process. The new invoicing process indicates that any invoice that is submitted incomplete will be returned, rather than being processed incomplete. The new invoice and fiscal status report forms will provide DCED with a more accurate assessment of the invoicing requirements of the CAAs. Invoices will be required to be submitted monthly and will require expenditures to be reported by approved budget categories. This will provide DCED with a more accurate assessment of cash management for the CAAs. DCED has filled 3 vacant positions which also provides the ability to review documentation and input more closely.</p>	July 1, 2011
10-87	DCED	Vicki Lori, Community Empowerment	<p>Noncompliance and Internal Control Weakness in Subrecipient Monitoring</p> <p>The CSBG program office has not had an internal process to monitor compliance with the Federal CCR registration requirement. DCED will begin to correct this deficiency in multiple ways. DCED is planning to require the inclusion of CCR registration details as a part of the Federal Funding Accountability and Transparency Act Sub-recipient Data sheet (FFATA). The CCR registration dates (for confirmation) will be a required field on the FFATA, ensuring that funds are appropriated to grantees with up-to-date registrations. This new FFATA data sheet will be required with all new CSBG contracts.</p>	January 1, 2012

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10-87 (cont'd)			<p>New CSBG applications will be submitted/required for contracts beginning January 1, 2012. New CSBG discretionary applications are to be solicited August 15, 2011.</p> <p>Additionally, DCED will be amending the electronic application system, based on the IT schedule, to ensure that the completed FFATA is a required addenda for all federally funded programs.</p>	
	OCO-BCA	<p>Danny Novak, Assistant Director Richard Cardamone, Director</p>	<p>We have reviewed the auditor's conclusion and reiterate our disagreement with the finding. Please refer to the finding for details regarding the disagreement.</p>	N/A
10-88	OCO-BCA	<p>Marisa George, Accountant 3</p> <p>Danny Novak, Division Chief, Federal Accounting</p>	<p>Noncompliance and Internal Control Weakness over Financial Reporting</p> <p>Effective 7/1/2011, the federal accounting division will review the Administration for Children & Families web site on a quarterly basis to confirm that reporting requirements have not changed. Also on a quarterly basis, we will continue to ascertain with the Department of Community & Economic Development that they have not received any updated reporting requirements. A report for the ARRA award for the period 9/30/10 and a revised final report will be filed.</p> <p>The basis of accounting referenced for the ARRA interim reports listed above, will be revised to indicate the accrual basis.</p> <p>The review process will be given continued diligence to assure that the BW reports generated in support of the financial reports are consistent with the period of reporting.</p>	June 30, 2011
10-89	DPW	<p>Shari Yiengst, Budget Analyst 4</p>	<p>Internal Control Weaknesses Exist Over DPW's Subrecipient Expenditures Claimed For Federal Earmarking Requirements</p> <p>The OCDEL will review expenditures on the Regional Key grants prior to fiscal year end and adjust funds as necessary to ensure all eligible expenditures are properly funded as noted with the SAP system.</p>	June 30, 2011

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-90	DPW	Shari Yiengst, Budget Analyst 4	Internal Control Weaknesses Exist Over DPW's Charging of Costs Not Approved in The CCDF State Plan Resulting in Noncompliance and Questioned Costs of \$282,546 (A Similar Condition Was Noted in Prior Year Finding #09-62) No corrective action is needed. This issue was corrected for expenditures incurred during SFYE June 30, 2010.	N/A
10-91	DPW	Amanda Newman, HADP/SSBG Program Administrator	Weaknesses in DPW Program Monitoring of SSBG and SAPT Subgrantees (A Similar Condition Was Noted in Prior Year Finding #09-64) Corrective Action has been implemented. As of June 30, 2011, the DPW, Bureau of Financial Operations has issued monitoring reports for the Mental Health program. On site monitoring for the rest of Tier 1 Mental Health, PA Legal Aid Network, and Philadelphia's Homeless Assistance Program is scheduled to be completed in the next fiscal year.	June 30, 2012
10-92	DPW	Lois Huling, Director, Division of Administration and Quality Improvement	Inadequate Controls Over Charging of YDS Personnel Costs The OCYF will implement a monthly auditing process to ensure that timesheets are signed by both the employee and the employee's supervisor or the shift supervisor as required in the Bureau of Juvenile Justice Service's Timekeeping Policy 8.19. Specific steps to enact this corrective action are: (1) Determine those employees who will perform the auditing process, (2) Determine the random method by which the specific timesheets will be chosen for auditing, (3) Determine those persons who will receive a copy of the monthly audit findings, and (4) Implement the auditing process. The OCYF will continue quarterly random position description audits in order to ensure properly approved position descriptions are on file for all YDC/YFC staff.	July 2011

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-93	DPW	Shari Yiengst, Budget Analyst 4	<p>DPW Did Not Utilize Available ARRA Grant Award Funds While Significant Waiting Lists Existed For Child Care Assistance For Low-Income Families (A Similar Condition Was Noted in Prior Year Finding #09-65)</p> <p>No corrective action needed, as the OCDEL acted within the terms of the ACF Award Letter.</p>	N/A
10-94	DPW	Blair Pence, Audit Coordinator	<p>DPW Failed to Adequately Support a Transfer of LIHEAP Funds Charged to TANF ARRA Resulting in \$20,907,200 in Questioned Costs (A Similar Condition Was Noted in Prior Year Finding #09-58)</p> <p>DPW, OIM disagrees with this finding.</p> <p>DPW transferred these funds in accordance with Federal guidelines.</p> <p>Accordingly no corrective action is needed.</p>	N/A
10-95	PID	Peter J Salvatore, Administrative Officer	<p>Lack of Documentation to Support Subrecipient Contracting and Procurement</p> <p>The Department disagrees with this finding.</p> <p>Per the established Office of the Budget protocol for responding to Auditor General procurement audits, we will provide only the following:</p> <ul style="list-style-type: none"> • Copies of losing vendor proposals (as retained in accordance with published document retention schedules effective at time of procurement). • Detailed scoring sheets showing the scores of each committee member by category with committee member names redacted. • Summary information, when requested, regarding the procurement as contained in the memorandum required to be completed by each committee (a copy of the memorandum template is attached with submission of the response to this finding). Contained in this memorandum will be information regarding the reasonableness of cost and minority participation. 	N/A

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10-95 (cont'd)			<p>We will not provide individual committee member's notes or further detailed score sheets. As you know, the Commonwealth believes this information is not necessary in your review of whether the committee and the agency acted in accordance with procurement laws and practices and that its disclosure as a general matter will have a chilling effect upon employee participation on procurement committees. The Auditor General has not provided a compelling reason for such an interview in light of the audit, the request will be reviewed and if we agree that such reasons are compelling, interview access will be provided.</p> <p>Accordingly, a corrective action plan is not applicable.</p>	
10-96	DPW	<p>Mara Earling, Audit Specialist 3 (ARS)</p> <p>Denise Luce, Welfare Program Executive 1 (BDCM)</p>	<p>DPW Failed to Obtain an Outside Service Auditor's Report for a Third Party Drug Rebate Processor (A Similar Condition Was Noted in Prior Year Finding #09-67)</p> <p>The DPW, Bureau of Financial Operations, along with the DPW Legal Office reviewed the contract in place to assess whether a contract amendment was needed requiring subcontractors to provide adequate audit coverage. Based on the approved contract, this provision already exists requiring all subcontractors to provide the necessary SAS 70 reporting. The DPW, Office of Medical Assistance Programs, Bureau of Data & Claims Management, notified the contractor's staff of this requirement, and will not accept the contractor's SSAE No. 16 reporting for June 30, 2011 without the supplemental report required from the subcontractor for the drug rebate processing component.</p>	Completed
10-97	OCO-BCA	<p>Brian Seno, Assistant Director</p> <p>Richard Cardamone, Director</p>	<p>Lack of Timely Periodic Reconciliations of the PROMISE Provider Payment System to the SAP General Ledger Accounting System</p> <p>We have reviewed the auditor's conclusion and reiterate our disagreement with the finding. Please refer to the finding for details regarding the disagreement.</p>	N/A
10-98			<p>Weaknesses in Internal Controls Over Eligibility Determinations and Administration of Third Party Contractor Results in Questioned Costs of \$37,185 (A Similar Condition Was Noted in Prior Year Finding #09-69)</p>	

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-98 (cont'd)	DPW	Sarah Witmer, Director, Division of Operations Cheryl Henne, SPBP Administrator	<p>The OMAP, Special Pharmacy Benefits Program has already instituted the noted corrective action as stated in the audit report for the period ended June 30, 2009.</p> <p>Auditor's Conclusion states that they did not test this program as a major program, but instead reviewed the cases questioned during June 30, 2009. This resulted in questioned costs; however, the auditors did not test the program for compliance in accordance with OMB Circular A-133 for the period ended June 30, 2010. Therefore, <u>no additional corrective action is necessary at this time.</u></p> <p>Although no corrective action is necessary at this time the SPBP would like to provide an update on its efforts to improve and strengthen its procedures.</p> <ul style="list-style-type: none"> • SPBP staff developed an internal eligibility procedure manual. • To further enhance improvement efforts and ensure consistency, in February 2011, the SPBP transitioned the processing of its enrollment applications to Magellan Health Services (MHS), the vendor responsible for the SPBP's recertification and pharmacy claims processing activities. Since then the SPBP has: <ul style="list-style-type: none"> ➤ Electronically imaged all client files in order to create a single electronic record for each cardholder. All correspondence and information received is imaged into the record and available to the SPBP. ➤ Developed a decision logic table (DLT) which outlines Pennsylvania's eligibility requirements and the acceptable documentation for verification. ➤ Began drafting a Case Manager handbook for the purpose of providing clear direction and information to Case Managers when supporting potential clients to apply for benefits. The first section "Application Process" has been completed. Additional chapters are currently under construction. ➤ Has created a DLT Oversight team which reviews all policy and makes recommendations on the acceptability of documents to validate eligibility requirements to the Program Administrator. ➤ The SPBP's DLT Committee is in the process of identifying additional reporting requirements and monitoring standards as the process progresses. Measures will be established and utilized to monitor performance. ➤ Instituted timelines for all phases of the application process. <p>Through the transition of this process to the vendor, the SPBP is able to take advantage of the following</p>	N/A

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10-98 (cont'd)			<p>vendor services, which ultimately benefits the SPBP to include:</p> <ul style="list-style-type: none"> ➤ A Quality Assurance Department which completes a 100% quality check on all completed applications. ➤ An automated process which provides edits for income limits, generates all required correspondence and system alerts ➤ Continued system matches with Medical Assistance (MA), Medicare and other third party payers to verify the existence of other insurance resources. ➤ Recovery services through the vendors contract with Health Management Systems (HMS) for reconciliation of TPL benefits and MA reimbursements. 	
10-99	DOH	Maureen A. Cleaver, Chief, Division of Program Monitoring	<p>Inadequate Program Monitoring of Department of Health SAPT Subrecipients (A Similar Condition was Noted in Prior Year Finding #09-70)</p> <p>The Department of Health, Bureau of Drug and Alcohol Programs maintains disagreement relative to the basis of this finding, as previously indicated. Although correspondence from the Financial Advisory Services section of the Substance Abuse and Mental Health Services Administration has been received concerning a similar prior year finding (Finding #09-70), the content of that correspondence was indeterminate regarding final disposition to this finding. Instead, the issue was forwarded to the Grants Management Officer and the Substance Abuse Prevention and Treatment Block Grant Project Officer for final determination. No further correspondence has been received to date. However, with the execution of a new five-year grant agreement between the Department of Health and the Single County Authorities (SCAs), a schedule has been established to complete a desk review of submitted materials from all SCAs by March 2011, followed by on-site reviews of all SCAs performed from the period of March 2011 through November 2011. This is accomplished on a twelve month cycle, to be completed in subsequent periods.</p>	November 2011
10-100	DOH	Melia Belonus, Director Bureau of Family	<p>Noncompliance and Internal Control Weaknesses Result in \$16,520 in Questioned Personnel Costs (A Similar Condition Was Noted in Prior Year Finding #09-71)</p> <p>DOH will pursue appropriate settlement with HHS/HRSA for the \$16,520 in questioned MCH costs. In addition, DOH management will strengthen internal controls to ensure that salaries and fringe benefits charged to the MCH block grant are for employees performing MCH-related work. DOH management</p>	September 30, 2011

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-100 (cont'd)		Health	will accomplish this by ensuring that the salaries and fringe benefits charged to the MCH block grant for employees performing MCH-related work are properly supported by detailed job descriptions, and adequately documented time studies or timesheets.	
10-101	DPW	Maranatha Earling, Audit Specialist III	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 #09-72) The DPW, Audit Resolution Section did start reconciling the SEFAs for subrecipients with FYE after June 30, 2008. However, ARS did not have formal written policies and procedures in place. The ARS will develop documented policies and procedures for this process.	June 30, 2012
10-102	OCO-BOA	John Kaschak, Director	Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (A Similar Condition Was Noted in Prior Year Findings #09-73 and #09-74) The Office of Comptroller Operations, Bureau of Audits, disagrees with the finding as stated and concluded by the external auditors. We feel as though we are currently in compliance with both internal and OMB policies and procedures as they relate to finding resolution and computer controls.	N/A
	PennDOT	Tom Schumacher, Manager, Audit Resolution Section, Bureau of Office Services	PennDOT implemented a corrective action plan in June 2010 to catch up with closing out all open subrecipient single audit reports, especially any reports that had exceeded the six month period, in a timely manner. As part of the plan the manager of the subrecipient program now generates a report each month to determine what audit reports require additional attention in order to close them out within the six month time period to meet the requirements of OMB circular A-133. Currently PennDOT has fifteen open audit reports with all reports being received within the past three months. PennDOT remains in full compliance with OMB circular A-133.	Completed
	PDE	Audit Coordinator Division of Budget Bureau of Budget and Fiscal Management	The Pennsylvania Department of Education, Bureau of Budget and Fiscal Management is presently utilizing other staff within the bureau to assist in reducing the amount of time for providing management decisions of the Subrecipient Audit Reports with findings. This is based on the availability of time that can be contributed to the Audit Section. Status reports are generated by the Audit Tracking System and reviewed daily to identify the audit reports received along with the audit age. The review of the audit reports are then prioritized accordingly.	June 2012

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-102 (cont'd)	PID	Peter J Salvatore, Administrative Officer 3	The Department has named one person to be the Audit Coordinator (thus eliminating the confusion that caused this “deficiency”). The Department has initiated a tracking system to ensure that subrecipient audit reports with findings are acted on within the 6 month time frame. Insurance agrees that sub-recipient audit processing may not have been timely with the available staff member. Insurance will devote an additional staff member to the monitoring program to assist in the audit reviews and response activities in order to make timely management decisions on any findings.	October 1, 2011
	DPW	Maranatha E. Earling, Audit Specialist III	The DPW, Audit Resolution Section has developed procedures to reduce the scope of the review for agencies that receive less than \$100,000 in pass through federal funding from the DPW (which includes many of the school districts) and we anticipate that these steps will help to bring us into compliance with the 6 month requirement.	June 30, 2012
	DOH	Francine Del Ciello, CPA, CFF Special Assistant to the Secretary of Health	DOH now has an additional staff member to assist in the audit resolution process, and has streamlined its procedures to ensure that it will respond in a timely manner in the future.	Completed
	L&I	Mark Fausey, Budget Analyst	Staffing within L&I’s Bureau of Financial Management has been filled and with continued monitoring of A-133 audits we expect to be in compliance with future audits.	Completed
	Pennvest	Jerry W. Allen, II Deputy Executive Director	PENNVEST will devote an additional staff member to the loan monitoring program to assist in the audit reviews and response activities in order to make timely management decisions on any findings. <ol style="list-style-type: none"> 1. PENNVEST has submitted job description and Personnel Action Request for approved position in Finance Department to assist in loan monitoring activities in June 2011 2. Office of Administration Human Resources pending action on request July 2011. 	September 1, 2011

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
10-103	OCO- BFM	Lauren Dungan, Assistant Director	<p>Unallowable Payments for Unused Employee Leave Result in \$453,533 in Questioned Costs (A Similar Condition Was Noted in Prior Year Finding #09-75)</p> <p>BFM has taken action to address this finding beginning with payroll expenditures for the period July 1, 2009 through June 30, 2010. The expenditures that were posted to SAP during this time period related to the prior fiscal year, and were posted in the first pay period of July 2009. BFM has been reviewing the payroll expenditures posted for the period July 1, 2010 through June, 2011, and there have been no instances of unused employee leave balances payments posted to federal programs when an employee terminated employment or retired.</p>	Completed
10-104	OCO-BCA	Richard Cardamone, Director Ken Walker, Manager	<p>Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$767,220 Known Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding #09-77)</p> <p>Please refer to the audit finding for details on those that we disagree with.</p> <p>As noted by the auditor the commonwealth drew funds based on calendar days when the State-Treasury Agreement stated that activity would be based on business days. This was identified prior to the audit and the commonwealth has reimbursed the US Treasury for applicable interest as of March 31, 2011.</p> <p>As it relates to the Supplemental Nutrition Assistance Admin (CFDA #10.561) and Medical Assistance Program (CFDA #93.778), the Office of Comptroller Operations has revised the State-Treasury Agreement to reflect the appropriate draw technique.</p>	June 30, 2011

Appendix



Commonwealth of Pennsylvania

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APPENDIX - Legend of Abbreviations - June 30, 2010

The following legend presents descriptions of abbreviations that appear throughout the report:

<u>ABBREVIATION</u>	<u>DESCRIPTION</u>
ACF	Administration for Children and Families
ADC	Average Daily Clearance
ARRA	American Recovery and Reinvestment Act
BCPO	Bureau of Commonwealth Payroll Operations
BCA	Bureau of Commonwealth Accounting
BFM	Bureau of Financial Management
BFS	Basic Financial Statements
BOA	Bureau of Audits
BPS	Bureau of Payable Services
BQA	Bureau of Quality Assurance
CACFP	Child and Adult Care Food Program
CAFR	Comprehensive Annual Financial Report
CAO	County Assistance Office
CAP	Corrective Action Plan
CCDBG	Child Care and Development Block Grant
CCDF	Child Care and Development Fund
CDBG	Community Development Block Grant
CDS	Central Drawdown System
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CHIP	State Children's Insurance Program
CIS	Client Information System
CMIA	Cash Management Improvement Act of 1990
CNC	Child Nutrition Cluster
CRP	Contractor Responsibility Program
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
DHS	United States Department of Homeland Security
DMVA	Department of Military and Veterans Affairs
DOD	United States Department of Defense
DOH	Department of Health
DOI	United States Department of Interior
DOL	United States Department of Labor
DOS	Department of State
DOT	United States Department of Transportation
DPW	Department of Public Welfare
EBT	Electronic Benefits Transfer
EO	Executive Offices
EPA	Environmental Protection Agency
ERP	Enterprise Resource Planning
ES	Employment Services
FFY	Federal Fiscal Year
FNS	Food and Nutrition Service
FYE	Fiscal Year Ended
GAAP	Generally Accepted Accounting Principles
HHS	United States Department of Health and Human Services
HS	Homeland Security
HUD	United States Department of Housing and Urban Development
ICS	Integrated Central System

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Legend of Abbreviations (Continued) - June 30, 2010

<u>ABBREVIATION</u>	<u>DESCRIPTION</u>
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
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
OCO	Office of Comptroller Operations
OCYF	Office of Children, Youth and Families
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
PENNDOT	Pennsylvania Department of Transportation
PENNVEST	Pennsylvania Infrastructure Investment Authority
PHHS	Public Health and Human Services Comptroller's Office
PID	Pennsylvania Insurance Department
PLCB	Pennsylvania Liquor Control Board
RESET	Road to Economic Self-Sufficiency through Employment and Training
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
SFSF	State Fiscal Stabilization Fund
SFYE	State Fiscal Year Ended
SNAP	Supplemental Nutrition Assistance Program
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
TSR	Targeted Supervisory Review
UC	Unemployment Compensation
UI	Unemployment Insurance
USDA	United States Department of Agriculture
USDE	United States Department of Education
VOC ED	Vocational Education
WIA	Workforce Investment Act
WIC	Women, Infants, and Children