

Commonwealth of Pennsylvania



# Single Audit Report

For the Fiscal Year Ended June 30, 2008

Edward G. Rendell  
Governor





**Commonwealth of Pennsylvania**  
**Single Audit Report**  
**For the Fiscal Year Ended June 30, 2008**



*Edward G. Rendell, Governor*

Prepared By:

*Mary A. Soderberg, Secretary*  
**Office of the Budget**

*Anna Maria Kiehl, CPA, CGFM*  
*Chief Accounting Officer*

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**Commonwealth of Pennsylvania  
Single Audit Report  
For the Fiscal Year Ended June 30, 2008**

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COMMONWEALTH OF PENNSYLVANIA  
GOVERNOR'S OFFICE  
HARRISBURG

MARY A. SODERBERG  
SECRETARY  
OFFICE OF THE BUDGET

June 29, 2009

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, 2008. This audit has been performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and satisfies the requirements of the Single Audit Amendments of 1996 and the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The Commonwealth's Comprehensive Annual Financial Report for the year ended June 30, 2008 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 federal programs are contained in this document.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying Schedule of Expenditures of Federal Awards reflects \$19.7 billion of federal expenditures by the Commonwealth during the fiscal year ended June 30, 2008. Most of the \$19.7 billion in federal expenditures occurred in nine state agencies, as follows:

<u>AGENCY NAME</u>	<u>FEDERAL EXPENDITURES</u> (in thousands)
Public Welfare	\$11,789,070
Labor & Industry	3,222,107
Education	1,760,438
Transportation	1,473,551
Health	356,288
Insurance	216,858
Community & Economic Development	146,838
Aging	124,504
Pennvest	105,101
Subtotal	<u>\$19,194,755</u>
Other Agencies (20)	<u>503,455</u>
Grand Total	<u><u>\$19,698,210</u></u>

For purposes of the Commonwealth's single audit, a Type A federal program is any program with federal expenditures of at least \$30 million. Of the \$19.7 billion expended, 95.7 percent, or \$18.8 billion, represents expenditures under federal programs audited as major programs. The Summary of Auditors' Results lists the Commonwealth's 33 major federal programs for the fiscal year ended June 30, 2008.

FINDINGS AND RECOMMENDATIONS - CURRENT YEAR

The accompanying report for the fiscal year ended June 30, 2008 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.

INDEPENDENT AUDIT

The Commonwealth's June 30, 2008 single audit and basic financial statement audit were performed jointly by the Department of the Auditor General and the independent public accounting firm of Ernst & Young LLP. The audits were performed pursuant to the authority vested in the Auditor General and the Governor under Section 402 of the Fiscal Code of 1929, and in the Governor under Section 701 of the Administrative Code of 1929.

REPORTS OF OTHER INDEPENDENT AUDITORS

Other auditors performed the single audits of the Pennsylvania Higher Education Assistance Agency, the Pennsylvania Housing Finance Agency, the State System of Higher Education (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.

ACKNOWLEDGEMENTS

I wish to express my 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,



Mary A. Soderberg  
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

**ERNST & YOUNG LLP**

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

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

We have jointly audited the financial statements, issued under separate cover, of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2008, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents of the Comprehensive Annual Financial Report. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not jointly audit the financial statements of the Tobacco Settlement Fund, a major Special Revenue Fund, the Tuition Payment Fund, a major Enterprise Fund, and certain component units, which represent 99 percent of total assets, 99 percent of total net assets and 99 percent of total revenues of the aggregate discretely presented component units, and certain agencies, which represent 2 percent of expenditures of the General Fund and 1 percent of expenses of Governmental Activities. We also did not jointly audit 99 percent of the total assets, 99 percent of total net assets and 99 percent of the total revenues of the Pension (and Other Employee Benefit) 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 Funds. This comprises 89 percent of total assets, 95 percent of total net assets and 62 percent of total revenues of the aggregate remaining fund information. The financial statements of the Tobacco Settlement Fund, Tuition Payment Fund, and these component units, agencies, and Pension (and Other Employee Benefit) and Private Purpose Trust Funds were audited by other auditors, including Ernst & Young LLP and 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, agencies, and the Pension (and Other Employee Benefit) and Private Purpose Trust Funds, are based solely on the reports of the other auditors. Ernst & Young LLP has audited, separately, 100 percent of the Tuition Payment Fund, 34 percent of total assets, 32 percent of total net assets and 29 percent of total operating revenues of the discretely presented component units, as well as 2 percent of the expenditures of the General Fund and 1 percent of expenses of Governmental Activities. The Auditor General has audited separately 100 percent of the Tobacco Settlement Fund.

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

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

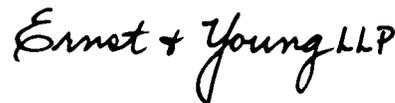
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report as of and for the year ended June 30, 2008, dated December 23, 2008 on our consideration of the Commonwealth of Pennsylvania's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards excludes the expenditures associated with federal award programs for the State System of Higher Education, the Pennsylvania Higher Education Assistance Agency, the Philadelphia Shipyard Development Corporation, the Pennsylvania Housing Finance Agency, and the Judicial Department of Pennsylvania, component units or agencies that were audited in separate OMB Circular A-133 reports required to be submitted to the Federal Audit Clearinghouse. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



December 23, 2008



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

**ERNST & YOUNG LLP**

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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based  
on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards***

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

We have jointly audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2008, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated December 23, 2008.

We did not jointly audit the financial statements of the Tobacco Settlement Fund, a major Special Revenue Fund, the Tuition Payment Fund, a major Enterprise Fund, and certain component units, which represent 99 percent of total assets, 99 percent of total net assets and 99 percent of total revenues of the aggregate discretely presented component units, and certain agencies, which represent 2 percent of expenditures of the General Fund and 1 percent of expenses of Governmental Activities. We also did not jointly audit 99 percent of the total assets, 99 percent of total net assets and 99 percent of the total revenues of the Pension (and Other Employee Benefit) 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 Funds. This comprises 89 percent of total assets, 95 percent of total net assets and 62 percent of total revenues of the aggregate remaining fund information. The financial statements of the Tobacco Settlement Fund, Tuition Payment Fund, and these component units, agencies, and Pension (and Other Employee Benefit) and Private Purpose Trust Funds were audited by other auditors, including Ernst & Young LLP and 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, agencies, and the Pension (and Other Employee Benefit) and Private Purpose Trust Funds, are based solely on the reports of the other auditors. Ernst & Young LLP has audited, separately, 100 percent of the Tuition Payment Fund, 34 percent of total assets, 32 percent of total net assets and 29 percent of total operating revenues of the discretely presented component units, as well as 2 percent of the expenditures of the General Fund and 1 percent of expenses of Governmental Activities. The Auditor General has audited separately 100 percent of the Tobacco Settlement Fund.

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

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

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commonwealth of Pennsylvania's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described in Findings 08-1 through 08-21.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 08-1, 08-2, 08-5, 08-9, 08-10, 08-12 through 08-15, 08-17, 08-18, and 08-21 to be material weaknesses.

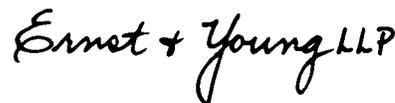
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commonwealth of Pennsylvania's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 08-12.

We also noted certain additional matters that we reported to the management of the Commonwealth of Pennsylvania in a separate letter dated December 23, 2008.

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

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



December 23, 2008



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

**ERNST & YOUNG LLP**

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

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

Compliance

We have jointly audited the compliance of the Commonwealth of Pennsylvania with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Commonwealth's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on the Commonwealth's compliance based on our audit.

The Commonwealth's basic financial statements included the operations of the State System of Higher Education, the Pennsylvania Higher Education Assistance Agency, the Philadelphia Shipyard Development Corporation, the Pennsylvania Housing Finance Agency, and the Judicial Department of Pennsylvania, component units or agencies which received federal awards, and which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2008. Our audit, described below, did not include the operations of these component units or agencies because the Commonwealth engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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

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

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

As explained in Basic Financial Statements Finding 08-2 in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient audit evidence supporting compliance of the Commonwealth with requirements governing the procurement of goods and services for competitively-bid Commonwealth contracts. This is as a result of the Commonwealth's overall policy to not release certain procurement documentation that management considers to be proprietary and confidential, and which management will not allow us to review as part of our audit. As explained in Finding 08-2, we do not agree with the Commonwealth's policy in this regard. As a result of this overall Commonwealth policy, we are prevented from reviewing documentation that would enable us to determine whether procurements in certain major federal award programs were made in compliance with the Commonwealth's requirements governing the procurement of goods and services, nor were we able to satisfy ourselves as to the Commonwealth's compliance with those requirements by other auditing procedures. The major federal award programs and clusters affected include CFDA #10.551 and #10.561, CFDA #10.557, CFDA #12.401, CFDA #84.287, CFDA #93.558, CFDA #93.563, CFDA #93.575 and #93.596, CFDA #93.659, CFDA #93.667, CFDA #93.767, CFDA #93.775, #93.777, and #93.778, and CFDA #97.036.

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

- The Food Donation Program (CFDA #10.550) did not comply with subrecipient monitoring requirements as reported in Finding 08-68.
- The Food Stamp Cluster (CFDA #10.551 and #10.561) did not comply with allowable costs/cost principles requirements as reported in Finding 08-26, did not comply with eligibility and allowable costs requirements as reported in Finding 08-23, and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.
- 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 08-68, and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.

- The Special Supplemental Nutrition Program for WIC (CFDA #10.557) did not comply with allowable costs requirements and special tests and provisions related to food instrument disposition as reported in Finding 08-25, and did not comply with subrecipient monitoring requirements as reported in Finding 08-68.
- The Child and Adult Care Food Program (CFDA #10.558) did not comply with subrecipient monitoring requirements as reported in Finding 08-68.
- The National Guard Military Operations and Maintenance Projects Program (CFDA #12.401) did not comply with allowable costs/cost principles requirements as reported in Finding 08-27.
- The Community Development Block Grants/State's Program (CFDA #14.228) did not comply with subrecipient monitoring requirements as reported in Finding 08-29 and Finding 08-68.
- The Homeland Security Cluster (CFDA #16.007, #97.004, and #97.067) did not comply with allowable costs requirements, equipment management requirements, and subrecipient monitoring requirements as reported in Finding 08-31, and did not comply with subrecipient monitoring requirements as reported in Finding 08-68 and Finding 08-69.
- The Trade Adjustment Assistance Program (CFDA #17.245) did not comply with federal reporting requirements as reported in Findings 08-33 and 08-34.
- The WIA Cluster (CFDA #17.258, #17.259, and #17.260) did not comply with subrecipient monitoring requirements as reported in Finding 08-68 and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.
- The Highway Planning and Construction Cluster (CFDA #20.205 and #23.003) did not comply with subrecipient monitoring requirements as reported in Finding 08-68, and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.
- The Capitalization Grants for Clean Water State Revolving Funds Program (CFDA #66.458) did not comply with subrecipient monitoring requirements as reported in Finding 08-68 and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.
- The Title I Grants to Local Educational Agencies Program (CFDA #84.010) did not comply with special tests and provisions related to identifying schools and LEAs needing improvement as reported in Finding 08-38, did not comply with subrecipient monitoring requirements as reported in Findings 08-35, 08-37, and 08-68, and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.
- The Special Education Cluster (CFDA #84.027 and #84.173) did not comply with subrecipient monitoring requirements as reported in Findings 08-37 and 08-68.
- The Career and Technical Education – Basic Grants to States Program (CFDA #84.048) did not comply with federal reporting requirements as reported in Finding 08-39, and did not comply with subrecipient monitoring requirements as reported in Finding 08-68.
- The Rehabilitation Services – Vocational Rehabilitation Grants to States Program (CFDA #84.126) did not comply with federal reporting requirements as reported in Finding 08-43 and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.

- The Twenty-First Century Community Learning Centers Program (CFDA #84.287) did not comply with subrecipient monitoring requirements as reported in Finding 08-68.
- The Improving Teacher Quality State Grants Program (CFDA #84.367) did not comply with allowable costs and subrecipient monitoring requirements as reported in Finding 08-35, did not comply with subrecipient monitoring requirements as reported in Findings 08-37 and 08-68, and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.
- The Aging Cluster (CFDA #93.044, #93.045, and #93.053) did not comply with subrecipient monitoring requirements as reported in Finding 08-68.
- The Temporary Assistance for Needy Families Program (CFDA #93.558) did not comply with eligibility and allowable costs requirements as reported in Finding 08-23, did not comply with allowable costs/cost principles requirements as reported in Finding 08-26, did not comply with federal reporting requirements as reported in Finding 08-47, did not comply with subrecipient monitoring requirements as reported in Findings 08-46, 08-48, 08-67, and 08-68, and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.
- The Child Support Enforcement Program (CFDA #93.563) did not comply with subrecipient monitoring requirements as reported in Finding 08-67, Finding 08-68, and Finding 08-69, and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.
- The Low-Income Home Energy Assistance Program (CFDA #93.568) did not comply with eligibility, allowable costs, and subrecipient monitoring requirements as reported in Finding 08-51, did not comply with eligibility and allowable costs requirements as reported in Finding 08-54, did not comply with subrecipient monitoring requirements as reported in Finding 08-67 and Finding 08-68, and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.
- The CCDF Cluster (CFDA #93.575 and #93.596) did not comply with eligibility and allowable costs requirements as reported in Finding 08-23, did not comply with subrecipient monitoring requirements as reported in Findings 08-45, 08-48, 08-67, and 08-68, and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.
- The Foster Care Program (CFDA #93.658) did not comply with subrecipient monitoring requirements as reported in Findings 08-45, 08-67, and 08-68, and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.
- The Adoption Assistance Program (CFDA #93.659) did not comply with subrecipient monitoring requirements as reported in Findings 08-45, 08-67, and 08-68, and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.
- The Social Services Block Grant Program (CFDA #93.667) did not comply with subrecipient monitoring and cash management requirements as reported in Finding 08-61, did not comply with subrecipient monitoring requirements as reported in Findings 08-48, 08-67, and 08-68, and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.
- The State Children's Insurance Program (CFDA #93.767) did not comply with subrecipient monitoring and allowable costs requirements as reported in Finding 08-62, did not comply with subrecipient monitoring requirements as reported in Finding 08-68, and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.

- The Medicaid Cluster (CFDA #93.775, #93.777, and #93.778) did not comply with eligibility and allowable costs requirements as reported in Finding 08-23, did not comply with subrecipient monitoring requirements as reported in Findings 08-67 and Finding 08-68, and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.
- The Block Grants for the Prevention and Treatment of Substance Abuse Program (CFDA #93.959) did not comply with subrecipient monitoring and cash management requirements as reported in Finding 08-61, did not comply with subrecipient monitoring requirements as reported in Finding 08-68, and did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.
- The Social Security - Disability Insurance Program (CFDA #96.001) did not comply with CMIA-90 cash management regulations as reported in Finding 08-73.
- The Disaster Grants – Public Assistance Program (CFDA #97.036) did not comply with cash management and federal reporting requirements as reported in Finding 08-66 and did not comply with subrecipient monitoring requirements as reported in Finding 08-68.

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

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the Commonwealth's compliance with procurement requirements in the major federal programs listed above, and except for the noncompliance described in the preceding paragraph, the Commonwealth complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned costs as finding numbers 08-28, 08-32, 08-42, 08-44, 08-50, 08-55, 08-56, 08-59, 08-63, 08-64, 08-65, and 08-70.

#### Internal Control Over Compliance

The management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Commonwealth's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control over compliance.

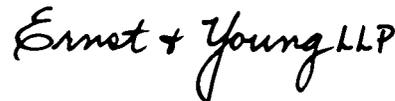
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 08-22 through 08-27, 08-29 through 08-54, 08-56 through 08-62, 08-64, and 08-66 through 08-74 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider Findings 08-23 through 08-27, 08-29 through 08-35, 08-37 through 08-39, 08-41, 08-43, 08-45 through 08-54, 08-57, 08-58, 08-60 through 08-62, 08-66 through 08-69, and 08-73 to be material weaknesses.

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

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



June 24, 2009

# Schedule of Expenditures of Federal Awards



Commonwealth of Pennsylvania



# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2008***

<b>CFDA #</b>	<b>CFDA Program Name</b>		<b>Federal Expenditures (000's)</b>
10.551	Food Stamps	1,349,004	
10.561	State Administrative Matching Grants for Food Stamp Program	157,172	
	Total Food Stamp Cluster		1,506,176
10.553	School Breakfast Program	56,336	
10.555	National School Lunch Program	240,737	
10.556	Special Milk Program for Children	655	
10.559	Summer Food Service Program for Children	11,417	
	Total Child Nutrition Cluster		309,145
10.568	Emergency Food Assistance Program (Administrative Costs)	2,507	
10.569	Emergency Food Assistance Program (Food Commodities)	7,003	
	Total Emergency Food Assistance Cluster		9,510
10.025	Plant and Animal Disease, Pest Control, and Animal Care		2,872
10.029	Avian Influenza Indemnity Program		50
10.069	Conservation Reserve Program		29
10.156	Federal-State Marketing Improvement Program		37
10.162	Inspection Grading and Standardization		138
10.169	Specialty Crop Block Grant Program		16
10.304	Homeland Security - Agricultural		16
10.450	Crop Insurance		30
10.458	Crop Insurance Education in Targeted States		825
10.550	Food Donation		34,443
10.557	Special Supp Nutrition Prgm for Women, Infants, and Children		163,625
10.558	Child and Adult Care Food Program		69,008
10.560	State Administrative Expenses for Child Nutrition		4,813
10.565	Commodity Supplemental Food Program		901
10.572	WIC Farmers' Market Nutrition Program (FMNP)		3,409
10.574	Team Nutrition Grants		50
10.579	Child Nutrition Discretionary Grants Limited Availability		1,245
10.582	Fresh Fruit and Vegetable Program		1,009
10.664	Cooperative Forestry Assistance		3,702
10.665	Schools and Roads - Grants To States		6,478
10.675	Urban and Community Forestry Program		20
10.678	Forest Stewardship Program		221
10.680	Forest Health Protection		82
10.902	Soil And Water Conservation		4,564
	<b>Total - U.S. Department of Agriculture</b>		<b>\$2,122,414</b>
11.307	Economic Adjustment Assistance		720
11.407	Interjurisdictional Fisheries Act of 1986		188
11.419	Coastal Zone Management Administration Awards		2,574
11.450	Automated Flood Warning Systems (AFWS)		98
11.457	Chesapeake Bay Studies		232
11.474	Atlantic Coastal Fisheries Cooperative Management Act		158
11.550	Public Telecommunications Facilities Planning & Construction		254

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2008***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
11.555	Public Safety Interoperable Communications Grant Program	240
	<b>Total - U.S. Department of Commerce</b>	<b>\$4,464</b>
12.112	Payments to States in Lieu of Real Estate Taxes	148
12.400	Military Construction, National Guard	15,983
12.401	National Guard Military Operations and Maintenance Projects	53,570
	<b>Total - U.S. Department of Defense</b>	<b>\$69,701</b>
14.228	Community Development Block Grants/State's Program	51,871
14.231	Emergency Shelter Grants Program	3,191
14.235	Supportive Housing Program	240
14.239	HOME Investment Partnerships Program	14,900
14.241	Housing Opportunities for Persons with AIDS	1,565
14.401	Fair Housing Assistance Program - State and Local	780
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	865
	<b>Total - U.S. Department of Housing &amp; Urban Development</b>	<b>\$73,412</b>
15.605	Sport Fish Restoration Program	7,662
15.611	Wildlife Restoration	10,078
	Total Fish and Wildlife Cluster	17,740
15.250	Regulation of Surface Coal Mining	9,321
15.252	Abandoned Mine Land Reclamation (AMLR) Program	24,432
15.612	Endangered Species Conservation	43
15.616	Clean Vessel Act	4
15.625	Wildlife Conservation and Restoration	102
15.633	Landowner Incentive Program	13
15.634	State Wildlife Grants	2,573
15.808	U.S. Geological Survey - Research and Data Collection	42
15.809	National Spatial Data Infrastructure Coop Agreements Program	210
15.810	National Cooperative Geologic Mapping Program	90
15.904	Historic Preservation Fund Grants-In-Aid	669
15.916	Outdoor Recreation - Acquisition, Development and Planning	2,545
15.929	Save America's Treasures	132
	<b>Total - U.S. Department of the Interior</b>	<b>\$57,916</b>
16.004	Law Enforcement Asst - Narcotics and Dangerous Drugs Training	949
16.011	Urban Areas Security Initiative	2,404
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	660
16.321	Antiterrorism Emergency Reserve	15
16.523	Juvenile Accountability Block Grants	2,616
16.540	Juvenile Justice and Delinquency Prevention - Alloc to States	2,139
16.548	Title V - Delinquency Prevention Program	206

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2008***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
16.554	National Criminal History Improvement Program (NCHIP)	687
16.560	Natl Inst of Justice Research, Eval and Devel Project Grants	2,051
16.572	State Criminal Alien Assistance Program	2,294
16.574	Byrne Evaluation Partnership Program	10,054
16.575	Crime Victim Assistance	15,222
16.576	Crime Victim Compensation	3,722
16.579	Edward Byrne Memorial Formula Grant Program	5,546
16.580	Ed Byrne Memorial St & Loc Law Enforce Asst Disc Grants Prgm	160
16.582	Crime Victim Assistance/Discretionary Grants	4
16.588	Violence Against Women Formula Grants	4,209
16.590	Grants For Arrest Policies and Protection Order Enforcement	158
16.593	Residential Substance Abuse Treatment for State Prisoners	522
16.607	Bulletproof Vest Partnership Program	86
16.609	Community Prosecution and Project Safe Neighborhoods	696
16.710	Public Safety Partnership and Community Policing Grants	123
16.727	Enforcing Underage Drinking Laws Program	1,044
16.735	Protecting Inmates and Safeguarding Communities Grant Prgm	210
16.738	Edward Byrne Memorial Justice Assistance Grant Program	6,407
16.740	Statewide Automated Victim Info Notification (SAVIN) Program	434
16.UNKNOWN	State Grant Number D60100	18
16.UNKNOWN	State Grant Number J61000	745
16.UNKNOWN	Federal Grant Number 2004-WP-BX-0012	201
<b>Total - U.S. Department of Justice</b>		<b>\$63,582</b>
17.207	Employment Service/Wagner-Peyser Funded Activities	45,217
17.801	Disabled Veterans' Outreach Program (DVOP)	2,598
17.804	Local Veterans' Employment Representative Program	2,912
	Total Employment Service Cluster	50,727
17.258	WIA Adult Program	32,103
17.259	WIA Youth Activities	39,385
17.260	WIA Dislocated Workers	41,991
	Total WIA Cluster	113,479
17.002	Labor Force Statistics	2,731
17.005	Compensation and Working Conditions	52
17.203	Labor Certification for Alien Workers	349
17.225	Unemployment Insurance	2,677,811
17.235	Senior Community Service Employment Program	5,262
17.245	Trade Adjustment Assistance	48,143
17.261	WIA Pilots, Demonstrations, and Research Projects	1,883
17.266	Work Incentive Grants	179
17.267	Incentive Grants - WIA Section 503	573
17.268	H-1B Job Training Grants	1,322
17.273	Temporary Labor Certification for Foreign Workers	84
17.600	Mine Health and Safety Grants	664

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2008***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
17.601	Mine Health and Safety Counseling and Technical Assistance	10
	<b>Total - U.S. Department of Labor</b>	<b>\$2,903,269</b>
20.205	Highway Planning and Construction	1,348,910
23.003	Appalachian Development Highway System	76,213
	Total Highway Planning and Construction Cluster	1,425,123
20.600	State and Community Highway Safety	9,732
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Grants	2,618
20.602	Occupant Protection	2,700
20.605	Incentives to Prevent Operation by Intoxicated Persons	2,645
20.610	State Traffic Safety Information System Improvement Grants	165
20.612	Incentive Grant Program to Increase Motorcyclist Safety	65
	Total Highway Safety Cluster	17,925
20.005	Boating Safety Financial Assistance	2,789
20.106	Airport Improvement Program	16,390
20.218	National Motor Carrier Safety	6,574
20.219	Recreational Trails Program	987
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort	125
20.505	Federal Transit - Metropolitan Planning Grants	3,826
20.509	Formula Grants for Other Than Urbanized Areas	14,122
20.513	Capital Assistance Program for Elderly and Disabled Persons	3,889
20.515	State Planning and Research	3,040
20.703	Interagency Hazardous Materials Training and Planning Grants	394
	<b>Total - U.S. Department of Transportation</b>	<b>\$1,495,184</b>
23.002	Appalachian Area Development	4
23.009	Appalachian Local Development District Assistance	946
23.011	Appalachian Research, Technical Assistance and Demo Projects	153
	<b>Total - Appalachian Regional Commission</b>	<b>\$1,103</b>
30.002	Employment Discrimination - State and Local Agency Contracts	1,694
	<b>Total - Equal Employment Opportunity Commission</b>	<b>\$1,694</b>
39.003	Donation of Federal Surplus Personal Property	3,655
39.011	Election Reform Payments	1,864
	<b>Total - General Services Administration</b>	<b>\$5,519</b>
45.025	Promotion of the Arts - Partnership Agreements	858
45.310	Grants to States	6,067
	<b>Total - National Foundation on the Arts and Humanities</b>	<b>\$6,925</b>

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2008***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
64.005	Grants to States for Construction of State Home Facilities	823
64.010	Veterans Nursing Home Care	468
64.014	Veterans State Domiciliary Care	4,171
64.015	Veterans State Nursing Home Care	24,133
64.111	Veterans Education Assistance	1,104
<b>Total - U.S. Department of Veterans Affairs</b>		<b>\$30,699</b>
66.032	State Indoor Radon Grants	436
66.034	Surveys, Studies, Activities Relating to the Clean Air Act	48
66.202	Congressionally Mandated Projects	55
66.419	Water Pollution Control State and Interstate Program Support	53
66.432	State Public Water System Supervision	3,968
66.436	Clean Water Act Surveys, Studies, Investigations and Demos	337
66.438	Construction Management Assistance	61
66.454	Water Quality Management Planning	405
66.458	Capitalization Grants for Clean Water State Revolving Funds	80,907
66.460	Nonpoint Source Implementation Grants	6,253
66.461	Regional Wetland Program Development Grants	199
66.463	Water Quality Cooperative Agreements	76
66.466	Chesapeake Bay Program	1,726
66.467	Wastewater Operator Training Grant Program (Technical Asst)	30
66.468	Capitalization Grants for Drinking Water State Revolving Funds	29,263
66.469	Great Lakes Program	48
66.471	State Grants to Reimburse Operators of Small Water Systems	173
66.474	Water Protection Grants to the States	119
66.479	Wetland Program Grants - Environmental Outcome Demo Prgm	123
66.500	Environmental Protection - Consolidated Research	46
66.511	Office of Research and Development Consolidated Research	9
66.605	Performance Partnership Grants	10,050
66.606	Surveys, Studies, Investigations and Special Purpose Grants	662
66.608	Environmental Information Exchange Network Grant Program	148
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	628
66.707	TSCA Title IV State Lead Grants Certification	149
66.708	Pollution Prevention Grants Program	36
66.714	Pesticide Environmental Stewardship Regional Grants	19
66.801	Hazardous Waste Management State Program Support	5,875
66.802	Superfund State Site - Specific Cooperative Agreements	20
66.804	State and Tribal Underground Storage Tanks Program	597
66.805	Leaking Underground Storage Tank Trust Fund Program	1,185
66.808	Solid Waste Management Assistance Grants	47
<b>Total - Environmental Protection Agency</b>		<b>\$143,751</b>
81.041	State Energy Program	701
81.042	Weatherization Assistance for Low-Income Persons	12,860

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2008***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
81.117	Energy Efficiency and Renewable Energy Info Dissemination	69
81.119	State Energy Program Special Projects	67
81.UNKNOWN	State Grant Number 935070	36
<b>Total - U.S. Department of Energy</b>		<b>\$13,733</b>
83.105	Community Assistance Program State Support Services Element	95
<b>Total - Federal Emergency Management Agency</b>		<b>\$95</b>
84.027	Special Education - Grants to States	401,165
84.173	Special Education - Preschool Grants	13,041
Total Special Education Cluster (IDEA)		414,206
84.002	Adult Education - Basic Grants to States	19,683
84.010	Title I Grants to Local Educational Agencies	495,207
84.011	Migrant Education - State Grant Program	7,727
84.013	Title I Program for Neglected and Delinquent Children	995
84.048	Career and Technical Education - Basic Grants to States	43,971
84.126	Rehabilitation Services - Vocational Rehab Grants to States	109,438
84.144	Migrant Education - Coordination Program	23
84.169	Independent Living - State Grants	573
84.177	Rehab Serv - Indep Living Services for Older Blind Individuals	1,458
84.181	Special Education - Grants for Infants and Families	14,240
84.184	Safe and Drug-Free Schools and Communities - National Programs	388
84.185	Byrd Honors Scholarships	1,563
84.186	Safe and Drug-Free Schools and Communities - State Grants	12,956
84.187	Supported Employment Serv for Indiv with Significant Disabilities	1,031
84.196	Education for Homeless Children and Youth	2,219
84.213	Even Start - State Educational Agencies	3,403
84.215	Fund for the Improvement of Education	1,049
84.235	Rehabilitation Services Demonstration and Training Programs	15
84.243	Tech-Prep Education	4,087
84.255	Literacy Programs for Prisoners	62
84.265	Rehab Training - State Voc Rehab Unit In-Service Training	268
84.282	Charter Schools	3,019
84.287	Twenty-First Century Community Learning Centers	37,672
84.293	Foreign Language Assistance	180
84.298	State Grants for Innovative Programs	3,272
84.318	Education Technology State Grants	10,599
84.323	Special Education - State Personnel Development	1,378
84.330	Advanced Placement Program	183
84.331	Grants to States for Incarcerated Youth Offenders	568
84.332	Comprehensive School Reform Demonstration	2,889
84.336	Teacher Quality Enhancement Grants	(16)
84.346	Voc Ed - Occupational and Employment Information State Grants	169
84.357	Reading First State Grants	23,047

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2008***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
84.358	Rural Education	405
84.365	English Language Acquisition Grants	11,854
84.366	Mathematics and Science Partnerships	5,619
84.367	Improving Teacher Quality State Grants	113,049
84.368	Grants for Enhanced Assessment Instruments	340
84.369	Grants for State Assessments and Related Activities	15,832
84.372	Statewide Data Systems	2,922
84.373	Special Educ - Technical Assistance on State Data Collection	620
<b>Total - U.S. Department of Education</b>		<b>\$1,368,163</b>
89.003	National Historical Publications and Records Grants	4
<b>Total - National Archives and Records Administration</b>		<b>\$4</b>
90.401	Help America Vote Act Requirements Payments	4,410
<b>Total - Elections Assistance Commission</b>		<b>\$4,410</b>
93.044	Special Programs for the Aging - Title III, Part B	23,185
93.045	Special Programs for the Aging - Title III, Part C	24,047
93.053	Nutrition Services Incentive Program	4,885
	Total Aging Cluster	52,117
93.575	Child Care and Development Block Grant	217,111
93.596	Child Care Mandatory and Matching Funds of the CCDF	116,707
	Total CCDF Cluster	333,818
93.775	State Medicaid Fraud Control Units	3,498
93.777	State Survey and Cert of Health Care Providers and Suppliers	13,923
93.778	Medical Assistance Program	8,988,087
	Total Medicaid Cluster	9,005,508
93.041	Special Programs for the Aging - Title VII, Chapter 3	200
93.042	Special Programs for the Aging - Title VII, Chapter 2	817
93.043	Special Programs for the Aging - Title III, Part D	1,037
93.048	Special Programs for the Aging - Title IV and Title II	284
93.051	Alzheimer's Disease Demonstration Grants to States	109
93.052	National Family Caregiver Support, Title III, Part E	9,014
93.069	Public Health Emergency Preparedness	15,651
93.103	Food and Drug Administration - Research	26
93.110	Maternal and Child Health Federal Consolidated Programs	48
93.116	Project Grants and Coop Agreements for Tuberculosis Control	742
93.127	Emergency Medical Services for Children	116
93.130	Primary Care Services Resource Coordination and Development	171
93.136	Injury Prevention and Control Research	3,700
93.150	Projects for Asst in Transition from Homelessness (PATH)	2,026
93.162	National Health Service Corps Loan Repayment Program	22
93.165	Grants to States for Loan Repayment Program	177

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2008***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
93.197	Childhood Lead Poisoning Prevention Projects	562
93.234	Traumatic Brain Injury State Demonstration Grant Program	50
93.235	Abstinence Education Program	(15)
93.240	State Capacity Building	461
93.241	State Rural Hospital Flexibility Program	376
93.243	Substance Abuse and Mental Health Services - Projects	2,301
93.251	Universal Newborn Hearing Screening	154
93.259	Rural Access to Emergency Devices Grant	84
93.268	Immunization Grants	8,008
93.283	Centers for Disease Control & Prevention - Investigations	24,791
93.296	State Partnership Grant Program to Improve Minority Health	30
93.556	Promoting Safe and Stable Families	14,424
93.558	Temporary Assistance for Needy Families	475,815
93.563	Child Support Enforcement	130,857
93.566	Refugee and Entrant Assistance - State Administered Programs	6,704
93.568	Low-Income Home Energy Assistance	181,297
93.569	Community Services Block Grant	26,769
93.576	Refugee and Entrant Assistance - Discretionary Grants	479
93.584	Refugee and Entrant Assistance - Targeted Assistance Grants	568
93.585	Empowerment Zones Program	2,000
93.590	Community-Based Child Abuse Prevention Grants	1,271
93.597	Grants to States for Access and Visitation Programs	306
93.599	Chafee Education and Training Vouchers Program (ETV)	117
93.600	Head Start	225
93.602	Assets for Independence Demonstration Program	1,344
93.603	Adoption Incentive Payments	(2)
93.617	Voting Access for Individuals with Disabilities - Grants to States	99
93.630	Developmental Disabilities Basic Support and Advocacy Grants	3,112
93.645	Child Welfare Services - State Grants	8,870
93.658	Foster Care - Title IV-E	246,568
93.659	Adoption Assistance	70,345
93.667	Social Services Block Grant	103,000
93.669	Child Abuse and Neglect State Grants	539
93.670	Child Abuse and Neglect Discretionary Activities	773
93.671	Family Violence Prevention and Services	3,000
93.674	Chafee Foster Care Independence Program	5,578
93.767	State Children's Insurance Program	216,858
93.768	Medicaid Infrastructure Grants to Support Competitive Employ	402
93.779	CMS Research, Demonstrations and Evaluations	2,208
93.794	Reimbursement of State Costs for Provision of Part D Drugs	2,669
93.889	National Bioterrorism Hospital Preparedness Program	17,417
93.917	HIV Care Formula Grants	29,242
93.938	Coop Agreements to Support School Health Programs	149
93.940	HIV Prevention Activities - Health Department Based	1,524
93.943	Epidemiologic Research Studies of AIDS and HIV	3,006
93.944	HIV/AIDS Surveillance	875

- See Notes to Schedule of Expenditures of Federal Awards -

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Schedule of Expenditures of Federal Awards - June 30, 2008***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
93.946	Coop Agreements to Support Safe Motherhood and Infant Health	156
93.958	Block Grants for Community Mental Health Services	14,496
93.959	Block Grants for Prevention and Treatment of Substance Abuse	57,974
93.977	Preventive Health Serv - Sexually Trans Diseases Control Grant	1,895
93.988	Coop Agreements for State-Based Diabetes Control Programs	400
93.991	Preventive Health and Health Services Block Grant	4,040
93.994	Maternal and Child Health Services Block Grant to the States	26,504
93.UNKNOWN	Federal Grant Number HHSF223200549927C	325
93.UNKNOWN	State Grant Number Y23748	71
93.UNKNOWN	State Grant Number Y35768	82
93.UNKNOWN	State Grant Number Y62670	6
93.UNKNOWN	State Grant Number Y63313	61
93.UNKNOWN	State Grant Number Y66303	3
93.UNKNOWN	State Grant Number Y67313	110
93.UNKNOWN	State Grant Number Y75324	5
93.UNKNOWN	State Grant Number Y79313	701
93.UNKNOWN	State Grant Number Y82313	80
<b>Total - U.S. Department of Health and Human Services</b>		<b><u>\$11,127,702</u></b>
94.003	State Commissions	297
94.004	Learn and Serve America - School and Community Based Programs	594
94.006	AmeriCorps	7,124
94.007	Planning and Program Development Grants	75
94.009	Training and Technical Assistance	133
<b>Total - Corporation for National and Community Service</b>		<b><u>\$8,223</u></b>
96.001	Social Security - Disability Insurance	81,043
<b>Total - Social Security Administration</b>		<b><u>\$81,043</u></b>
16.007	State Domestic Preparedness Equipment Support Program	642
97.004	State Domestic Preparedness Equipment Support Program	6,111
97.067	Homeland Security Grant Program	41,549
	Total Homeland Security Cluster	<u>48,302</u>
97.008	Urban Areas Security Initiative	6,113
97.013	State Access to the Oil Spill Liability Trust Fund	3
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	64
97.023	Community Assistance Program State Support Services Element	27
97.029	Flood Mitigation Assistance	38
97.036	Disaster Grants - Public Assistance (Presidentially Declared)	45,218
97.039	Hazard Mitigation Grant	6,042
97.041	National Dam Safety Program	62
97.042	Emergency Management Performance Grants	4,338
97.043	State Fire Training Systems Grants	27

- See Notes to Schedule of Expenditures of Federal Awards -

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Schedule of Expenditures of Federal Awards - June 30, 2008***

<b>CFDA #</b>	<b>CFDA Program Name</b>	<b>Federal Expenditures (000's)</b>
97.044	Assistance to Firefighters Grant	54
97.050	Presidential Declared Disaster Assist to Households - Other Needs	69
97.066	Homeland Security Information Technology and Evaluation Prgm	204
97.070	Map Modernization Management Support	277
97.073	State Homeland Security Program (SHSP)	30
97.075	Rail and Transit Security Grant Program	1,836
97.078	Buffer Zone Protection Program (BZPP)	1,537
97.091	Homeland Security Biowatch Program	364
<b>Total - U.S. Department of Homeland Security</b>		<b><u>\$114,605</u></b>
99.UNKNOWN	State Grant Number K14159	(1)
99.UNKNOWN	State Grant Number K15109	79
99.UNKNOWN	State Grant Number K15159	1
99.UNKNOWN	State Grant Number K16109	102
99.UNKNOWN	State Grant Number K16159	40
99.UNKNOWN	State Grant Number K17109	88
99.UNKNOWN	State Grant Number K17159	10
99.UNKNOWN	State Grant Number K17176	(14)
99.UNKNOWN	State Grant Number K18109	106
99.UNKNOWN	State Grant Number K18159	64
99.UNKNOWN	State Grant Number K18176	50
99.UNKNOWN	State Grant Number K18199	2
99.UNKNOWN	State Grant Number 924001	(1)
99.UNKNOWN	State Grant Number 924002	(5)
99.UNKNOWN	State Grant Number 924010	2
99.UNKNOWN	State Grant Number 924060	(2)
99.UNKNOWN	State Grant Number 930000	78
<b>Total - Unknown</b>		<b><u>\$599</u></b>
<b>GRAND TOTAL</b>		<b><u><u>\$19,698,210</u></u></b>

- See Notes to Schedule of Expenditures of Federal Awards -

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Notes to the Schedule of Expenditures of Federal Awards - June 30, 2008***

### **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, 2008 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 #10.550, Food Donation, and CFDA #10.569, Emergency Food Assistance Program, represent the value of food commodity distributions calculated using the U.S. Department of Agriculture, Food and Nutrition Service commodity price list in effect as of November 15, 2006.

Expenditures reported under CFDA #10.551, Food Stamps, represent amounts the Electronic Benefits Transfer (EBT) contractor paid to retail outlets for participants' food stamp purchases during the fiscal year ended June 30, 2008.

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

Expenditures for CFDA #20.205, Highway Planning and Construction Program, and CFDA #23.003, Appalachian Development Highway System, are presented on the basis that expenditures are reported to the U.S. Department of Transportation. Accordingly, certain expenditures are recorded when paid and certain other expenditures are recorded when the federal obligation is determined.

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

The following items indicate costs reported under CFDA #93.778, Medical Assistance Program, which were disallowed by DHHS, Centers for Medicare & Medicaid Services (CMS):

#### Consolidated Home & Community Based Services Waiver MR 2176 (HCBS Waiver)

Amounts were disallowed due to impermissible retroactive changes in rate setting methodology for reimbursing residential rehabilitation services. According to CMS, changes were made without submitting an amendment to the HCBS Waiver. In addition, CMS stated that DPW impermissibly claimed FFP for room and board in violation of Title XIX of the Social Security Act and similar federal regulations. Expenditures on the June 30, 2008 SEFA have been reduced by \$30,230,874 in disallowed costs.

#### AmeriChoice of Pennsylvania (ACPA) Contract Adjustment

An amount was disallowed due to an improper contract adjustment for ACPA for calendar year 2005. Although DPW overpaid ACPA, a contract stipulation precluded DPW from recouping the adjustment. The stipulation of settlement was not binding on any other state agency or any federal agency and, therefore, DPW was obligated to pay CMS the federal share of \$2,569,407 of the overpayment. Expenditures on the June 30, 2008 SEFA have been reduced by \$2,569,407 in disallowed costs.

# COMMONWEALTH OF PENNSYLVANIA

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## Notes to the Schedule of Expenditures of Federal Awards - June 30, 2008

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

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, 2008. 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: Oil Overcharge Funds

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

Expenditures of such funds reflected in the SEFA include \$244,000 under CFDA #93.568, Low-Income Home Energy Assistance, and \$36,408 under CFDA #81.999, Miscellaneous.

Oil overcharge funds received by the Commonwealth that remain unexpended earn interest which is credited on a monthly basis to the oil overcharge fund for future expenditure as approved in the Commonwealth's energy plan. At June 30, 2008, the Commonwealth had unexpended oil overcharge funds including interest of approximately \$426,000.

### Note E: Pennsylvania Infrastructure Investment Authority

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

At June 30, 2008, the Authority had gross outstanding federal loans of \$664.6 million for CFDA #66.458 and \$137.5 million for CFDA #66.468. No losses were incurred by the Authority on these loans during the fiscal year ended June 30, 2008.

### Note F: Unemployment Insurance

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

State Regular UC Benefits	\$2,438,581
Federal UC Benefits	49,675
Federal Admin.	189,555
Total Expenditures	<u>\$2,677,811</u>

# Schedule of Findings and Questioned Costs



Commonwealth of Pennsylvania



# COMMONWEALTH OF PENNSYLVANIA

## Summary of Auditors' Results - June 30, 2008

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### Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  X  yes      \_\_\_ no

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

Noncompliance material to financial statements noted?  X  yes      \_\_\_ no

### Federal Awards

Internal control over major programs:

Material weakness(es) identified?  X  yes      \_\_\_ no

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

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

Qualified for noncompliance in the following major programs:

Food Donation (CFDA #10.550)  
Food Stamp Cluster (CFDA #10.551 and #10.561)  
Child Nutrition Cluster (CFDA #10.553, #10.555, #10.556, and #10.559)  
Special Supplemental Nutrition Program for WIC (CFDA #10.557)  
Child and Adult Care Food Program (CFDA #10.558)  
National Guard Military Operations and Maintenance Projects (CFDA #12.401)  
Community Development Block Grants/State's Program (CFDA #14.228)  
Homeland Security Cluster (CFDA #16.007, #97.004, and #97.067)  
Trade Adjustment Assistance (CFDA #17.245)  
WIA Cluster (CFDA #17.258, #17.259, and #17.260)  
Highway Planning and Construction Cluster (CFDA #20.205 and #23.003)  
Capitalization Grants for Clean Water State Revolving Funds (CFDA #66.458)  
Title I Grants to Local Educational Agencies (CFDA #84.010)  
Special Education Cluster (IDEA) (CFDA #84.027 and #84.173)  
Career and Technical Education – Basic Grants to States (CFDA #84.048)  
Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA #84.126)  
Twenty-First Century Community Learning Centers (CFDA #84.287)  
Improving Teacher Quality State Grants (CFDA #84.367)  
Aging Cluster (CFDA #93.044, #93.045, and #93.053)  
Temporary Assistance for Needy Families (CFDA #93.558)  
Child Support Enforcement (CFDA #93.563)  
Low-Income Home Energy Assistance (CFDA #93.568)

# COMMONWEALTH OF PENNSYLVANIA

## Summary of Auditors' Results - June 30, 2008

CCDF Cluster (CFDA #93.575 and #93.596)  
 Foster Care Title IV-E (CFDA #93.658)  
 Adoption Assistance (CFDA #93.659)  
 Social Services Block Grant (CFDA #93.667)  
 State Children's Insurance Program (CFDA #93.767)  
 Medicaid Cluster (CFDA #93.775, #93.777, and #93.778)  
 Block Grants for the Prevention and Treatment of Substance Abuse (CFDA #93.959)  
 Social Security – Disability Insurance (CFDA #96.001)  
 Disaster Grants – Public Assistance (Presidentially Declared) (CFDA #97.036)

Unqualified for all other major programs.

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

### Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster	Federal Expenditures (000s)
10.550	Food Donation	\$ 34,443
10.551 and 10.561	Food Stamp Cluster	1,506,176
10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster	309,145
10.557	Special Supplemental Nutrition Program for WIC	163,625
10.558	Child and Adult Care Food Program	69,008
12.401	National Guard Military Operations and Maintenance Projects	53,570
14.228	Community Development Block Grants/State's Program	51,871
16.007, 97.004 and 97.067	Homeland Security Cluster	48,302
17.207, 17.801, and 17.804	Employment Service Cluster	50,727
17.225	Unemployment Insurance	2,677,811
17.245	Trade Adjustment Assistance	48,143
17.258, 17.259 and 17.260	WIA Cluster	113,479
20.205 and 23.003	Highway Planning and Construction Cluster	1,425,123
66.458	Capitalization Grants for Clean Water State Revolving Funds	80,907
84.010	Title I Grants to Local Educational Agencies	495,207
84.027 and 84.173	Special Education Cluster (IDEA)	414,206
84.048	Career and Technical Education – Basic Grants to States	43,971

# COMMONWEALTH OF PENNSYLVANIA

## Summary of Auditors' Results - June 30, 2008

84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	109,438
84.287	Twenty-First Century Community Learning Centers	37,672
84.367	Improving Teacher Quality State Grants	113,049
93.044, 93.045 and 93.053	Aging Cluster	52,117
93.558	Temporary Assistance for Needy Families	475,815
93.563	Child Support Enforcement	130,857
93.568	Low-Income Home Energy Assistance	181,297
93.575 and 93.596	CCDF Cluster	333,818
93.658	Foster Care Title IV-E	246,568
93.659	Adoption Assistance	70,345
93.667	Social Services Block Grant	103,000
93.767	State Children's Insurance Program	216,858
93.775, 93.777 and 93.778	Medicaid Cluster	9,005,508
93.959	Block Grants for Prevention and Treatment of Substance Abuse	57,974
96.001	Social Security – Disability Insurance	81,043
97.036	Disaster Grants – Public Assistance (Presidentially Declared)	45,218
	Total Federal Expenditures – Major Programs	<u>\$18,846,291</u>

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

\$30,000,000

Auditee qualified as low-risk auditee?

    yes

  X  no

# COMMONWEALTH OF PENNSYLVANIA

## Index to Basic Financial Statement Findings - June 30, 2008

Finding No.	Finding Title	Impacted State Agency	Finding Page	CAP Page
08-1**	Internal Control Weakness Over Financial Reporting in the Unemployment Compensation Fund (Prior Year Finding #07-2)	LECS	42	311
08-2**	Lack of Documentation to Support Contracting and Procurement (Prior Year Finding #07-11)	OB OA	43	311
08-3*	Weakness in BFS Reporting of Capital Facilities Fund Encumbrances by CS Comptroller Office	CS	46	311
08-4*	Weakness in BFS Reporting of DCED Encumbrances by LECS Comptroller Office (Prior Year Finding #07-13)	LECS	47	311
08-5**	Accruals in the BFS Are Not Properly Reviewed for Accuracy	CS	48	311
08-6*	Lack of Procedures to Monitor, Assess, and Report the Impact of Highway and Bridge Infrastructure Replacement Activity in the BFS (Prior Year Finding #07-4)	OB/BFM PADOT	49	311
08-7*	Internal Control Weaknesses Over Financial Reporting for Assets Under Construction and Highway/Bridge Infrastructure Accounts	PADOT	51	311
08-8*	Inadequate Procedures to Properly Report Highway and Bridge Infrastructure Assets in the BFS	PADOT	54	312
08-9**	Internal Control Weakness Over Litigation Accruals	OB/BFM	56	312
08-10**	Internal Control Deficiency Over Lottery Fund Shared-Ride Program (Prior Year Finding #07-5)	PADOT	58	313
08-11*	Internal Control Weaknesses Over Financial Reporting for the Lottery Fund (Prior Year Finding #07-6)	CS	60	313
08-12**	Noncompliance With Statutory Limits for Equity Investments (Prior Year Finding #07-1)	L&I/ SWIF	61	313
08-13**	Internal Control Weaknesses Identified in Recording Securities Lending Obligations	OB/BFM	63	313
08-14**	Internal Control Weaknesses in Investment Note Disclosure Reporting	OB/BFM TREAS	64	313
08-15**	Internal Control Weaknesses in Reporting Self-Insurance Liability in the BFS (Prior Year Finding #07-20)	DGS/ BRIM	66	313

\* - Significant Deficiency

\*\* - Material Weakness

CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

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## *Index to Basic Financial Statement Findings - June 30, 2008*

<b>Finding No.</b>	<b>Finding Title</b>	<b>Impacted State Agency</b>	<b>Finding Page</b>	<b>CAP Page</b>
08-16*	Internal Control Weaknesses Over Accounting for Land Capital Asset Purchases Reported in the BFS	DCNR	68	314
08-17**	Internal Control Weakness Over Accounting for the OPEB Fund Investments in the Consolidated Cash Pool	TREAS	69	314
08-18**	Internal Control Weaknesses Over Financial Reporting in the Department of Public Welfare GAAP Template (Prior Year Finding #07-17)	PHHS	70	314
08-19*	General Computer Controls in Various Commonwealth Agencies Need Improvement	OB OA	72	315
08-20*	Internal Control Weakness in the Financial Accounting Records (Prior Year Finding #07-12)	OB/BFM	83	315
08-21**	Statewide Weaknesses Within the SAP Accounting System Related to Segregation of Duties Conflicts (Prior Year Finding #07-21)	OA/IES OB/BFM	85	315

\* - Significant Deficiency

\*\* - Material Weakness

CAP - Corrective Action Plan

# **COMMONWEALTH OF PENNSYLVANIA**

## **Basic Financial Statement Findings - June 30, 2008**

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### **Finding 08 – 1:**

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

##### **Internal Control Weakness Over Financial Reporting in the Unemployment Compensation Fund (A Similar Condition Was Noted in Prior Year Finding #07-2)**

**Condition:** For the fourth year in a row, the Commonwealth’s Basic Financial Statements (BFS) contained a significant misstatement in the Unemployment Compensation (UC) Fund that required an adjusting entry by the auditors. Our testing of the UC Fund GAAP Template required a material adjusting entry in the amount of \$49.1 million to reduce an overstated payable for UC benefits owed claimants as of fiscal year end.

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

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

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

**Recommendation:** While we have noted improvements in both L&I and LECS Comptroller methodologies and internal review procedures for preparing the UC Fund GAAP template, the adjustment required above indicates that additional improvements to these methodologies and internal review procedures is necessary to ensure GAAP accruals are accurate.

**Agency Response:** The LECS Comptroller’s Office does consider methodologies during the template preparation and review process. However, during fiscal year 2007-08, Department of Labor and Industry (L&I) began initiating new methods for Unemployment Compensation (UC) payments. As a result, payments were processed much faster than we were aware. In future years, L&I’s Office of Information Technology will provide the GAAP preparer with a more detailed report to accurately calculate UC payables. LECS will make a note in the GAAP package to inquire with L&I staff on impacts resulting from procedural changes.

**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, 2008

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### Finding 08 – 2:

#### Office of the Budget Office of Administration

#### Lack of Documentation to Support Contracting and Procurement (A Similar Condition Was Noted in Prior Year Finding #07-11)

**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, 2007, (for eight fiscal years in a row), we reported that management refused to provide us with key procurement documentation to enable us to audit the awarding of these contracts and to verify compliance with Commonwealth procurement regulations. We also disclosed weaknesses in the Commonwealth's internal controls over documentation supporting procurement of these contracts in those prior years. It should be noted that these prior-year findings also included contract awards, other than for statewide technology, which involved specific agencies and funds.

Our current year follow up for the fiscal year ended June 30, 2008, disclosed that, as in the prior years, management continues its policy of refusing to provide us with key procurement documentation to enable us to audit the awarding of contracts to verify compliance with Commonwealth procurement regulations. Documentation again not provided to us for the above contract awards consisted of the following:

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

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

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2008

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### Finding 08 – 2: (continued)

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

Management also indicated that on February 14, 2008, Governor Rendell signed the Right To Know Law (RTKL) and they are currently analyzing that law and may meet with the auditors to explore potential solutions in accordance with the provisions of that law. However, management has not yet provided any potential solutions.

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

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

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

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

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

**Agency Response:** We recognize and acknowledge the need for our auditors to verify the propriety of our contracting procedures. As part of the implementation of the RTKL, losing vendors’ proposals will be made available to those who request them for a period of six months after the contract is awarded. During this period, the auditors will have access to this information for audit purposes.

# COMMONWEALTH OF PENNSYLVANIA

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## Basic Financial Statement Findings - June 30, 2008

### Finding 08 – 2: (continued)

Regarding the remaining five bulleted items to which the auditors have requested access, we are developing a document that will summarize and attest to the process and results of the RFP process and its compliance with federal regulations and Commonwealth policy and the accuracy and propriety of the information being disclosed. We believe such document should satisfy the auditor's needs relative to testing our compliance with federal procurement regulations and Commonwealth policy.

**Auditors' Conclusion:** We disagree with only providing auditors access to losing proposals for a management-imposed period limited to six months. Management should not restrict availability of these procurement documents to the Auditor General since this is clearly a violation of the Commonwealth Procurement Code quoted in the finding above 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)*

Furthermore, if management attempts to only provide us with summary and attest documents and continues in its refusal to provide the original documentation we seek in the remaining five bulleted items above, this is again a clear violation of the Commonwealth Procurement Code quoted above, and all the scope limitations described above on our audit will continue into the future. Therefore, based on the agency response, the finding and recommendation, with the above clarifications, remain as previously stated. We will further review 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, 2008

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### Finding 08 – 3:

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

##### Weakness in BFS Reporting of Capital Facilities Fund Encumbrances by CS Comptroller Office

**Condition:** We found that the CS Comptroller Office understated GAAP basis encumbrances by \$17.2 million due to an error and a control weakness in the preparation of the Capital Facilities Fund GAAP template. During the GAAP template preparation process, the CS Comptroller Office made GAAP accruals for estimated liabilities, along with an entry to reduce encumbrances for liabilities from a prior ledger. However, when CS subsequently performed an analysis of their liability estimation calculation, it was determined that the estimate was too high. Therefore, CS posted an entry to reduce liabilities, but did not post an entry to increase encumbrances accordingly. Therefore, encumbrances were understated and Unreserved/Undesignated Fund Balance was overstated in the Capital Facilities Fund for the FYE June 30, 2008, and an auditor adjustment was posted to correct the BFS.

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

**Cause:** The CS GAAP template preparer for the Capital Facilities Fund mistakenly failed to properly adjust encumbrances related to the restatement of liabilities. The supervisory reviewer did not detect the error.

**Effect:** As a result of the error on reporting encumbrances, the Capital Facilities balance sheet encumbrances were understated and Unreserved/Undesignated Fund Balance was overstated by \$17.2 million, and necessitated an auditor adjustment. Without strengthened internal controls, encumbrances will continue to be misstated in the future.

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

**Agency Response:** Central Services Comptroller Office (CSCO) performed a lookback review of the estimated liability after the template was submitted to the Bureau of Financial Management (BFM), which revealed the liability estimates were overstated by \$17.2 million. BFM determined and prepared an entry to reduce the liabilities, but inadvertently forgot to post an entry to increase encumbrances accordingly. CSCO agrees that controls should be strengthened to ensure all balances reported on the BFS are reported accurately, even if the entries are prepared after CSCO's submission to BFM.

**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, 2008***

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### **Finding 08 – 4:**

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

##### **Weakness in BFS Reporting of DCED Encumbrances by LECS Comptroller Office (A Similar Condition Was Noted in Prior Year Finding #07-13)**

**Condition:** For the second year in a row, we found that the LECS Comptroller Office understated GAAP basis encumbrances by \$25.7 million due to an error and a control weakness in the preparation of the Department of Community and Economic Development General Fund GAAP template. During the GAAP template preparation process, the LECS Comptroller Office made GAAP accruals for estimated liabilities, along with an entry to reduce encumbrances for liabilities from a prior ledger. However, when LECS subsequently performed an analysis of their liability estimation calculation, it was determined that the estimate was too high. Therefore, LECS posted an entry to reduce liabilities, but did not post an entry to increase encumbrances accordingly. Therefore, encumbrances were understated and Unreserved/Undesignated Fund Balance was overstated in the General Fund for the FYE June 30, 2008, and an auditor adjustment was posted to correct the BFS.

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

**Cause:** The LECS GAAP template preparer for the DCED General Fund mistakenly failed to properly adjust encumbrances related to the restatement of liabilities. The supervisory reviewer did not detect the error.

**Effect:** As a result of the error on reporting encumbrances, the General Fund balance sheet encumbrances were understated and Unreserved/Undesignated Fund Balance was overstated by \$25.7 million, and necessitated an auditor adjustment. Without strengthened internal controls, encumbrances will continue to be misstated in the future.

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

**Agency Response:** The LECS Comptroller's Office has made a note in our "lookback" procedures to ensure that when liability estimations need to be adjusted, that a corresponding encumbrance adjustment also be recorded.

**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, 2008***

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### **Finding 08 – 5:**

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

##### **Accruals in the BFS Are Not Properly Reviewed for Accuracy**

**Condition:** The Central Services Comptroller Office (CSCO) records taxes payable accruals in the BFS using estimated amounts. Subsequently, a lookback procedure is performed to adjust the estimate closer to actual. In the lookback, the CSCO obtains files from the Department of Revenue for testing. Based on their test results, CSCO decides whether or not an adjustment to the original estimated accrual is necessary. In addition to any lookback adjustment, the CSCO has historically added tax refunds paid in July and August, after year end, to the total taxes payable amount at June 30. In our testing of CSCO's accrual calculation for corporation taxes, we found July and August refunds for corporation taxes to be payables at fiscal year end, but not included in CSCO's payable amount. This omission resulted in an understatement of corporation taxes payable of \$67M which was part of a \$111.4M auditor adjustment to increase taxes payable. The \$44.4 remainder of the auditor adjustment included September refunds that our testing found to be payables at year end and other exceptions. CSCO personnel did not perform adequate supervisory review of tax accrual calculations to ensure that accruals are accurately reflected in the BFS.

In addition, during our testing of taxes receivable, we identified formula errors within the tax accrual spreadsheet related to one tax type, inheritance tax. As with taxes payable, the CSCO records the taxes receivable accruals in the BFS using estimated amounts. The CSCO calculates a moving average using three years worth of historical data to project future year's receipts. The CSCO uses excel spreadsheets to accomplish this. During our current audit, we identified formula errors within the inheritance tax accrual spreadsheet that resulted in an understatement of receivables. Although this error was not material to the BFS, we found that CSCO personnel did not perform adequate supervisory review of the tax accrual spreadsheets used to calculate the accruals.

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

**Cause:** CSCO's failure to include the tax refunds paid in July and August to the taxes payable amount was due to preparer oversight. Due to the lack of documented procedures being in place in CSCO to review the overall calculation of the tax accrual calculations, the omission of July and August refunds and errors in the accrual spreadsheets mentioned above were not detected.

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

**Recommendation:** CSCO should implement and document procedures to review its accrual determinations to ensure that taxes payable and receivables are accurately adjusted and reported in the BFS.

**Agency Response:** Central Services Comptroller Office (CSCO) will implement internal control procedures to ensure all refunds paid in July and August are reported in the payable amount. CSCO has a process to review tax payable and receivable spreadsheets for accuracy. However, CSCO personnel are in agreement that the current review process and procedures should be expanded and documented in more detail. The expanded process will include detailed procedures, as well as a checklist for the preparer and supervisor to ensure all steps of the accrual process were followed. The expanded procedures will be documented prior to June 30, 2009.

**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, 2008

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### Finding 08 – 6:

#### 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 #07-4)

**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 second 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.

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

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

**Agency Response:** PennDOT is in agreement with this audit finding. Because our accounting conventions utilize a 25-year depreciable life for capitalized highway assets, it is correct that the asset balances will be overstated without booking an annual adjustment. However, PennDOT only recently became aware that this responsibility had been assigned to the Department and has since taken steps to implement procedures to address this finding.

In order to develop a methodology to capture the appropriate data, PennDOT Finance has requested comprehensive construction data such as asphalt and concrete tonnage, as well as cost indices for the past several years. This data is being collected by PennDOT engineers; when received Finance will share this data with OB-BFM. An annual accounting adjustment will then be developed jointly based on this data to write-down a portion of PennDOT’s highway and bridge capitalized asset values. PennDOT agrees that this write-down is necessary, for GAAP purposes, to recognize that some previously capitalized costs remain on the books after the physical asset has been removed. An example of this is the milling and resurfacing of roadways every ten to fifteen years.

In summary, PennDOT Finance will continue to work with Office of the Budget and PennDOT’s engineering staff to develop a policy to address this audit finding in accordance with Generally Accepted Accounting Principles.

**COMMONWEALTH OF PENNSYLVANIA**

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***Basic Financial Statement Findings - June 30, 2008***

**Finding 08 – 6: (continued)**

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2008

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### Finding 08 – 7:

#### Department of Transportation

##### Internal Control Weaknesses Over Financial Reporting for Assets Under Construction and Highway/Bridge Infrastructure Accounts

**Condition:** We found that PADOT had several weaknesses in internal controls to ensure Assets Under Construction (AUC) and Highway/Bridge Infrastructure accounts were reported accurately in the BFS. PADOT's AUC account is comprised primarily of highway and bridge construction projects that are not complete and not yet placed into service. Our audit noted the following errors resulting in auditor adjustments to the BFS:

- Our audit revealed \$3.3 million in phase 1, railroad grade crossing costs, and \$20.8 million in phase 9, department forces maintenance costs, that were included in the AUC account at fiscal year end, but these costs were not capitalizable and should not be included in the AUC account. Additionally, our testing identified a project that remained in AUC at fiscal year end, totaling \$4 million, for rental car acquisition for the City of Philadelphia but these costs are not capital-related and should not be included in the AUC account.
- PADOT administers and monitors asset settlement procedures. Settlement procedures are designed to identify projects within the AUC account that are essentially complete (90 percent) and placed into service, and should be transferred to Highway and Bridge Asset Infrastructure accounts to begin depreciation. Our testing disclosed \$13.5 million in costs improperly remaining in AUC for projects which were at least 90 percent complete at fiscal year end. Per PADOT's settlement methodology, these costs should have been settled to a depreciable asset classification upon reaching the 90 percent complete threshold.

**Criteria:** Good internal control dictates that agency personnel ensure that the AUC and Highway/Bridge Infrastructure accounts are properly reported in the BFS. This includes ensuring the AUC account balance includes only capitalizable project costs as well as the appropriate breakout of capitalization costs for projects nearing completion to the appropriate Highway/Bridge Infrastructure balance.

**Cause:** Work Breakdown Structure (WBS) element balances within the AUC account are settled from SAP Project Systems module on a periodic basis. The Project Systems module provides for project accounting and houses all WBS elements and their associated costs. PADOT's settlement methodology is designed to maintain the AUC account as follows: 1. enter settlement rules to transfer projects reaching 90 percent complete to the appropriate asset classification 2. immediately settle ROW project costs to the appropriate asset classification (i.e., land) and 3. remove non-infrastructure costs. Costs that should be capitalized and remain in AUC versus costs that should be expensed and removed from AUC are identified by the program within the WBS element, as well as by PADOT monitoring and analysis. The phase 1, phase 9, and Philadelphia rental car acquisition project costs had capitalizable program codes and were overlooked in PADOT's analysis of costs during settlement so they erroneously remained in the AUC account at fiscal year end.

Settlement rules are established by PADOT for each project upon 90% completion. The settlement rules are determined via SAP inquiry by GL account to determine the split of Highway spending versus Bridge spending, per project. The split percentages are applied to total costs to ensure proper financial reporting of Highway infrastructure and Bridge infrastructure. SAP coding errors prevented PADOT from obtaining adequate Highway and Bridge spending for certain projects that had reached 90 percent complete at fiscal year end. Therefore, settlement rules were not applied for these projects and their costs incorrectly remained in the AUC account at fiscal year end.

**Effect:** The BFS contained Infrastructure accounts that were misstated in the Government-wide Statement of Net Assets – Governmental Activities column, and capital outlays were misstated in the Motor License Fund. An auditor adjustment was posted to correct the accounts.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2008

### Finding 08 – 7: (continued)

**Recommendation:** We recommend that PADOT implement stronger control procedures to ensure that all phase 1 and phase 9 project spending is excluded from the AUC account during settlement, along with other costs that appear to be unrelated to AUC. Additionally, we recommend that PADOT settle all costs over 90 percent that did not have settlement rules applied to ensure accurate asset capitalization dates and the related depreciation expense.

**Agency Response:** The issues outlined in this audit finding had been identified by PennDOT's Finance staff, specifically the Fixed Asset section, prior to the end of FY 2007. Based upon our internal analysis, current policies have been reviewed resulting in the actions outlined below pertaining to this audit finding:

- Phase 1 costs

PennDOT is in agreement with this audit finding. Phase 1 costs are incurred for the construction of railroad crossing assets. Since the railroads take ownership of the properties upon completion of the work, it was identified that these costs should not be capitalized as PennDOT fixed assets.

PennDOT Finance began to review phase 1 costs in May 2008. However, due to debugging and commissioning issues related to the new FASR software, as well as other end of year fixed assets reconciliation responsibilities, a proper review of the phase 1 costs within AUC was not completed before the end of the fiscal year. Consequently, phase 1 costs, which amounted to over \$45 million on June 30, 2008, were not processed out of AUC until completion of fiscal year-end reconciliation activities in July 2008.

Upon completion of year-end settlement activities, PennDOT Finance implemented the phase 1 review process. Over \$35 million were removed from AUC and settled to an expense cost center by August 31, 2008. PennDOT procedures now in place should result in an immaterial AUC phase 1 balance on June 30, 2009.

- Phase 9 costs

PennDOT is not in agreement with this audit finding. Although there are costs included in phase 9 projects that should be expensed, there are also costs that must be capitalized. Therefore, the finding that phase 9 items should be expensed out of AUC at year end is not in compliance with GAAP. For example, on January 26, 2009, there were 275 phase 9 records with costs residing in AUC. Of these 275 items, 220 of them contain capitalizable program codes. Also, 55 of the 275 items represent either the purchase of equipment items costing over \$25,000 or the expenditure of bridge or highway rehabilitation monies that extend the useful life of the bridge or highway by 10+ years. Accordingly, these projects require further review and probable capitalization of costs.

It would be incorrect of PennDOT to expense all phase 9 costs without a thorough review of the phase 9 balances in AUC. A process is being developed to review Phase 9 costs periodically throughout the fiscal year with the goal that costs that should be expensed will be processed on a timely basis.

- Philadelphia car rental costs

PennDOT is in agreement with this audit finding. PennDOT Finance noted the \$4 million car rental expense in its normal processing review in April 2008. Since the WBS element used to process the cost was built in a district office, Finance inquired as to the nature of this entry. A final resolution on this issue was not confirmed until after June 30, 2008. Consequently, the cost was expensed.

PennDOT obtained the ability to flag projects such as this when it implemented its FASR system during the fourth quarter of 2008. The failure to process the monies out of AUC prior to June 30 was due solely to allowing time for the district to respond. PennDOT Finance will tighten its allowable response times during the close of fiscal year ends in order to minimize the amount of dollars in AUC at year-end that should be expensed.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2008

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### Finding 08 – 7: (continued)

- Miscoded GL Accounts resulting in unsettled costs

PennDOT is in agreement with this audit finding. PennDOT develops the information necessary to identify bridge vs. highway spending by utilizing an SAP transaction that reads GL Account codes specific to highway and bridge construction. During the fourth quarter of FY 2007 Finance was unable to obtain the required information for a large number of projects.

Upon investigation, it was discovered that GL Account code errors within PennDOT organizations resulted in an inability to generate the required data. In order to obtain the data to allow processing, the Fixed Asset section must now complete several manual steps during the data gathering process.

PennDOT Finance has notified the management of the organizations that select GL Account codes of the issue and has been assured that the codes are now being properly entered. Due to the cycle time involved between when the GL Accounts are entered and when the project qualifies for capitalization, we expect miscoded projects will continue to surface for the next few years. The Fixed Asset section will continue to address this issue during this period.

**Auditors' Conclusion:** Our current and prior year analysis showed that Phase 9 costs recorded in the AUC balance contained costs that were not infrastructure-related and needed to be removed (i.e., computers, vans, bus). Phase 9 costs were discussed with BFM, who agreed that all these costs should be removed from the AUC balance and expensed. We agree that in the future, a detailed review of all Phase 9 costs needs to be performed each year to ensure that only capitalizable infrastructure remains in the AUC balance.

Based on the remaining 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, 2008

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### Finding 08 – 8:

#### Department of Transportation

##### Inadequate Procedures to Properly Report Highway and Bridge Infrastructure Assets in the BFS

**Condition:** The Assets Under Construction (AUC) account for Infrastructure is comprised primarily of PADOT highway and bridge construction projects, identified by Work Breakdown Structure (WBS) element, that are not yet complete or placed into service. When these assets are near completion and placed into service, they are identified through PADOT settlement procedures, removed from the AUC balance, and transferred to Highway and Bridge Infrastructure accounts to begin depreciation.

Highway and Bridge asset settlement procedures are driven by project coding in the form of a WBS element. Each WBS element represents unique project identifiers such as roadway designator/system, state route, section, phase of work, organization, program, etc. According to PADOT settlement procedures, settlements occur for Highway and Bridge projects identified in the AUC account as having construction phase spending that has reached 90 percent complete. Settlement rules are designed to capture the project's Highway and Bridge spending to enable all project costs, including preliminary engineering and design costs, to be removed from the AUC balance and be reported properly in the Highway and Bridge Asset Infrastructure accounts.

We noted during our audit period that there were projects settled to depreciable Highway and Bridge Asset Infrastructure accounts with associated preliminary engineering and design costs of \$13.7 million improperly remaining in the AUC account. Although these costs are not currently material to the BFS, they have the potential to be significant in future years if procedures are not implemented to properly identify and remove these costs from the AUC balance.

**Criteria:** Good internal control dictates that agency personnel ensure that the AUC and Highway Infrastructure balances are properly reported in the BFS. This includes ensuring that preliminary engineering and design costs associated with project construction are included in the respective asset when settlement occurs.

**Cause:** Certain projects were inappropriately coded with a different roadway designator for preliminary engineering and design phases than related costs that were later charged in the construction phases. The roadway designator is a character in the WBS element structure that identifies the roadway system and influences project identification and differentiation under PADOT's settlement methodology. A project with a unique roadway designator would be considered a distinctive project. When projects in the construction phase were determined to be at least 90 percent complete and settlements occurred, only those preliminary engineering and design related costs with the same (i.e., correct) roadway designator as the construction costs were properly settled to the asset account in accordance with GAAP.

**Effect:** Preliminary engineering and design costs coded with differing roadway designators from their corresponding construction activities will improperly remain in the AUC account when the construction activity reaches 90 percent complete and the project settles to a depreciable asset. This results in inaccurate financial reporting within the AUC account, the Bridge and Highway Infrastructure accounts, and the depreciation expense accounts.

**Recommendation:** We recommend that PADOT implement procedures to locate all projects that have preliminary engineering and design costs with differing roadway designators than their related construction activities. We further recommend that PADOT ensures these costs are settled to a depreciable asset once each project reaches 90 percent. Additionally, we suggest that PADOT no longer code preliminary engineering or design phase costs with a different roadway designator than construction phase costs or PADOT adjust settlement procedures to eliminate the use of the roadway designator character for project identification purposes.

**Agency Response:** PennDOT agrees with this audit finding. Roadway designators should be the same within a given project. The use of more than one designator on a single project is a violation of the definition of a work breakdown structure element.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2008***

### **Finding 08 – 8: (continued)**

Finance will survey all districts in order to document why the designators were improperly assigned. PennDOT is changing the definition of a hybrid project within our infrastructure processing methodology to accommodate any type of roadway designator. This will be accomplished by adding a third “wild card” to our hybrid project definition. Upon completion of this change, a hybrid bridge or highway project will be defined by the 1) state or local route number, 2) roadway section, and 3) organization providing maintenance of the asset. Under this methodology any type of roadway designator, sub-project number, phase, program code or participation code number will be allowable within a given project.

In order to effectively implement this methodology, program modifications will be required and requested within the FASR software. Until these modifications can be completed, PennDOT Finance will manually settle to the appropriate fixed asset record all of the phase 3 and 4 costs that were not processed by our manual and FASR systems due to the use of multiple designators.

The WBS elements, by district, that will require manual settlement have been identified. As of January 30, 2009, we estimate there is \$55 million of phase 3 and 4 costs that are eligible for final settlement; PennDOT will process final settlement on these elements. Subsequently, PennDOT will review the AUC balance again in April and June 2009 to identify elements that qualify for final settlement but require manual processing. Our goal will be to identify all projects as of June 1 that require settlement and complete processing of them by June 30, 2009. Year-end processing requirements preclude running the entire manual capture and settlement procedure after June 1.

**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, 2008***

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### **Finding 08 – 9:**

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

##### **Internal Control Weakness Over Litigation Accruals**

**Condition:** In conjunction with the GAAP Audit of the Commonwealth’s basic financial statements, certain procedures are performed for pending, outstanding, and settled litigation, claims and assessments. Generally, the following factors are considered in determining whether accruals and/or disclosures in the BFS are required for pending or threatened litigation and actual or possible claims and assessments:

1. The date of occurrence of the cause for action,
2. The degree of possibility of an unfavorable outcome, and
3. The ability to reasonably estimate the loss.

The event of condition that culminated or may culminate in a lawsuit, claim, or assessment must have occurred on or prior to the date of the financial statements if the amount of an actual or possible loss is to be accrued as of the balance sheet date.

In evaluating the probability of an unfavorable outcome, an enterprise considers the following factors:

1. Nature of the litigation, claim, or assessment,
2. Progress of the case (including progress after the date of the financial statements but before those statements are issued),
3. Opinions or views of legal counsel and other advisers,
4. Experience of the enterprise in similar cases,
5. Experience of other enterprises, and
6. Any decision of the enterprise’s management as to how the enterprise intends to respond to the lawsuit, claim, or assessment.

For purposes of the GAAP Audit, letters are sent to the legal counsel in each Commonwealth agency requesting an update of litigation, claims, and assessments of that agency. During our review of such legal responses, we noted a case reported by the Pennsylvania State Police that had been decided via jury verdict in March of 2008 in the amount of \$28 million. As of the date of this initial response, post-trial motions were pending. It was later noted that an appeal had been filed by the State Police and the case was subsequently settled in November of 2008 for \$12.5 million. Upon review and inquiry of Commonwealth personnel, it was noted that there was no accrual booked for this case.

**Criteria:** Because the event of condition that culminated the lawsuit occurred prior to the date of the financial statements and the progress of the case prior to issuing those financial statements suggested that it was probable that an unfavorable outcome would result, recording a liability and related expenditure on the financial statements was necessary.

**Cause:** This BFS error occurred in part because of an internal control weakness in which there is no individual charged with tracking settlements/judgments to verify that the proper liabilities are reported in the financial statements as of year end.

**Effect:** Because an accrual was not recorded in the financial statements as of fiscal year end, liabilities and expenses were understated for that period. As a result, the auditors proposed a correcting entry. Misstatements in the BFS could continue into the future if the internal control weakness is not corrected.

**Recommendation:** We recommend that an individual is charged with reviewing the agency responses for cases that have settled during the fiscal year as well as subsequent to fiscal year end, but before the CAFR has been issued, to determine if liabilities existed and are properly reported in the BFS as of the fiscal year end.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2008***

### **Finding 08 –9 (continued):**

**Agency Response:** We agree with this finding and will implement the following Corrective Action Plan:

BFM will request that BOA, in conjunction with OGC, request that the preliminary responses be submitted on or around September 25, 2009 for the fiscal year ending June 30, 2009. (For June 30, 2008 reporting/disclosure purposes, the preliminary responses were due to OGC on October 14);

BOA will provide documentation regarding settled cases to BFM independently and prior to the finalization of the preliminary litigation schedules. This will allow extra time for BFM to record the liability and/or coordinate any follow-up with the appropriate accounting area;

BOA will assign a second reviewer to evaluate agency legal responses, as warranted, to ensure all settled cases are properly identified for reporting purposes.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2008

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### Finding 08 – 10:

#### Department of Transportation

##### Internal Control Deficiency Over Lottery Fund Shared-Ride Program (A Similar Condition Was Noted in Prior Year Finding #07-5)

**Condition:** For the second year in a row, the Department of Transportation is not performing on-site monitoring of ridership data and supporting records at the transit authority participants of the Lottery Fund's Shared-Ride Program. On a monthly basis, transit authorities are required to submit invoices that detail monthly ridership data. The ridership data is used to determine the amounts of funding due from the Lottery Fund to the transit authorities. The Department of Transportation pays the invoiced amount without confirming the accuracy of ridership data. Total Shared-Ride Program expenditures for the fiscal year were \$70.5 million.

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

**Cause:** According to Department management, the Department of Transportation is currently in the process of contracting with a consulting firm to conduct field reviews to verify invoiced ridership data. During the fiscal year, the manager of the Shared-Ride Program had no staff and that manager's focus was on another Department of Transportation program.

**Effect:** Without proper verification of Shared-Ride Program ridership data on the monthly invoices, Lottery Fund's Transportation funding to the transit authorities could be materially incorrect.

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

**Agency Response:** PennDOT agrees that periodic on-site monitoring is critical to ensuring fiscal reliability and program compliance and has enhanced its efforts in this area. PennDOT has re-engineered Public Transportation grant administration processes and organizational structure to enhance both technical assistance to grantees and the number of field reviews of grantee operations and administrative procedures. It should be noted that program administration has had in place, for many years, procedures for in-house invoice checking and verification as well as periodic, risk-driven site visits within available resources.

For the Shared-Ride Program, recordkeeping and reporting requirements with regard to individual trips are the responsibility of the transit systems and those detailed records are maintained at the transit systems offices. The annual application process requires participating transit systems to describe, document and provide examples of their audit trails which must trace trips from reservation, to scheduling, to provision of the trip and to billing. Review of each system's audit trail and consistency with the application are standard elements of Shared-Ride Program field reviews. In addition, when the Comptroller's Office auditors conduct an audit of a transit system participating in the Shared-Ride Program, we understand that they review and reconcile shared-ride trips with billings. There have been few cases of inaccurate billings of any consequence. When inaccuracies have been identified through field reviews, the Bureau of Public Transportation requests that the Comptroller's Office conduct an audit. The Bureau then uses that documentation to reconcile payments.

With regard to oversight of the two largest shared-ride providers (SEPTA & Port Authority of Allegheny County), PennDOT initiated work to conduct consultant-lead on-site reviews of procedures and records to verify the accuracy of reported data and lottery payments. PennDOT and the consulting team conducted on-site reviews with appropriate personnel at SEPTA and PAAC to: 1) compare written methodology provided to PennDOT to actual procedures and

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2008***

### **Finding 08 – 10 (continued):**

reports to identify discrepancies and 2) ascertain strengths and weaknesses of current collection and reporting methods employed by each agency. In order to evaluate the Shared Ride reporting accuracy, we reviewed the process SEPTA and PAAC use to collect, compile and report shared ride usage by senior citizens including prior day reservations, scheduling, trip provision, proof of age and billing. The report will be completed in April 2009.

There are 59 grantees that receive funding from PennDOT for the Shared-Ride Program. PennDOT's goal is to review each grantee at least every five years. We intend to conduct approximately 12 reviews each fiscal year. We are currently in the process of identifying transit systems which will be visited in FY 2009-10.

The preliminary list of Shared-Ride Program site visits scheduled through June 30, 2010 is as follows: Mifflin-Juniata Area Agency on Aging, Northumberland County, Union-Snyder Transportation Alliance, Venango County, Clarion County, Butler County, Washington County, Centre County, County of Lebanon Transit, Cumberland-Dauphin-Harrisburg Transit Authority.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2008

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### Finding 08 – 11:

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

##### Internal Control Weaknesses Over Financial Reporting for the Lottery Fund (A Similar Condition Was Noted in Prior Year Finding #07-6)

**Condition:** For the eleventh year in a row, the Central Services Comptroller Office prepared the Lottery Fund's GAAP template with misstatements as a result of accounting errors made during the GAAP template preparation process. Accounting errors occurred on the spreadsheet used to calculate the prize liability for instant games. The errors were undetected in the GAAP template review process, and overstated liabilities and expenditures by \$2.6 million.

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

**Cause:** The above-noted Lottery Fund misstatements were caused by undetected clerical errors in the preparation of the spreadsheet used to calculate the instant games prize liability. This instant games liability is used to calculate the unpaid prize liability in the GAAP template for the Lottery Fund by the Central Services Comptroller Office. Based on the fact that auditors have detected Lottery template errors for each of the past eleven years, it appears that the GAAP template preparation and review procedures are clearly inadequate to detect and correct these errors.

**Effect:** Accounts in the government-wide and fund financial statements were misstated and required an auditor-proposed adjustment. The noted weaknesses in preparation and review procedures could result in additional misstatements in the future if not corrected. Additionally, continued misstatements in the Lottery template preparation process cause increased costs to the Commonwealth. Increased auditor hours and increased Comptroller staff hours are necessary to investigate and resolve these errors.

**Recommendation:** The Central Service Comptroller Office should implement adequate procedures for the Lottery Fund GAAP template preparation to ensure amounts in the financial statements are clerically accurate and correct.

**Agency Response:** Central Services updates their procedures annually to resolve adjustments related to findings from previous audits. We agree that Central Services should continue to strengthen procedures for the Lottery Fund GAAP template to ensure proper data is provided for the financial statements. As part of these strengthened procedures, Central Services will be requesting the Lottery Fund GAAP template be moved to the beginning of September to ensure adequate time to detect errors in the spreadsheets. We will also be implementing a new procedure which calls for us to meet with Lottery officials, prior to the end of June, to ensure the spreadsheet discussed in this finding contains all of the necessary information and that the formulas are correct.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2008

### Finding 08 – 12:

#### 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 #07-1)

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

During the current year audit we noted that SWIF's equity investments exceeded the legal limit by \$225,498,000 as of December 31, 2007. As of December 31, 2007, SWIF's book value of its assets was \$1,889,656,000 and the statutory surplus totaled \$55,761,000. Using the lesser of these limitations noted, SWIF was statutorily limited to \$55,761,000 in equity securities at year end. However, as of December 31, 2007, SWIF held a total of \$281,259,000 in equity securities (actual cost of long-term investments of \$277,753,000 in SWIF's separate long-term investment pool plus \$3,506,000 in Treasury's short term investment pool). Therefore, SWIF's equity investments exceeded the legal limit by approximately \$225,498,000 at December 31, 2007.

In addition, during the audit period ended December 31, 2007, SWIF had no formal process in place to document their compliance with these investment limitations.

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

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

- (1) *Investments in equities may not exceed the lesser of:*
  - (i) *20% of the State Workers' Insurance Fund's assets; or*
  - (ii) *The State Workers' Insurance Fund's statutory surplus after discount.*
- (2) *The State Workers' Insurance Board shall establish a policy for investments and shall meet at least annually to develop a schedule for rebalancing its investments in securities to meet the restriction of paragraph (1).*

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

**Cause:** SWIF personnel indicated that they were aware of the limitation on equity investments. 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 41 of 2005. 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.

**Effect:** SWIF is in violation of PA Act 41 of 2005, which may create a greater risk to investment principal since it over-invested more in equity securities than the law allows at December 31, 2007 and throughout the year under audit. In addition, since SWIF did not provide evidence of adequate procedures in place to monitor compliance with these requirements, there is limited assurance that SWIF will be in compliance with the investment limitations in Act 41 of 2005 in future periods.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2008***

### **Finding 08 – 12: (continued)**

**Recommendation:** We recommend that internal controls be strengthened in SWIF's monitoring of investments to ensure compliance with the equity limits in applicable State laws. In addition, SWIF should take the appropriate action to rectify the non-compliance as of December 31, 2007 noted above.

**Agency Response:** In response to the issue cited regarding SWIF's equity investments as of December 31, 2007, the SWIF Board has a rebalancing that was implemented in 2008 which resulted in some movement from equities to fixed. The SWIF Board exercises its fiduciary responsibility to the Fund by continuing to review its securities and liquidating them from equities to fixed in order to come into compliance in such a manner as not to negatively impact its financial portfolio.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2008***

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### **Finding 08 – 13:**

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

##### **Internal Control Weaknesses Identified in Recording Securities Lending Obligations**

**Condition:** The Treasury Comptroller’s Office provides the Bureau of Financial Management (BFM) with the fair value of securities on loan and the fair value of reinvested cash collateral for each fund at 12/31 and 6/30 for BFM’s use in preparing the financial statements. BFM makes entries into the SAP accounting software to record the fair value of securities purchased with cash collateral and the securities lending obligation for each fund. During our audit procedures, we determined that for the State Workers Insurance Fund (SWIF), BFM incorrectly reported the fair value of all securities on loan (for cash and noncash collateral) as the fair value of reinvested cash collateral received. Therefore, the securities lending asset and securities lending obligation for SWIF were overstated by \$23.7 million at December 31, 2007, requiring an auditor-proposed adjustment to the financial statements.

**Criteria:** As stated in GASB 28, paragraph 6, “Cash received as collateral on securities lending transactions and investments made with that cash should be reported as assets.” Effective internal controls should ensure that material GAAP entries are reviewed and approved by management in order to reduce the potential for material misstatements in the Commonwealth’s financial statements and to ensure compliance with applicable accounting standards.

**Cause:** Internal review procedures at BFM were not thorough enough to detect and correct the error detected by the auditors.

**Effect:** The temporary investment balance and securities lending collateral for SWIF were misstated in the draft BFS provided to the auditors, necessitating an auditor adjustment. In addition, since BFM’s internal review procedures did not detect this error during the current year audit, similar errors could result in future misstatements.

**Recommendation:** The BFM should review and enhance their current internal review procedures to ensure that entries for securities lending assets and obligations are accurately recorded in the future.

**Agency Response:** BFM agrees with this finding and will develop and implement a Corrective Action Plan to strengthen internal controls over securities lending obligation reporting.

**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, 2008

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### Finding 08 – 14:

#### Office of the Budget – Bureau of Financial Management Treasury Comptroller Office/Investment Center

##### Internal Control Weaknesses in Investment Note Disclosure Reporting

**Condition:** The Bureau of Financial Management is responsible for preparing the Investment Note Disclosure which is included in the Commonwealth's basic financial statements (BFS) based on information provided by Treasury Comptroller's Office and various funds and component units. In comparing information in the detail files used by BFM to prepare the note disclosures required under GASB 40 with the information reported in Note D to the BFS, we detected material errors in Note D that required auditor-proposed adjustments as follows:

##### Investments by Type:

The information provided by Treasury Comptroller's Office to BFM is based on data received from Bank of New York Mellon (BNYM). BNYM relies on information provided by the Treasury's Investment Center to classify accounting entry investments reported in Treasury's portfolios. In two instances, the Treasury Investment Center provided the incorrect investment type to BNYM and the errors were not detected and corrected by Treasury Comptroller's Office until the auditors questioned the classification.

- \$463.1 million of PHEAA Notes classified as certificates of deposits should have been classified as state and municipal obligations; and
- \$10.6 million of Keystone Help private placements were incorrectly classified as certificates of deposits.

In addition, \$13.8 million in mutual funds were omitted from the disclosure of investments by type.

##### Concentration of Credit Risk:

BFM omitted material investments from one issuer in disclosing concentration of credit risk and misidentified the issuer in two other instances.

- \$99.8 million in Bank of America investments were omitted from the disclosure;
- \$20 million of Federal Home Loan Bank investments were incorrectly reported as Fannie Mae investments; and
- \$1 million of Fannie Mae investments were omitted from the disclosure.

##### Interest Rate Risk and Credit Risk Disclosures:

BFM included investments not subject to the interest rate risk and credit risk disclosure as follows:

- Equity mutual funds were incorrectly included in the interest rate risk schedule

**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:** Treasury Investment Center had inadequate reporting procedures causing it to provide incorrect investment types to Mellon Bank for the PHEAA Notes and Keystone Help private placements, which are accounting entries in BNYM's system. Internal review procedures at the BFM and Treasury Comptroller's Office were not thorough enough to detect and correct the errors noted above by the auditors.

**Effect:** Amounts reported in Note D of the Commonwealth's BFS were materially 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.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2008***

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### **Finding 08 – 14 (continued):**

**Recommendation:** BFM and Treasury Comptroller Office should review and enhance the internal review procedures in place to ensure amounts disclosed in the Commonwealth's BFS are accurately reported. These procedures should include a comparison of investment detail to the summaries used to prepare Note D. Treasury Investment Center also needs ensure that the investment types provided to BNYM for accounting entries in Treasury's portfolios are accurate. We further recommend that the draft of Note D prepared by BFM be provided to the Treasury Comptroller's Office for review prior to its release to the auditors.

**Treasury Response:** Treasury agrees with the assessment of Internal Control Weaknesses in Investment Note Disclosure Reporting. Treasury misclassified book entry securities at Bank of New York Mellon (BNY Mellon). Certificates of Deposit were overstated by \$473.7 million. The Treasury Department recognizes the importance of proper classification of investments. The Treasury Department Comptroller's Office has established regular meetings with the Investment Center to identify new investments. Further, the Comptroller's Office will review investments recorded at BNY Mellon to ensure proper classification.

**BFM Response:** BFM generally agrees with the Concentration of Credit Risk portion of the Finding but asserts that the issuer name is not completely consistent, accurate or even present in security-specific data provided by BNYM to the Treasury Department. This significantly impedes Treasury and BFM abilities to use such tools as Microsoft Excel because of variations in the source data and requires manual review, manipulation and other processing to ensure that all securities issued by a particular issuer are consistently, accurately and completely identified by both Treasury and BFM.

Regarding interest rate risk and credit risk disclosures, neither the Treasury Department nor BFM assigned option-adjusted duration or a credit rating to such equity mutual funds. Based on its review of relevant data, BFM made reasonable efforts to consistently and correctly classify types of investments. BNYM provided option-adjusted duration and/or credit quality for some specific investments but not all such investments; part of BFM's goal was to uniformly classify such investments as mutual funds. Part of this Finding relates to inconsistencies, inaccuracies and lack of security-specific data about investment type provided by BNYM to the Treasury Department. For several security-specific instances, BFM used different methods to try to identify or ascertain the correct investment type. Ultimately, for several situations and, importantly, with auditor concurrence, BFM used the caption Alternative Investments as investment type for disclosure purposes. BFM believes this is a way to fairly disclose such investments and allow financial statements users to relate different investment types to one another.

**Auditors' Conclusion:** Based on the agency response, the finding and recommendation remain as previously stated. Both BFM and Treasury need to significantly enhance their internal review procedures to avoid the reporting deficiencies noted in the finding. 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, 2008

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### Finding 08 – 15:

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

##### Internal Control Weaknesses in Reporting Self-Insurance Liability in the BFS (A Similar Condition Was Noted in Prior Year Finding #07-20)

**Condition:** For the third consecutive year, we noted internal control weaknesses in our audit of the Incurred But Not Reported (IBNR) portion of self-insurance tort liability reported in the BFS. Our testing of IBNR calculations disclosed that the Bureau of Risk and Insurance Management (BRIM) inappropriately used prior-year average reserve amounts and prior-year percentage of claims reported for one or more years after the event date in calculating the current-year IBNR portion of the torts self-insurance liability.

BRIM indicated that they had conferred with, and obtained approval from the Bureau of Financial Management regarding the use of prior-year reserve and claims data before calculating the current-year IBNR. Due to time constraints and because BRIM felt there was little year-over-year change in the average claim reserve and the percentage of claims reported after year-end, BRIM decided to use the prior-year data for the current-year calculations.

The prior-year average reserve amounts and percentage of claims reported one or more years after the event date were based on reserve reports provided by the Office of Attorney General (OAG), as were the total reserves reported. In the prior year, the auditors determined that the use of the OAG reserves and number of claims reported one or more years after event date yielded an IBNR that was reasonable compared to the IBNR calculated in previous years. While the same is true in the current year, BRIM's failure to update the average reserves and percentage of claims reported by year after the event date has the potential to result in material misstatements in the IBNR in the future.

In addition, in our prior-year finding, we noted inconsistencies and errors in prior-year IBNR calculations related to incorrect claim counts used to calculate average reserves which also affected the current-year IBNR calculations. Further, our prior-year testing detected duplicate claims and reserves in the prior-year data which affected the prior-year and current-year IBNR calculation.

Finally, based on prior and current-year testing of reserves, the auditors noted numerous instances in which the reserves established by both BRIM and OAG are substantially higher than the amounts ultimately paid for a claim. However, the IBNR calculation methodology does not take this into account.

**Criteria:** GASB Statement No. 10 requires insurance-type liabilities to be reported on the balance sheet when information available prior to the date of the financial statements indicates that it is probable that a liability has been incurred and when the amount of the liability, including any IBNR, can be reasonably estimated. Strong internal controls should ensure that the IBNR is based on valid data. Additionally, in order to reasonably estimate the IBNR, consideration should be given to a methodology that takes into account both the reserves and the payout patterns of claims.

**Cause:** BRIM used prior-year average claim reserves and prior-year percentage of claims reported after year end in calculating the IBNR due to time constraints in completing the IBNR calculations. Because the data on which the prior year IBNR was based included duplicate claims and reserves, both the current and prior-year IBNR calculations were affected.

**Effect:** The self-insurance tort liability is based on the reserves reported in BRIM's database and the calculated IBNR. The current-year IBNR is being inappropriately calculated using the prior year amounts for the number of claims reported after event year and the average reserves. As noted in our prior year finding, the IBNR depends on the accuracy of case status and other case reserve data used in the calculations. Because prior-year reserve data, which was not correct, is being used to calculate the current-year IBNR, there is an internal control weakness in the methodology for

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2008***

### **Finding 08 – 15 (continued):**

calculating IBNR. Although our substantive testing noted no material mis-statements of related accounts, the lack of an effective calculation methodology allows for the potential of future errors. Additionally, because only reserve data is used to calculate the IBNR, there is a potential overstatement of the self-insurance torts liability in future years.

**Recommendation:** We recommend that BRIM work with an actuary to develop and implement a reasonable methodology to estimate the IBNR portion of the tort self insurance liability. Amounts used in the calculation should be updated annually to ensure that current-year changes in reserve patterns and claim reporting patterns are reflected in determining the IBNR. Failing to retain an actuary, BRIM should endeavor to develop an in-house process to accurately reflect the IBNR portion of the self insurance tort liability.

**Agency Response:** The Department of General Services, Bureau of Risk and Insurance, acknowledges and agrees that there are weaknesses in its current IBNR calculation methodology and will attempt to seek the services of an actuary, or create an in-house process, to develop and implement a reasonable methodology to estimate the IBNR portion of the tort self insurance liability.

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

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2008

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### Finding 08 – 16:

#### Department of Conservation and Natural Resources

##### Internal Control Weaknesses Over Accounting for Land Capital Asset Purchases Reported in the BFS

**Condition:** Land purchases are assigned to the General Capital Assets account in the BFS when the title of the land passes to the Commonwealth or when payment for the land is rendered. We noted during the performance of fieldwork and through discussions with BFM staff and DCNR staff that, due to internal control weaknesses, portions of DCNR's land purchases were not being capitalized on the SAP System during the fiscal year ended June 30, 2008 as required by GAAP. In particular, DCNR's land purchases were not compared to the invoice detail by the fixed asset coordinator, and amounts were either not capitalized timely until the subsequent fiscal year or were not capitalized at all and were inappropriately charged as general expenses on SAP and in the BFS. For example, certain items such as timber rights and closing costs associated with each land purchase were inappropriately expensed by DCNR. This causes the General Capital Assets account on SAP and in the BFS to be understated for the fiscal year.

**Criteria:** Good internal control dictates that agency personnel possess the appropriate knowledge, expertise and information so that the agency's Capital Asset data can be properly maintained in SAP. This includes ensuring that land purchases are compared to the invoice detail and posted to General Capital Assets in a timely manner so that General Capital Assets are not misstated.

**Cause:** The BFS errors caused by the improper posting to General Capital Assets in SAP were primarily due to the inadequate and untimely communication regarding land purchases between DCNR's real estate specialist and the fixed asset coordinator and the lack of knowledge regarding items that should be capitalized by the fixed asset coordinator.

**Effect:** General Capital Assets for Land will be misstated in the future if internal controls (including a timely and detailed review function by the fixed asset coordinator at the agency) are not strengthened and proper training of agency personnel does not occur.

**Recommendation:** We recommend that procedures be developed that provide proper instruction for agency personnel to ensure proper Capital Asset accounting and financial reporting for land purchases. Capital Asset postings to SAP should be timely compared by the fixed asset coordinator to detailed purchasing and invoice payment documents to ensure accuracy of financial reporting in accordance with GAAP.

**Agency Response:** The individual responsible for informing the fixed asset coordinator of land purchases was not doing so on a recurring basis. In addition, the fixed asset coordinator was not making contact with the land purchase coordinator before the end of the fiscal year to ensure all assets were properly accounted for in the fixed asset system. This disconnect has been discussed with both parties. I have also tasked the Director of the Fiscal Division to add this requirement to the end of year checklist in order to ensure the condition does not reoccur.

**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, 2008**

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### **Finding 08 – 17:**

#### **Department of Treasury**

##### **Internal Control Weakness Over Accounting for the OPEB Fund Investments in the Consolidated Cash Pool**

**Condition:** Treasury Comptroller's Office is responsible for providing the Bureau of Financial Management (BFM) with cash and investment balances for the Other Post Employment Benefits (OPEB) Fund, a new Commonwealth fund reported in the BFS for the first time in the fiscal year ended June 30, 2008. The fund had temporary investments of \$110.8 million invested in the Consolidated Cash Pool at year-end. Treasury Comptroller's Office incorrectly classified the OPEB Fund's \$110.8 million in temporary investments as cash in the BFS, and an auditor adjustment was necessary.

**Criteria:** Effective internal controls are necessary to ensure that amounts reported in the Commonwealth's financial statements are properly classified.

**Cause:** Because Treasury's internal reports showed that OPEB's funds were classified as cash, the \$110.8 million was incorrectly classified in the information provided to BFM. The error was not detected by Treasury's review prior to transmitting the information to BFM for inclusion in the Commonwealth's financial statements.

**Effect:** The cash with Treasurer and temporary investments balances at year-end were misclassified and a material adjustment was required. Inadequate controls will result in future misstatements in the BFS as well.

**Recommendation:** We recommend that procedures be developed to ensure that BFS reporting information prepared by Treasury is adequately reviewed prior to releasing it to BFM.

**Agency Response:** Treasury agrees with the assessment of Internal Control Weakness Over Accounting for the OPEB Fund Investment at June 30, 2008. At fiscal year end, the OPEB funds were invested in the Consolidated Cash Pool as a temporary investment. These funds have since been properly classified as investments.

**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, 2008

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### Finding 08 – 18:

#### Public Health and Human Services Comptroller Office

##### Internal Control Weaknesses Over Financial Reporting in the Department of Public Welfare GAAP Template (A Similar Condition Was Noted in Prior Year Finding #07-17)

**Condition:** The Public Health and Human Services (PHHS) Comptroller's Office is responsible for the preparation of the DPW GAAP template used to report amounts in the General Fund in the BFS. As a result of audit procedures performed, we discovered several errors and internal control weaknesses in the GAAP template preparation process as follows:

- There was a \$23 million error in accounting for federal disallowances which caused an overstatement of federal accounts receivable.
- There was a \$92.3 million error in DPW's accounts receivable balance, in which the supporting schedule and the final accounts receivable template balance did not match, causing an understatement in the receivable.
- The definition used by the individuals in calculating the Medicaid third party liability accounts receivable balance caused a \$112.6 million understatement in the receivable balance.
- Incorrect reports were used when calculating the nursing home accounts receivable balances.
- The payable to the County nursing facilities for the Medical Assistance Day One Incentive (MDOI) program was not included in the template.

In several instances, auditor adjustments were necessary to correct DPW's amounts in the current-year BFS.

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

**Cause:** The above noted misstatements were caused by oversights and errors in PHHS's preparation and review procedures for the GAAP template. Comptroller personnel did not recheck the preparer's work at a level that would detect the above-noted errors, and also relied on e-mailed estimates from the preparers without supporting backup. Further, effective analytical procedures were not performed on current-year amounts presented in the GAAP template.

**Effect:** Account balances were materially misstated and required auditor adjustments. The noted weaknesses in internal review procedures could result in additional misstatements in the future.

**Recommendation:** We recommend that the PHHS Comptroller's Office personnel re-check work at a level necessary to detect and correct errors as noted above. We recommend supporting documentation be provided to the template preparers. This support should be detailed evidence of amounts versus emailed estimates without supporting backup. Analytical procedures should be performed on all significant accounts and on detailed balances within those accounts.

**Agency Response:** Except as noted below related to the nursing home receivables balances, PHHS concurs with this finding.

PHHS Federal Accounting has modified its process for recognizing federal disallowances when calculating year end federal receivables used in the preparation of the DPW GAAP template.

Also, PHHS has modified its GAAP template preparation and review process to ensure that reported amounts such as DPW's accounts receivable are properly accounted for in the GAAP templates.

Regarding program office estimates such as estimates related to the Medicaid third party liability accounts receivable, PHHS will require that the agencies provide estimates using reasonable and measurable estimation methodologies with backup at a sufficient level of detail. In addition, PHHS will perform a validation of such estimates before finalizing GAAP entries.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2008***

### **Finding 08 – 18 (continued):**

Regarding the nursing home receivables balances, it should be noted that although the agency used incorrect reports when calculating its nursing home accounts receivable balances, PHHS identified this error as part of its analysis and review during the GAAP template preparation process. As a result, the actual receivable balances included in the GAAP template by PHHS were correct and required no audit adjustment. PHHS will work with the agency to ensure they are calculating the nursing home receivable balances correctly.

Regarding the payable to the County nursing facilities for the Medical Assistance Day One Incentive (MDOI) program, PHHS will include the MDOI program when calculating the county nursing facilities payable balances for future GAAP templates.

**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, 2008***

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### **Finding 08 – 19:**

#### **Office of the Budget Office of Administration**

##### **General Computer Controls in Various Commonwealth Agencies Need Improvement**

**Condition:** Our review of general computer controls at numerous Commonwealth agencies during the fiscal year ended June 30, 2008 disclosed the following internal control deficiencies that need to be addressed by Commonwealth management:

##### Pennsylvania Lottery

1. The production environment is not monitored for unauthorized changes.
2. Password complexity rules have not been established within the Back Office application.
3. One employee appeared on the data center access list twice with two separate badge numbers.
4. Periodic access appropriateness reviews or auditing of privileged IT functions are not completed.
5. One employee appeared on the list of developers and was on the active user listing on the UNIX production server indicating that he could both develop and promote changes.

##### Department of Labor and Industry

1. There is no formal monitoring of changes in place.
2. There were three RACF User IDs listed as both a promoter and developer for the GPSS group (Change Control Authority Group).
3. There is no documentation recorded surrounding the solutions to a failed backup.
4. Evidence of change authorization is not retained.
5. There is currently no periodic access appropriateness review conducted.
6. A change was approved by an employee to move into production. It was noted that the employee did not appear on the authorized list of promoters.

##### Office of Administration

1. There is currently no monitoring process in place to monitor the production environment to detect if unauthorized changes have been placed into the production environment.
2. There are five accounts which share root access. Best security practices recommend that administrators perform the “su” (substitute or switch user) command to access the root, not share group membership with it.
3. There is currently no periodic access appropriateness review conducted.
4. Auditors were unable to obtain evidence to support the description of the processes in place for physical access.
5. Auditors were unable to obtain evidence to support the description of the processes in place for data back-up.
6. Auditors were unable to obtain evidence to support the description of the processes in place for job scheduling.

##### Department of Public Welfare

1. CMCB meeting minutes authorizing changes are not retained.
2. The MD205.34 (new user) form does not list what level(s) of access are being requested nor does it contain authorization from a data owner(s).
3. There is currently no periodic review of access appropriateness or auditing of privileged IT functions completed.
4. There is currently no process in place to monitor changes that move into production.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2008***

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### **Finding 08 – 19 (continued):**

5. Four of 40 separated users tested did not have access disabled or deleted timely.
6. Auditors were unable to obtain evidence to support the description of the process in place for privileged IT access.

#### Department of Transportation

1. CMS does not have a separate development environment; development is done within the test environment.
2. There is currently no monitoring process in place to monitor the production environment to detect if unauthorized changes have been placed into the production environment.
3. 57 users had inappropriate privileged IT access (users with the 'SPECIAL', 'AUDITOR', or 'OPERATIONS' attribute).
4. On the data center access list, there were three duplicates.
5. There is currently no periodic access appropriateness review or privileged IT function auditing conducted for DOT applications.
6. Change 18008-IMSDAY Upgrade from V8.1 to 9.1 was authorized by Change Management Unit PennDOT\_BIS. This user was on the authorized SRS user listing. However, Change Management Unit PennDOT\_BIS is a group account and the specific authorizer of change 18008 could not be identified.
7. Evidence to indicate that Change 18008 was tested was not available.

#### Department of Health

1. There is no formal change management process for the MCH application.
2. One individual was listed as both a developer and a user with the ability to promote into production.
3. There is not a formalized monitoring process in place to monitor the production environment for unauthorized changes.
4. There is currently not a formal process in place for requesting and granting access to DOH applications. Requests are informally communicated through e-mails which are not retained.
5. There is currently not a formal process in place for removing access to DOH applications. Requests are informally communicated through e-mails which are not retained.
6. A periodic review is completed for executables on user systems. However, documentation and findings of this review are not retained.
7. Auditors were unable to obtain evidence to support the description of the processes in place for physical access.
8. Auditors were unable to obtain evidence to support the description of the processes in place for data back-up.
9. Auditors were unable to obtain evidence to support the description of the processes in place for job scheduling.

#### Department of Education

1. No periodic access review (i.e., no revalidation of users) is conducted.
2. No monitoring of user access violations is conducted.

#### Department of Revenue

1. Lack of segregation of duties – programmers can promote changes to production in both the client server and mainframe environments.

#### Liquor Control Board

1. No periodic access review (i.e., no revalidation of users) in the mainframe, point of sale, and warehouse management systems.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2008***

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### **Finding 08 – 19 (continued):**

2. No monitoring of user activity for access violations in the mainframe, point of sale, and warehouse management systems.
3. Lack of segregation of duties – programmers can promote changes to production in the point of sale and warehouse management systems.
4. Lack of physical access controls over the point of sale and the warehouse management systems.

**Criteria:** Good internal control 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 has not been able to improve its operations within the overall agency general computer controls areas to resolve the control deficiencies reported above. The main cause relates to limited staffing/budgets available to the agencies. Commonwealth management also believes that, although strong general computer controls are clearly important in agency operations, there are additional manual internal controls in place elsewhere within these agency operations that serve to directly mitigate the impact of the general controls deficiencies reported above.

**Effect:** 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. Based on the results of our audit testwork, we agree with management's conclusion that there are additional manual internal controls in place elsewhere within various agency operations which, if functioning effectively, directly mitigate the impact of the exceptions reported above. However, collectively we consider all the above exceptions to be control deficiencies under generally accepted auditing standards, and many of these control deficiencies are considered to be significant under these standards, most importantly where outside manual controls are removed or become ineffective in certain agencies. The auditing standards define deficiencies as significant when a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

### **Lottery Response:**

1. The production environment is not monitored for unauthorized changes. - We concur with this finding. We agree that the production environment is not correctly monitored for unauthorized changes. We will develop and implement a procedure and mechanism to monitor for unauthorized changes in the production environment.
2. Password complexity rules have not been established within the Back Office application. - We concur with this finding. We will develop password complexity rules and enforce them in the production environment. We will also request an enhancement from the software vendor to develop password complexity rules on the back office application.
3. One employee appeared on the data center access list twice with two separate badge numbers. - We concur with this finding. Our evaluation found that the employee had previously replaced a damaged badge and the damaged badge account had not been deactivated on the system. Lottery Security took immediate action and deactivated the old damaged badge account on February 12, 2009.
4. Periodic access appropriateness review or auditing of privileged IT functions are not completed. - We concur with this finding. The Lottery will develop a procedure to periodically perform an appropriateness review on the production environment. We will develop a procedure for the audit of privileged IT functions in the production environment.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2008***

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### **Finding 08 – 19 (continued):**

5. One employee appeared on the list of developers and the was on the active user listing on the UNIX production server indicating that he could both develop and promote changes. - We believe this finding to be acceptable as written. We have reviewed this finding and agree that the employee appears on both the developers list and on the Unix Production Server. We will create a plan and procedure to ensure that a developer does not have access to the check in control system on the UNIX production server

### **Labor and Industry Response:**

1. There is no formal monitoring of changes in place. - Further clarification needed. - Security Division Change Control staff are notified by either “e-mail” or the “TSO Notify process” that a mainframe change request has been submitted. Change Control staff only action those Elements requested and then ensure that those Elements have been successfully promoted. Only the Requester can determine, for certain, the Element changed is correct
2. There were three RACF User IDs listed as both a promoter and developer for the GPSS group (Change Control Authority Group). - Unacceptable. - The three individuals listed all have authority to create and promote member Elements in the Endeavor Production (**NDVRPROD**) environment as so identified. Two of these individuals are current Security Division Change Control staff and the third is a former staff member who is available as an emergency backup. These individuals are performing only "Endeavor Administrator" roles after the Endeavor element has already received “**Requester**” and “**Approver**” roles accomplished in the lower, Endeavor Test (**NDVRTEST**) environment.
3. There is no documentation recorded surrounding the solutions to a failed backup. - Failed backups are tracked on a daily basis through an automated monitoring system within Tivoli Storage Manager (TSM). Each morning a report is generated and emailed to the TSM Administrators. Every server on the report is thoroughly checked and any issues that would have prevented a normal nightly backup are fixed. In some cases an incremental backup is kicked off during the day, however normally the following night’s backup will cover any missed files from the day before.
4. Evidence of change authorization is not retained. - Unacceptable. - Change Control staff retains “hard” copies of the following “Production Change Request” Activity: i. All Program change requests that require BUR-3076; ii. All Sort Card requests and; iii. All “Delete” and “Sign IN” Element requests
5. There is currently no periodic access appropriateness review conducted. - Through feed from the IES system, Remedy tickets are generated for separations and transfers. As part of this process, emails are automatically created and sent to the supervisor in the bureau the employee is leaving to ask them to review the employee’s access and request removal of access, as appropriate.
6. A change was approved by an employee to move into production. It was noted that the employee did not appear on the authorized list of promoters. - Answer provided by OIT support at SWIF: ‘...it would depend on what it was that the employee approved. She, as well as other SWIF UC’s, do sign off on test items for SWIF.’

### **Office of Administration Response:**

1. There is currently no monitoring process in place to monitor the production environment to detect if unauthorized changes have been placed into the production environment. - The agency accepts this finding. The OA will review existing policy and develop or enhance that policy, implement controls and reporting as needed.
2. There are five accounts which share root access. Best practices recommend that administrators perform a “su” (substitute or switch user) to access the root, not share group membership. - The finding is correct and the OA accepts this finding. The process identified in the finding had been used to provide accountability of those accessing the system in support roles. The OA will review the logs available with the system to determine if users can be identified through “su” access. The goal will be to have a complete audit trail from the “su” access.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2008***

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### **Finding 08 – 19 (continued):**

3. There is currently no periodic access appropriateness review conducted. - The agency accepts this finding. Although users should be removed as part of the exit process when leaving an agency, that process may not always be followed. OA will look to develop a process to periodically review the user base and generate reports for user agency reviews.
4. Auditors were unable to obtain evidence to support the description of the processes in place for physical access. - The agency accepts this finding. The OA will review existing policy and develop or enhance that policy, implement controls and reporting as needed.
5. Auditors were unable to obtain evidence to support the description of the processes in place for data backup. - The agency accepts this finding. The OA will review existing policy and develop or enhance that policy, implement controls and reporting as needed.
6. Auditors were unable to obtain evidence to support the description of the processes in place for job scheduling. - The agency accepts this finding. The OA will review existing policy and develop or enhance that policy, implement controls and reporting as needed.

### **Department of Public Welfare Response:**

1. Change Management Control Board (CMCB) meeting minutes authorizing changes are not retained. - Further clarification needed. – We are unsure of the basis for #1. Specifically, DPW requests information pertaining to the questions posed by the audit team and who was interviewed that led to the finding. DPW does in fact have sustainable CCMB processes and does track changes accordingly.
2. The MD205.34 (new user) form does not list what level(s) of access are being requested nor does it contain authorization from a data owner(s). - DPW is currently working with GOA/OIT to implement IBM's Tivoli for user account provisioning and de-provisioning. We are also working on implementing Remedy Tracking system for user account maintenance. Both of these products have back end databases that store information about when access was granted, who granted the access and also when the access was removed.

The Tivoli product will be used when user accounts are created and deleted. It will automatically provision the application access and record the information in a backend database that will provide the ability to create audit reports.

With Tivoli having a centralized database of all the access a specific user account has, it will ensure that all access is revoked once a user is de-activated or disabled and keep a record of the action in its database.

Also as part of the Tivoli project, DPW has been currently working on a RBAC (Role Based Access Control) project since July 2008. This has been focusing on streamlining the process for application requests and role approval process and as part of the project, we have been doing reviews of various sites to verify that the appropriate people have the correct application access and that there aren't any user accounts that aren't needed.

Remedy will be used to request the modification of existing user accounts and to request access to various DPW applications. Once the request is entered into Remedy, DPW's account administration team will assign the appropriate application roles depending on what is being requested. This information will also be stored in a backend database with the ability to pull off audit reports on who requested the access and when the request was completed.

Both of these initiatives will solve the issue of recording who requested application access, when it was granted, and also ensure that timely removal of access occurs.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2008

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### Finding 08 – 19 (continued):

3. There is currently no periodic review of access appropriateness or auditing of privileged IT functions completed. - DPW is currently working with GOA/OIT to implement IBM's Tivoli for user account provisioning and de-provisioning. We are also working on implementing Remedy Tracking system for user account maintenance. Both of these products have back end databases that store information about when access was granted, who granted the access and also when the access was removed.

The Tivoli product will be used when user accounts are created and deleted. It will automatically provision the application access and record the information in a backend database that will provide the ability to create audit reports.

With Tivoli having a centralized database of all the access a specific user account has, it will ensure that all access is revoked once a user is de-activated or disabled and keep a record of the action in its database.

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Remedy will be used to request the modification of existing user accounts and to request access to various DPW applications. Once the request is entered into Remedy, DPW's account administration team will assign the appropriate application roles depending on what is being requested. This information will also be stored in a backend database with the ability to pull off audit reports on who requested the access and when the request was completed.

Both of these initiatives will solve the issue of recording who requested application access, when it was granted, and also ensure that timely removal of access occurs.

4. There is currently no process in place to monitor changes that move into production. – Further clarification needed. - We are unsure of the basis for #4. Specifically, DPW requests information pertaining to the questions posed by the audit team and who was interviewed that led to the finding. DPW does in fact have sustainable CCMB processes and does track changes accordingly.
5. Four of 40 separated users tested did not have access disabled or deleted timely. - DPW is currently working with GOA/OIT to implement IBM's Tivoli for user account provisioning and de-provisioning. We are also working on implementing Remedy Tracking system for user account maintenance. Both of these products have back end databases that store information about when access was granted, who granted the access and also when the access was removed.

The Tivoli product will be used when user accounts are created and deleted. It will automatically provision the application access and record the information in a backend database that will provide the ability to create audit reports.

With Tivoli having a centralized database of all the access a specific user account has, it will ensure that all access is revoked once a user is de-activated or disabled and keep a record of the action in its database.

Also as part of the Tivoli project, DPW has been currently working on a RBAC (Role Based Access Control) project since July 2008. This has been focusing on streamlining the process for application requests and role approval process and as part of the project, we have been doing reviews of various sites to verify that the appropriate people have the correct application access and that there aren't any user accounts that aren't needed.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2008

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### Finding 08 – 19 (continued):

Remedy will be used to request the modification of existing user accounts and to request access to various DPW applications. Once the request is entered into Remedy, DPW's account administration team will assign the appropriate application roles depending on what is being requested. This information will also be stored in a backend database with the ability to pull off audit reports on who requested the access and when the request was completed.

Both of these initiatives will solve the issue of recording who requested application access, when it was granted, and also ensure that timely removal of access occurs.

6. Auditors were unable to obtain evidence to support the description of the process in place for privileged IT access. - DPW is currently working with GOA/OIT to implement IBM's Tivoli for user account provisioning and de-provisioning. We are also working on implementing Remedy Tracking system for user account maintenance. Both of these products have back end databases that store information about when access was granted, who granted the access and also when the access was removed.

The Tivoli product will be used when user accounts are created and deleted. It will automatically provision the application access and record the information in a backend database that will provide the ability to create audit reports.

With Tivoli having a centralized database of all the access a specific user account has, it will ensure that all access is revoked once a user is de-activated or disabled and keep a record of the action in its database.

Also as part of the Tivoli project, DPW has been currently working on a RBAC (Role Based Access Control) project since July 2008. This has been focusing on streamlining the process for application requests and role approval process and as part of the project, we have been doing reviews of various sites to verify that the appropriate people have the correct application access and that there aren't any user accounts that aren't needed.

Remedy will be used to request the modification of existing user accounts and to request access to various DPW applications. Once the request is entered into Remedy, DPW's account administration team will assign the appropriate application roles depending on what is being requested. This information will also be stored in a backend database with the ability to pull off audit reports on who requested the access and when the request was completed.

Both of these initiatives will solve the issue of recording who requested application access, when it was granted, and also ensure that timely removal of access occurs.

### Department of Transportation Response:

1. CMS does not have a separate development environment; development is done within the test environment. - Unacceptable. - It is true that a separate development environment **does not** exist for the CMS application, as stated in the "Weakness" category. However, a separate development environment **does exist** for the CARATS and DL&C environments; in addition to a 'dev' environment, there are two additional test environments to support System Test and User Acceptance Test.

CMS is a legacy application which contains engineering contract information still needed and accessed by the new ECMS system. No new development is done in CMS, but when changes to ECMS affect the interface to CMS, the test environment may be utilized for system testing.

This clarification may not alter the overall 'severity' which included items 2, 6 and 7, but the lack of a development environment for CMS only would not exacerbate the overall risk represented by the other findings.

# COMMONWEALTH OF PENNSYLVANIA

## Basic Financial Statement Findings - June 30, 2008

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### Finding 08 – 19 (continued):

2. There is currently no monitoring process in place to monitor the production environment to detect if unauthorized changes have been placed into the production environment. - The Department does not have a tool or manual process to detect if unauthorized changes have been placed into the production environment.

Changes going into the production environment are documented through the change management process. The number of personnel who make changes in the production environment is limited. There is a separation of duties; for example, application developers do not have access to move new code into production. Change requests must be submitted and only the Automations Unit staff can move the new code to production.

3. 57 users had inappropriate privileged IT access (users with the 'SPECIAL', 'AUDITOR', or 'OPERATIONS' attribute). - We agree with this finding and its severity. The inappropriate users who had access were removed during the first quarter of 2009. We will institute a quarterly review of privileged access to determine the suitability of this capability. Details will be forthcoming in our corrective action plan.
4. There is currently no periodic access appropriateness review or privileged IT function auditing conducted for DOT applications. - We agree with this finding and its severity. As part of our corrective action plan we will develop a procedure to annually review access.
5. On the data center access list, there were three duplicates. - We agree with this finding and its severity. The duplicates have been removed. We will develop a strategy to review access on a quarterly basis. Details will be forthcoming in the corrective action plan.
6. Change 18008-IMSDAY Upgrade from V8.1 to 9.1 was authorized by Change Management Unit PennDOT\_BIS. This user was on the authorized SRS user listing. However, Change Management Unit PennDOT\_BIS is a group account and the specific authorizer of change 18008 could not be identified. – Further clarification needed. - An authorized person did approve the request, so perhaps clarification it needed to understand the approval process.

Data PowerHouse (DPH) utilizes Remedy to track their change tickets. The Department does not have access to DPH's Remedy System, so email notifications of all DPH change tickets are sent to the Department. When they are received, the Change Management Unit enters the information in the SRS system for tracking and information sharing. The official approval for a change ticket is sent to DPH in an email. The email will indicate the person who approved the ticket. Change ticket 18008 was approved by an authorized person on September 18, 2008. This person is included on the list of personnel authorized to approve change tickets. Personnel in the Change Management Unit are responsible for updating the status for SRSs that are DPH change tickets. That is why the group id is in the SRS. The email is the official approval.

7. Evidence to indicate that Change 18008 was tested was not available. – Further clarification needed. - Change 18008 was tested prior to implementation. Change ticket number 18007 upgraded IMS from version 8.1 to 9.1 in the test environment. Change 18007 was implemented on September 14, 2008. After the change was made, testing was coordinated with the technical support staff, including application developers. Testing was conducted and the results were discussed, before approving ticket 18008 on September 18, 2008. There was a production system checkout after the change was implemented.

The documentation is in multiple change tickets, SRS request and emails. It could be improved, so the information is more readily accessible.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2008***

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### **Finding 08 – 19 (continued):**

#### **Department of Health Response:**

1. There is no formal change management process for the MCH application. – Further clarification needed. - This was generally discussed in the February 27 draft findings review meeting with Auditor General and Ernst & Young staff. It is not clear what lead to this conclusion, which appears to have been first identified in the June 30, 2007 audit. While there are infrequent changes to the MCH application, which is in a “contain” status, such changes go through a change review process.
2. One individual was listed as both a developer and a user with the ability to promote into production. - The agency agrees with this finding. The individual, a contracted developer, was given rights for promotion during a previous testing/ implementation cycle and the rights remained. A remedy ticket is being submitted to deactivate the rights.
3. There is not a formalized monitoring process in place to monitor the production environment for unauthorized changes. - The agency agrees with the finding. Current procedures will be reviewed to establish an auditable monitoring process.
4. There is currently not a formal process in place for requesting and granting access to DOH applications. Requests are informally communicated through e-mails which are not retained. - The formal process for such requests, the online Remedy ticket system, was implemented during the audit period and is the method of choice. The use of this process as the exclusive request mechanism for such changes is being reinforced to management and requestor staff. Recipients of email requests are being advised to return these request unfulfilled.
5. There is currently not a formal process in place for removing access to DOH applications. Requests are informally communicated through e-mails which are not retained. - The agency agrees with the finding. Its resolution is similar to that taken for #4. Current procedures will be reviewed to establish an auditable monitoring process.
6. A periodic review is completed for executables on user systems. However, documentation and findings of this review are not retained. - The agency agrees with the finding. Current procedures will be reviewed to establish an auditable monitoring process.
7. Auditor was unable to obtain evidence to support the description of the processes in place for physical access. – Further clarification needed. - This was not discussed in the February 27 draft findings review meeting with auditor staff. It does not appear that this information was requested on the Client Assistance List or during the audit. The processes are in place and can be demonstrated if requested.
8. Auditor was unable to obtain evidence to support the description of the processes in place for physical data back-up. – Further clarification needed. - This was not discussed in the February 27 draft findings review meeting with auditor staff. It does not appear that this information was requested on the Client Assistance List or during the audit. The processes are in place and can be demonstrated if requested.
9. Auditor was unable to obtain evidence to support the description of the processes in place for physical job scheduling. – Further clarification needed. - This was not discussed in the February 27 draft findings review meeting with auditor staff. It does not appear that this information was requested on the Client Assistance List or during the audit. The processes are in place and can be demonstrated if requested.

#### **Department of Education Response:**

1. No periodic access review (i.e., no revalidation of users). – Further clarification needed. - The Pennsylvania Department of Education is unable to present an appropriate management decision based on the information provided for this reference of the finding. The reference does not provide any audit detail of the finding under the following categories: Rationale for categorization - Finding vs. MLC, Condition, Criteria, Cause, Effect, and Recommendation.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2008***

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### **Finding 08 – 19 (continued):**

2. No monitoring of user access violations. – Unacceptable. - The Pennsylvania Department of Education (PDE) is unable to provide an appropriate management decision based on the information provided for this reference of the finding. The audit finding detail does not relate to the weakness as discussed at the auditor's GAAP Exit Conference with PDE as listed under the following categories: Rationale for categorization - Finding vs. MLC, Condition, Criteria, Cause, Effect, and Recommendation.

### **Department of Revenue Response:**

1. Lack of segregation of duties – programmers can promote changes to production in both the client server and mainframe environments. - The Keystone Integrated Tax System (KITS) currently requires that production implementation of program changes be performed by two designated management employees. In most other mainframe and client/server systems it is operationally impractical to have quality assurance employees migrate programs into production. The expertise needed for program migration to production lies with the programming staff, and programmers implement their production program changes under the direction and control of a lead analyst. The bureau understands the risk created by the current method.

### **PA Liquor Control Board Response:**

1. No periodic access review (i.e., no revalidation of users) in the mainframe, point of sale and warehouse management systems. - The Audit findings are acceptable. The agency does not have a periodic access review. However, what we do have on a regular basis is a review of user account usage in our 3 warehouses. User account usage is monitored by our Security Team and if the user account has not been used the account is locked. A locked out user will need approval from supervisors to re-gain the lost access.
2. No monitoring of user activity for access violations in the mainframe, point of sale and warehouse management systems. - The agency does not monitor this type of activity, however, we do have a lock-out of an account after a user attempts to log on and the log on fails a certain number of times.

Also, some of our transactional activity is role-based, therefore, users without a specific role cannot perform functions that are not associated with that role.

3. Lack of segregation of duties – programmers can promote changes to production in the point of sale and warehouse management systems. - While we do not have segregation of duties for programmers of the Point-of-Sale system, extensive testing is completed by the user community before migrating code to the production environment.

The warehouse management system (RIMS) is purchased software. PLCB programmers cannot make changes to production RIMS software. If changes are required, PLCB needs to contact the software vendor (Robocom). PLCB programmers can create custom reports that can be promoted to the production environment by the developer.

While the Agency recognizes the need for separation of duties, lack of funding has limited the expansion of staff for complete separation of duties.

4. Lack of physical access controls over the point of sale and the warehouse management systems. - The POS upgrade project has taken into consideration the need for lockable storage units for IT related equipment. Project implementation is planned for 2010.

Also, lockable storage units have also been planned for with future enhancement at warehouse distribution centers.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2008***

### **Finding 08 – 19 (continued):**

**Auditors' Conclusion:** Based on the agency responses above, our findings and recommendations remain as previously stated. We will review any additional information and clarifications provided in the agency responses, along with all proposed corrective action, and discuss any additional clarifications with auditee officials as soon as possible in our subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Basic Financial Statement Findings - June 30, 2008***

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### **Finding 08 – 20:**

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

##### **Internal Control Weakness in the Financial Accounting Records (A Similar Condition Was Noted in Prior Year Finding #07-12)**

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

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

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

**Effect:** As a result of not fully implementing a method to timely open item manage Balance Sheet accounts by the end of the fiscal year, as well as not fully implementing procedures to timely reconcile accounts not subject to open item management, the risk that errors might occur in the accounting records is heightened.

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

**Agency Response:** BFM believes that, with few exceptions, suitable, sufficient controls existed for June 30, 2008 GAAP reporting for cash, investments, taxes/loans/investment income receivable and capital assets and that those significant accounts that are not open item managed are properly reconciled and monitored to mitigate the risk of material misstatement. However, BFM will continue to expand the functionality of “open item management” to additional balance sheet accounts as a means of improving the overall efficiency of our operations.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2008***

### **Finding 08 – 20 (continued):**

**Auditors' Conclusion:** As noted above, the auditors find this weakness to be a control deficiency, not an issue of efficiency. 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, 2008

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### Finding 08 – 21:

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

#### Statewide Weaknesses Within the SAP Accounting System Related to Segregation of Duties Conflicts (A Similar Condition Was Noted in Prior Year Finding #07-21)

**Condition:** As noted in similar findings in the past five years since SAP was implemented, our review and testing of the Commonwealth's internal controls over transactions posted to the SAP accounting system again noted internal control weaknesses regarding segregation of duties in the overall SAP environment. On a statewide basis, we initially noted in our testwork that identified SAP segregation of duties conflicts in user role assignments has decreased from 227 user conflicts last year to 145 user conflicts this year; however, conflicts continue to exist and monitoring by management as required by Management Directive (MD) 205.37 to reasonably justify these user role assignments as appropriate does not appear to be comprehensive in scope. These conflicts specifically related to expenditures/expenses posted directly to the Commonwealth's Goods Receipt/Invoice Receipt (GR/IR) and accounts payable accounts. Subsequent to our testwork, management provided documentation which demonstrated that 62 of these 145 identified conflicts were actually not conflicts for various reasons. The remaining 83 GR/IR and accounts payable conflicts require that mitigating controls be in place, as called for in the directive; but, these controls were not addressed by management in detail.

Additionally, we noted that 38 users have the ability to both develop and promote changes into the production environment, which appears inappropriate without the monitoring and justification required by MD 205.37. Subsequent to our testwork, we were provided with detail indicating that 19 of the 38 users had required some type of transfer authorization which was provided in accordance with a Transport Approval Process standard operating procedure designed to only assign this role when needed to maintain the system and to monitor access to and use of the system by this role, but this control was not evaluated fully and completely by management in detail. Included in the remaining 19 are 9 individuals accorded extensive access privileges.

**Criteria:** Proper segregation of duties on the SAP System is critical in minimizing and mitigating the risks of inappropriate transactions occurring. Where segregation of duties conflicts are determined to be necessary, adequate documentation should be maintained in accordance with MD 205.37 to demonstrate proper review and justify user conflicts as appropriate in the circumstances.

**Cause:** It appears that many 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, it does not appear that enough revocation and refinement of roles has occurred since the bulk of the implementations occurred during prior audit periods. Also, it appears that additional potential conflicts may have been created after the SAP implementation for various business reasons. There is only a portion of the required procedures in place to properly review and justify these SAP role assignments in accordance with MD 205.37.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Basic Financial Statement Findings - June 30, 2008***

### **Finding 08 – 21 (continued):**

and appropriate detect controls implemented. SAP roles in expenditure posting should be more closely monitored and all potential segregation of duties conflicts on the SAP System should be appropriately documented, reviewed, and justified as required by MD 205.37.

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

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

**Agency Response:** The Commonwealth will take necessary action to address the 83 potential segregation of duties conflicts resulting from individuals being assigned both GR/IR roles and Accounts Payable roles in SAP. The Commonwealth will also evaluate the 19 individuals accorded "extensive access privileges" to ascertain actions that can be taken to remove troublesome role assignments or to mitigate their risk.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2008

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
08-22*	10.551 93.558 93.575 93.596	Food Stamps Temporary Assistance for Needy Families Child Care and Development Block Grant Child Care Mandatory & Matching Funds	Internal Control Weaknesses at DPW Related to Returned EBT Cards (Prior Year Finding #07-23)		DPW	94	316
08-23**	10.551 93.558 93.575 93.596 93.778	Food Stamps Temporary Assistance for Needy Families Child Care and Development Block Grant Child Care Mandatory & Matching Funds Medical Assistance	Internal Control Deficiencies at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #07-22)		DPW	96	316
08-24**	10.553 10.555 10.556 10.559 10.558	Child Nutrition Cluster    Child & Adult Care Food Program	PDE Failed to Reconcile PEARS Meal Count and Expenditure Information to the SAP Accounting System		PDE	105	317
08-25**	10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Noncompliance and Internal Control Weaknesses Related to Voided Food Instrument Follow-Up Results in Likely Questioned Costs Over \$10,000 (Prior Year Finding #07-24)	\$26	DOH	107	318
08-26**	10.561 93.558	State Administrative Matching Grants for Food Stamp Program Temporary Assistance for Needy Families	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs (Prior Year Finding #07-49)	Unknown	DPW	110	318
08-27**	12.401	National Guard Military Operations and Maintenance Projects	Noncompliance and Deficiencies in Internal Control Over Charging of Personnel Costs (Prior Year Finding #07-25)		DMVA	118	319
08-28	12.401	National Guard Military Operations and Maintenance Projects	Improper FFP Rate Results in Questioned Costs of \$44 and Likely Questioned Costs Over \$10,000	\$44	DMVA	121	319

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

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2008

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
08-29**	14.228	Community Development Block Grants/ State's Program	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #07-27)		DCED	123	319
08-30**	16.007 97.004 97.067	Homeland Security Cluster	Internal Control Deficiency Over Expenditure Information Reported on the SEFA and Financial Status Reports by PPR Comptroller		PPR	126	320
08-31**	16.007 97.004 97.067	Homeland Security Cluster	Unallowable Equipment Purchase Results in Questioned Costs of \$10,204 and Internal Control Deficiencies and Noncompliance in PEMA's Subrecipient Monitoring (Prior Year Finding #07-28)	\$10,204	PEMA	128	320
08-32**	16.007 97.004 97.067	Homeland Security Cluster	Noncompliance and Internal Control Deficiency Over Period of Availability Requirements Results in Questioned Costs of \$251,420 (Prior Year Finding #07-29)	\$251,420	PEMA	133	321
08-33**	17.245	Trade Adjustment Assistance	Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (Prior Year Finding #07-30)		L&I	135	321
08-34**	17.245	Trade Adjustment Assistance	Internal Control Weakness and Inaccurate Reporting on the ETA 9130 Reports		L&I LECS	143	322
08-35**	84.010 84.367	Title I Grants to Local Educational Agencies Title II Improving Teacher Quality State Grants	PDE During-the-Award Monitoring Failed to Document and Ensure Subrecipient Compliance with Title I and Title II Regulations		PDE	145	322
08-36*	84.010 84.367	Title I Grants to Local Educational Agencies Title II Improving Teacher Quality State Grants	Inadequate Controls Over Ensuring Compliance With MOE Requirements (Prior Year Finding #07-33)		PDE	148	323

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

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2008

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
08-37**	84.010 84.027 84.367	Title I Grants to Local Educational Agencies Special Education Grants to States Title II Improving Teacher Quality State Grants	Inadequate PDE Monitoring Controls Over Subrecipient Compliance With Cash Management Regulations		PDE LECS	150	324
08-38**	84.010	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 #07-34)		PDE	152	324
08-39**	84.048	Career & Technical Education – Basic Grants to States	Errors and Internal Control Weaknesses in PDE's CTE Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (Prior Year Finding #07-35)		PDE	156	325
08-40*	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Control Deficiency Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA Results in Unsupported Program Income (Prior Year Finding #07-38)		L&I	160	326
08-41**	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	A Control Deficiency Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #07-36)		L&I	162	326
08-42*	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Noncompliance and Control Deficiency Over Charging of Personnel Costs Results in Unknown Questioned Costs of at Least \$72,851 (Prior Year Finding #07-39)	\$72,851	L&I	164	326
08-43**	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Noncompliance and a Control Deficiency Over Preparation and Submission of the Annual RSA-2 Report		L&I	167	326

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

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2008

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
08-44*	84.287	Twenty-First Century Community Learning Centers	Control Deficiency in PDE's Monitoring of Federal Earmarking Requirements Results in Questioned Costs of \$199,709 (Prior Year Finding #07-40)	\$199,709	PDE	169	327
08-45**	93.558 93.575 93.596 93.658 93.659 93.667 93.778 93.959	Temporary Assistance for Needy Families Child Care & Development Block Grant Child Care Mandatory & Matching Funds Foster Care – Title IV-E Adoption Assistance Social Services Block Grant Medical Assistance Block Grants for Prevention and Treatment of Substance Abuse	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)		DPW	171	327
08-46**	93.558	Temporary Assistance for Needy Families	DPW Did Not Perform Adequate During-The-Award Monitoring of TANF Subrecipients		DPW	173	327
08-47**	93.558	Temporary Assistance for Needy Families	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #07-48)		DPW	176	328
08-48**	93.558 93.575 93.596 93.667	Temporary Assistance for Needy Families Child Care & Development Block Grant Child Care Mandatory & Matching Funds Social Services Block Grant	Weaknesses in DPW Program Monitoring of Child Care Subgrantees (Prior Year Finding #07-55)		DPW	184	328
08-49**	93.563	Child Support Enforcement	DPW Failed to Obtain an Outside Service Auditor's Report for the Statewide PACSES System		DPW	188	328
08-50**	93.563	Child Support Enforcement	Internal Control Deficiencies Over PACSES Contractor Costs Result in Likely Questioned Costs Greater Than \$10,000	Unknown	DPW	189	329
08-51**	93.568	Low-Income Home Energy Assistance	Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of LIHEAP Weatherization Subrecipients (Prior Year Finding #07-50)		DCED	194	329

\* - Significant Deficiency

\*\* - Material Weakness

CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2008

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
08-52**	93.568	Low-Income Home Energy Assistance	Internal Control Deficiencies in DPW's Administration of LIHEAP Cash and Crisis Benefits (Prior Year Finding #07-51)		DPW	199	329
08-53**	93.568	Low-Income Home Energy Assistance	DPW Failed to Adequately Monitor the Processing of LIHEAP Applications (Prior Year Finding #07-52)		DPW	203	330
08-54**	93.568	Low-Income Home Energy Assistance	Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$2,315 in LIHEAP (Prior Year Finding #07-53)	\$2,315	DPW	207	331
08-55	93.569	Community Services Block Grant	Noncompliance Over Subgrantee Payments at DCED (Prior Year Finding #07-54)		DCED	212	331
08-56*	93.575 93.596	Child Care & Development Block Grant Child Care Mandatory & Matching Funds	Internal Control Weaknesses Result in Noncompliance With Federal Earmarking Requirements and Questioned Costs of at Least \$569,175 (Prior Year Finding #07-56)	\$569,175	DPW	214	331
08-57**	93.658	Foster Care – Title IV-E	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #07-57)		DPW PHHS	217	332
08-58**	93.658 93.659	Foster Care – Title IV-E Adoption Assistance	Weaknesses in DPW Office of Children, Youth and Families Monitoring of Foster Care and Adoption Assistance Subrecipients (Prior Year Finding #07-59)		DPW	219	332
08-59*	93.659	Adoption Assistance	Unallowable Costs Charged from the DPW Cost Allocation Plan Result in Questioned Costs of \$1,530,316	\$1,530,316	DPW	222	333
08-60**	93.667	Social Services Block Grant	Inadequate Controls Over Charging of YDS Personnel Costs		DPW	225	333

\* - Significant Deficiency

\*\* - Material Weakness

CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2008

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
08-61**	93.667 93.959	Social Services Block Grant Block Grants for Prevention and Treatment of Substance Abuse	Weaknesses in DPW Program Monitoring of SSBG and SAPT Subgrantees (Prior Year Finding #07-60)		DPW	227	334
08-62**	93.767	State Children's Insurance Program	Inadequate Controls Over Subrecipients Result in Unknown Questioned Costs (Prior Year Finding #07-62)	Unknown	PID CS	231	335
08-63	93.917	HIV Care Formula Grants	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)	\$18,684,980	DPW PHHS	236	335
08-64*	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Noncompliance and Internal Control Weaknesses Result in \$2,048 of Questioned Personnel Costs	\$2,048	DOH	243	336
08-65	93.994	Maternal and Child Health Services Block Grant to the States	Noncompliance and Internal Control Weaknesses Result in \$101,394 in Questioned Personnel Costs (Prior Year Finding #07-66)	\$101,394	DOH	245	336
08-66**	97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	Internal Control Deficiencies in Systems of Cash Management and Federal Reporting for PAG Program (Prior Year Finding #07-69)		PEMA DCNR PPR	247	336
08-67**	Various	Various	Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (Prior Year Finding #07-71)		DPW	251	337
08-68**	Various	Various	Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding #07-72)		OB/BOA Various State Agencies	253	337

\* - Significant Deficiency

\*\* - Material Weakness

CAP - Corrective Action Plan

# COMMONWEALTH OF PENNSYLVANIA

## Index to Federal Award Findings and Questioned Costs - June 30, 2008

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
08-69**	Various	Various	Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements (Prior Year Finding #07-73)		DPW	259	339
08-70*	Various	Various	Unallowable Payments for Unused Employee Leave Result in \$3,826,028 in Questioned Costs (Prior Year Finding #07-74)	\$3,826,028	OB/BFM	262	340
08-71*	Various	Various	Deficiencies in Information Technology Controls at DPW		DPW PHHS	265	340
08-72*	Various	Various	Deficiencies in Information Technology Controls at L&I		L&I	268	340
08-73**	Various	Various – All Major Programs Covered by CMIA	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)		OB/BFM	272	341
08-74*	Various	Various Unknown	CFDA Numbers and Program Names Were Not Properly Reported on the Schedule of Expenditures of Federal Awards		OB/BFM	281	341
Total Questioned Costs				<u>\$25,250,510</u>			

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 22:

**CFDA #10.551 – Food Stamps**

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

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

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

### **Internal Control Weaknesses at DPW Related to Returned EBT Cards (A Similar Condition Was Noted in Prior Year Finding #07-23)**

**Condition:** In our prior year audit, we inquired about and obtained DPW's procedures for EBT cards that are returned as undeliverable by the US Postal Service. We learned that beginning in October 2006 these procedures changed and returned EBT cards were no longer sent to the outside EBT contractor, but were returned directly to DPW's central office in Harrisburg, PA. We noted that DPW had written procedures in place for handling returned EBT cards in its central office. However, we also noted that these procedures were not adequate to prevent unauthorized use since these procedures did not require: 1) that more than one employee be present when retrieving, opening and logging the US Postal Service returned mail, 2) that all returns be logged in immediately upon the initiation of processing the returns, 3) that all returned envelopes be retained, since some are destroyed, 4) that more than one employee be present when destroying EBT cards, and 5) that the disposition of all returns be documented in the log.

During our current year follow up, we were informed by DPW that revisions were made during the year under audit to their procedures for handling returned EBT cards to ensure that returned cards are immediately logged and destroyed and that all envelopes and card carriers are immediately forwarded to the CAO for retention. However, we also noted that these revised procedures were not formally documented and did not address the deficiencies cited above relative to having more than one employee present for the processing of returned cards and documenting the disposition of returns in the log. Therefore, control deficiencies in DPW's procedures over returned EBT cards continued through our current audit period.

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

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

*(1) Authorizing household benefits.*

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

*(x) Inventorying and securing accountable documents;*

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

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

**Cause:** DPW indicated that it is not economically feasible to have more than one employee present for the retrieving, opening, logging and destroying of the EBT cards and that current procedures are adequate.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 22: (continued)**

**Recommendation:** We recommend that DPW strengthen its procedures to correct the deficiencies noted above for EBT cards that are returned to DPW as undeliverable by the US Postal Service and ensure that its procedures are formally documented. DPW should also consider the possibility of transferring this responsibility to the outside EBT contractor since we understand the contractor handles this function for numerous states.

**Agency Response:** The audit provided recommendations to strengthen DPW's procedures for EBT cards that are returned as undeliverable by the U.S. Postal Service. The finding contained three recommendations: 1) formalize the procedures by documenting them in writing; 2) that more than one employee be present when retrieving, opening, logging, and destroying the U.S. Postal Service returned cards; 3) that consideration be given to transferring this responsibility to DPW's EBT contractor.

For the first recommendation, the processing of undeliverable and returned EBT cards issued centrally has been formally documented, and a copy of the documented procedures was provided.

The second recommendation that two staff personnel be present for retrieving and opening all returned U.S. postage mail along with the logging and destruction of the returned EBT cards creates an unnecessary administrative redundancy, especially due to the fact that exact days on which returned cards are received are unknown. The returned cards are inactive and can only be activated by the intended recipient by providing specific detailed personal information, which would be unknown to the clerical staff obtaining the returned cards from the mailroom.

The third recommendation to utilize DPW's EBT contractor to perform this function is currently under consideration by DPW. However, there is a significant cost to DPW if this function is transferred to the contractor.

**Auditors' Conclusion:** We agree with the DPW response except for the part regarding the rejection of our recommendation that more than one employee be present when retrieving, logging, and opening the US Postal Service returned mail and destroying EBT cards. If only one employee is performing those tasks, DPW cannot have reasonable assurance that all returned EBT cards are properly retrieved, logged and destroyed since it appears that the DPW employees involved in this process can access the personal information in CIS. Further, as reported in a separate finding, we have concluded that inappropriate access to CIS may occur due to deficiencies in user access controls. Based on the agency response, our finding and recommendation, with the above clarification, remain as previously stated. We will review any corrective action in our subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 23:**

**CFDA #10.551 – Food Stamps**

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

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

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

**CFDA #93.778 – Medical Assistance**

### **Internal Control Deficiencies at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (A Similar Condition Was Noted in Prior Year Finding #07-22)**

**Condition:** In connection with our audit of the TANF, MA and FS Programs for SFYE June 30, 2008, we reviewed reports issued by other auditors during our audit period in order to determine if the reports had any impact on the programs. Based on our review, we noted that another bureau within the Pennsylvania Department of the Auditor General performed separate audits of certain DPW County Assistance Offices (CAOs) in order to determine if public assistance payments for the TANF, MA and FS programs were made only to eligible recipients. Based on our review of these individual CAO audit reports issued during our audit period (which covered various audit periods up through June 30, 2008), we noted, for the seventh year in a row for TANF and FS audits and the second year in a row for MA audits, that the other auditors identified internal control deficiencies which are systemic in nature and impact our current year under audit when evaluated on a statewide basis.

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

- The CAOs failed to obtain and/or document the information to determine recipient eligibility and failed to make the proper eligibility determinations. Specifically, the case records and/or the CIS data system lacked detailed documentation of client and CAO actions. CIS screens were not updated with timely and accurate information. Agreements of Mutual Responsibility (AMRs), Authorization for Information, Employability Assessment Forms, Temporary Disability Reassessment Forms, Medical Assessment Forms, Childcare Costs Forms, and Common Application Forms (PA 600) were missing or incomplete and case narratives were not updated. Additionally, social security numbers of recipients and/or LRRs were missing or incorrect or were known to the CAOs but were not entered into the Income Eligibility and Verification System (IEVS). Also, the citizenship, age limitation requirements, disabilities, family relationship requirements and identity of recipients were not verified during the application and renewal process. Further, the CAOs are not ensuring that the annual renewals and semi-annual reviews are performed on a timely basis and are not considering all income and allowable deductions when completing the budgeting process.
- The CAOs do not have adequate procedures in place to identify instances where recipients fail to provide proper eligibility information. Specifically, instances were noted where recipients did not disclose criminal history and failed to maintain compliance with court ordered payment plans. Further, the CAOs did not always have proper procedures in place to ensure that recipients are reporting updated information required to maintain their eligibility.
- The 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.
- The CAOs are not updating the disposition codes and are not entering verified information in DPW's Automated Restitution Referral and Computation (ARRC) System, which is used to compute, track and recover overpayments. Additionally, the CAOs are not following the procedures relative to investigating suspected overpayments, controlling and documenting investigations, and referring overpayments timely.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 23: (continued)**

- 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 CAOs are not always reconciling the information in IEVS to the income information in the case file. Further, DPW's policy does not require a review by the CAO of all changes in income, including income from ongoing employment, when the information becomes available on IEVS. The policy only requires that this information be reviewed during a recipient's annual and semi-annual review.
- CAOs failed to properly enroll recipients in training or employment activities (RESET program) because the caseworkers did not properly utilize the Agreement of Mutual Responsibility as a tool in documenting and reviewing the recipient's training or work requirements.
- The CAOs are not adjusting the Support Pass-Through (SPT) income to the recipients Food Stamps benefits. An STP is an increase in a recipients' cash benefits which occurs when the Domestic Relations Office forwards child support money for recipients to DPW. Since Food Stamps benefits are based on a recipient's income, the increase in cash benefits may result in a concurrent, but not equal, decrease in the recipient's Food Stamps benefit.
- Special allowances are paid to TANF recipients for items such as transportation, clothing, shelter and childcare so the recipients can participate in approved work-related activities. The 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.
- CAOs failed to ensure participation of Food Stamp recipients in employment and training programs (ETP) and failed to develop an employment or training plan timely with recipients.
- The CAOs are not obtaining and/or properly recording all third party liability (TPL) insurance information in CIS. Specifically, the Medical Assistance recipients' case records included documentation of auto insurance and health insurance which was not entered into CIS by the CAOs. Additionally, the recipients' case records listed autos as a resource but there was no documentation of auto insurance in the case record or in CIS. Further, the CAOs are not obtaining documentation of health insurance from recipients who are covered under other plans. It should be noted that DPW's current policy does not consider auto insurance to be a third party liability resource and therefore DPW does not require the CAOs to enter auto insurance into CIS as a third party resource.

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

In analyzing the above results, we noted that the internal control deficiencies relative to the DPW special allowances for child care costs would impact the allowability and eligibility of payments in the Child Care Cluster.

As part of the Welfare-to-Work program under TANF, DPW employed individuals receiving Cash and Food Stamp assistance. In a separate investigation conducted by DPW and the Pennsylvania Inspector General's Office, we were informed during the prior year Single Audit that some individuals employed under the Welfare-to-Work program were assigned to CAOs and given improper access to the Cash and Food Stamp benefits authorization system; as a result, these individuals had the ability to fraudulently grant themselves and other family members additional Cash and Food Stamp benefits for which they were not eligible. Since DPW had no overall policy in place restricting the access of these benefit recipients within the benefits authorization system, an internal control deficiency is present. In a prior year, DPW personnel indicated that Operations Memorandum 050705, dated July 7, 2005, and the Security Process Overview

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 23: (continued)

self-assessment tool to be used by CAO management staff resolved the all 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, 2008 DPW has not implemented adequate corrective action for this deficiency.

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

We randomly selected a sample of 25 CAOs to ensure that required CSRs and TSRs were performed by DPW for the period under audit. For each CAO in our sample, we haphazardly selected one month and requested three CSRs or TSRs that were required to be completed by the CAO for the month. Our testing disclosed that of the 75 CSRs and TSRs that were selected for the 25 CAOs, a total of 3 or 4 percent, in one CAO was not completed as follows:

<u>CAO</u>	<u>Month Selected</u>	<u>Number of CSRs or TSRs Not Completed</u>
Clinton	October 2007	3

We noted this to be an internal control deficiency over eligibility determinations and re-determinations since the CAO did not follow established control procedures.

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

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

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

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

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 23: (continued)

Sources of verification include:

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

DPW regulations and Act 1996-35 state:

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

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

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

Cash Assistance Handbook, Section 135.44 states:

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

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

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

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

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

*An overpayment exists when a client receives assistance for which he is ineligible.  
The DPW is responsible by law to identify overpayments and recover overpayments from clients.*

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

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 23: (continued)

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

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

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

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

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

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

The Medicaid Eligibility Handbook regarding verification states in part:

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

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

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

The Medicaid Eligibility Handbook regarding redetermination states in part:

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

The Medicaid Eligibility Handbook, Chapter 338.2 provides criteria to assist the CAO in properly identifying and recording all third party resources and states in part:

*338.2 Third Party Resources-The recipient must provide information about any third party resources which may be available to pay medical expenses. This includes medical resources available from LRRs. The Department is the payer of last resort for all medical expenses. The CAO must review third party resources at each application and redetermination, and record the third party resource on the TPL file. ....NOTE: Automobile insurance is not considered a third party liability resource. The CAO will enter information about medical resources into CIS and into the Third Party Liability (TPL) Master File. .*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 23: (continued)**

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

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

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

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

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

With respect to the CSRs and TSRs that were not completed for the one CAO above, we were informed that the CAO is small and several staff members were on vacation for the month selected. Further, DPW did not enforce the requirement for these forms to be completed and this same CAO did not complete any of the required CSRs in connection with our prior year audit.

**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 and that overpayments and over-issuances are being processed by DPW accurately and completely. Errors are occurring in eligibility determinations for MA, TANF and FS and not being detected by DPW on a timely basis. Additionally, the failure to obtain and/or record all third party liability resources into CIS increases the likelihood that medical claims will be paid by Medicaid, which should be the payer of last resort. Further, the inconsistencies between the family relationship information on the MEDA action and inquiry screens could further affect the CAOs ability to make the proper eligibility determinations.

**Recommendation:** We recommend that DPW ensure the CAOs receive additional training and are more thoroughly supervised to follow established DPW policies and procedures regarding eligibility determinations and re-determinations. Also, we recommend that DPW revise its policy to require a review of all changes to income, including ongoing employment, when it becomes available. Further, DPW should also revise its policy to require that CAOs request auto insurance information when an auto is listed as a resource by the recipient and enter auto insurance information into CIS as a third party resource. Additionally, we recommend that DPW and the CAOs evaluate existing procedures in place to ensure recipients are complying with reporting requirements relative to maintaining welfare eligibility. Further, we also recommend that DPW and its CAOs strengthen system access controls for Welfare-to-Work participants employed at the CAOs, and establish procedures to ensure DPW's compliance with Act 1996-35 and ensure recipient compliance with court-ordered payment plans.

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

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 23: (continued)**

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

**Agency Response:** Seven of the eight recommendations given by the auditors in this year's findings are repeated from the prior year. The Department of Public Welfare (DPW) has taken measures to improve accuracy, training, systems access controls and supervision since the prior year finding. Below are the recommendations from the current year finding followed by descriptions of the progress made on the seven repeated recommendations since the prior year and a response to the new recommendation (number 3):

1. Ensure the CAO caseworkers receive additional training and are more thoroughly supervised to follow established DPW policies and procedures regarding eligibility determinations and re-determinations.
2. Revise policy to require a review of all changes to income, including ongoing employment, when it becomes available.
3. Revise policy to require that CAO caseworkers request, and document into CIS, auto insurance information when an auto is listed as a resource.
4. Evaluate existing procedures to ensure that recipients are complying with reporting requirements relative to maintaining welfare eligibility.
5. Strengthen systems access controls for Welfare-to-Work participants employed at the CAOs.
6. Establish procedures to ensure DPW's compliance with Act 1996-35 and ensure recipient compliance with court-order payment plans.
7. Comply with the requirement mandating that all CAOs perform CSRs or TSRs on a monthly basis.
8. Investigate the inconsistencies in family relationship information between the action screens and inquiry screens in MEDA, including the possible problems in system logic, the CAOs should consider the need to refer to paper case records when household changes are reported until these inconsistencies are resolved.

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

In response to recommendation #2, current policy provided in the Cash Assistance Handbook does not require a review of all changes to income, but requires a review of changes to all income of \$100 or more to adjust benefit levels. IEVS data exchange may be used only to obtain information about applicants, recipients and other individuals, such as legally responsible relatives, whose income and resources are considered to determine eligibility. For FS, earned income is reviewed at application, SAR review, recertification and when changes are reported through IEVS for TANF/GA or Medical, or by the household when income exceeds 130 percent of FPIGs. No greater frequency is required under state or federal rules.

In response to recommendation #3 regarding documentation of auto insurance, DPW has determined as of May 24, 2007 that it was not beneficial to collect auto insurance information as a third party resource. The information required by our Third Party Liability program is to pursue claims with trauma diagnoses. This also includes trauma by other than auto accidents. Caseworkers are instructed to continue to complete a PA 176K/176KM and 173S with all pertinent accident information, thereby making documentation of auto insurance unnecessary.

In response to recommendation #4, 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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 23: (continued)**

requirement time frames are aligned with other programs as much as possible for simplification. Clients increasingly use Customer Service Centers to report changes. IEVS internal system logic is being reviewed and updated. It should be noted that this audit report included information from the Medical Assistance Eligibility Handbook, section 378 Verification. This chapter has been revised since the audit. Citizenship and Identity does not need to be reviewed at renewal if the verification is not in the record. Health insurance information only needs to be re-verified if there is a change.

In response to recommendation #5, participants in the Welfare-to-Work programs, if employed at the CAO, are not granted access to CIS. Operations Memorandum 050705, dated July 7, 2005, to Executive Directors provides a process for each CAO to review internal procedures. The Security Process Overview is a self-assessment tool to be used by CAO management staff. Statewide security standards for the CAOs were issued in 2005. An e-mail was sent to all Area Managers on May 25, 2007 reiterating the Security Process Overview tool, and Area Managers were charged with ensuring proper completion of the tool by the CAOs. Additionally, OIM is convening a workgroup of CAOs and DAPS to review the issue and take necessary security precautions. Currently there are three Welfare-to-Work clients statewide performing duties at the CAOs. None have access to CIS. The procedures in place are working to ensure system security. This finding has been repeatedly recorded verbatim over the past several years with no consideration of the safeguards in place and there is no evidence that a security breach has occurred. OIM contends that this finding is unfounded.

In response to recommendation #6, 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. Also, CAOs have collaborative arrangements with courts to exchange information to address inquiries and updates. It is OIM's policy to review criminal history at application and reapplication or if new information is received between reapplication, the CAO then acts on the information received.

In response to recommendation #7, DPW continues to use the automated TSR that focuses on problematic areas identified through audit reviews, internal data reviews and effective management strategies. The TSR serves as a major component of the set of performance metrics for the Effective Management Program. A memo was issued on April 24, 2008 instructing all CAOs to complete CSRs and TSRs in the Rushmore system on a monthly basis.

In response to recommendation #8, DPW identified the system logic deficiencies and have implemented software updates to correct existing cases as well as closed cases effective March 4, 2008.

**Auditors' Conclusion:** While DPW's response describes progress being made to address our ongoing recommendations from prior years, the other auditors' reports covering audit periods up through June 30, 2008 demonstrate that error rates have remained at high levels through our current audit year and represent material noncompliance with federal regulations. In particular, the other auditors issued a total of 52 audit reports for MA during our current audit period ended June 30, 2008, which covered 7939 cases. The number of cases that contained eligibility errors was 809 (or 10 percent). Additionally, a total of 870 MA cases reviewed included errors related to third party liability or DPW's MEDA system. In addition, we noted that the other auditors' results from different audit periods have shown that the eligibility error rate for MA cases could be as high as 14 percent. These error rates are clearly excessive, and DPW's internal controls need to be strengthened in order to reduce them in the future.

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

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 23: (continued)**

Regarding all our recommendations, DPW did not provide any additional documentation or information 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 corrective action in the subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 24:**

#### **CFDA #10.553, 10.555, 10.556, and 10.559 – Child Nutrition Cluster CFDA #10.558 – Child and Adult Care Food Program**

##### **PDE Failed to Reconcile PEARS Meal Count and Expenditure Information to the SAP Accounting System**

**Condition:** During the fiscal year ended June 30, 2008, we noted a control weakness in that PDE failed to perform monthly reconciliations between the Program Electronic Application and Reimbursement System (PEARS) and the SAP accounting system. PDE officials indicated that reconciliations were not performed at all during the first half of the fiscal year ending June 30, 2008. According to PDE, monthly reconciliations were performed during the second half of the fiscal year, but no supporting documentation was maintained or available for auditor review.

PEARS is an automated statewide system established by PDE and used by local subrecipients to record and claim reimbursement to PDE for meals served under the Child Nutrition Cluster (CNC) and Child and Adult Care Food (CACFP) Program. Subrecipients record program meals served to eligible participants in PEARS on monthly claim forms. Meal counts are multiplied by reimbursement rates to determine the amount to be paid by PDE. Total amounts paid are then recorded on the statewide SAP accounting system.

As part of CNC and CACFP participation, PDE is required to report monthly meal counts on the FNS-10 and FNS-44 Reports submitted to USDA. PDE obtains the cumulative meal counts from PEARS, accesses a USDA web page, and enters the PEARS information which produces these FNS reports. PDE is also required to file SF-269 reports with USDA quarterly for CNC and CACFP. Line K of each SF-269 report is the cumulative Total Federal Share of Outlays and Unliquidated Obligations. According to PDE, FNS-10 and FNS-44 meal counts multiplied by the reimbursement rates should equal line K for CNC and CACFP on the SF-269 report.

As part of our audit, we converted PEARS and FNS-10/FNS-44 Report meal counts to dollars and traced the amounts to line K for three material SF-269 reports submitted for our audit period. We also tied PEARS dollars to SAP for the year under audit. No significant exceptions were noted in these reconciliations. However, a material control deficiency existed since PDE failed to perform or support any monthly reconciliations during our current year under audit.

**Criteria:** According to the A-133 Compliance Supplement, Part 6 Internal Control, Requirement L. Reporting, Control Objectives are: *“To provide reasonable assurance that reports of federal awards submitted to the federal awarding agency...include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements”*. Under Monitoring, suggested controls include *“Periodic comparison of reports to supporting records”*.

Good internal controls dictate that reconciliation of data sources and review of amounts reported on the federal reports should be performed to detect incorrect amounts prior to submission to USDA.

**Cause:** PDE management stated that monthly reconciliations of FNS-10/FNS-44 and PEARS meal counts to SAP expenditures were not performed because of changes in personnel and personnel shortages. Further, PDE management stated that in the past and during most of the current fiscal year, USDA calculated and provided the unliquidated obligations amount on the quarterly SF-269 report based on PDE’s monthly FNS-10 and FNS-44 reports, but this practice stopped and PDE was made responsible for this total. USDA performed an on-site financial review of Pennsylvania’s Food and Nutrition Programs at PDE in March 2008. In their report dated May 2008, USDA recommended that PDE and their Comptroller (LECS) develop adequate procedures to accurately obtain unliquidated obligations for inclusion in line K of the SF-269 report. Such procedures should include the monthly reconciliations described above.

**Effect:** Without regular reconciliations of PEARS to SAP, PDE cannot be timely assured that PEARS and FNS-10/FNS-44 meal counts tie to the appropriate expenditure or obligation amounts on SAP or the SF-269 reports. Variances could indicate that either claims are not being paid to subrecipients or payments exceed allowable amounts.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 24: (continued)**

**Recommendation:** We recommend that PDE perform and fully document their monthly reconciliations between PEARS, the FNS-10 report, the FNS-44 report, and SAP. Any documentation used in the reconciliation process should be retained in PDE files. Further, PDE should ensure that quarterly amounts submitted to the USDA on SF-269 reports are accurate and fully supported by PEARS and FNS-10/FNS-44 documentation and the supporting documentation is maintained.

**Agency Response:** As mentioned in the Audit Finding, the Pennsylvania Department of Education (PDE) had already started completing monthly reconciliations as of January 2008. However, the practice was that only the most recent month's reconciliation was kept and the previous month was overridden once the current month was reconciled. Beginning January 2009, monthly reconciliations were performed as usual and monthly documentation is being maintained.

Per the United States Department of Agriculture (USDA) recommendations from the Financial Management Review conducted in March 2008, procedures for the PDE's Division of Food and Nutrition to determine the amount of unliquidated obligations for inclusion in line K of the SF-269 report were implemented as of the SF-269 report due to USDA in August 2008 for the third quarter of Federal Fiscal Year 2008 (April – June 2008). These amounts are being maintained through an Excel spreadsheet. The Office of the Auditor General's auditors observed the implementation of this procedure during their review of this current audit period. As of August 2008, supporting documentation for these SF-269 quarterly reports has been maintained electronically.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 25:

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

##### Noncompliance and Internal Control Weaknesses Related to Voided Food Instrument Follow-Up Results in Likely Questioned Costs Over \$10,000 (A Similar Condition Was Noted in Prior Year Finding #07-24)

**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 second year in a row in DOH's WIC database system and DOH's procedures for reviewing voided FIs as follows:

As part of our review of erroneous or questionable FIs, we haphazardly selected a sample of ten voided FIs totaling \$886.77 from the DOH's July 2007 "10 Percent Random Sample of Voided FI's with Void Code Other than 'R' Monthly Report." Our testing revealed that for three out of the ten FIs tested, or 30 percent, that DOH's explanations for the errors were vague and we could not determine if DOH's follow-up disposition was adequate. As a result of further inquiry, DOH provided additional explanations of their follow-up. One of the three FIs was found to have been voided by another subrecipient local agency, other than the local agency that issued the FI. DOH indicated that there is an edit check in their system that precludes a user from one local agency to view or edit another local agency's FIs. However, it appears as though this edit check was either not in place or was not functioning properly at the time this FI was issued. The second FI in question was found to have been reissued. However, both the original and the reissued FI were cashed resulting in questioned costs of \$26.38. For the third FI, DOH could not provide adequate explanation of disposition and follow-up related to the FI in question. Additional follow-up regarding this FI to explain the disposition occurred only after auditor inquiry, well beyond the required 120-day timeframe.

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

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

In addition, 7 CFR 246.12 states:

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

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

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

(3) *Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor shall also report known questioned costs when likely questioned costs are greater than \$10,000 for a type of compliance requirement for a major program.*

**Cause:** In regard to the FI voided by another agency, DOH stated that there was an edit check in the system at the time, but it was accidentally turned off. DOH stated that the check has been reinstated and that there have been no further problems since that time.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 25: (continued)**

In regard to the original and reissued FI being cashed, DOH stated that due to the insignificant amount of the FIs, there was no request made by DOH for reimbursement. Further no investigation of possible fraudulent redemption took place.

DOH could not explain why adequate follow-up and disposition was not documented for the third FI mentioned above.

**Effect:** Due to the cashing of both the original and the reissued FI noted above, the \$26.38 overpayment is unallowable for WIC and likely questioned costs are over \$10,000. Without adequate controls related to the WIC system and DOH review, investigation and follow-up on voided food instruments, DOH is not in compliance with WIC regulations and inappropriate redemption could occur without the DOH's knowledge which could lead to unallowable costs being charged to the federal WIC grants in the future.

**Recommendation:** DOH should pursue appropriate settlement of the known and likely questioned costs with FNS, and review its WIC system for additional questioned costs due to the discrepancies noted above. We also recommend that WIC fully implement sufficient controls over the FI redemption and disposition process. DOH should ensure that problems encountered with their WIC system are identified, timely followed up on, properly investigated, and appropriate corrective action is taken.

**Agency Response:** The current audit covers July 1, 2007 through June 30, 2008 and cites a review of reports from July of 2007 as being similar to a condition noted in prior year finding #07-24. The instances cited in this current year audit finding occurred before prior year audit finding #07-24 was officially issued and before the DOH was able to respond to it and rectify the situation.

The Department responded to Finding #07-24 in June 2008 indicating that steps were taken to address the concerns cited in the audit finding. The audit report was received by USDA and on May 5, 2009, USDA reached Management Decision and Final Action based upon their evaluation of the finding and recommendation, the DOH response to the finding, and additional information provided by the DOH subsequent to issuance of the audit report.

USDA's Management Decision and Final Action on Finding #07-24 contains the following statements:

"With regard to potential questioned costs, it is our opinion that these system changes address the auditor's concerns and should prevent this error from recurring in the future. Therefore we are not requiring that the State Agency identify potential questioned costs from the past. Based on information provided by PA DOH's staff on their QuickWIC system alert actions, PA DOH has adequately addressed this particular area of the audit finding."

"Based on the documentation for the areas under audit finding, #07-24, we received concurrence that management decision and final action have been achieved."

In addition, the cover letter to USDA's Management Decision and Final Action on Finding 07-24 contains the following statement:

"We are closing our file on this audit finding. No further correspondence is required from the State Agency at this time."

Given the above, it is DOH's position that this finding should be eliminated from the current audit.

**Auditors' Conclusion:** DOH has acknowledged in its response that corrective action was not initiated regarding the prior year issues repeated in our current year finding until June 2008. Also, the USDA Management Decision and Final Action applies to SFYE June 30, 2007 and not the current audit period. Therefore, as noted in the condition above, the weaknesses remain in SFYE June 30, 2008 and per federal regulations as promulgated in the Single Audit Act and OMB

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 25: (continued)**

Circular A-133, the finding must be reported. Further, the DOH response does not address the recovery of, and the weakness related to, the duplicate payment noted in the condition. Based on the agency response, our finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 26:

#### CFDA #10.561 – State Administrative Matching Grants for Food Stamp Program CFDA #93.558 – Temporary Assistance for Needy Families

#### Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs (A Similar Condition Was Noted in Prior Year Finding #07-49)

**Condition:** Within the TANF and Food Stamps (FS) 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 the 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 \$53.7 million in total federal and state-funded special allowances posted to the statewide SAP System by DPW for SFYE June 30, 2008, which consisted of the following amounts (in millions):

<u>Special Allowance</u>	<u>TANF</u>	<u>FS Admin</u>	<u>Total</u>
Federal	\$17.1	\$13.2	\$30.3
State	10.2	13.2	23.4
Total	<u>\$27.3</u>	<u>\$26.4</u>	<u>\$53.7</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 FS. 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 Single Audit of TANF and FS Admin special allowance payments, we inquired about the existence of other internal or external audits of the program that could impact our Single Audit for SFYE June 30, 2008. We noted that the Pennsylvania Department of the Auditor General, acting separately, conducted a one-time independent audit of the TANF and FS Admin special allowance payments for period July 1, 2006 to December 31, 2007, and performed detailed compliance and internal control testing which was similar to the federally-required testing in our Single Audit. We obtained and reviewed the audit report findings for this separate audit and we are reporting the following four significant findings, as applicable, related to TANF and FS Admin special allowance payments in our Single Audit:

#### 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

The other auditors reported an organizational culture within DPW that is entitlement-driven, with a philosophy of issuing special allowances based on entitlement rather than the recipients' actual needs. As a result, DPW does 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. Such an environment, per the auditors, may cause case workers, who authorize special allowances, to 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;

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 26: (continued)**

- 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.

### **2) Weaknesses Found in the Accounting, Processing, and Controlling of EBT Cards Used to Purchase Items and Withdraw Cash From ATM Machines**

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.

The other auditors also reported inadequate segregation of duties in the CAOs over data entering of EBT special allowances, 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). Finally, the other auditors were denied access by DPW to an EBT card data file of recipient special allowance activity and information, representing a scope limitation in their audit which might have detected additional weaknesses or potential fraud and abuse related to EBT transactions.

### **3) Significant Systemic Management Control Weaknesses Exist Throughout 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.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 26: (continued)**

- 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.

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

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

Further, due to the significant deficiencies in internal controls noted as part of this separate audit, our update inquiries disclosed that no changes/improvements in controls were made as of June 30, 2008; therefore, all the internal control weaknesses noted in the four findings above existed during all of the SFYE June 30, 2008.

It should also be noted that, as mentioned above, DPW transitioned the payment of TANF Child Care special allowances to CCIS subrecipients in the current year, and the total of these payments in our current year were \$27.6 million federal and \$139.1 million in state funds, or \$166.7 million in total for the year. Responsibility for the proper spending and support for these child care allowances was passed down by DPW to the CCIS subrecipients. However, as noted in another Single Audit finding for SFYE June 30, 2008, DPW's monitoring controls over these CCIS subrecipients are considered weak and the same internal control and compliance exceptions mentioned in some of the findings above may impact the TANF child care allowances now being administered by CCIS subrecipients in the current year.

Also, special allowance payments were paid to TANF and FS participants by employment and training 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 \$115.4 and \$2.7 million in TANF and FS Admin federal funding, respectively, through L&I during SFYE June 30, 2008; however, the Commonwealth (neither DPW nor L&I) did not record on SAP or CIS how much of the \$115.4 and \$2.7 million was for special allowance payments to TANF and FS participants. Like the child care payments mentioned above, we noted in another Single Audit finding for SFYE June 30, 2008 that monitoring controls over these payments to LWIAs are weak and again, the same internal control and compliance exceptions mentioned above may impact these LWIA special allowances also.

**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. . .*

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 26: (continued)**

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. Section 810.4 also requires CAOs to secure controlled documents in locked cabinets when the work area is vacated. Additionally, the administration of the special allowance program should include a strong system of management controls to ensure that the inventory of blank EBT cards are properly accounted for and safeguarded. Controls should include maintaining inventory records, conducting routine/timely inventory counts of all blank EBT cards, and timely voiding cards that recipients do not pick up. Also, controls should include requiring recipients to show photo identification when picking up EBT cards, monitoring the use of the cards, and having written standard operating procedures at each office. Management should also establish appropriate segregation of duties, especially between the clerks making cards and data-entering of special allowance payments and ensuring that management and/or staff do not share EBT system access, which can break down existing segregation of duties.

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 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.

**Cause:** The other auditor report indicated that management's emphasis is in getting the special allowance processed timely rather than clearly determining whether the payment should be made in the first place. CAO management indicated that caseworkers only need to verify the need for the special allowance if it is not readily apparent. Also, according to CAO management, because the administrative law judge will mostly rule in the recipient's favor if the CAO denies a special allowance payment, questionable payments are authorized. Caseworkers stated that pressure is placed on them to process special allowances quickly resulting in not performing all necessary review and approval tasks.

DPW headquarters has not provided sufficient direction and oversight with respect to the safeguarding and accountability of EBT cards. DPW delegated the responsibility for establishing and maintaining controlled documents to the CAOs, as indicated in DPW's Supplemental Handbook, Section 810.11, which states, "The CAO is responsible for establishing and maintaining a security system for the receipt, storage, transfer, issuance, and destruction of controlled documents." Additionally, CAO management does not believe that blank and/or damaged EBT cards need tight physical controls. In other words, if a card is not active (blank or damaged), it has no value. We disagree. Uncontrolled and easy access to blank or damaged EBT cards may lead to fraudulent activity.

With respect to segregation of duties, based on existing operating procedures, CAO management believed their procedures were sufficient.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 26: (continued)**

According to CAO 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. Because 45 percent of the documentation requested by the other auditors could not be located by the CAOs, it is clear that this filing problem is systemic. It is DPW's responsibility to maintain records and be able to readily retrieve documentation when needed.

With regard to supervisors at some CAOs not reviewing and approving special allowance authorizations for some or all payments placed on EBT cards, management indicated that if the EBT amounts are wrong, the recipients will contact the offices and a supervisor will review the special allowance documentation at that time. Auditors disagree with management's position. Relying on recipients to find errors is not a reliable or prudent management control.

Management 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.

According to the QC director, 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. The QC director indicated that CAO management has the responsibility to monitor special allowances at a more detailed level. With regard to the backlog of management's review of QC staff's work, QC management stated that the review encompasses QC's entire oversight of TANF eligibility, not just special allowances.

**Effect:** DPW's existing organizational culture, policies and procedures, and management controls do not provide assurance that special allowances have been appropriately authorized and approved, and have been spent for their intended purpose in accordance with regulations. As a result, recipients may be receiving special allowance payments that they do not need or are not eligible for, which is a violation of federal regulations and may constitute abusive and fraudulent activity, which negatively affects the integrity of the program, as well as of the program's management.

Additionally, DPW's failure to provide documentation related to E&T contractors resulted in the 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. DPW management indicated that these cases were forwarded to the Office of Inspector General. Additionally, failing to provide requested documentation to the auditors reduced their ability to conduct a complete audit.

Failure to have an adequate special allowance QC sampling methodology and failure to establish adequate review procedures increases the risk that special allowance payments susceptible to fraud and abuse will go undetected. Not including the entire population in its sampling methodology would preclude QC from ever finding problems relating to food stamp-only recipients. Also, identifying the entire population is critical in determining the integrity of the file prior to sampling. Additionally, only focusing on timeliness and not ensuring that the special allowance payments were appropriate and in accordance with program policies provides no assurance that the CAOs are properly authorizing and processing special allowances. Finally, deficient operations and inappropriate payments may go undetected because of DPW's lack of timely supervisory review and reporting procedures.

**Recommendation:** We recommend that DPW pursue appropriate settlement with HHS regarding the unknown questioned costs for TANF and FS Admin from 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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 26: (continued)**

record retention procedures to ensure that adequate documentation is obtained and maintained on file to support TANF and FS Admin special allowance payments, including receipts. DPW's strengthened procedures should address the following:

- Provide proactive leadership, and policies and procedures 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 inventory records, performing weekly physical inventories, 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 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;
- Require CAO supervisors to approve all special allowance payments and verify that they are accurately data-entered; prohibit the issuance of recurring special allowances; 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.

### **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.**

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

- 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. Implemented PA WORKWEAR (PAWW), currently operating in 44 counties. In these counties, CAOs no longer issue payments for work/training appropriate clothing to individuals; instead, the participant gets a voucher that can only be redeemed at PAWW. To date in FY 08/09, DPW saved \$6.5 million (72 percent) over FY 07/08 through this initiative.
- January 2008. Stopped issuing 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.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 26: (continued)**

Revised Special Allowance regulations are expected to be promulgated in the fall of 2009 that will significantly improve accountability and integrity. Examples of key changes are:

- 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 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. Directives have been developed to reemphasize the procedure and provide specifics regarding the maintaining of appropriate logs and physical inventory of all controlled documents. A directive which has been in place since 2005 provides a process for each CAO to review internal security procedures; DPW will review and revise this directive to ensure that CAOs are clear about expectations and procedures regarding EBT cards.

OIM’s Bureau of Program Evaluation, Division of Corrective Action (DCA), conducts an annual internal audit of EBT card protocols based on direction provided by USDA, Food and Nutrition Service (FNS) in the Management Evaluation Review. FNS provides DCA with a table of mandatory target areas and a description of the pertinent review objectives. The results of these internal audits are used to develop corrective action plans for individual CAOs as appropriate.

### **3) Significant Systemic Management Control Weaknesses Exist Throughout County Assistance Offices.**

OIM is currently reviewing and revising Special Allowance policies and processes to ensure proper supervisory review and oversight is being conducted. Targeted Supervisory Reviews will be conducted, focusing on proper data entry and identifying error trends. Additionally, the current process of supervisory review and sign-off before a special allowance is authorized is being reemphasized.

Special Allowance authorizations are tracked in the Client Information System (CIS) by issuance codes and dates. DPW staff will review policies and procedures with supervisory and Income Maintenance Case Worker staff to ensure verification is received and reviewed. Additional policies and procedures are being developed to strengthen this process.

DPW has implemented scanning, imaging and attaching of documents which has improved document management in the CAOs. This will allow for the better tracking of documents, including those for special allowances.

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

DPW continues to review TANF despite the lack of a mandate for that level of oversight based on TANF block grant requirements. OIM’s review of TANF cases is part of its commitment to customer service and program integrity. In July 2007, QC implemented a special allowance timeliness review to monitor DPW’s compliance with a court decision regarding the timeliness of issuances of special allowances.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 26: (continued)**

QC reviews Special Allowance Payments for eligibility and accuracy based on state permissible practices and federal regulations. The review targets eligibility elements which have demonstrated a realized or potential error frequency in an effort to reduce the Commonwealth's payment error rate. Findings memorandums are issued to address questionable payments and as a basis for corrective action. The QC review process impacts federal program oversight and findings.

QC has developed and is finalizing a special allowance review to evaluate eligibility, accuracy and timeliness of benefits issued during the review period. The findings of the review will be compiled with other data collected and disseminated by the division and will be included with the reports currently posted on a federal fiscal quarterly basis. QC will review cases receiving special allowances selected in the random TANF and SNAP eligibility review sample. The completion and reports will be in accordance with current QC and federal deadlines.

**Auditors' Conclusion:** Based on our review of the agency response, DPW provided no new information or documentation to resolve the specific control deficiencies reported in our finding for the current year under audit. Since many of the corrective actions indicated in the agency response represent future plans to be implemented by DPW after the current year ended June 30, 2008, there is no change to the above finding as it relates to our current audit period. Furthermore, DPW's specific claims about recent cost savings (in terms of dollars and/or percents) in special allowance payments relate to periods beyond our current audit year, have not been independently audited by us for accuracy/propriety, and appear to indicate that excessive and unallowable special allowance costs were being charged to federal programs in prior years up through the end of our current audit period ended June 30, 2008.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 27:**

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

##### **Noncompliance and Deficiencies in Internal Control Over Charging of Personnel Costs (A Similar Condition Was Noted in Prior Year Finding #07-25)**

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

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

In order to test the allowability of the personnel costs charged to the NGMO program for the year ended June 30, 2008, we selected a sample of 13 employees charging costs to the NGMO program, which included eight employees whose personnel costs were subject to reallocation through the WO system. During the year ended June 30, 2008, DMVA incurred personnel costs of \$16,630,454 consisting of \$10,242,139 in salaries and wages and \$6,388,315 in fringe benefits. While our current year testing showed that the personnel costs were necessary and reasonable, for the third year in a row we noted the following control deficiency with respect to DMVA's charging of personnel costs:

- We noted that DMVA did not obtain the semi-annual certification for any personnel costs charged 100% to the NGMO program as required by OMB Circular A-87. This certification documents that the respective employee worked solely on the NGMO Program for the period covered by the certification. Although employee job descriptions and federal authorization supported the allowability of the current-year employee activities and related charges to NGMO, the missing semi-annual certifications required by OMB A-87 represents an overall internal control deficiency in DMVA's documentation procedures supporting all of its personnel charges to the NGMO program.
- In addition to the deficiency noted above, for the third year in a row the following deficiencies were noted that are specific to the WO system used to redistribute the personnel costs for maintenance and repair employees at Fort Indiantown GAP:
  - Each maintenance and repair employee at the GAP completes a manual weekly "Labor and Equipment Sheet". This sheet lists the date, total hours, work order# and facility# and is signed by the employee and effective August 28, 2007, is required to be signed by a supervisor. However, for one of the eight employees who were required to complete these time sheets in our sample, we noted that there was no evidence of the required supervisory review and approval of the timesheet.
  - The information from the employees' "Labor and Equipment Sheets" mentioned above is manually entered into the WO system by a clerical employee. However, DMVA did not have adequate procedures in place during the year under audit to ensure that the data input was complete and accurate and that the related allocations by work order and facility were proper.
  - The WO system payroll adjustment amounts are calculated using a WO pay rate for each employee whose payroll costs are being reallocated. The WO pay rate is calculated as the employee's hourly pay rate plus a benefit additive. The WO system sends a query to SAP to check for changes to pay rates for employees in the system. However, for one of the eight employees included in our sample, the WO pay rate was not calculated

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 27: (continued)

using the hourly pay rate in effect on the date being tested. The WO pay rate was calculated using the employee's previous hourly pay rate, which was lower than the hourly pay rate in effect on the date tested. Although we determined that the effect of the change in hourly pay rates was not significant, and while such changes in rates have the potential to result in understatements as well as overstatements of federal program costs, there were not adequate controls in place to ensure that changes in employee pay rates were updated on a timely basis in the WO system and that the query was operating as intended.

- For one of the eight employees included in our sample, whose costs were subject to reallocation through the WO system, we noted a time lag of approximately two months between the date the employee's payroll information was entered into the WO system and the date the monthly WO adjustment was posted in SAP to reallocate the employee's payroll costs. Although the monthly adjustment was not made on a timely basis for this employee, we did note that DMVA had procedures in place to ensure that all WO adjustments for the year under audit were posted to SAP as of year end except for the June 2008 adjustment, which posted after year end. This one month lag is consistent with the prior year time lag and we determined the net effect on the current year SEFA of \$38,353 is not material to the NGMO program.
- Several deficiencies in the information technology controls were also noted in connection with this WO system. Through our walkthrough of DMVA's information technology processes, application change management and user administration, we noted the following:
  - The authorization of a change request is not formally documented on the request ticket or elsewhere.
  - The production environment is not monitored for unauthorized changes (application changes or infrastructure changes). Due to the small number of changes being made to the WOS, and the limited number of individuals involved with development and maintenance of the WOS, DMVA has not implemented a monitoring procedure.
  - There is only one application developer for the WOS. This individual is also responsible for promoting WOS changes into the production environment, indicating that a segregation of incompatible duties does not exist within the manage change environment.
  - There are no monitoring procedures in place to detect unauthorized activity on the application or database levels. DMVA has not enabled audit logging on due to the stress it would place on the computer hardware supporting the WOS.
  - There are no periodic revalidation of user reviews (a user appropriateness review, an inactive account review, etc.) implemented by DMVA. Due to the limited number of individuals with access to the WOS, DMVA has not implemented any monitoring procedures.

This WO system is also used to allocate materials used by the repair and maintenance employees among the various facilities. Therefore, these deficiencies noted above would also affect the material costs charged to the NGMO program through the WO which totaled \$791,143 during the year ended June 30, 2008.

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

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

In addition, good internal controls over personnel costs would include adequate procedures to ensure that the input used for the redistribution of these costs through the WO system is subject to supervisory review and approval, that the input is accurate and consistent with the output, that adjustments are posted in a timely manner to SAP and that sound general computer controls are established and functioning as designed.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 27: (continued)**

**Cause:** DMVA was not initially aware of the semi-annual certification requirement under OMB A-87 for employees charged 100 percent to the NGMO program and has been working with the Department of Defense on a resolution.

With respect to the WO system, DMVA issued a policy information memorandum dated August 28, 2007 for the processing of the monthly adjustments in the WO system that established procedures to address certain control deficiencies cited in our prior year finding. These procedures include supervisory review and approval of labor and equipment sheets, verification of labor information input into the WO system and the allocations by work order and facility, and timeliness of posting adjustments to SAP. However, these procedures were not in place during the entire year under audit and based on our current year testing, there was no documentation or insufficient documentation to support the performance of these procedures. With respect to the updating of pay rates in the WO system, DMVA indicated that SAP is queried for changes in pay rates which are then loaded into the WO system. Based on our testing, however, it appears that this process is not providing updated pay rate information on a timely basis. Further, during the development of the WO system, documentation requirements were not established to provide adequate controls over change management and logical access processes. Also, the limited staffing/budgets available to DMVA has also contributed to some of the IT deficiencies, including lack of monitoring procedures and inadequate segregation of duties.

**Effect:** Although our audit determined that personnel costs charged to the NGMO program in our sample were allowable, the lack of the semi-annual certifications for 100 percent charged employees represents a significant deficiency in the required documentation to demonstrate the allowability of costs under OMB A-87. Further, without strengthened internal controls over this supporting documentation and over the reallocation of employee costs through the WO system, unallowable costs may be charged by DMVA to the NGMO program in the future. Also, the deficiencies in the IT controls noted above could result in unauthorized access to the WO system and unauthorized program changes.

**Recommendations:** Regarding the semi-annual certification for all employees being charged 100 percent to the NGMO Program, we recommend that DMVA continue to work with the Department of Defense to resolve this matter. Additionally, we recommend that DMVA follow their procedures established in August 2007 for processing the monthly WO adjustments and ensure that the performance of these procedures is adequately documented. With respect to the updating of pay rates, we recommend that DMVA evaluate the process by which new pay rates are imported into the WO system in order to ensure the timeliness of updating the system when pay rates change.

With respect to the deficiencies in the information technology controls, we recommend that DMVA implement and document a change management process that incorporates requirements for necessary documentation to evidence compliance with the established process. Additionally, DMVA should implement procedures for the documentation and retention requirements for new user requests for the WO system and build functionality limitations into the application. Further, DMVA should establish periodic monitoring procedures to detect unauthorized changes and ensure user access is appropriate.

**Agency Response:** DMVA will be moving away from the Department developed Work Order system on July 1, 2009 to the SAP system module Plant Maintenance. This system will correct the IT deficiencies and well as program related deficiencies in the current work order system.

Semi-annual certification documents will be implemented for employees whose time is not accounted for in the Plant Maintenance system on July 1, 2009.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 28:

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

##### Improper FFP Rate Results in Questioned Costs of \$44 and Likely Questioned Costs Over \$10,000

**Condition:** As part of our testing of NGMO program expenditures, we randomly selected 20 payments which the Department of Military and Veterans Affairs (DMVA) made to vendors during the year ended June 30, 2008 under purchase orders and/or contracts. We then determined whether the payments were allowable under the NGMO program and were reimbursed at the proper FFP rate. Costs for services such as utilities, trash collection, and maintenance and repair are reimbursed by the federal government based on the FFP rate for the related facility as outlined in the federal “Facilities Inventory and Support Plan” (FISP) and/or appendix. Our testing disclosed that for one out of 20 payments tested, DMVA charged the federal program more than the allowable FFP rate for the facility (State-owned readiness center) for which services were provided. The amount over charged to the federal program was \$44.

The total federal amount of the 20 payments tested was \$82,670.63 out of a population of \$22,824,481 in payments made to vendors under purchase orders and/or contracts on behalf of the NGMO program during SFYE June 30, 2008.

##### **Criteria:**

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

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

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

Appendix 1, Section 101, c, 4, states the following with respect to the FFP rate for State-owned readiness centers:

(d) *NGR 5-1/ANGI 63-101 requires that the State share in 50 percent of certain expenses for operating and maintaining State-owned readiness centers. When the State provides this contribution, NGR 5-1/ANG 63-101 authorizes NGB to contribute 50 percent of these expenses in Federal funds.*

**Cause:** DMVA personnel indicated that a Federal Maintenance Shop (FMS), which had an FFP rate of 100 percent, was converted to a State-owned readiness center between May of 2007 and October 10, 2007, based on the dates on the FISPs provided to DMVA by the federal program manager. Because of the timing of the change, DMVA was not aware that a change had been made when paying an October 2007 invoice for trash collection. As a result, DMVA charged the federal program 100 percent of the invoice total for trash collection instead of the correct FFP rate of 50 percent for the State-owned readiness center.

**Effect:** Since the NGMO program was overcharged for the service noted above, there are questioned costs of \$44 and likely questioned costs over \$10,000.

**Recommendation:** We recommend that DMVA pursue appropriate settlement with the Department of Defense for the \$44 in questioned costs and likely questioned costs over \$10,000 reported above.

**Agency Response:** The DMVA Bureau of Facilities and Engineering has notified its staff in writing to forward changes made to the Real Property Inventory as soon as they are made. This corrective action will eliminate the error in this finding. Although the auditor explained their rationale for calculating the likely questioned costs, the population sample is not indicative of changes to the Real Property Inventory.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 28: (continued)**

**Auditors' Conclusion:** The sample that we selected to test the payments to vendors as noted in the condition is considered representative of the population of these payments and therefore we consider our calculation of likely questioned costs to be reasonable. Accordingly, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 29:**

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

##### **DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (A Similar Condition Was Noted in Prior Year Finding #07-27)**

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

As part of our audit of the CDBG Program, we performed procedures to determine if DCED’s during-the-award monitoring procedures were adequate on-site. Based on our review of the DCED 2007-2008 Monitoring Schedule, we noted that a total of 106 CDBG subrecipients were scheduled for on-site visits. However, our testing and inquiry revealed that on-site visits were completed for only 52 CDBG subrecipients. Accordingly, DCED only completed 49 percent of the on-site visits scheduled for the CDBG Program. Additionally, we noted that for three of the ten CDBG subrecipients selected from the 2007-2008 Monitoring Schedule to test DCED’s on-site monitoring procedures, the monitor did not complete the entire checklist. Therefore, as noted in our five previous single audits, DCED’s during-the-award monitoring of its subrecipients was not adequate to provide reasonable assurance of the subrecipients’ compliance with federal regulations.

During the year ended June 30, 2008, DCED reported subrecipient expenditures for the CDBG Program of \$51,130,163, which represented approximately 98 percent of the total program expenditures. There were a total of 313 subrecipients with current year expenditures for the CDBG Program.

Within our testing of A-133 subrecipient audits, we found a material amount of subrecipients under the CDBG Program expended less than \$500,000 in total federal awards from the Commonwealth during SFYE June 30, 2007, and would not have been required to submit an A-133 Single Audit to the Commonwealth during SFYE June 30, 2008. As a result, we consider inadequate during-the-award monitoring noted above to be a material weakness in this program.

In addition, DCED only closed out 61 CDBG subrecipient projects during SFYE June 30, 2008 compared to 138 projects closed out during prior SFYE June 30, 2007, which represents a 56 percent decrease.

Furthermore, in April 2008 the HUD Office of Labor Relations performed an on-site monitoring review to evaluate the administration and enforcement of federal labor standards requirements, including the Davis-Bacon Act, by the Commonwealth for the CDBG Program. The HUD report contained one overall finding with a combined six recommendations. HUD concluded that the Commonwealth had not established adequate monitoring review policies and procedures or adequate information and tracking systems to ensure compliance with Davis-Bacon labor compliance requirements. The deficiencies disclosed in the finding reported by HUD existed during our audit period SFYE June 30, 2008. However, subsequent to our audit period, we also noted that DCED submitted a proposed written corrective action plan to HUD which is supposed to address all six recommendations, and HUD approved DCED’s proposed future corrective action plan in January of 2009.

**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, 2008***

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### **Finding 08 – 29: (continued)**

**Cause:** DCED indicated that staffing shortages combined with federal funding being provided for a new federal program administered by DCED prevented DCED from completing all of the on-site visits that were scheduled in their monitoring cycle. With respect to the incomplete monitoring checklists, the monitors indicated that the missed areas on the checklist were undetected oversights. Additionally, DCED indicated that the drop in the number of project closeouts was a result of DCED placing more emphasis on completing monitoring reports from prior year on-site visits and attempting to complete the on-site visits included on the current year schedule. DCED also indicated that the on-site visits that were not completed on the 2007-2008 Monitoring Schedule will be added to the 2008-2009 Monitoring Schedule. Regarding the finding contained in the HUD report, HUD stated that the deficiencies were a result of DCED's staffing turnover, loss of knowledgeable staff, leadership changes, a large volume of work, along with a possible misunderstanding of the impact of delayed compliance reviews upon enforcement effectiveness.

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

**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 are complying with federal regulations and subrecipient projects get closed out in a timely manner. We also recommend that DCED implement its proposed corrective action plan submitted to HUD subsequent to our audit period to resolve the findings reported by HUD.

**Agency Response:** The 2007–2008 monitoring schedule continued to be an aggressive schedule which included a backlog of unmonitored contracts from previous years. On-site monitoring was a priority task for the grant managers. Unfortunately, the numbers dropped from the previous year. This may partially be accounted for in the increased number of grantees who required more technical assistance due to their own staff turnover; the technical assistance diverted staff time away from on-site monitoring reviews. In addition, the Department received additional funds through the federal stimulus program which required time for learning the new program as well as additional application review responsibilities.

In addition, DCED's efforts to complete the monitoring schedule were once again impeded by two significant resignations during this time frame. It was anticipated that the AO2 staff position would possibly compliment staff with monitoring and closeout of grant contracts. Due to the two resignations, the AO2 had to fill gaps that occurred with these departures. A new job description has been crafted for the filling of one position which will have monitoring responsibilities with this position.

However, with the addition of several new stimulus programs that will be administered through this office in 2009, it will once again add additional responsibilities to staff that already have a full work load.

The auditor again noted that several of the completed reviews did not have letters issued several months after the review was completed. The monitoring checklists will be reviewed internally to insure that all checklists are completed even when the questions do not apply to the particular grant contract.

In addition, it was noted that there was a lack of progress in closing out the CDBG contracts during the 2007-2008 report period. Only 61 CDBG contracts were closed out during the specified timeframe, a decrease compared to the previous report period. In trying to place more emphasis on the completion of monitoring grantees, less emphasis was placed on closing out contracts. This will be an area that staff continues to make progress.

As stated, monitoring of grantees and closing out completed projects will be priority tasks in the 2009 reporting period. All staff will be advised of the expectation to complete the monitoring schedule. All checklists will be completed in the future even if a segment of the report is not applicable, it will be noted on the checklist.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 29: (continued)**

As for the closeout of the CDBG grants, each staff will continue to work on closing out at least 25 CDBG grant contracts. We believe that this will be an adequate number this reporting period. The Division Chief will periodically review each grant manager's progress and provide any necessary guidance to keep on track with the monitoring goals.

The development and implementation (May 2009) of the electronic tracking system will be a tool used by the Division Chief as well as each grant manager to monitor the work load and help effectively manage their work progress.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

### **Finding 08 – 30:**

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

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

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

### **Internal Control Deficiency Over Expenditure Information Reported on the SEFA and Financial Status Reports by PPR Comptroller**

**Condition:** During our reconciliation of the HS Cluster federal expenditures reported on the SEFA to the expenditures reported on the Financial Status Reports (FSRs) for the year under audit, we noted the following:

- PEMA reimburses DMVA for expenditures incurred for planning, training and exercise (PT&E) under the Homeland Security Grant Program. DMVA incurred and properly reported expenditures for PT&E under the 2005 HS grant on the prior year and current year SEFAs totaling \$908,692. PEMA reimbursed DMVA the entire \$908,692 during the year under audit but improperly reported the reimbursements as expenditures on the current year SEFA. As a result, these expenditures incurred by DMVA were double reported on the SEFA resulting in an overstatement of the current year SEFA in the amount of \$908,692.
- In June 2008, PEMA received a contribution of \$2 million from a local government towards the costs of a standby generator project for one of the local task forces (subrecipients). The \$2 million was improperly reported by PEMA as a reduction of federal expenditures under the 2007 HS grant on the current year SEFA. Further, a total of \$425,842 in expenditures were incurred for this project as of June 30, 2008 and reported as federal expenditures by PEMA on the current year SEFA. Since these expenditures were reimbursed with non-federal funds, the \$425,842 was also improperly reported as federal expenditures on the current year SEFA and on the current year FSRs. The improper reporting of the contribution and related project expenditures resulted in an understatement of expenditures on the current year SEFA of \$1,574,158.

The errors noted above resulted in a net understatement of expenditures reported on the SEFA for CFDA# 97.067 totaling \$665,466. 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.*

Further, an adequate internal control system would ensure that federal awards expended would be properly recorded on the SEFA.

**Cause:** With respect to the double reporting of DMVA expenditures, we noted that PPR established new grant order numbers in the prior year to account for equipment purchases by PEMA on behalf of other state agencies and for non-equipment expenditures (i.e., PT&E) for other state agencies. PPR indicated that these separate order numbers were necessary to differentiate state agency expenditures from subrecipient expenditures relative to the A-133 subrecipient universe since PEMA records all state agency equipment purchases in the subrecipient GL accounts in SAP. We also noted that the cash reimbursements to DMVA for the year under audit were recorded in the subrecipient GL accounts under one of these new grant order numbers. However, PPR had no procedures in place to ensure that PEMA's reimbursements to DMVA and to any other state agencies for non-equipment expenditures under these grant order numbers were eliminated from the SEFA in accordance with the Commonwealth's procedures in Comptroller Operations Directive 405.11.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 30: (continued)**

Regarding the \$2 million contribution, we noted that the SAP document was improperly coded as a vendor refund and no adjustment was ever made to eliminate the reporting of the contribution and related project expenditures from the SEFA.

**Effect:** The amounts reported by PEMA on the SEFA under CFDA #97.067 for the year under audit were understated by a net amount of \$665,466. As a result, adjustments to the SEFA were necessary for the SFYE June 30, 2008. Further, PPR did not follow Commonwealth procedures for preparation of the SEFA as they relate to transfers of federal funds to other state agencies. Also, without adequate internal controls in place, the SEFA may continue to be misstated in the future.

**Recommendation:** We recommend that the PPR Comptroller Office follow Commonwealth procedures in Comptroller Operations Directive 405.11 and ensure that transfers of HS Cluster federal funds between PEMA and other state agencies are properly eliminated from the SEFA. Further, we recommend that PPR track the project expenditures being funded in part by the \$2 million contribution to ensure that only expenditures in excess of the contribution amount are reported as federal expenditures on the SEFA and the FSRs.

**Agency Response:** As the finding indicates, DMVA expenditures for the Homeland Security Grant Program were included on the SEFA twice. The double posting occurred because interagency reimbursement documents were posted using a general ledger account number that is not excluded from the SEFA. Comptroller Operations will ensure that interagency reimbursement documents are posted using the proper general account number so that the transfer of funds between state agencies are excluded from the SEFA.

The \$2 million contribution that was received by PEMA from the local government is to be used to offset the cost of a standby generator. Since the amount of the contribution exceeded the applicable costs incurred by June 30, 2008, Comptroller Operations is tracking the project expenditures to ensure that only expenditures in excess of the contribution amount are reported as federal expenditures.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 31:**

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

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

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

**Unallowable Equipment Purchase Results in Questioned Costs of \$10,204 and Internal Control Deficiencies and Noncompliance in PEMA’s Subrecipient Monitoring (A Similar Condition Was Noted in Prior Year Finding #07-28)**

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

PEMA also uses ODP grant funds to reimburse the local task forces and other subrecipients for counter-terrorism training, planning, and exercise needs as well as costs associated with increased security measures at critical infrastructure sites.

In order to test the allowability of the HS Cluster program expenditures, we randomly selected a sample of 55 payments for purchases by PEMA (primarily equipment and related items), consisting of 49 payments for nine local task forces and 6 payments for other state agencies during the year ended June 30, 2008. Additionally, we selected a sample of 5 cash payments to the local task forces and other subrecipients during the year ended June 30, 2008. Our testing disclosed the following unallowable payment:

- Our testing of the allowability of the purchases by PEMA revealed that 1 of the 55 payments for purchases of equipment and related items was not on the DHS Authorized Equipment List (AEL) and was not authorized under the applicable DHS grant agreement. Therefore, this purchase is not an allowable use of HS Cluster funds resulting in questioned costs of \$10,204. The 55 sampled purchases totaled \$430,996 out of \$40,661,502 in total purchases made by PEMA during the year under audit.

Our prior three audits also disclosed control deficiencies and noncompliance with respect to PEMA’s monitoring of the nine local task forces. Our follow up for the current year disclosed similar deficiencies existed throughout the audit period. Specifically, we noted the following:

- PEMA does not have formal procedures in place to review the detailed equipment lists submitted by the subrecipients to ensure the items being requested are included on the federal government’s authorized list of allowable equipment under the grant agreement and address the subrecipient’s actual needs. Further, our testing of equipment purchases by PEMA revealed that for 5 of the 49 purchases in our sample that were made for the task forces, PEMA did not have a properly signed receiving report on file to support the receipt of the equipment by the designated location within the task force’s region as required under the contract with each task force. We also noted that PEMA did not have a properly signed receiving report on file for an additional purchase on behalf of another state agency in our sample. Since PEMA was able to subsequently obtain supporting documentation and confirm the receipt of the equipment by the task forces and other state agency for these sampled items as a result of our audit, no costs are questioned. Additionally, we noted that receipts of equipment and related items are in certain cases being entered into SAP and paid by PEMA based only on verbal confirmation of receipt from the subrecipient or other state agency, and that PEMA is not following up to ensure they obtain all the signed receiving documents.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 31: (continued)**

- PEMA does not have any procedures in place to conduct any on-site visits within the area served by each task force or have any other means to ensure that the equipment purchased is at the proper location and is being used for its intended purpose.
- The contract with each local task force requires submission of a semi-annual “interim performance report” to PEMA to document the status of the task force’s terrorism planning, training, program administration and exercise activities. Our current year testing revealed that these reports were not submitted or were not consistently submitted by the task forces during the year under audit. Further, our conversations with PEMA personnel revealed that PEMA does not review the information on these reports to monitor the task force’s activities.
- Our testing of PEMA’s contracting with the subrecipients revealed that PEMA is not communicating award information such as CFDA name and CFDA number for non-cash assistance to these subrecipients as required by federal regulations. With respect to the lack of award communication to the task forces, PEMA has determined that the lead counties for each task force are the subrecipients for all pass-through awards of non-cash assistance. Since the majority of federal assistance covered under these contracts with the task forces is in the form of non-cash assistance, this lack of award communication and designation of the lead counties as the subrecipients, increases the likelihood that these expenditures are not being properly reported by the lead counties or by the ultimate recipient of the equipment on their respective SEFAs. Further, there is limited assurance that the equipment delivered to the entities within the task force region is being audited for compliance, including the compliance requirements under Requirement F in the A-133 Compliance Supplement which address federal equipment management regulations. During our current year review of A-133 subrecipient audit reports for the HS Cluster, we specifically noted that a finding was contained in the December 31, 2007 audit report for one of the Cluster’s task forces (Allegheny) stating that the task force had not recorded the value of equipment received from the Commonwealth on their accounting records or on their SEFA. A total of \$10,323,835 and \$8,181,388 in purchases were made by PEMA on behalf of this task force during the fiscal years ended June 30, 2008 and June 30, 2007, respectively. Therefore, a material amount of equipment purchased by PEMA on behalf of this task force was not audited at the subrecipient level as required by Circular A-133.
- PEMA reported a current year equipment purchase on behalf of a task force under a state grant order number as opposed to a subrecipient grant order number. However, we noted that the purchase was improperly excluded from the HS Cluster subrecipient universe which is used by BOA to track the A-133 subrecipient audit reports.

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

During the year under audit, the expenditures for these task forces reported on the SEFA totaled \$39,901,891 or 84 percent of the total HS Cluster expenditures of \$47,636,170. A total of \$34,573,383 of the \$39,901,891 in expenditures to the task forces was in the form of non-cash assistance. Therefore, we consider the control deficiencies and noncompliance to be material.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 31: (continued)

#### 1. Activities Allowed-General

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

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

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

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

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

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

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

*A pass through entity is responsible for:*

*Award Identification: At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.  
During-the-Award Monitoring-Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*

The contract between PEMA and each task force includes the following provision:

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

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

- (a) Audit findings reported. *The auditor shall report the following as audit findings in a schedule of findings and questioned costs:*
  - (3) *Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor . . . The auditor shall also report known questioned costs when likely questioned costs are greater than \$10,000 for a type of compliance requirement for a major program. . . .*

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 31: (continued)**

**Cause:** DGS, which handles the purchasing function for all Homeland Security equipment and related items, indicated that they perform a limited review of the equipment being requested by the subrecipient for reasonableness. However, there is no documentation of this DGS review. Further, as noted above, under the contract with the task force, PEMA is responsible for performing the review of the equipment lists submitted by the subrecipients to ensure the purchases are authorized under the federal and subgrant agreements. However, PEMA has no procedures in place to perform such a review. Regarding the missing or incomplete receiving reports, PEMA indicated that in certain cases the receiving information is entered into SAP based on a verbal confirmation from the subrecipient or state agency and that they instruct the recipient to mail or fax the signed receiving report to PEMA. However, the required documentation is not being provided in many cases and no follow up is performed.

With respect to the performance reports, PEMA was not enforcing the requirement for the task forces to submit these reports during the year under audit. Additionally, PEMA is using these reports to prepare PEMA's required semi-annual reports to DHS, but they are not using them as a monitoring/assessment tool.

The communication of award information to the subrecipients for non-cash assistance is not part of the standard contract with the task force and is not provided to the task forces by PEMA unless specifically requested by the task forces. PEMA informed us that this communication of award information was made to all task forces through an e-mail in a prior year but PEMA was unable to provide documentation to support this communication. This lack of award communication and PEMA's determination that the lead counties for each task force are the subrecipients for pass-through awards of non-cash assistance are contributing to this non-cash assistance not being properly reported on subrecipient SEFAs in A-133 audit reports.

**Effect:** An equipment purchase totaling \$10,204 is unallowable and is therefore questioned. Additionally, PEMA did not have adequate procedures in place during the year under audit to perform during-the-award monitoring of the subrecipients to ensure compliance with federal regulations. Further, PEMA did not communicate the federal award information to the subrecipients for non-cash assistance during the year under audit and there is limited assurance, as evidenced by our review of the A-133 subrecipient audit report for Allegheny cited in the condition above, that this non-cash assistance is being properly reported and audited at the subrecipient level. As a result, PEMA is not fulfilling its responsibilities under OMB Circular A-133 with respect to subrecipient monitoring.

**Recommendation:** We recommend that PEMA pursue appropriate settlement with DHS regarding the \$10,204 of questioned costs. We also recommend that PEMA establish formal procedures to review the list of equipment purchases being requested by each task force or other subrecipients to ensure all items being requested are authorized under the federal and subgrant agreements and address the needs of the subrecipient. Additionally, we recommend that PEMA establish a system to perform on-site visits of the areas served by the task forces to ensure that the equipment is at the proper location and is being used for its intended purpose.

With respect to reporting of this non-cash assistance at the state and subrecipient level, we recommend that PEMA contact DHS and determine if PEMA's treatment of these lead counties as subrecipients for pass-through awards of non-cash assistance is proper. Based on guidance provided by DHS, we further recommend that PEMA communicate the federal award information to the designated subrecipient for non-cash assistance awards and monitor and appropriately follow up on all situations where non-cash assistance is not being subject to audit at the subrecipient level in accordance with OMB Circular A-133.

Finally, we recommend that PEMA enforce the requirement for the task forces to submit interim performance reports and in conjunction with the performance of on-site visits, also review the information provided in the performance reports to monitor the status of the task forces' activities.

**Agency Response:** The questioned costs in the amount of \$10,204 for voice minutes are believed to be eligible. We have requested and are awaiting clarification from DHS regarding this matter. Based on the outcome of those discussions, we will either notify the auditor that DHS has deemed this as an eligible expense or we will request that the Task Force reimburse DHS for this expense.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 31: (continued)**

PEMA has developed a Federal Grant Programs Administrative Manual. A three-day workshop was held on February 24-26, 2009 and the Manual, including forms to standardize the policies and procedures, was distributed to all attendees. Since the workshop, the Manual and forms have been distributed to all subgrantees. Included in the Manual are the following:

- Procedures for reviewing equipment lists. PEMA is in the process of revising our current Equipment Request Format which is used by the Task Forces. The equipment purchases will be linked to investment justifications in accordance with the Homeland Security strategy. Three new homeland security staff have been hired for the area offices and one for the headquarters office to work exclusively with the task forces. These PEMA Area Office and program staff will review equipment purchase requests before they are submitted to the DGS Commodity Specialists. An Equipment Control Form must be submitted to PEMA upon receipt of equipment by the subgrantees.
- Procedures for desk and on-site monitoring. Informal Task Force monitoring visits are conducted on a regular basis by the three PEMA Area Offices and Bureau of Plans staff. Staff attend at least 108 full Task Force meetings during the year. Additionally, they attend Task Force Executive Board meetings and Committee meetings, as well as meetings regarding grants, assessments and special projects. PEMA staff assist the Task Forces with their exercises and trainings. Hundreds of hours are spent by staff with the Task Forces in phone and email communications. That said, we have collected best practices from other states and are developing a formal checklist for use during formal Task Force desk and on-site monitoring visits. A formal process is being finalized and will be in place by June 30, 2009, to include a schedule of monitoring visits for the 2009-2010 state fiscal year. Included as part of the on-site monitoring visit will be verification of location of equipment purchased with HSGP grant funds; the monitoring team will physically go to the location of the equipment to ensure it is being used for its intended purpose.
- Procedures for submitting the Categorical Assistance Progress Report (CAPR). A form has been developed to assist subgrantees in submitting the CAPR biannually, on January 2 and July 2 of each year, so that PEMA can meet the due date to DHS of January 31 and July 31.

PEMA incorporated the CFDA name and CFDA number into all grant agreements and associated cover transmittal letters beginning in June 2008. We have developed a policy to ensure accurate reporting on the SEFA, using specific county-based coding. The new policy goes into effect July 1, 2009 and will be used for all equipment purchases.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 32:

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

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

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

**Noncompliance and Internal Control Deficiency Over Period of Availability Requirements Results in Questioned Costs of \$251,420 (A Similar Condition Was Noted in Prior Year Finding #07-29)**

**Condition:** During the year ending June 30, 2008, a total of \$642,103 in expenditures were charged to the SAP accounting system subsequent to the end of the grant period for two HS Cluster grants that closed prior to the end of our audit period (SHSGP 2003-1 and SHSGP 2003 II). In order to determine if the expenditures were obligated within the period of availability for the closed grants and liquidated within 90 days of the grant ending date, we selected a sample of two expenditures totaling \$367,549 charged to these grants subsequent to the grants' ending dates. Our testing revealed that both expenditures in our sample were obligated within the period of availability for the closed grants, but one of the two sampled expenditures totaling \$251,420 was not posted to the SAP accounting system within the 90-day liquidation period. As a result and for the second year in a row, expenditures totaling \$251,420 were not liquidated within the proper time period and are questioned.

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

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

**Cause:** PEMA indicated that a request was made from another state agency for radio equipment to be purchased under the 2003 II grant. The purchase was made through the Commonwealth's purchasing fund and obligated in September 2004. The equipment was received by the other state agency in June 2006 and PEMA was given authorization to pay for the purchase. However, PEMA stated that an invoice was never received from the Commonwealth's Office of Administration (OA) for the equipment and that the payment was eventually made in July 2007 after PEMA contacted OA. PEMA also stated that they were trying to work with DHS to get an extension for the liquidation of obligations under the 2003 grants but never received one.

**Effect:** Costs of \$251,420 claimed under the SHSGP 2003 II Grant (Award #2003-MU-T3-0037) are unallowable and, therefore, questioned since they were not liquidated within the required time period under federal regulations. Furthermore, additional costs charged to the SAP accounting system subsequent to the end of the grant period for the above two grants may also be unallowable. Additionally, PEMA did not have adequate procedures in place during the year under audit to ensure that expenditures are liquidated within the required 90 day time period.

**Recommendation:** We recommend that PEMA repay the \$251,420 in questioned costs or pursue appropriate settlement with DHS. Additionally, we recommend that PEMA review the remaining costs charged after the end of the above two grants for timely obligation and liquidation and pursue additional settlement with DHS for any other exceptions. Finally, we recommend that PEMA strengthen their existing procedures to ensure that all expenditures are liquidated within the required 90 days after the grant ending date.

**Agency Response:** The activity noted after the liquidation period on the 2003 State Homeland Security Grant Program (SHSGP) Part I and 2003 SHSGP Part II grants was a result of many variables. The Purchase Orders noted were **procured prior to the grant expiration date**. These grants were processed in the early stages of the SAP system. The transition to a completely new enterprise-wide financial accounting and management system, coupled with the transition

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 32: (continued)**

of trained personnel to manage the grant activity, resulted in transactions occurring outside of the liquidation period. There were a number of necessary corrections to purchase orders, reimbursements and advance payments that were required to adjust the expenses and expended dollar amounts.

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

PEMA has established closeout procedures for all federal grants. The grant closeout timeline has been incorporated into the Federal Grants Program Administrative Manual that was published on February 24, 2009 and distributed to all subgrantees.

The SHSGP Part I was officially closed by the DHS Grant Programs Directorate on November 13, 2008 and Part II was closed on April 29, 2009. Since 2003 Part II has closed, we are requesting DHS grant an exception to the liquidation period only for the SAP activity that occurred outside that time period.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 33:

#### CFDA #17.245 – Trade Adjustment Assistance

##### Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (A Similar Condition Was Noted in Prior Year Finding #07-30)

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

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

In order to test the accuracy of the information submitted to USDOL, we obtained the ETA 563 submitted for the quarter ended June 30, 2008. We obtained the electronic files which contain detail of the individuals included in the ETA 563 report (which was provided as of our testing date) and compared the detail by individual to the totals for each of the 40 data fields on the ETA 563 report. We then selected a sample of 66 individuals from the supporting detail provided by L&I in order to determine if the information for the individual was properly reported in each of the 40 data fields. For the seventh year in a row, our testing disclosed discrepancies as follows:

- For 15 of the 40 data fields, there were differences between the totals reported on the ETA 563 report and the supporting detail provided by L&I as follows:

Data Field	Total Number or Amount Reported	Total Number or Amount Supported	Difference
Entered Training-Occupational	290	325	(35)
Entered Training-Remedial	79	105	(26)
Entered Training-In Training	1,537	1,627	(90)
Waivers Issued-Marketable Skills	988	1,019	(31)
Waivers Issued-Retirement	157	163	(6)
Waivers Issued-Enrollment Unavailable	121	130	(9)
Waivers Issued-Training Not Available	22	24	(2)
Waivers Revoked-Marketable Skills	331	362	(31)
Waivers Revoked-Health	0	2	(2)
Waivers Revoked-Enrollment Unavailable	54	83	(29)
Waivers Revoked-Training Not Available	20	24	(4)

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 33: (continued)

Data Field	Total Number or Amount Reported	Total Number or Amount Supported	Difference
Other-Completed Training	242	245	(3)
Other-Training Costs Recipients	997	1023	(26)
Other-Training Costs Amount	\$3,350,490	\$3,642,686	\$(292,196)
Other-Participants This Quarter	4,401	4,481	(80)

Based on our sampling of 66 individuals from the supporting documentation, we noted additional discrepancies in nineteen of the 40 data fields as follows:

For the field titled “Basic TRA Recipients,” we noted that one of the 66 individuals in our sample was included as a recipient of Basic TRA Payments for the quarter. However, our review of supporting documentation indicated that the individual did not receive any basic payments during the quarter and therefore, the individual should not have been counted as a recipient of Basic TRA Payments.

For the field titled “Basic TRA-First Payments,” we noted that one of the 66 individuals in our sample was not included in this field on the ETA 563 report. However, our review of the supporting documentation indicated that the individual did receive the first basic payment during the reporting quarter and therefore, the individual should have been included in this field. Further, we also noted that one of the 66 individuals in our sample was included in this field on the ETA 563 report but did not receive the first basic payment during the quarter and therefore, the individual was improperly included in this field.

For the fields titled “Basic TRA-Weeks Paid” and “Basic TRA-Amount Paid,” our review of supporting documentation disclosed errors in the reported amounts paid for six of the 66 individuals in our sample and errors in the reported number of weeks paid for five of these six individuals as follows:

	Reported Basic Weeks Paid	Actual Basic Weeks Paid	Over/(Under) Reported	Reported Basic Amount Paid	Actual Basic Amount Paid	Over/ (Under) Reported
1	8	6	2	\$ 2,896	\$2,172	\$ 724
2	6	0	6	1,638	0	1638
3	7	6	1	3,696	3,168	528
4	4	4	0	1,344	1,676	(332)
5	27	5	22	10,472	1,870	8,602
6	6	4	2	2,856	1,904	952

For the field titled “Additional TRA-First Payments,” we noted that 13 of the 66 individuals in our sample were not included in this field on the ETA 563 report. However, our review of supporting documentation indicated that these individuals received their first additional payment during the quarter and therefore, should have been reported in this field.

For the fields titled “Additional TRA-Weeks Paid,” and “Additional TRA-Amount Paid,” our review of supporting documentation disclosed errors in the reported amounts for five of the 66 individuals in our sample and errors in the reported number of weeks paid for four of these five individuals as follows:

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 33: (continued)

	Reported Additional Weeks Paid	Actual Additional Weeks Paid	Over/(Under) Reported	Reported Additional Amount Paid	Actual Additional Amount Paid	Over/(Under) Reported
1	6	8	(2)	\$2,172	\$2,896	\$ (724)
2	7	13	(6)	1,911	3,549	(1,638)
3	12	12	0	5,668	5,700	(32)
4	7	8	(1)	3,696	4,224	(528)
5	8	10	(2)	3,808	4,760	(952)

For the field titled “Remedial TRA-First Payment,” we noted that two of the 66 individuals in our sample were not included in this field on the ETA 563 report. However, the supporting documentation revealed that these two individuals did receive their first remedial payments during the quarter and therefore these individuals were improperly excluded from this field.

For the field titled “Entered Training-Occupational,” we noted that one of the 66 individuals in our sample was not included as a participant who entered occupational training during the reporting quarter. However, the supporting documentation indicated that this individual did enter training during the quarter and therefore should have been included in this field on the ETA 563 report.

For the field titled “Entered Training-Remedial,” we noted that one of the 66 individuals in our sample was not included in this field on the ETA 563 report. However, our review of supporting documentation indicated that this individual did enter remedial training during the quarter and therefore was improperly excluded from this field.

For the field titled “Entered Training-In Training,” we noted that five of the 66 individuals in our sample were not included in this field on the ETA 563 report. However, our review of supporting documentation indicated that these individuals were in training at the end of the reporting quarter and therefore should have been included in this field. Additionally, we also noted that one of the 66 individuals in our sample was improperly included in this field since our review of supporting documentation disclosed that the individual was not in training as of the end of the quarter.

For the field titled “Waivers Revoked-Marketable Skills,” we noted that four of the 66 individuals in our sample were included in this field on the ETA 563 report. However, our review of supporting documentation indicated that there was no waiver in effect during the quarter that could be revoked and therefore these individuals were improperly included in this field. Additionally, we noted that three of the 66 individuals in our sample were counted as having waivers revoked twice during the reporting quarter. However, our review of supporting documentation indicated that only one waiver was in effect for each of these three individuals and therefore the information was not properly reported in this field for these three individuals.

For the field titled “Waivers Revoked-Enrollment Unavailable,” we noted that two of the 66 individuals in our sample were included in this field on the ETA 563 report. However, our review of supporting documentation indicated that no waiver was in effect during the quarter that could be revoked and therefore, these individuals were improperly included in this field.

For the field titled “Other-Completed Training,” we noted that one of the 66 individuals in our sample was not included in this field on the ETA 563 report. However, our review of supporting documentation indicated that the individual completed training during the quarter and therefore should have been included in this field.

For the fields titled “Other-Training Cost Recipients” and “Other-Training Costs Amount,” we noted that one of the 66 individuals in our sample was not included in either of these fields. However, our review of supporting documentation indicated that costs of \$4,650 were paid during the quarter and therefore this individual was improperly excluded from both fields. Further, for one of the 66 individuals in our sample, we noted the training costs amount was reported as \$446 but the supporting documentation indicated that the actual training costs amount should be \$2,822.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 33: (continued)

For the field titled “Other-Participants,” we noted that one of the 66 individuals in our sample was not included in this field on the ETA 563 report. However, our review of supporting documentation indicated that the individual should have been included as a participant for the quarter.

For the field titled “Other-Co-Enrolled in Wagner Peyser Program,” we noted that nine of the 66 individuals in our sample were excluded from this field but our review of supporting documentation indicated that all nine should have been included in this field. Further, we noted that another 17 of the 66 individuals in our sample were included in this field (two were included twice) but our review of supporting documentation indicated that none of these individuals should have been counted in this field since they were not co-enrolled during the quarter or were not included in any of the other fields. Additionally, we noted that another five of the 66 individuals in our sample were included in this field multiple times but should only have been counted one time.

For the field titled “Other-Co-Enrolled in WIA Dislocated Worker Program or National Emergency Grants Program,” we noted that seven of the 66 individuals in our sample were excluded from this field but our review of supporting documentation indicated that all seven should have been included in this field. We also noted that four of the 66 individuals in our sample were included in this field but our review of supporting documentation indicated that these individuals were not co-enrolled during the quarter or were not included in any of the other fields and therefore should not have been counted in this field. Additionally, we also noted that another five of the 66 individuals in our sample were included in this field multiple times but should only have been counted one time.

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

- The data for the fields on the ETA 563 report is extracted from various L&I databases. However, the procedures used to extract and compile this report along with the detail sources of information are not formally documented and there are no formal review and approval procedures in place prior to submission of this report to USDOL. Further, the detail supporting the fields on the ETA 563 report is not readily available to support a review process.

**Criteria:** 20 CFR 617.57 states:

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

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

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

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

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

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

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

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 33: (continued)**

**Cause:** Regarding the differences between the detail of the ETA 563 report and the actual amounts reported to USDOL for the 15 data fields noted in the condition, L&I indicated that there was a problem with the data collection process. As part of this process, data errors are flagged for remediation and are stored in a table to be cleared prior to processing. However, there was an issue with the production instance of the procedures that did not display the errors for resolution. Accordingly, some of the data used to calculate the fields on the ETA 563 report was not complete.

With respect to the differences in the supporting documentation, manual coding entries are made in the benefit payment system to identify the type of TRA payment being made to the recipient. (Basic versus Additional versus Remedial) If errors are made during this process, the information will not be reported correctly on the ETA 563 report. Additionally, L&I was unsure why errors occurred in the training participation fields and co-enrollment fields but indicated that there may have been programming errors in the extraction of this data from the CWDS system which was a new system placed into production this year. We also noted that L&I's calculations of the co-enrollment fields do not contain unique participants and therefore, participants were counted several times in the support for the report. For the errors with the waivers, L&I stated that the CWDS system was automatically revoking any unrevoked waivers even if the waiver expired. This caused waivers to be revoked and included as a revoked waiver on the report in error. For the errors in the training costs fields, we were informed that the extract of the Trade FMS data was programmed to avoid duplicate payments but was not allowing payments of the same amount to be included in the report.

Further, L&I does not have adequate procedures in place to prevent the above errors and ensure the accuracy and completeness of amounts on the ETA 563 report submitted to USDOL.

**Effect:** Based on the number of errors cited in the condition on the ETA 563 for the quarter ended June 30, 2008, L&I did not comply with federal reporting requirements. L&I's procedures also provide limited assurance that the information submitted to USDOL on the ETA 563 is accurate and complete. Further, inaccuracies in the amounts reported on the ETA 563 could directly affect the future funding levels for TAA since the factors used in determining each state's share of formula funds include information reported on the ETA 563.

**Recommendation:** We recommend that L&I ensure that all error tables are working properly and have been cleared before the ETA 563 report is generated and submitted to USDOL. We also recommend that L&I store their data used to generate the quarterly ETA 563 reports to ensure that the data can be readily retrieved to support all data fields being reported to the federal government. We further recommend that L&I formally document the process used to extract the data for the compilation of the ETA 563 report and ensure that an adequate segregation of duties exists in the generation and submission of the report including an adequate review and approval process. As part of this review process, we also recommend that L&I produce a report by individual that provides detail by data field to ensure the program personnel, who are knowledgeable of the data fields, can adequately validate the information being reported. Finally, we recommend that L&I amend the June 30, 2008 ETA 563 report in accordance with USDOL instructions to correct the errors on the previously submitted report.

**Agency Response:** As always, the Department of Labor and Industry strives to make a genuine effort to ensure that the ETA 563 is a comprehensively prepared document. Likewise, the Department strives to ensure that TRA benefits are properly paid in accordance with the Trade Act Law and its regulations with TRA claims initially processed and eligibility determined through eight regional UC Service Centers. Processing undergoes a second level review to determine eligibility, period, account and coding but even with this, errors can occur later if the proper coding was inadvertently removed or changed. The Department has embarked on a major UC electronic system modernization which will update the existing TRA electronic filing and benefit payment systems, include automatic calculation and adjustments of TRA benefits, and preclude manual errors noted. However, the errors noted are not due to failure of having proper instructions or procedures in place but rather to human errors. In an effort to reduce those errors, as noted in the prior year's corrective action plan, the Federal Programs Unit of the Office of UC Benefits provides training sessions to the TRA staff, UC staff, and TRA operations staff throughout the year. Training sessions review both initial and continued requirements for proper payments of TRA benefits. In response to the Trade Act of 2009, the Office of UC Benefits created a special TRA operations Task Force that is strictly dedicated to processing TRA claims. Additionally, the complete TRA Claims Processing Manual is on the Department's Intranet for use by UC Service Center staff and operations unit staff. Additionally, in response to the auditor's recommendations in the finding, Federal

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 33: (continued)**

Programs staff will have extra review checks in place for the manual error problem. This process will be reviewed on a monthly basis. Upon each TRA transaction, OIT will provide a list of each TRA claim processed during the previous month and Federal Program Staff will ensure the correct coding is attached to the TRA claim as a monitoring review step.

In regards to the items cited within the finding, the Department of Labor and Industry offers the following in response:

Regarding the information stated for those individuals who were reported as being excluded from particular fields related to training, specifically for references F, K and L relating to the Occupational Training, Remedial and In Training on the Testing Sheet provided by the auditors, this was an area that had previously been manually verified. It was erroneously believed that it was designed in the system to discern it but with the system being so new, it was not caught. It will now be system generated to determine this information in coordination with the new Stimulus package which will allow for this change to be implemented sometime in the fall of 2009.

Our Department acknowledges that there was a problem within the system with recognizing waivers. This has been corrected.

For the reference that was cited for the individual who completed the training during the period and should not have been included in the field (Reference T in documentation provided by the auditors), at the time the report was submitted the information was correct, but subsequently a change was made and the information was no longer valid. Had an acknowledgement of the termination date been made during audit testing, a clarification could have been made avoiding a deficiency being cited.

Regarding the reference of AP in documentation provided by the auditors, for the individuals enrolled in WIA DLW or NEG Programs – contrary to what was referenced in the finding, it was relayed to our Department by our Trade Regional Representative that anyone receiving TAA training during the Common Measure participation period and who was also enrolled in either the WIA, DLW or NEG program sometime during the CM participation report period would be counted. Participation in WIA, DLW or NEG does not have to be concurrent with the training but must be within the same participation period. The Representative clarified that the count starts when the WP or WIA registered participant becomes a trade participant. Unlike Common Measures, it ends when they end their trade service. The registration did not have to occur in that quarter. Therefore, our Department is in disagreement with the statements for the individual listed as U in documentation provided by the auditors, which was stated as the individual was receiving TRA and was co-enrolled and was improperly excluded from the Co-enrolled field.

Our Department is in agreement with the deficiencies represented for the individual listed as AB in documentation provided by the auditors, in that “the individual included in the Co-enrollment fields, but not in any other field on the report. If the individual is included in one of the other fields of the report, then co-enrollment should be evaluated.” These errors were due to bad data and are examples of the manual errors that occur. Additionally, for the Reference listed as H in the documentation provided by the auditors, bad data was a factor. Per CWDS, there is no TAA CMPA, the training application was never verified. The field staff needs to do the verification for the record to be included. The Trade FMS is outside of CWDS at this point and the system can’t check for this condition. THE FR3 release includes the Trade FMS being part of CWDS and will be able to add a BR to not allow payment until the Application is verified. This should prevent this from happening in the future. Reference I in the documentation provided by the auditors, involving the LX participation should also be rectified.

For Reference J in the documentation provided by the auditors, based on CWDS, it appears the individual should be included in the Co-enrolled in Wagner-Peyser Program column. This was a programming error; it has been corrected and verifications of counts have been implemented to have checks and balances.

Regarding Reference B in the documentation provided by the auditors, where the three individuals who should have been included in the Co-enrolled in WIA Dislocated Worker Program or National Emergency Grant Program Column but were improperly excluded, programming has been changed that should correct the issue. For those individuals per CWDS where there was no TAA CMPA, the training application was never verified; field staff will be apprised to do

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 33: (continued)**

verification for the record to be included. Lastly, for the last individual where there is no WIA CMPA for the time period and therefore is excluded correctly. There are however WIA services in CWDS but they are funded with TAA which does not create WIA participation.

For Reference C in documentation provided by the auditors, contrary to the citing, the data was reported correctly in keeping with the definition that the participation becomes co-enrolled in WIA when they become a TAA participant, the WIA participation does not need to occur during the ETA 563 reporting period but the TAA participation does. Therefore, the data was reported correctly.

Lastly, for Reference D in documentation provided by the auditors, where the individual was included multiple times, but should only be reported once, the Department is in agreement with this deficiency citing a programming error which has been corrected. Verifications of counts have been put into place to implement checks and balances.

In accordance with the Department's responsibility to accurately and timely report program participant and expenditure data on the ETA 563 Report and in keeping with the auditor's recommendations to ensure that all error tables are working properly and have been cleared before the ETA 563 Report is generated and submitted to USDOL, we submit the regulations below of Final Report Creation, Validation and Submission Procedures. Additionally, as recommended, our Department is working on creating a spreadsheet to show which items on the ETA 563 Report a person is being counted in order to do our own internal monitoring and auditing similar to the auditors in order to eliminate the manual errors that occur prior to the full implementation of the Computer Modernization System.

Data that is used for the ETA-563 quarterly report consists of Trade Reemployment Assistance (TRA) payment information provided by the Office of Unemployment Compensation Benefit's Office of Information Technology (OIT) application support personnel, and Trade Activity Assistance (TAA) activities and financial support information provided by OIT support staff for the Bureau of Workforce Development Partnership (BWDP). The TRA data is transmitted on a monthly basis to the Trade database from which the ETA-563 is generated. The financial support and TAA activity data is transmitted quarterly, generally between thirty to thirty-five days following the end of the quarter. The co-enrollment numbers for the ETA-563 are transmitted directly, by e-mail, to CWIA staff for inclusion in the report.

Once all the information has been loaded into the Trade database, it is run through a series of error checks. The petitions which contain data that does not pass the parameters of the filters are assigned an error code specific to the type of error. These errors are then placed into an error queue. CWIA checks the error queue after receiving the first notification that the TAA data has been transmitted. (If no errors are found within one working day after the transmission of the data, OIT Trade database staff will be asked by CWIA staff to confirm, by e-mail, that no errors were found.) The error queue will be checked again prior to finalization of the report to ensure no subsequent errors showed up in the queue. CWIA staff examines the errors in the queue and corrects them. Once the error queue has been cleared, CWIA will notify OIT staff in charge of the Trade database that the data is ready to be assimilated into the database. If the petitions in the error queue are not reintegrated into the Trade database, their data will be excluded from the report. Prior to creating the ETA-563, CWIA will ensure that the error queue has been cleared, and communicate with OIT staff if it appears that the data remains unassimilated.

There are two separate error queues: the Petition Error queue and the TAA (or CareerLink) Error Queue. Errors in the Petition queue deal primarily with format or syntax issues with regard to a petition. As such the system cannot recognize it. This type of error is rare. The TAA or CareerLink error queue identifies problems between the CWDS or financial databases and the Trade (ETA-563) report database. These errors are most commonly invalid petition numbers, either due to petitions being entered incorrectly or not at all. Additionally, out-of-state TRA petitions will often be caught in this error queue since Pennsylvania does not normally have them on record. These out-of-state petitions must be checked for validity and the petition information entered into the Trade database either via the user interfaces on the Trade database website or by being directly loaded into the Trade database.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 33: (continued)**

Once both error queues have been cleared the full quarterly report (except for the Wagner-Peyser and WIA co-enrollment data) are produced by the database and accessed by CWIA staff through the website to the Trade database. The report for the current quarter is accessed and the information displayed is manually entered onto a spreadsheet.

Either before or after entering the data onto the ETA-563 report spreadsheet, a “common sense” error check is performed checking data for historical consistency, reasonability, and making sure impacts of current unemployment assistance programs (EUC, EUC II, etc.) appear to be properly reflected. If the data appears incorrect, CWIA will first contact the administrator of the Trade database to ensure there were no errors within the database or information not transmitted. CWIA staff will then contact other OIT and program area staff (OUCB or BWDP) to confirm that the data is correct. Once the report seems correct, then the quarterly report is distributed to Trade stakeholders in OUCB and BWDP for their review and approval. If any problems arise they are addressed and the data checked, or re-checked until it is found acceptable. The report must meet the approval of these individuals before it can be sent to ETA.

As an added measure to ensure the data is correct, there is now a report from OIT on the TAA activity and financial support activity that will be used to compare the input to the Trade database with the output. If these two reports do not match then there is a problem with either the Trade or TAA/Financial support activity data that must be addressed prior to sending the report. Once the two reports match, and all parties are satisfied that the ETA-563’s contents appear to be correct, the report will be transmitted to ETA.

**Auditors’ Conclusion:** L&I did not provide any additional information or documentation to change the data discrepancies cited in the condition. Therefore, our finding and recommendation remain as previously stated and we will review L&I’s planned corrective action in the subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 34:

#### CFDA #17.245 – Trade Adjustment Assistance

##### Internal Control Weakness and Inaccurate Reporting on the ETA 9130 Reports

**Condition:** L&I is required to submit the ETA-9130 Financial Report to USDOL on a quarterly basis for each federal grant and program (benefit payments, training and administration). Prior to the 2007 grant, L&I was required to file one financial report for benefit payments and one report for training and administration. The expenditure data on the ETA-9130 is cumulative and is required to be reported on an accrual basis. In order to determine the accrued training expenditures to include on the ETA-9130 each quarter, L&I prepares an Accrual Summary Report by grant. The accrued expenditures from this report are added to the actual cumulative expenditures from the accounting system as of the reporting period end date and this total is then reported on Line 10e of the ETA-9130 report.

In connection with our testing of the ETA-9130 report that was submitted for the quarter ending June 30, 2008 for the 2006 Training (T) and Administration (A) grant (grant 1706), we agreed the accrual for training expenditures to the Accrual Summary Report for the period April 1, 2008 through June 30, 2008. However, during our review of the Accrual Summary Report and through discussions with L&I, we determined that various programming errors, including an improper date range, were made in developing this report. As a result, the total accrued expenditures by grant, which were used in reporting federal expenditures on the ETA-9130 Reports submitted for the quarter ending June 30, 2008, were not accurate. L&I subsequently corrected these programming errors and provided us with the updated accrued expenditures amounts as of June 30, 2008 which disclosed that the accrued expenditures reported on the ETA-9130 Reports for the quarter ending 6/30/08 were materially misstated as follows:

Grant Number	Accrued Expenditures Included on 9130 Reports	Actual Accrued Expenditures as of 6/30/08	Understatement
1706 (T&A)	\$ 943,656	\$ 1,708,981	\$ (765,325)
1707 (T)	1,649,986	3,786,066	(2,136,080)
1708 (T)	1,352,238	1,718,239	(366,001)
Totals	3,945,880	7,213,286	(3,267,406)

In addition to the above, we also noted that L&I properly reports cumulative expenditures up to the grant award amount on the ETA 9130 Report as required. Further, any training expenditures incurred by L&I in excess of the grant award are typically transferred to another newer grant that is not fully expended. However, L&I does not have procedures in place to report the accrued training expenditures associated with fully expended grants.

**Criteria:** The reporting instructions for the ETA 9130 Financial Report state in part:

##### **Reporting Requirements:**

4)-All financial data is required to be reported cumulative from grant inception, through the end of each reporting period. Expenditure data is required to be reported on an accrual basis.

##### **Line Item Instructions for the U.S. DOL ETA Financial Report:**

Item 10. Transactions: e. Federal Share of Expenditures-Enter the cumulative amount of accrued expenditures for allowable costs associated with the funds authorized on Line 10d. Accrued expenditures are the sum of actual cash disbursements for direct charges for goods and services; the amount of indirect expenses charged to the award; MINUS any rebates, refunds, or other credits; PLUS the total costs of all goods and property received or services performed, whether or not an invoice has been received or a cash payment has occurred. Accrued expenditures are to be recorded in the reporting quarter in which they occur, regardless of when the related cash receipts and disbursements take place.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 34: (continued)**

**Cause:** There were numerous programming errors in the design of the Accrual Summary Report that resulted in the inaccurate reporting of the accrued training expenditures on the ETA 9130 Reports. These errors were mainly the result of the L&I IT personnel and subcontractors not being familiar with the purpose and use of the Accrual Summary Report by Comptroller personnel and a lack of communication between these parties.

**Effect:** The ETA 9130 Reports submitted for the quarter ending 6/30/08 for the grants stated in the condition were materially inaccurate. Further, L&I and Comptroller did not have adequate procedures in place to calculate the accrued training expenditures that were included on the ETA 9130 Reports submitted during our audit period and therefore there is limited assurance that other ETA 9130 Reports that include accrued training expenditures were accurate.

**Recommendation:** We recommend that the L&I IT department work with the Comptroller personnel responsible for the preparation and submission of the ETA 9130 Reports to ensure that the programming for the Accrued Summary Report is designed in a manner that provides accurate accrued training expenditure amounts to comply with the federal reporting requirements. Finally, we recommend that L&I amend the 9130 Reports noted in the condition above in order to accurately report the cumulative accrued expenditures to USDOL and establish procedures to ensure that accrued expenditures associated with fully expended grants are reported on the ETA 9130 Reports.

**Agency Response:** While it is correct that deficiencies occurred in this report, primarily because of an error in the date report range process, it was more due to a miscommunication between parties rather than a lack of communication. Many of the staff who initially initiated these procedures did not continue their tenure in this work area. Some of the replacement staff were not apprised of what the basis was for the original programming data or how it was developed and only later, through the reporting process, deemed some of the procedures not to be correct. As a result of these errors coming to light, much diligence has been spent to determine where and why the deficiencies occurred and what needed to be implemented to correct them. Additionally, several meetings were held between IT, Program, Comptroller's and Audit personnel to ensure a thorough understanding of both what the report entailed and what procedures might need to be enacted to comprehensively collect the necessary information. As such, most of the revisions needed to correct the programming inaccuracies have been implemented to date with only a couple to go which will be completed by July 2009.

It should be noted that as an intricate part of the reporting process, negative numbers will occur on the Accrual Summary Report. These are not indications of errors; rather, they occur when deobligations are entered on money that has been allocated to the student in the future or if an invoice is paid against a funding stream that is designated in the future also. In both situations, the money is allocated to the student but the date of the allocated money is after the end date of the report.

As the last revisions are completed and in keeping with the auditors' recommendations, the Department will rerun the Accrual Summary Report as of June 30, 2008 and the Comptroller's Office will submit revised 9130 Reports from that time period forward to the present time to reflect the corrected accrued training expenditures amounts in compliance with federal reporting requirements. Further, reviews of the reports and the amounts will be monitored by Program and Comptroller staff to ensure accuracy in reporting.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 35:**

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

#### **CFDA #84.367 – Title II Improving Teacher Quality State Grants**

#### **PDE During-The-Award Monitoring Failed to Document and Ensure Subrecipient Compliance With Title I and Title II Regulations**

**Condition:** PDE performs during-the-award monitoring of subrecipient LEAs participating in Title I Grants to Local Education Agencies and Title II Improving Teacher Quality State Grants programs through on-site visits conducted on a cyclical basis. During our testing of a sample of 22 out of 182 monitoring visits conducted during FYE June 30, 2008, we noted five monitoring reports (or 23%) that contained incomplete or unanswered questions on subrecipient compliance with Title I and Title II regulations as follows:

- Supplementing/not supplanting state funds with federal funds,
- Use of experienced, highly-qualified teachers and professionals, and
- Parental involvement

As a result, PDE failed to document and ensure subrecipient compliance with Title I and Title II regulations, and PDE management was not aware of this problem until we brought it to their attention.

We also noted a 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 five LEAs that were erroneously not included and need to be added in by PDE program officials.

In addition, in March of 2008, the U.S. Department of Education (USDE) performed an on-site review of the Title I program in Pennsylvania. USDE's review resulted in several findings in the critical Title I monitoring areas of Parental Involvement and Supplementing/Not Supplanting, and recommended improved PDE oversight of its LEAs in these compliance areas.

Finally, in our review of the June 30, 2007 OMB Circular A-133 Single Audit report for Philadelphia School District (issued in October 2008), which is the largest Title I and Title II subrecipient in the Commonwealth, we noted that the subrecipient Single Auditors questioned 26 percent of the Title II program expenditures reported in the district's SEFA for the year (or \$5,437,055) as unallowable costs. The auditors noted that these Title II funds were inappropriately used for school counselors' salaries and fringe benefits, and the district's attempts to use federal cross-cutting guidelines to transfer these costs to another federal grant where they would be allowable was invalid because the district is in "corrective action status", and transferability of Title II funds is, therefore, not allowed. The auditors also reported that this \$5.4 million in Title II funds was inappropriately used to supplant nonfederal funds in violation of federal regulations. Since these issues were not detected during PDE's on-site monitoring of Philadelphia School District, this subrecipient audit finding further demonstrates that instances of material noncompliance are clearly occurring at the subrecipient level and PDE's monitoring procedures are not adequate enough to detect and correct them, and need to be improved.

**Criteria:** 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.*

Good internal controls dictate that monitoring reports are complete and that each question is appropriately addressed during the monitoring process.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 35: (continued)**

**Cause:** PDE uses a web application monitoring report called Fedmonitor. Monitoring reports are completed and submitted on-line via the Fedmonitor system. In general each compliance question has three possible answers; “Met” (requirement), “Not Met” (requirement), or “Not Applicable” (NA). Answers are completed by the on-site reviewer, pages are saved, and the monitoring report is submitted. PDE management believed that “Not Met”, and “NA” responses on the Fedmonitor System required an explanation or else the page could not be saved and the report finalized and submitted. PDE also believed that questions left blank on the Fedmonitor system could not be saved or submitted.

As a result of our bringing the discrepancies to PDE’s attention they found that questions left blank on the Fedmonitor application could be saved and reports inappropriately finalized and submitted. PDE management said that PDE program staff review every finalized monitoring report for completeness. However, these items were missed during review. Further, PDE management said that Regional Coordinators only review monitoring reports that contain “Not Met” responses. Accordingly, PDE was not aware of the incomplete monitoring reports.

For Philadelphia School District, PDE management indicated they have not followed up on and resolved the Title II subrecipient audit finding as of the date of our state-level testwork for Title II.

**Effect:** Monitoring reports are being filed in the Fedmonitor system in an incomplete manner. Also, based on the results of our testwork and USDE’s March 2008 review, LEA’s could be in non-compliance with federal requirements in the NCLB legislation and PDE may not be aware of the situation. For Philadelphia School District, there is material noncompliance occurring at the subrecipient level which is not being detected or corrected by PDE.

**Recommendations:** We recommend that PDE change the monitoring report system/process so that questions left blank are identified and incomplete monitoring reports are not accepted as complete. Further we recommend that PDE increase their effort over review and oversight to ensure that all Title I and Title II subrecipients are properly included on each three-year monitoring schedule, and that all monitoring report answers are completed and comments regarding NAs or deficiencies are duly noted. PDE should also work closely with USDE and utilize USDE’s findings to enhance its oversight controls to better ensure LEA compliance with Title I regulations.

We also recommend that PDE appropriately follow up on the noncompliance and control deficiencies cited in the Philadelphia School District Single Audit finding for Title II, work closely with USDE program officials, and make enhancements to its during-the-award monitoring procedures which will better ensure timely detection and corrective action on these major issues in program monitoring.

**Agency Response:** The Pennsylvania Department of Education (PDE), Division of Federal Programs’ Fedmonitor online system has been modified to prevent monitoring reports from being submitted to PDE with incomplete information by subrecipients.

The PDE, Division of Federal Programs (DFP) does not agree with the auditor’s inclusion of the Philadelphia City School District Single Audit Report year ended June 30, 2007 as part of the PDE’s Commonwealth Single Audit review. The Philadelphia City School District (SD) was not given approval to transfer funds from Title II to Title V in the 2006/2007 school year. A review of the 2006/2007 Consolidated Application shows that the transferability section of the application indicated that the district was not permitted to transfer any funds from ANY grant due to SD’s Corrective Action status.

The SD is monitored every year, on-site, by a team of 20-30 educators. This on-site monitor encompasses all aspects of the federal programs administered by the DFP. While the DFP monitors current year programs once a year, DFP would not be aware of any changes made by the SD if the changes are made to the programs after that visit or at the close-out of the grant. Therefore, the DFP had no knowledge of the transfer and could not monitor an unknown; no follow-up or corrective action could have been taken as yet.

**Auditors’ Conclusion:** The Philadelphia School District’s inappropriate use of \$5.4 million in Title II funds is material to our state level audit of the entire Title II program, and represents material noncompliance with Title II regulations.

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 35: (continued)**

PDE's oversight, monitoring, and audit resolution for its Title I and II subrecipients, especially Philadelphia School District, need to improve to better ensure subrecipient compliance with program requirements, so our finding does not change in this regard.

For the other exceptions noted in the finding, the agency response did not resolve the exceptions for our audit period, so our finding still stands. Therefore, based on the agency response, the finding and recommendation remain as previously stated, and we will review any corrective action in the subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 36:**

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

#### **CFDA #84.367 – Title II Improving Teacher Quality State Grants**

#### **Inadequate Controls Over Ensuring Compliance With MOE Requirements (A Similar Condition Was Noted in Prior Year Finding #07-33)**

**Condition:** The Pennsylvania Department of Education (PDE) requires each of its subrecipients to submit an Annual Financial Report (AFR) with expenditure information to calculate and measure Subrecipient compliance with federal Maintenance of Effort (MOE) requirements. PDE's Bureau of Information Systems extracts the necessary AFR information, determines net expenditures, and generates the MOE report that compares net expenditures year to year. Net increases or decreases are calculated on the MOE report, and decreases in net expenditures greater than 10% should be identified as potentially not meeting the MOE requirement and require investigation by PDE. Those LEAs determined to have not met MOE are required to have their next year's allocations reduced.

Our testwork disclosed that during the audit year, in May 2008, PDE examined the MOE report comparing years ended June 30, 2006 and June 30, 2005. Considering that AFR data for the year ended June 30, 2006 was available as early as February 2007, PDE did not perform the MOE review timely. Instead PDE reviewed the MOE report nearly 15 months after the information was available. Once identified, LEAs in violation of MOE were not notified of their allocation reduction for another four months until September 2008, at the very end of the federal grant year, which is unreasonable.

In four of the last five years, we have issued a finding regarding inadequate controls at PDE over the MOE process.

In addition, the United States Department of Education (USDE) conducted a review of the Title I program which included MOE review during the week of March 3, 2008. In their report, they disclosed two findings. In Finding 1, USDE said that PDE did not determine MOE timely which will result in late reductions in allocations. In Finding 2, USDE found that PDE was not consistently reducing allocations in the correct federal grant year. We believe that both issues are a direct result of PDE's failure to perform MOE reviews in a timely manner.

**Criteria:** Section 9521 of the Elementary and Secondary Education Act (ESEA) states:

(a) *IN GENERAL.-A local educational agency may receive funds under a covered program for any fiscal year only if the State educational agency finds that either the combined fiscal effort per student or the aggregate expenditures of the agency and the State with respect to the provision of free public education by the agency for the preceding fiscal year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding fiscal year.*

(b) *REDUCTION IN CASE OF FAILURE TO MEET.-*

(1) *IN GENERAL.-The State educational agency shall reduce the amount of the allocation of funds under a covered program in any fiscal year in the exact proportion by which a local educational agency fails to meet the requirement of subsection (a) of this section by falling below 90 percent of both the combined fiscal effort per student and aggregate expenditures (using the measure most favorable to the local agency).*

**Cause:** Although we have issued numerous findings in prior year audits, PDE has failed to perform the MOE review timely. In prior year audits, program staffing issues were cited. Over the years, the MOE function has been reassigned to various staff members, and timing continues to be a major problem for PDE in its attempts to resolve our prior audit findings.

**Effect:** Since PDE performs the MOE review in an untimely manner, LEAs in violation of MOE may have their allocations reduced untimely and in the incorrect federal grant year in violation of Title I and Title II MOE regulations. In addition, MOE reductions are not known by the LEAs in a reasonably timely manner for them to adjust budgets and adequately plan the services to be provided.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 36: (continued)**

**Recommendation:** PDE should take the necessary actions to ensure that its Title I/Title II MOE review is done in a timely manner and allocation reductions are made timely (i.e., at or near the beginning of the grant year) and posted to the correct federal grant year.

**Agency Response:** The Pennsylvania Department of Education (PDE), Division of Federal Programs (DFP) sought guidance from the United States Department of Education (USDE) to ensure Maintenance of Effort (MOE) calculations, timelines and consequences were prepared correctly in the future. Based on those discussions, the DFP assigned two staff members the responsibility for MOE each year.

The DFP met with PDE's Bureau of Information Systems to update computer programs and reports ensuring that all calculations were proper and all comparisons were performed correctly. Additionally, the timeline for MOE was altered to ensure that allocations are affected in the same fiscal year as the finding.

These modifications occurred during Fiscal Year 2008/2009 and are not reflected in the current 2007/2008 audit year.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 37:

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

**CFDA #84.027 – Special Education Grants to States**

**CFDA #84.367 – Title II Improving Teacher Quality State Grants**

#### Inadequate PDE Monitoring Controls Over Subrecipient Compliance With Cash Management Regulations

**Condition:** As part of our state-level Single Audit of major programs administered by PDE, we review subrecipient OMB Circular A-133 Single Audit reports issued by larger-dollar LEAs for potential impact on our state-level audit. Our review of the Circular A-133 Single Audit issued for Philadelphia School District for the fiscal year ended June 30, 2007 disclosed that the school district earned and improperly retained interest on federal cash balances during the year as follows:

<u>Federal Program</u>	<u>Interest</u>
Title I	<u>\$858,487</u>
Title II	<u>\$51,313</u>
Special Education	<u>\$65,209</u>

In addition, our review of the June 30, 2006 A-133 Single Audit of Philadelphia School District disclosed a similar condition of earned/retained interest on federal cash balances during that prior fiscal year.

Our inquiry and follow-up with PDE and LECS Comptroller officials on the reasons for the excessive federal cash balances and interest earned by Philadelphia disclosed inadequate controls and follow-up by PDE and LECS to ensure subrecipient compliance with federal cash management regulations. In particular, while PDE's regular monthly payments to Philadelphia appeared to be consistent, reasonable, and in accordance with original scheduled amounts, there was no follow-up investigation by PDE/LECS or adjustment made in federal payments as a result of the excess federal cash disclosed in the audit reports. Furthermore, although federal Education Department General Administrative Regulations (EDGAR), otherwise known as the Common Rule, require subrecipients to return interest earned on federal funds to the federal grantor agency, PDE issued a waiver allowing Philadelphia to keep the interest earned on excess federal cash. However, PDE provided inadequate support for its authority to issue this waiver, and the waiver appears inappropriate.

**Criteria:** 34 CFR 80.21(i) requires that grantees and subgrantees promptly, but at least quarterly, remit interest earned on advances to the grantor agency. The grantee or subgrantee may keep up to \$100 in interest per year for administrative expenses.

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.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 37: (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.*

**Cause:** PDE and LECS believed that their cash monitoring procedures and payment schedules for federal funds to Philadelphia School District were appropriate and reasonable and did not need to be adjusted for excess cash at the subrecipient level. PDE also believed that they had the authority to issue a waiver on interest earned on excess federal cash under the federal “Ed-Flex waiver program” administered through USDE.

**Effect:** Philadelphia School District was maintaining excess federal cash under the above three federal programs in violation of federal regulations, and PDE/LECS state-agency oversight and internal controls over subrecipient cash appear weak. As a result, other subrecipients in addition to Philadelphia may also be maintaining excessive cash during the grant year with inadequate oversight by PDE/LECS. Furthermore, PDE’s waiver, allowing Philadelphia School District to retain interest earned on excess federal cash in violation of federal regulations, does not appear to be supported or appropriate in the circumstances.

**Recommendation:** We recommend that PDE and LECS strengthen their oversight of federal program subrecipient cash balances by properly following up on evidence of excess federal cash at the subrecipient level and by adjusting payment schedules so that subrecipient cash is being limited to immediate needs. We also recommend that PDE discuss and pursue appropriate settlement of all interest earned on excess federal cash balances by subrecipients with the federal grantor agency, and that all waivers be properly supported.

**Agency Response:** The Pennsylvania Department of Education (PDE), Division of Federal Programs continued to issue the waiver due to the belief that it was in accordance with regulation. The United States Department of Education (USDE) has monitored the Ed Flex Program within the last three years and reviews PDE’s state’s annual Ed Flex Report and has never questioned the issuance of this waiver. Likewise, this waiver has been provided to the auditors of the Office of Auditor General each year during the Commonwealth Single Audit review.

Now that the Division of Federal Programs has been officially informed that Ed Flex does not provide the authority necessary to issue this waiver, these waivers will no longer be granted. Additionally, the PDE, Bureau of Special Education has informed districts that they may not earn interest in excess of \$100.00 on IDEA-B funds (34 CFR Part 80). The Philadelphia City School District has been notified that the waiver is no longer an option and that any interest earned over \$100 is required to be returned to USDE.

**Comptroller Response:** The Philadelphia School District is required to submit Quarterly Reconciliation of Cash reports for their Title I, Title II and IDEA Special Education programs. These reconciliation reports are used to monitor program cash balances and adjust program payments when necessary. The school district provides certification that the submitted reports are accurate. Based on the certified reports submitted by the school district for the Title I, Title II and IDEA Special Education programs during the SFYE June 30, 2008, there was no evidence of a cash surplus that would require additional follow-up or cause LECS Comptroller Office to adjust or stop the PDE program payments to the school district.

**Auditors’ Conclusion:** The agency and Comptroller responses failed to address any strengthening of their oversight procedures to prevent excess cash by the subrecipient. The finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 38:**

#### **CFDA #84.010 – 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 #07-34)**

**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 Needs Improvement I. A school that has not made AYP for three consecutive years is classified as Needs Improvement II. A school that has failed to meet AYP for four consecutive years is classified as Corrective Action I and a school that has not made AYP for five consecutive years is classified as Corrective Action II. Schools under the above classifications are all considered under an improvement status. For schools in the above classifications, the LEAs must create school plans and work with PDE to implement the plans to ensure that students can make AYP.

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 and mathematics; training the exam administrators; scoring each assessment exam; compiling assessment results by school and LEA; and providing a master results data file to LEAs and PDE.

PDE has also contracted with another vendor who is responsible for reporting the AYP process on the SRC. 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 these vendors, 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 both the CSPR and SRC, we haphazardly selected 15 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:

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 38: (continued)**

While reviewing the CSPR we noted 12 instances in which PDE did not report required information. In place of the information PDE inserted the following comments; “PDE did not collect this data...”, “Data was not received by submission time”, or “We do not collect this data”. We conclude that the CSPR is in noncompliance since it is incomplete.

For our testing of the 15 selected items on the CSPR, PDE was able to provide support documentation for nine items without exception. The status of the remaining six items is as follows:

- PDE reported incorrect data for two items, Sections 1.6.6.1 – Certification / Licensed Teachers and 1.7 – Persistently Dangerous Schools. In particular, PDE originally reported 3,536 teachers and 12 dangerous schools in these two categories in the CSPR, but informed us after our request for support that the correct numbers were actually 1,210 teachers and 9 dangerous schools, respectively. The CSPR, therefore, was in error.
- PDE was unable to provide any support for Section 1.5.1 – Low Poverty Secondary Schools. Therefore, the accuracy of the data could not be validated or verified in our audit.
- PDE had difficulty determining who in the agency was responsible for Section 1.4.2 – All Title I Schools, and provided three different totals for this item during our testwork. As a result, we could not reasonably determine the correct number that belonged in the CSPR. Approximately 40 days after our initial documentation request, PDE responded with data containing a different number (1,815 schools) than was originally reported (1,778 schools). When questioned about this difference, PDE provided different data (1,814 schools) that again did not match reported information. On a third try, PDE provided data that agreed in total to the reported amount, but the three different totals raise questions about the proper accountability and the validity of the reported amount.
- PDE was unable to provide the lists required by Section 1.4.4.1 – Title I Schools Identified for Improvement and Section 1.4.5.1 – District Identified for Improvement. We reported this issue in prior year audits. USDE officials sent a report to PDE in 2008 agreeing with our prior findings that a complete CSPR should be maintained. In the response, PDE told USDE that they maintain in its files a complete copy of the CSPR, including all attachments. However, our testing demonstrates that this is not correct.

When reviewing the SRC for information required by the NCLB legislation, we noted that Section 2 “Professional Qualifications of Teachers” of the SRC excluded percentage of classes in the State not taught by highly qualified teachers. PDE stated they were unable to provide this information but will include it in future reports. We conclude that the SRC is in noncompliance since it does not contain all required information.

Of the 15 fields tested on the SRC, PDE could provide support for 11 items tested without exception. The status of the remaining four items is as follows:

- PDE reported incorrect data for two items, section 2, Number of teachers Not Highly Qualified and Section 3, Number of Schools or Districts that Met Targets. In particular, PDE originally reported 4,047 for Not Highly Qualified Teachers and 2,695 for Schools/Districts that met targets in these two categories, but informed us after our request for support that the correct numbers were actually 2,303 and 2,296 for these two categories, respectively. The SRC, therefore, was in error.
- PDE was unable to provide any support for two test items in Section 3, State Overall Results in Mathematics, Female Proficient and State Overall Results in Mathematics, Eng. Lang. Learners Basic. Therefore the accuracy of the data could not be validated or verified in our audit.

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, there remains little 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

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 38: (continued)**

were determined. In addition to the above, we had instances in which PDE could not provide documentation to us for 40 or more days. Often the information finally provided proved to be inadequate, incomplete, or incorrect requiring further auditor inquiry.

Based on the results above we make the following conclusions:

- PDE has filed an incomplete CSPR with the USDE because sections of the report were left blank and not answered and an incomplete SRC because of missing required information.
- PDE has inadequate documentation procedures regarding the collection, compiling and verifying the accuracy of the data reported in the CSPR and SRC. In addition, both of these reports for our current audit year were inaccurate.
- There remains a lack of accountability within PDE as to who is responsible for the reports and the accuracy of the data submitted.
- PDE does not maintain complete copies of the reports in file.

This is the fifth year in a row in which a similar finding has been issued regarding the CSPR and SRC reports.

**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;*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 38: (continued)**

**Cause:** PDE depends heavily upon the outside vendors for the determination of schools making AYP and identifying schools in the improvement classification. Further, it appears that PDE has an inadequate number of staff devoted to the CSPR and SRC efforts. Since timeliness of the reports is viewed as most critical, accuracy of the information is left to the vendor to ensure. In addition, we found that various divisions within the department were responsible for certain parts of the CSPR and SRC. In one case, PDE was unable to determine exactly who was responsible for certain reported information. As in prior years, it appears as if no one group takes responsibility for the entire product, documents the source of the information and ensures the overall accuracy of the information reported.

**Effect:** Missing, unsupported and inaccurate 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, unsupported, and inaccurate 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 assign the responsibility of the CSPR and SRC to a particular group or division. That group should take responsibility for the reporting function and document who in PDE provides what information. Further 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.

PDE management has instituted an Accountability Checklist and a Quality Control approval document. These documents are excellent preliminary steps to improve the accuracy of the reporting process. However, 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:** The Pennsylvania Department of Education will be assigning a coordinator responsible for the reporting function and oversight of a plan to provide required information for the Consolidated State Performance Report (CSPR) and the State Report Card (SRC). The assigned coordinator will also be responsible for strengthening documentation of internal controls over the collecting, compiling, verifying accuracy, and reporting data.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 39:

#### CFDA #84.048 – Career and Technical Education – Basic Grants to States

##### Errors and Internal Control Weaknesses in PDE’s Career and Technical Education Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (A Similar Condition was Noted in Prior Year Finding #07-35)

**Condition:** PDE is required to submit a Consolidated Annual Performance, Accountability, and Financial Status Report, otherwise known as the Comprehensive Annual Report (CAR), to provide Career and Technical Education (CTE) performance data to USDE. There are twenty-four total sub-indicators reported on Form IV of the CAR. Fourteen sub-indicators are reported under the four Core indicators of Secondary and Post-Secondary performance and the remaining ten are reported as additional measures. Three different bureaus within PDE are responsible for gathering data for preparation of the CAR. Supporting data is received on hard-copy reports, on CD, or via the internet from LEAs and outside contractors who administer standardized testing.

For the seventh year in a row, we found reporting errors and inadequate controls at PDE over the compilation and review of CAR data to ensure the data is accurate and complete prior to submission to USDE. In our current audit we sampled from the fourteen Secondary and Post-Secondary sub-indicators in the 2006-07 CAR submitted to USDE.

Our testing disclosed no significant errors in the Secondary sub-indicators selected for review, but identified significant errors in two of the five Post-Secondary sub-indicators selected for audit. Five LEAs out of a population of 47 LEAs were detail tested for each Post-Secondary sub-indicator selected. In particular, the denominator for sub-indicators 1P1 and 1P2 were misreported. According to the Federal Agreed Upon Program Levels (FAUPLs), the denominators were required to report the number of students in academic and occupational courses, respectively. We found that PDE misinterpreted the FAUPLs and incorrectly reported all students in both academic and occupational courses together for each sub-indicator. Differences identified in our testing of five LEAs are illustrated in the following table:

Post-Secondary LEA	1P1				1P2			
	Per PDE	Per auditors	Diff	% Diff	Per PDE	Per auditors	Diff	% Diff
PA Highlands	1,087	869	218	20%	1,087	949	138	13%
Penn State/Shenango	207	187	20	10%	207	187	20	10%
HACC/Lancaster	1,292	1,172	120	9%	1,292	1,062	230	18%
Lehigh Carbon	4,500	3,769	731	16%	4,500	3,734	766	17%
Manor College	337	271	66	20%	337	296	41	12%

Additionally, we identified errors and anomalies in the data used to compile CAR numbers for sub-indicators 1P1 and 1P2. The student data is gathered via the PA Adult and Post-Secondary Student Attainment system (PAAPSA), which is a web based system established by PDE to enable schools to report student data. Our analysis of the data identified students that earned academic credits and were counted in the CAR Report under sub-indicator 1P1, but had no corresponding GPA reported in the CAR under subindicator 1P2, which is clearly inconsistent. Also, we identified one LEA that inappropriately reported an equal number of academic and occupational credits for every student under 1P1 and 1P2, and this error was not detected by PDE in their review of the data. PDE management agreed that these data issues appear to be anomalies. However, based on the limited information available, the auditors were unable to specifically quantify the errors related to the data anomalies.

According to PDE management, the same procedures were used to compute the 2005-06 prior year’s CAR data for 1P1 and 1P2 sub-indicators. Therefore, it is likely that the prior CAR report also contained errors. Also, we found examples of errors in the revised 2005-06 CAR submitted in June 2008 (as a result of our prior year finding #07-35). When PDE revised the 2005-06 CAR, they incorrectly changed data which understated the 1S2 numerator and overstated the 2S2 numerator.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 39: (continued)

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

- (1) *Grantees shall submit annual performance reports . . .*
- (2) *Performance reports will contain, for each grant, brief information on the following:*
  - (i) *A comparison of actual accomplishments to the objectives established for the period . . .*

Federal Law 20 USC 2323(c) states:

(c) *Report*

(1) *In general*

*Each eligible agency that receives an allotment under Section 2321 of this title shall annually prepare and submit to the Secretary a report regarding –*

- (A) *The progress of the State in achieving the State adjusted levels of performance on the core indicators of performance; and*
- (B) *Information on the levels of performance achieved by the State with respect to the additional indicators of performance, including the levels of performance for special populations.*

20 USC 2323(b)(2) related to CTE State Performance Measures, states:

(2) *Indicators of performance*

(A) *Core indicators of performance for career and technical education students at the secondary level*

*Each eligible agency shall identify in the State plan core indicators of performance for career and technical education students at the secondary level that are valid and reliable, and that include, at a minimum, measures of each of the following:*

- (i) *Student attainment of challenging academic content standards and student academic achievement standards, as adopted by a State in accordance with section 6311(b)(1) of this title and measured by the State determined proficient levels on the academic assessments described in section 6311(b)(3) of this title.*
- (ii) *Student attainment of career and technical skill proficiencies, including student achievement on technical assessments, that are aligned with industry-recognized standards, if available and appropriate.*
- (iii) *Student rates of attainment of each of the following:*
  - (I) *A secondary school diploma.*
  - (II) *A General Education Development (GED) credential, or other State-recognized equivalent (including recognized alternative standards for individuals with disabilities).*
  - (III) *A proficiency credential, certificate, or degree, in conjunction with a secondary school diploma (if such credential, certificate, or degree is offered by the State in conjunction with a secondary school diploma).*

- (iv) *Student graduation rates (as described in section 6311(b)(2)(C)(vi) of this title).*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 39: (continued)

- (v) *Student placement in postsecondary education or advanced training, in military service, or in employment.*
- (vi) *Student participation in and completion of career and technical education programs that lead to non-traditional fields.*

#### (B) *Core indicators of performance for career and technical education students at the postsecondary level*

*Each eligible agency shall identify in the State plan core indicators of performance for career and technical education students at the postsecondary level that are valid and reliable, and that include, at a minimum, measures of each of the following:*

- (i) *Student attainment of challenging career and technical skill proficiencies, including student achievement on technical assessments, that are aligned with industry-recognized standards, if available and appropriate.*
- (ii) *Student attainment of an industry-recognized credential, a certificate, or a degree.*
- (iii) *Student retention in postsecondary education or transfer to a baccalaureate degree program.*
- (iv) *Student placement in military service or apprenticeship programs or placement or retention in employment, including placement in high skill, high wage, or high demand occupations or professions.*
- (v) *Student participation in, and completion of, career and technical education programs that lead to employment in non-traditional fields*

20 USC 2342 related to the CTE State Plan states:

#### (c) *Plan Contents. The State Plan shall include information that:*

- (13) *describes how the eligible agency will report data relating to students participating in career and technical education in order to adequately measure the progress of the students, including special populations, and how the eligible agency will ensure that the data reported to the eligible agency from local educational agencies and eligible institutions under this subchapter and the data the eligible agency reports to the Secretary are complete, accurate, and reliable;*

**Cause:** PDE management stated that they believed at the time of submission of the current year CAR report that the data was reasonably accurate, complete, and in accordance with federal definitions, and that their compilation and reporting procedures were appropriate. However, PDE's misinterpretation of the FAUPLs, along with inadequate review of the PAAPSA data files led to incorrect data being reported for the 1P1 and 1P2 denominators of the 2006-07 CAR. Also, PDE's inadequate review and approval led to misstatements in the 1S2 and 2S2 numerators of the 2005-06 revised CAR report.

**Effect:** As a result of PDE misinterpreting the FAUPLs and internal control weaknesses regarding proper review and approval of data, the CAR report submitted in USDE contained inaccurate data.

The Carl D. Perkins Vocational and Technical Education Act of 2006 (P.L. 109-270) established the core indicators of performance as referenced in Section 113(b)(2)(A) of the act and authorizes sanctions based on states' failing to meet these performance levels. Incorrect CAR data can affect the Commonwealth's performance reporting, and in turn result in possible sanctions for failure to meet agreed upon levels of performance.

**Recommendation:** We recommend that PDE review and improve its internal control procedures over the CAR and establish a system to ensure that all CAR data is accurate, complete, and in accordance with USDE definitions. Data should also be adequately supported, analyzed, and properly reviewed prior to submission. Furthermore, PDE should ensure that anomalies or errors detected in source data are corrected as necessary for sub-indicators reported in the CAR. Lastly, we recommend PDE send a corrected CAR to the USDE to ensure USDE has the correct program data.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 39: (continued)**

**Agency Response:** The Pennsylvania Department of Education, Bureau of Career and Technical Education does not acknowledge the misinterpretation of the 2006-07 FAUPL and reported 1P1 & 1P2 correctly on the 2007 CAR. The 2006-07 FAUPL 1P1 and 1P2 denominator states: **Denominator:** Number of occupationally specific students who receive grades in academic/occupational courses during the reporting year. This clearly defines all students are to be counted in the denominator.

The Bureau of Career and Technical Education would also like to clarify those students receiving grades according to the PAAPSA instruction include pass/fail resulting in zero for fail or 2.5 for pass. Any other grade received by a student is still included in the denominator.

**Auditors' Conclusion:** The auditors disagree with PDE's response and our finding and recommendation remain as stated above.

The FAUPL for 1P1 states: **Denominator:** *Number of occupationally specific students who receive grades in academic courses during the reporting year.* The FAUPL for 1P2 states: **Denominator:** *Number of occupationally specific students who receive grades in occupational courses in the reporting year.* PDE's response misquotes the FAUPL for 1P1 and 1P2 and indicates that they are identical, but they are not. Because the requirements for 1P1 and 1P2 are different per the FAUPL, the finding remains as originally stated. PDE should also pursue clarification from USDE on this denominator data for future CAR reports.

Based on the PAAPSA data PDE provided to the auditors, students that were counted in the numerator of 1P1 and 1P2 did not have grade point averages. The FAUPL for 1P1 states: **Numerator:** *Number of occupationally specific students who reach a state defined threshold level of career and technical education who perform at or above the 2.5 grade point average (GPA) in academic courses in the reporting year.* The FAUPL for 1P2 states: **Numerator:** *Number of occupationally specific students who reach the state defined threshold level of career and technical education who perform at or above the 2.5 grade point average (GPA) in occupational courses in the reporting year.* Without GPA data in the file, auditors were unable to verify the accuracy of the CAR data. Based on the information provided, the finding remains as originally stated. As with the denominator data above, PDE should also pursue clarification from USDE on the numerator data for future CAR reports.

**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, 2008

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### Finding 08 – 40:

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

##### Control Deficiency Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA Results in Unsupported Program Income (A Similar Condition Was Noted in Prior Year Finding #07-38)

**Condition:** As part of rehabilitating Social Security beneficiaries, OVR is permitted to request reimbursement from SSA for the costs incurred while serving eligible vocational rehabilitation clients in the RSBS program. These SSA reimbursements are considered program income to the RSBS program and deducted from expenditures reported on the SEFA. OVR received approximately \$6.8 million in program income from SSA during state fiscal year ended June 30, 2008, 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, 2008, we selected five clients' reimbursement requests, which totaled \$309,657 in RSBS program income for the year (as part of Document No. RE94039150 posted to the SAP System on September 21, 2007). However, for the third 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 four clients out of the five clients sampled, OVR did not retain and provide the OVR-208 Forms which were required to support \$16,025 of direct costs claimed for the 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 prior year finding, they began to implement procedures to retain copies of the claim documentation at the OVR Central Office to ensure that the documentation is retained and available for audit purposes, as opposed to returning the claim documentation to the originating OVR district office after the claim has been processed. However, at the time the claims in question were prepared, these procedures were not yet in place.

**Effect:** Since there was no documentation to substantiate the proper determination of the SSA claims for program income recorded for RSBS in violation of federal regulations, and OVR provides little assurance that the SSA income received by L&I in the RSBS program for these items was correct and legally earned in the current year. In addition, without adequate procedures for properly documenting the VR Claim Forms submitted to SSA, there is little assurance that future claims will be adequately supported. Finally, the SEFA may also be misstated as a result.

**Recommendation:** OVR should pursue appropriate settlement of the \$16,025 in unsupported program income with SSA and ensure it has adequate documentation on file to support all program income received from SSA in the current fiscal year under audit. Also, OVR should implement procedures to ensure that all VR Provider Claim forms and supporting documents which substantiate the proper determination of the claim for reimbursement are retained for the time period required by the Federal government.

**Agency Response:** The finding states that OVR could not provide complete documentation supporting the VR Provider Claim forms, in particular the OVR-208 Form required to support direct costs claimed. For the service time indicated,

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 40: (continued)**

OVR was using a mainframe system which automatically generated an invoice to be sent for payment. The invoices are based on Mainframe 45 screens. Supporting documentation can be provided from the IT area to generate the necessary Mainframe 45 screens which will document the costs. The Mainframe 45 screen system provided an automated system with checks and balances that fulfilled the audit documentation requirements.

**Auditors' Conclusion:** Regarding the Agency Response, the Mainframe 45 screens are not sufficient documentation on their own since they do not contain evidence that the invoiced services were actually rendered. In comparison, the OVR-208 Forms contain the signatures of the OVR Counselor and the vendor which indicate that the invoiced services were performed on behalf of the OVR client. Since no OVR-208 Forms were provided to show that the \$16,025 costs were incurred on behalf of the clients in question, the \$16,025 costs claimed for reimbursement from SSA are still considered to be unsupported. The finding and recommendation remain as stated. We will review any corrective action in the subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 41:

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

##### A Control Deficiency Exists in L&I's Procurement System Related to Debarment and Suspension (A Similar Condition Was Noted in Prior Year Finding #07-36)

**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 RSBS 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 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) system but does not have procedures to re-verify the status of these vendors or other existing vendors on an on-going basis. In addition, we tested a sample of 22 vendors receiving RSBS payments in SFYE June 30, 2008, to verify whether OVR checked the respective vendor against the debarment list prior to making payments to that vendor. For all 22 items tested, OVR provided us with a screen from the CWDS system which indicated that the vendors were verified against the EPLS system. However, for 10 out of 22 items, the "Debarment List Verify Date" as indicated in OVR's CWDS system was after the date of the payment being tested.

**Criteria:** USDE Regulation 34 CFR 85.300, regarding participants' responsibilities for debarment and suspension, states in part:

*Section 85.300 What must I do before I enter into a covered transaction with another person at the next lower tier?*

##### *Doing Business With Other Persons*

*When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:*

- a. Checking the Excluded Parties List System; 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 80.36(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 they attempted an interface to check the debarment 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 did not provide any information as to why this occurred. However, it appeared that OVR had only checked these particular vendors after our audit requests.

**Effect:** Since OVR personnel are not ensuring, on an ongoing basis, that all vendors are not suspended or debarred before entering into a covered transaction, a control deficiency exists and there is limited assurance that RSBS funds are not paid to service providers who have been excluded or disqualified from participating in federal programs.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 41: (continued)**

**Recommendation:** We recommend that OVR personnel check the Federal Excluded Parties List System prior to authorizing a payment to a RSBS service provider in order to ensure that the service provider is not debarred or suspended. As part of this process, we recommend that OVR work with federal audit resolution officials and establish procedures to check all existing vendors, on an on-going basis as agreed upon by OVR and federal officials, to ensure that RSBS funds are not paid to service providers who have been debarred or suspended from participating in federal programs.

**Agency Response:** It was cited that a weakness exists in OVR's procurement system related to Debarment and Suspension and that current procedures are to only check new vendors against the Federal Excluded Parties Listed System (EPLS) website to ensure they are not suspended or disbarred. While new vendors constitute the bulk of those being verified, vendors requiring any kind of change to their records also provide the impetus for such verification as well as other types of checks. Additionally, as noted under the cause of the finding, as part of the ongoing efforts to comply with the regulations on this, an interface utilizing OVR's CWDS computer system with the federal EPLS website was attempted but did not provide the desired results. However, testing still continues on this in the hope that the two systems can effectively interact to achieve this verification process through a more automated methodology.

In the interim, the Department has initiated other processes to ensure compliance with this regulation. One such initiative is to ensure that all contracts contain language whereby the vendor will certify that it is not suspended or disbarred. In a resolution letter dated December 16, 2008 for the 2003-2004 audit period, USDE has approved this procedure. Additionally they have recognized OVR's and the Department's efforts to coordinate the CWDS and EPLS systems. Lastly, they noted that since the efforts are ongoing from the 2004 audit on, whenever vendors are cited, documentation should be submitted as part of the resolution process indicating the cited vendors are not suspended or disbarred. The finding for 2004 was then considered closed.

In our continuing efforts to resolve this, some additional considerations have recently come to light. Our oversight federal agency will first be consulted for approval and if our suggestions are deemed acceptable, meetings will be held internally between the audit coordinator, program staff, IT and CWDS personnel to determine feasibility on the implementation.

**Auditors' Conclusion:** The agency response states that OVR has initiated procedures to ensure that all contracts contain language certifying that the vendor is not debarred/suspended. However, the majority of OVR vendors paid out of OVR's general ledger account 6600900 (Payments to Third Parties) do not have contracts with OVR but instead are paid according to OVR's Fee Schedule. Therefore, the majority of these vendors, payments to whom historically make up between 30 percent to 40 percent of OVR's annual RSBS expenditures, do not have contracts which contain debarment certifications, so these vendors would require a separate check for debarment/suspension. Although USDE-RSA closed the 2004 debarment finding, closure does not indicate that the finding is resolved. USDE-RSA stated in its correspondence dated December 16, 2008 that it "agrees with the state auditor's position, that any vendor receiving funding during the fiscal year in review should be checked by the state for suspension/debarment". We will evaluate any corrective action during the subsequent audit period. The finding and recommendation remain as stated.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 42:

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

##### Noncompliance and Control Deficiency Over Charging of Personnel Costs Results in Unknown Questioned Costs of at Least \$72,851 (A Similar Condition Was Noted in Prior Year Finding #07-39)

**Condition:** As represented by OVR personnel in prior and current year audits, nearly all employees charging personnel costs to RSBS work solely on Vocational Rehabilitation-related activities, and their salaries and benefits are charged 100 percent to RSBS and, therefore, do not maintain timesheets as supporting documentation. In lieu of timesheets, OVR previously implemented a federally required semi-annual certification process during the fiscal year ended June 30, 2005 to certify and document that these OVR employees worked solely on the RSBS program.

During the state fiscal year ended June 30, 2008, OVR incurred personnel expenditures of \$33,219,325 in salaries and \$11,634,975 in fringe benefits, or \$44,854,300 in total (federal portion only) for the RSBS program. This represents 41 percent out of total RSBS expenditures of \$109 million reported in the current-year SEFA.

During our audit, we randomly selected a sample of 19 personnel transactions totaling to \$8,856 in salaries (federal portion only) out of the \$33,219,325 in salaries charged to RSBS. Our review of these salary transactions paid to 19 different employees disclosed that, for one transaction in our sample for \$116 (in paid leave) paid to an OVR District Office employee who was charged 100 percent to the RSBS program, this employee was initially listed on the semi-annual certifications as working 100 percent on the RSBS program, but was crossed off the list by the district office manager since the employee was subsequently found to work less than 100 percent on the RSBS program. Additional inquiries confirmed that this employee did not prepare a timesheet or equivalent documentation to distribute this employee's personnel costs to the various functions on which this employee worked.

Based on the bi-weekly salary and benefit amounts for this particular employee, \$72,851 (federal share) was charged to the RSBS program during the fiscal year under audit. Without the timesheets or equivalent documentation required by OMB Circular A-87 to support allowability, we are unable to determine how much, if any, of this individual's salary and benefits for the year should have been charged to the RSBS program, and they are, therefore, considered to be unallowable and questioned.

Furthermore, we also noted that a small number of additional OVR employees (approximately 50) were identified and crossed off the semi-annual certifications by OVR district managers indicating that these individuals may also have worked less than 100 percent on the RSBS program, but may have been charged 100 percent to RSBS. However, as noted above, OVR personnel do not normally maintain timesheets, so additional individuals may have also been charged 100 percent to the RSBS program in violation of OMB A-87. As a result, an additional unknown amount of salaries and fringe benefits needs to be investigated by OVR since they may also be unallowable.

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

- a. *Be necessary and reasonable for proper and efficient performance and administration of Federal awards.*
- j. *Be adequately documented.*

In addition, 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.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 42: (continued)

- (4) *Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation...*

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

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

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

**Cause:** OVR Central Office personnel stated that they were aware that employees who work on multiple programs should use timesheets or similar documentation to support hours worked. However, in the case of this one particular employee, OVR District Office personnel stated that they were not fully aware of this requirement. As a result, employee salaries and benefits were improperly charged 100 percent to the RSBS program in violation of OMB A-87. OVR management did not provide any additional explanations for why no action had been taken to remove all less than 100 percent employees from certifications and implement time sheets to support allowability of these charges.

**Effect:** Since adequate documentation was not available as required by federal regulations to support the 100 percent charging of personnel costs for our sampled employee in question, \$72,851 in salary and fringe benefits for this employee are questioned as unallowable. Furthermore, an additional undetermined amount of salaries and benefits are also questioned since OVR may be charging 100 percent of their employees' salaries and benefits to the RSBS program even though some employees are working on other functions other than the RSBS program. In addition, a control deficiency exists since OVR does not have adequate procedures in place to ensure that all employees who work on multiple programs document their hours worked on timesheets or similar documents as required by OMB Circular A-87.

**Recommendation:** OVR should pursue appropriate settlement with USDE for the \$72,851 in questioned costs, plus investigate the possibility of any additional unknown questioned costs, as identified above. In addition, OVR management should strengthen internal controls to review and ensure that personnel costs charged to the RSBS program are allowable and properly supported in accordance with OMB Circular A-87.

**Agency Response:** The employee in question supervises one Orientation and Mobility Instructor (O & M Instructor) within a regional office of Blindness and Visual Services. The O & M Instructor serves both Federal and State customers. The supervisory time allocated to the state program would be small and difficult to calculate as it would depend on the O & M Instructor's allocation. However, all staff will be instructed to complete time sheets if they are not working exclusively on the federal program.

We have included as a reference, a copy of a memo that was distributed in December 2007 from the Deputy Executive Director of the Office of Vocation Rehabilitation (OVR) instructing all staff, counselors, supervisors and clerical personnel to adhere to the guideline to charge hours using the Cross Application Time Sheet (CATS) in order to differentiate between time worked on the State Vocational Rehabilitation (VR) Program and those hours worked on federal programs. Included within that memo are the actual instructions on how to fill out the CATS timesheets. Also included as a reference, is a memo issued by the Director of the Bureau of Blindness and Visual Services (BBVS) on June 2, 2009 advising all staff that effective immediately, they are required to complete CATS timesheets to ensure accountability and reporting purposes. Additionally, beginning with the January 09 to the June 09 certifications, new instructions will be provided where nothing will be crossed off. The signing authority will indicate either 100 percent VR activities or that timesheets will be used.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 42: (continued)**

**Auditors' Conclusion:** Based on the agency response, it appears that OVR is in agreement with the auditors' finding and recommendation. Therefore, the finding and recommendation remain as stated. We will review any corrective action in the subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 43:**

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

##### **Noncompliance and a Control Deficiency Over Preparation and Submission of the Annual RSA-2 Report**

**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 RSBS 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 the federal fiscal year 2007, we noted that there was an understatement of carryover funds (i.e., unobligated balance) in the amount of \$31,015,907 since Schedule V, Line 1, *Amount of Current Fiscal Year Section 110 Allotment Carried Over to Next FY*, was reported as \$0, which was understated in comparison to the *Unobligated Balance of Federal Funds* reported in the amount of \$31,015,907 on Line 10p of the FSR for grant H126A070056 for the reporting period ended September 30, 2007.

Furthermore, the existence of the reporting error indicates 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.*

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 and ensure that such errors are corrected.

**Cause:** OVR personnel stated that they did not have previous experience in preparing the RSA-2 Report. OVR personnel did not explain why the reporting error was 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 materially misstated for the federal fiscal year 2007. If the control deficiency is not corrected, the RSA-2 Reports could also be significantly misstated 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. In addition, OVR should make the proper correction to the RSA-2 Report for the federal fiscal year 2007 and submit the revised report to USDE.

**Agency Response:** The Department is in agreement with this part of the finding concerning the understatement of carryover funds. The person responsible for preparing the RSA-2 report for this period was new to Labor and Industry and the Office of Vocational Rehabilitation and did not have the full experience necessary to adequately prepare this

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 43: (continued)**

report. In August 2008, this person attended training on the RSA-2 report presented by the U. S. Department of Education, Rehabilitation Services Administration and now is familiar with the federal requirements and the makeup of the RSA-2 report.

At the time of this report, OVR was still recovering from a mass retirement of personnel. Everyone in OVR was sharing the workload and taking on tasks not normally assigned or familiar to them. Effective with the RSA-2 report for Federal Fiscal Year ending September 2009, OVR is training an Accountant 2 who will prepare the report. The report will then be reviewed by a Budget Analyst 3 who is familiar with the RSA-2 report to ensure that it is properly prepared in accordance with federal regulations. In regard to the recommendation that OVR should make the proper corrections to the RSA-2 Report for the federal fiscal year 2007 and submit the revised report to USDE, that has been done as of June 2009.

**Auditors' Conclusion:** Based on the agency response, it appears that OVR is in agreement with the auditors' finding and recommendation. Therefore, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 44:

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

##### Control Deficiency in PDE’s Monitoring of Federal Earmarking Requirements Results in Questioned Costs of \$199,709 (A Similar Condition Was Noted in Prior Year Finding #07-40)

**Condition:** As part of our audit of the Twenty-First Century Community Learning Centers (21<sup>st</sup> CCLC) Program for SFYE June 30, 2008, we examined PDE’s procedures relative to the earmarking requirements imposed by the Federal government on the 21<sup>st</sup> CCLC grants. In response to the prior year finding, PDE personnel implemented a separate account code (i.e. internal order) to track state activities separately from state administration. However, this separate account code was only implemented for the most recent federal grant (Grant #S287C070038). For prior Federal Grant #S287C050038, which closed during our audit period and another Federal Grant #S287C060038, which closes in the subsequent audit period, PDE did not establish a separate account code on the SAP accounting system to properly account for the two percent and three percent maximum earmarks for these funds mandated by Federal regulations. For these two grants, PDE only tracked the combination of these two requirements together as five percent in total, which was not sufficient to track the individual earmarks as required.

Furthermore, our testing relative to Federal Grant #S287C050038 disclosed that PDE expended \$1,834,000 in total for the combination of state administration and state activities which exceeded the combined maximum allowable amount for state administration and state activities of \$1,634,291 by \$199,709. Since PDE did not track state administration separately from state activities, we were unable to determine which specific category was exceeded. The total grant award amount for Federal Grant #S287C050038 was \$32,685,818.

**Criteria:** Title 20 of the United States Code, Section 7172 states the following regarding State use of funds:

*(1) In general*

*Each State that receives an allotment under this part shall reserve not less than 95 percent of the amount allotted to such State under subsection (b) of this section, for each fiscal year for awards to eligible entities...*

*(2) State administration*

*A State educational agency may use not more than 2 percent of the amount made available to the State under subsection (b) of this section for—*

- (A) The administrative costs of carrying out its responsibilities under this part;*
- (B) Establishing and implementing a peer review process for grant applications described in section 7174(b) of this title (including consultation with the Governor and other State agencies responsible for administering youth development programs and adult learning activities); and*
- (C) Supervising the awarding of funds to eligible entities (in consultation with the Governor and other State agencies responsible for administering youth development programs and adult learning activities).*

*(3) State activities*

*A State educational agency may use not more than 3 percent of the amount made available to the State under subsection (b) of this section for the following activities:*

- (A) Monitoring and evaluation of programs and activities assisted under this part.*
- (B) Providing capacity building, training, and technical assistance under this part.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 44: (continued)

(C) *Comprehensive evaluation (directly, or through a grant or contract) of the effectiveness of programs and activities assisted under this part.*

(D) *Providing training and technical assistance to eligible entities who are applicants for or recipients of awards under this part.*

**Cause:** PDE personnel only implemented separate account coding for the most recent federal grant since it was the only grant which started during the audit period and they were able to implement a new account coding structure at that time. The account coding structure for the two older grants noted above were established in previous audit periods and were not changed. PDE personnel did not provide a reason as to why they did not make changes to the account coding structures for the two older grants.

Regarding the overexpenditure of grant funds for state administration and state activities for Federal Grant #S287C050038, PDE personnel indicated that there was a staffing transition in the position of Bureau Administrative Officer. During the transition, misinformation was verbally transmitted to the current Administrative Officer resulting in this noncompliance.

**Effect:** Since PDE expended \$199,709 of grant funds in excess of the combined maximum allowable earmark for state administration and state activities, these costs are questioned as unallowable. Furthermore, since no system existed to track state administrative costs separately from state activities costs for Federal Grant #'s S287C050038 and S287C060038, there is limited assurance that PDE was complying with the Federal earmarking requirements for these two 21<sup>st</sup> CCLC Grants.

**Recommendation:** PDE should pursue resolution of the \$199,709 in questioned costs with USDE. In addition, we recommend that PDE ensure that procedures are adequate to track and account for state administrative costs separately from state activities costs in order to comply with Federal earmarking requirements for all federal grants within the 21<sup>st</sup> CCLC Program.

**Agency Response:** The Pennsylvania Department of Education (PDE), Division of Migrant Education had established new earmarking/tracking procedures at the time of the audit review. Separate account codes were established for the Fiscal Year 07/08 and for subsequent years. However, the PDE does not agree with this finding. During a Bureau staffing transition, appropriate direction was not provided to the current staff regarding the process of these funds.

**Auditors' Conclusion:** PDE has indicated that they do not agree with the finding. However, they did not provide any additional documentation or information that would mitigate or eliminate the finding. Therefore, the finding and recommendation remain as previously stated.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 45:

- CFDA #93.558 – Temporary Assistance for Needy Families
- CFDA #93.575 – Child Care and Development Block Grant
- CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund
- CFDA #93.658 – Foster Care – Title IV-E
- CFDA #93.659 – Adoption Assistance
- CFDA #93.667 – Social Services Block Grant
- CFDA #93.778 – Medical Assistance Program
- CFDA #93.959 – Block Grants for the Prevention and Treatment of Substance Abuse

**DPW Did Not Specify CFDA Number and Other Required Award Information in Subrecipient Award Documents, Resulting in Noncompliance With OMB Circular A-133 (A Similar Condition Was Noted in Prior Year Finding #07-47)**

**Condition:** For the major federal programs listed above, DPW does not consistently identify the CFDA title and number, award name or name of the federal awarding agency in the award documents provided to county and nonprofit subrecipients. This failure represents an internal control weakness which causes subrecipients to be improperly informed of federal program information, and also causes 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 or 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.

The above weakness, 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, name of Federal agency) and applicable compliance requirements.*

*Subrecipient Audits – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year for fiscal years ending after December 31, 2003... have met the audit requirements of OMB Circular A-133...*

*Pass-Through Entity Impact – Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable Federal regulations.*

**Cause:** According to management, DPW informs county subrecipients of their federal award information using allocation letters and plans, and management has concluded that the award information historically provided was sufficient.

As indicated in the prior-year response, DPW provides 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).

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 45: (continued)**

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

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

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.

**Effect:** Failing to include the CFDA title or number in subrecipient award documents 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, award name, and name of the federal funding agency to all subrecipients on up-front award documents. DPW should also ensure proper follow up with subrecipients in instances where they are not properly aware of and mis-reporting federal award information in their Single Audit reports submitted to the Commonwealth.

**Agency Response:** With regard to the DPW's MR Waiver program, all payments will now be made through the PROMISE system effective July 1, 2009.

The DPW, Office of Children, Youth, and Families, will enclose a funding chart with allocation letters, identifying the different CFDA numbers that are funded by Child Welfare. Also, OCYF and the Bureau of Financial Operations will make a formal request to the Comptroller's Office to include the CFDA numbers on the remittance advice.

All other CFDA reporting discrepancies were responded to previously and are identified within the Cause section of the finding. The DPW does not plan to make any further changes to the reporting of CFDA and federal awards with regard to these programs.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 46:**

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

##### **DPW Did Not Perform Adequate During-The-Award Monitoring of TANF Subrecipients**

**Condition:** During the fiscal year ended June 30, 2008 the Pennsylvania Department of Labor and Industry (L&I) paid \$115.4 million in TANF funding to 23 Local Workforce Investment Act (LWIA) subrecipients (or 24.3 percent) out of total federal TANF expenditures of \$475.8 million reported on the June 30, 2008 SEFA. The Department of Public Welfare (DPW) as lead agency for TANF had responsibility for monitoring the LWIA subrecipients.

Our testing of the DPW Bureau of Employment and Training Program's (BETP's) during-the-award on-site monitoring of LWIA subrecipients disclosed that four LWIAs (Berks County, Central Pennsylvania Workforce Development Corporation, Philadelphia Workforce Development Corporation, or PWDC, and Luzerne County Workforce Investment Office) out of the seven LWIAs selected and tested by us were not monitored on-site during the SFYE June 30, 2008. In addition, PWDC was not monitored since the fiscal year ended June 30, 2006, except for a time and attendance review by BETP related to issues associated with achieving and documenting TANF Work Participation Rates. The period covered in this review by BETP for the accuracy of work and training hours entered into DPW's Automated Information Management System (AIMS), the system which supports the reporting of TANF Work Participation Rates to HHS, was the period March 2007 to June 2007. In that review, BETP found that employment contractors for PWDC were accurately entering work hours into AIMS only 15 to 46 percent of the time, well below the established goal of 95 percent; however, no corrective action plan was documented. For our current year, PWDC is by far the largest TANF subrecipient since it received \$67.3 million (or 58.3 percent) of the \$115.4 million in TANF funding to LWIAs, and 45 percent of the TANF case load as of June 30, 2008 resided in the PWDC service area.

As a result of the above, material weaknesses and noncompliance exist over DPW during-the-award monitoring of TANF subrecipients and the TANF Work Verification Plan.

Further, the DPW Bureau of Financial Operations (BFO) performed a one-time, limited scope audit of PWDC for the fiscal year ended June 30, 2008. The audit objectives were limited to evaluating PWDC's controls over the administration and oversight of the subcontracting process, including the Request For Proposal (RFP), contract monitoring, payment, and reconciliation processes, and to determining whether PWDC's controls were adequate to ensure the efficient and effective use of TANF funds. The BFO audit of PWDC disclosed significant weaknesses in PWDC's monitoring of its contractors and significant weaknesses in PWDC's payment processes that caused unallowable expenses to be charged to TANF, especially for supportive services and special allowances paid to TANF clients. These BFO findings corroborate our overall conclusion that DPW's during-the-award TANF monitoring procedures are insufficient to prevent and detect these noncompliance issues at the subrecipient level.

**Criteria:** 45 CFR Section 92.40(a) pertaining to monitoring states in part:

*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.*

Further, the Pennsylvania TANF Work Verification Plan Section IV. Internal Controls B. Monitoring Employment and Training Contractors states in part:

*The Commonwealth reviews each contracted program's performance to determine whether:*

- *Activities offered meet the federal definitions of work activities;*
- *Actual hours of participation match available verification; and*
- *Daily supervision of unpaid activities is being provided.*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 46: (continued)**

*Attainment of these program performance requirements is measured at the time of on-site monitoring, as well as at other times throughout the course of the grant. Contracted employment and training programs that do not achieve the performance requirements will be required to take specific corrective actions in plans that are submitted to the Commonwealth in writing.*

**Cause:** DPW provided reports to support on-site monitoring of PWDC during the prior two fiscal years ended June 30, 2006 and 2007 and of Berks County, Central Pennsylvania Workforce Development Corporation and Luzerne County Workforce Investment Office during the prior fiscal year ended June 30, 2007; however, on-site monitoring reports covering our current audit period ended June 30, 2008 were not provided. No explanation was given for the lack of during-the-award on-site monitoring in the current year.

**Effect:** Material noncompliance exists over DPW's on-site monitoring of TANF subrecipients and the TANF Work Verification Plan. As a result, TANF subrecipients could be operating out of compliance with federal regulations with no DPW oversight and follow up.

**Recommendation:** DPW TANF program officials should strengthen their procedures to ensure adequate and timely during-the-award on-site monitoring of all TANF subrecipients and to ensure that they are in compliance with federal regulations, including the TANF Work Verification Plan. Also, TANF program officials should evaluate the results of the recent BFO audit of PWDC, compare these results to other on-site review and audit activities at PWDC (i.e., the PWDC Single Audit), and determine what follow-up is necessary to address the reported weaknesses at PWDC. TANF program staff should also communicate their follow up results with BFO's auditors and PWDC's independent single auditors to provide better assurance that program auditors at PWDC are fully informed about the noncompliance issues identified for this LWIA.

**Agency Response:** On or about April 14, 2009, the auditors requested monitoring reports, monitoring checklists, corrective action plans, and approval of corrective action plans for the Philadelphia Workforce Development Corporation (PWDC). Also requested was a list of all BETP-funded providers, from which a sample of the same materials would be requested by the auditors at a later date. On or about this date, BETP advised the Bureau of Financial Operations (BFO) that the 2007-08 monitoring report for PWDC was in development and was not available for release at that time. It is customary professional courtesy not to release such a report to the public prior to it being finalized and released to the service provider. BETP did, however, provide to the auditors other completed reports for the timeframes leading up to the period of review as referenced in their findings document.

On or about May 1, 2009, the auditors, through BFO, requested monitoring related materials for 10 additional BETP-funded service providers. At that time it was determined that the Berks E&T, Central Pennsylvania Workforce, and Luzerne / Schuylkill documents were also in development and could not be released at that time. Again, documents showing monitoring of the prior program year were provided. Despite the claim that "no explanation was given for the lack of during-the-award on-site monitoring in the current year," BETP explained that monitoring for all programs in question was conducted, but reports were still in process. BFO was advised that upon completion of the pending monitoring reports and if requested by the auditors, the additional reports would be provided. To date, one of the four reports has been completed and released to the provider; the other reports are in final review/editing awaiting BETP Director's signature.

The auditors assert that the PWDC was not monitored since program year 2005-06, which is a wholly inaccurate/incomplete assessment of program monitoring. In the 2006-07 monitoring of PWDC, BETP noted that there were "significant lapses in reliable and valid data management procedures"; "[delayed data entry skewed] many other statistics reported by PWDC, calling into question the validity of PWDC's reported performance statistics"; and "... it was noted that PWDC provided conflicting statistics related to enrollments and job placements." With the level of data entry failures noted during this evaluation, BETP had no confidence in fundamental program performance data, thus, data entry monitoring and review was conducted, as noted by the auditors. Also during the period of time in question, BETP conducted annual "Time and Attendance" monitoring to ensure that case record materials were accurately represented in AIMS/CWDS and CIS. Additionally, BETP regularly reviews the monthly performance reports submitted by PWDC. And lastly, BETP monitors the fiscal expenditure data each month for PWDC and all other BETP-funded programs.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 46: (continued)**

The auditors offer that the BFO evaluation of “PWDC’s controls over the administration and oversight” of various internal process of the agency revealed varying levels of weakness in the agency’s operations. It should be noted that this BFO evaluation was requested by BETP because of our ongoing due diligence regarding programmatic and fiscal shortcomings noted by staff during their daily interactions with the agency and ongoing monthly reviews of fiscal and program data.

The auditors assert that there is insufficient program oversight related to compliance with the TANF Work Verification Plan. Further, the auditors suggest that programs could be out of compliance with regard to clients doing appropriate activities and hours related to the federal work participation requirement. In reality, BETP conducted the aforementioned “Time and Attendance” monitoring effort across all of BETP-funded programs that serve clients whose adherence to participation hours is critical for the Commonwealth to meet the work participation rate. Each fall, cases are reviewed to reconcile documentation, appropriateness of activity assignments, data entry accuracy, and adherence to durational time limits where appropriate.

In their recommendations, the auditors suggest that DPW/BETP should strengthen the processes to ensure adequate and timely onsite monitoring of all TANF subrecipients. BETP, in fact, does conduct on-site monitoring and oversight in a manner that is consistent with timeliness mentioned in the program guidelines and the TANF Work Verification Plan. The challenge, however, is that producing comprehensive and accurate reports requires considerable resources of field staff and the supervisory/editorial team. BETP’s goal is to produce quality documents within 30 days of the on-site visit. However, to ensure that providers are aware of program strengths and weaknesses prior to the release of the official report, BETP conducts detailed exit interviews with agencies and provides draft reports so that corrective actions plans can be developed immediately upon completion of the on-site visit.

The auditors also recommend that BETP evaluate the BFO evaluation results related to PWDC’s oversight and administration. They further suggest that BETP communicate corrective action planning to BFO regarding the findings of that evaluation. BETP continues to be proactive with regard to that review. BETP has met with PWDC to discuss the results and has received a corrective action plan from the agency. Additionally, DPW/BETP has advised BFO that a corrective action protocol is in place to evaluate and follow up with PWDC regarding completion/implementation of recommendations from the evaluation.

**Auditors’ Conclusion:** While DPW indicates in its response that monitoring was performed on all LWIAs in our sample during SFYE June 30, 2008, no reports or no additional documentation was provided by DPW either during our testwork or with the agency response to support this assertion. Further, we did not claim that no monitoring of PWDC was done since program year 2005-06. We noted that only a time and attendance review was done after 2005-06, and no corrective action plan was documented, but should have been. Given the high error rates noted at PWDC and its contractors and the significant TANF dollars involved, the lack of documented corrective action and the lack of documented monitoring in the current year represent material noncompliance and an internal control weakness in subrecipient monitoring. DPW did not provide any documentation to show that the material noncompliance was appropriately addressed by DPW during SFYE June 30, 2008. Therefore, our finding and recommendation, with the above clarifications, remain as previously stated. We will review any corrective action in the subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 47:

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

##### Inaccurate Reporting on the TANF ACF-199 Data Report (A Similar Condition Was Noted in Prior Year Finding #07-48)

**Condition:** Within the TANF program, DPW is required to submit the TANF Data Report, or Form ACF-199, on a quarterly basis. The ACF-199 Report provides HHS with various types of data on Pennsylvania’s TANF participants including family type, work participation status, subsidized and unsubsidized employment activity, job search and job readiness activities, etc. Each quarter, DPW electronically submits a file to HHS that contains the aforementioned data. During prior audit periods, this file consisted of three individual monthly files (one for each month of the quarter) of all TANF participants contained on DPW’s Client Information System (CIS). Effective October 1, 2003, as allowed by program regulations, DPW began to select a stratified random monthly sample of 250-300 cases for submission to HHS, as opposed to the monthly files of all participants.

In order to test the data on the file submitted to HHS, we obtained the file for the sample month of March 2008. We selected a sample of 45 out of the 296 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 11<sup>th</sup> year in a row the files did not always have the necessary documentation to support actual hours reported by category. Our testing disclosed reporting errors and/or documentation discrepancies for 12 of the 45 cases, or 27 percent, as follows:

- Out of the 45 cases reviewed on the data report, 19 cases had no work activity for the period and 26 cases included work activity. However, for 5 of the 26 cases with work activity, or 19 percent, the number of unsubsidized weekly employment hours (Item #50) reported was not supported by documentation in the case file as follows:

Case	Hours Reported	Hours Per Case File	Difference
A	30	5	25
B	30	10	20
C	30	0	30
D	30	25	5
E	30	21	9

- Documentation provided within Case A indicated that the participant had worked an average of 30 hours per week during January 20, 2008 and February 16, 2008, resulting in these hours being reported. However, additional documentation included in the case for March 2008 showed that the participant had only worked a total of 26.5 hours during the month from February 24, 2008 to March 29, 2008, or on average five hours per week.
- Documentation within Case B indicated that the participant was a baby sitter that was paid \$75.00 a week. Based on the minimum wage of \$7.15 per hour, DPW should have only reported 10 hours of employment (\$75.00/\$7.15 as prescribed by the federally approved TANF Work Verification Plan).
- Documentation provided within Case C indicated that the participant’s hours were estimated based on hours the participant was expected to work starting on March 25, 2008. However, there was no documentation in the case file to support that the participant actually started to work on March 25, 2008. Therefore, DPW should not have reported any hours for March.
- Documentation provided within Case D indicated that the participant’s hours were based on hours the participant actually worked as documented on check stubs for the period February 22, 2008 to March 27, 2008. However, DPW erroneously counted hours for the pay period ended March 27, 2008 twice.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 47: (continued)

- Documentation provided within Case E indicated that the participant was supposed to work 30 hours a week at a salary of \$150. However, based on the minimum wage of \$7.15 per hour, DPW should have reported only 21 hours of employment (\$150/\$7.15 as prescribed by the federally approved TANF Work Verification Plan).
- One of the 45 cases, Case F, reported 45 hours of Vocational Educational Training (Item #57). However, documentation within the case file indicated that the participant was enrolled in dental school at the University of Pittsburgh, which is not considered to be Vocational Education Training. In addition, the participant paid the out-of-state tuition rate as documentation within the case file indicates that the participant is a non-resident. The address for the participant's spouse per CIS is Seattle, Washington.
- Two of the 45 cases, Cases G and H, reported 20 hours of Satisfactory School Attendance for Individuals With No High School Diploma or Certificate of High School Equivalency (Item #60). However, per review of the attendance records included within the case file for Participant G, the participant was absent a majority of the time. In addition, there was no attendance record included within Participant H case file; therefore, we could not verify participant attendance.
- For four of the 45 cases, Cases I, J, K and L, the Disposition (Item #9) was 2 which means the case was not subject to data collection/listed in error. As a result, DPW was not supposed to complete data elements #10 through #77. However, these data elements were completed and reported to HHS for our test period.

**Criteria:** Section 411(a)(1) of the Social Security Act states, in part:

- (A) *CONTENTS OF REPORT.*—Each eligible State shall collect on a monthly basis, and report to the Secretary on a quarterly basis, the following disaggregated case record information on the families receiving assistance under the State program funded under this part:
- (xi) *If the adults participated in, and the number of hours per week of participation in, the following activities:*
    - (III) *Unsubsidized employment.*
    - (V) *Job Search*
    - (VI) *Job skills training or on-the-job training.*
    - (VII) *Vocational Education*
  - (xii) *Information necessary to calculate participation rates under section 407.*

In addition, 45 CFR Part 265.3 states:

- (b) *TANF Data Report.* The TANF Data Report consists of three sections. Two sections contain disaggregated data elements and one section contains aggregated data elements.
- (1) *Disaggregated Data on Families Receiving TANF Assistance – Section one.* Each State must file disaggregated information... such as the type and amount of assistance received, educational level, employment status, work participation activities, citizenship status, and earned and unearned income. The data apply to adults and children.

Federal instructions regarding the completion of the TANF Data Report states:

9. Disposition:

**Guidance:** A family that did not receive any assistance for the reporting month but was listed on the monthly sample frame for the reporting month is "listed in error." States must collect and report complete data for all sampled cases that are not listed in error. If the family is "listed in error, code this data element with a "2" and do not complete data elements #10 through #77.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 47: (continued)

**Instruction:** Enter one of the following codes for each TANF sampled case.

- 1 = Data collection completed  
2 = Not subject to data collection/listed in error

50. Unsubsidized Employment

**Definition:** Unsubsidized employment means full- or part-time employment in the public or private sector that is not subsidized by TANF or any other public program.

**Guidance:** The determination of whether employment is subsidized, or not, depends on whether the employer, rather than the recipient, receives a subsidy. If an employer receives a direct subsidy from TANF or other public funds for hiring a recipient, that recipient would be considered to be in subsidized public or private sector employment. This does not apply to recipients whose employers claim a tax credit for hiring economically disadvantaged workers. While such tax credits are designed to foster the employment of low-income families, they have traditionally not been treated as “subsidized employment” in the context of welfare.

All TANF recipients in unsubsidized employment are, by definition, receiving a subsidy – their TANF assistance grant. The receipt of this grant, however, does not constitute subsidized employment, as long as the employer receives no direct subsidy for employing the recipient. Recipients in unsubsidized employment may also receive work-related subsidies, such as child care, transportation, and other support services.

57. Vocational Educational Training

**Definition:** Vocational educational training (not to exceed 12 months with respect to any individual) means organized educational programs that are directly related to the preparation of individuals for employment in paid or unpaid positions in current or emerging occupations requiring training other than a baccalaureate or advanced degree. Vocational educational training must be supervised on an ongoing basis no less frequently than daily.

**Special Rules:** Each adult (or minor child head-of-household) has a life-time limit for vocational educational training. Vocational educational training may only count as a work activity for a total of 12 months. For any adult (or minor child head-of-household) that has exceeded this limit, enter "0" as the average number of hours per week of participation in vocational education training, even if (s)he is engaged in vocational education training. The additional participation in vocational education training may be coded under "Other."

The only exception to the above 12-month rule is for a State that received a waiver that is inconsistent with the provision limiting vocational education training. In this case the State would adhere to the terms and conditions of the waiver.

**Instruction:** As noted above, the statute contains special rules limiting an adult's (or minor child head-of-household's) participation in vocational educational training to twelve months. Enter, in this data element, the average number of hours per week of participation in vocational educational training that are within the statutory limits.

Some State waivers permit participation in vocational educational training beyond the statutory limits. Do not count hours of participation in vocational educational training beyond the TANF 12-month life-time limit where allowed by waivers in this item. Instead, count the hours of participation beyond the TANF limit in the item "Additional Work Activities Permitted Under Waiver Demonstration." Otherwise, count the additional hours of work participation under the work activity "Other Work Activities."

60. Satisfactory School Attendance for Individuals with No High School Diploma or Certificate of High School Equivalency

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 47: (continued)

**Definition:** Satisfactory school attendance at secondary school or in a course of study leading to a certificate of general equivalence, in the case of a recipient who has not completed secondary school or received such a certificate means regular attendance, in accordance with the requirements of the secondary school or course of study, at a secondary school or in a course of study leading to a certificate of general equivalence, in the case of a recipient who has not completed secondary school or received such a certificate. This activity must be supervised on an ongoing basis no less frequently than daily.

**Guidance:** States should report actual hours (as opposed to scheduled hours) in participation in secondary school. Individuals scheduled to attend classes but who do not attend classes should not be credited with hours of participation.

Also, DPWs 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.

###### 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.

###### Self-Employment

The number of hours of self-employment counted toward participation is determined by calculating the individual's gross earned income (less business expenses) divided by the Federal minimum wage, in accordance with the provisions of the Fair Labor Standards Act (FLSA). The method used to calculate the individual's gross earned income and allowable business expenses is the same as that used to determine eligibility for TANF benefits. The resulting number of employment hours is counted toward an individual's participation in unsubsidized employment.

###### Work Compensated with In-Kind Services or Goods

The number of hours of work that is compensated by in-kind goods or services and counted toward participation is determined by the individual providing the in-kind compensation. The Commonwealth does not count income-in-kind or other benefits received at a reduced rate or at no charge when determining eligibility for TANF assistance.

###### 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;

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 47: (continued)

- 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.

If an individual's Unsubsidized Employment is coordinated through an employment and training contractor, the contractor reports directly to the Commonwealth via a computerized and automated data processing interface and maintains documentation in the case record for four years or until audited.

Quality Control (QC) reviews are conducted on all sample cases selected for federal reporting. QC examiners review all the demographics and reported hours of participation including any new information that may be available from data matches with PA wage, New Hires and unemployment files as well as the National Directory of New Hires (NDNH). Documentation of hours is reviewed for all cases claiming hours that count toward participation. If documentation is missing, the examiner requests the documentation from the County Assistance Office (CAO) or contractor. If any inaccuracies are identified, corrections are made prior to submission (or re-submission) of the data file to ACF.

### **K. Satisfactory School Attendance at Secondary School or in a Course of Study Leading to a Certificate of General Equivalence**

#### **1. Definition**

The Commonwealth identifies Satisfactory School Attendance at Secondary School or in a Course of Study Leading to a Certificate of General Equivalence as an individual's active and successful participation in high school, vocational-technical school or in a program provided by an educational institution that results in a GED. Participation is counted only for individuals who have not successfully completed secondary school and who have not received a high school diploma or GED.

Activities identified as Satisfactory School Attendance at Secondary School or in a Course of Study Leading to a Certificate of General Equivalence include on-line courses and curriculum and Pennsylvania's Education Leading to Employment and Career Training (ELECT), Pregnant and Parenting Youth (PPY) and Fatherhood Initiative programs.

The primary purpose of ELECT, PPY and the Fatherhood Initiative is to assist expectant, custodial and non-custodial young parents to obtain a high school diploma or its equivalent. The principal goal of all three programs is to assist eligible expectant and parenting youth to break the cycle of welfare dependence by remaining in school, maintaining regular attendance, obtaining a high school diploma or GED and securing post-graduation employment, education, or training that will help them become successful parents and self-sufficient adults. In addition to the general self-sufficiency building, programs provide participants with pregnancy prevention information, guidance, and services to reduce the incidence of subsequent youth pregnancies.

#### **2. Countable Hours of Participation**

Satisfactory School Attendance at Secondary School or in a Course of Study Leading to a Certificate of General Equivalence meet federally-required work participation hours using documentation from the educational institution that the student is maintaining expected regular daily attendance and is in good standing.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 47: (continued)

*Regular attendance and good standing are defined by the school district.*

*Accredited Internet-based Education and Distance Learning is counted toward participation as Satisfactory School Attendance at Secondary School or in a Course of Study Leading to a Certificate of General Equivalence where access to educational course of study is limited or non-existent. This may include accommodations for individuals with disabilities and parents caring for a family member with disabilities. In most cases, internet access to on-line courses will be provided at the site of the educational institution. The educational institution will provide daily supervision of course attendance and participation. However, there may be occasions when internet access to on-line courses will be at the individual's home. In those cases, where feasible, supervision of class participation will be monitored through the course software. Otherwise, the Commonwealth will follow the educational institutions guidelines for course completion which state that the instructor monitors and verifies that the student completes the assignments by submitting homework, email discussion boards and tests to determine a grade.*

*Individuals engaged in Satisfactory School Attendance at Secondary School or in a Course of Study Leading to a Certificate of General Equivalence may be given participation credit for excused absences. The educational institutions make determinations of when absences are excused. Therefore, an individual may receive excused absence credit based upon the educational institution's excused absence policies. The Commonwealth does not extend excused absence criteria beyond that which the educational institution adopts for its students. In addition, for participants in Satisfactory School Attendance at Secondary School or in a Course of Study Leading to a Certificate of General Equivalence hours missed during the course of an academic semester when the school is closed to all students may be counted by the employment and training contractor, an accredited educational provider or an accredited internet-based educational institution during the course of an academic semester. Students are required to meet work participation hours through other work activities during extended semester breaks occurring between semesters.*

#### **3. Verification of Actual Hours of Participation**

*An individual's participation in Satisfactory School Attendance at Secondary School or in a Course of Study Leading to a Certificate of General Equivalence is verified at initial entry into the activity by the educational institution and prospectively for the semester. Hours of participation will be adjusted during that period if the educational institution reports a change in status such as the student stops attending, has unacceptable attendance or is no longer in good standing.*

*At the beginning of the next semester, the educational institution will again provide verification that will be used to project participation for the subsequent semester.*

*When ELECT, PPY, the Fatherhood Initiative or secondary education or its equivalent is coordinated by an employment and training contractor, the contractor reports directly to the Commonwealth via a computerized and automated data processing interface and maintains documentation in the case record for four years or until audited. Data entry by the contractor of the hours of participation is sufficient documentation.*

*QC reviews are conducted on all sample cases selected for federal reporting. QC examiners review all the demographic and reported hours of participation including any new information that may be available from data matches with PA wage, New Hires and unemployment files as well as the NDNH. Documentation of hours is reviewed for all cases claiming hours that count toward participation. If documentation is missing, the examiner requests the documentation from the CAO or contractor. If any inaccuracies are identified, corrections are made prior to submission (or re-submission) of the data file to ACF.*

#### **4. Method for Assuring Daily Supervision**

*Daily supervision is provided by the high school, vocational-technical school or educational institution.*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 47: (continued)**

**Cause:** DPW officials indicated that, over the years, they have considerably increased their staffing resources and their time and effort dedicated to preparing and submitting an accurate TANF ACF-199 Data Report to HHS, and they believe these improved procedures are reasonably adequate to comply with federal reporting requirements. They acknowledge there are still discrepancies in supporting some of the actual hours reported, but they believe that these discrepancies are not necessarily errors in the data submitted, and they are not likely to have any significant impact on Pennsylvania's work participation rate calculated by HHS. DPW officials further pointed out that in 2006, a report was issued by the Federal GAO on HHS's Welfare Reform practices which disclosed that HHS does not have a sufficient mechanism to identify problems in TANF work participation data submitted by all states on their ACF-199 Data Reports. Since this GAO Report disclosed that there are major inconsistencies in how ACF-199 data is being reviewed and verified for accuracy and propriety in the different states (e.g., actual hours of work activity vs. scheduled hours), DPW admitted they have been uncertain over the years as to the significance of the discrepancies reported in the past for Pennsylvania, especially in relation to the other states. DPW also stated they have not always been certain about documentation requirements in the past, and whether such documentation should consist of actual hours of work activity or scheduled hours.

Regarding the current-year discrepancies in work hours reported above, DPW officials felt that they reported hours based on their established TANF Work Verification Plan approved by HHS. DPW further stated that they encounter difficulties in attempting to secure documentation from outside parties to support all actual hours reported for each case. DPW officials also did not explain why benefit payments were made to potentially ineligible participants that appear to be non-residents, but were determined to receive TANF benefits and reported on the ACF-199 Report.

For the four cases listed as Disposition 2 in which DPW erroneously included data elements #10 through #77 on the report, DPW officials indicated that they have upgraded their software in order to remove these data elements in the future.

**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. Also based on information noted in our review of TANF files, benefits may have been granted to ineligible individuals who may have been inappropriately included in the ACF-199 Report with inadequate DPW follow up to correct these errors, which could be the result of fraud.

**Recommendation:** DPW should strengthen its existing procedures over their review of the monthly sample of cases to ensure that all reported work activities are properly documented, supported, and classified, and that all participants included in the TANF Data Report have been properly determined eligible for TANF benefits. Also, DPW should review and evaluate its procedures and controls to accumulate, review, and report its TANF information on the ACF-199 Report and make the necessary revisions to ensure that future information reported is complete, accurate, and properly supported by the participants' case files. Finally, for case F, DPW should ensure proper follow up is performed to ascertain eligibility of these participants for TANF benefits and pursue settlement on ineligible payments, as appropriate.

**Agency Response:** The Department disagrees with this finding. We have explained on numerous occasions, and noted as early as 2007 in our response to the auditors, that 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. These policies and procedures are detailed in our Work Verification Plan, which was approved by HHS in their letter dated September 12, 2007. Accordingly, the audit should have evaluated the Department's compliance with policies and procedures approved by HHS as detailed in our Work Verification Plan. Despite stating in their findings that the Work Verification Plan is in fact the standard the Department is required to maintain, the auditor did not evaluate the audited cases against the policies and procedures in the Department's Work Verification Plan. Virtually all of the cases cited by the auditor as having "errors and/or documentation discrepancies" actually met the Department's verification requirements as approved by HHS.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 47: (continued)**

The audit finding stated that to perform their case review, the auditors “obtained the file for the sample month.” However, 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 31<sup>st</sup>, for the past several years HHS has extended that deadline to late summer (for FFY 2008 the deadline was June 12, 2009). The Department submits quarterly data throughout the FFY repeatedly for each quarter. However, despite the Department’s informing the auditors, they do not use the final data submitted to HHS to perform their audit. As a result, the audit findings that the Department did not have sufficient verification for some cases is incorrect, since the audit was not based on the final data submitted to HHS for which the Department had verification.

Therefore, the Department does not agree with the auditor’s conclusion that “DPW did not comply with federal reporting requirements or its HHS-approved TANF Work Verification Plan.” The Department was in fact in compliance with federal reporting requirements.

Despite the Department’s reduction in staff complement each year for the last several years, the Department continues to provide outstanding service to our clients and to provide tools for our staff to make it easier for them to provide such service. The Department continues to improve the tools available to get clients the services they need so they can spend their time working rather than being burdened with bureaucratic requests. Improvements for clients include instituting Customer Service Centers, Call Centers, and expanding COMPASS (our on-line client self-service system). Improvements for staff include instituting scanning of client documentation and creating electronic case files that make required verification readily available.

The Department has also instituted a Workload Dashboard for CAO staff that enables them to more effectively monitor and track the status of clients. The Department has for several years focused significant time and resources on reporting accurate data in the TANF Data Report (ACF-199) and continues to improve the accuracy of the report. Over the last few years, the Department 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.

The Department has also increased the Corrective Action measures taken in response to any Quality Control findings. The Department performs multiple reviews of cases reported in the TANF Data Report (ACF-199) 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 across the Department that work with our clients and that report the data collected for the TANF Data Report (ACF-199). In the past twelve months, the Department has also reviewed all of the substantial software programming required to produce the TANF Data Report, in response to the Final Regulations published by HHS that were effective beginning October 2008. As a result of these measures, the Department is confident in the quality and integrity of the services provided to clients and the associated data that is collected and reported. The Department believes strongly we are in compliance with federal requirements.

**Auditors’ Conclusion:** We disagree with the DPW response, much of which is irrelevant to the finding. As the Criteria section of the above finding clearly indicates, we did utilize and audit to the DPW TANF Work Verification Plan, so the agency response is inaccurate in this regard. DPW did not provide any evidence that their internal controls identified and corrected any of the discrepancies noted in the condition, nor did DPW provide any evidence of resubmission of corrected data for the cases we tested. Also, DPW had until June 19, 2009 to provide accurate verification to us; however, DPW did not provide any additional documentation to resolve any of the issues noted in the condition above. Further, in another Single Audit finding we detailed a lack of corrective action related to inaccurate entry of hours by employment and training contractors that DPW relies upon for the reporting of some work and training hours.

Therefore, 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.

**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, 2008***

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### **Finding 08 – 48:**

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

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

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

**CFDA #93.667 – Social Services Block Grant**

### **Weaknesses in DPW Program Monitoring of Child Care Subgrantees (A Similar Condition Was Noted in Prior Year Finding #07-55)**

**Condition:** During SFYE June 30, 2008 DPW had CCDBG/CCDF (Child Care Cluster) funded subgrantee contracts in place with one statewide and six regional agencies called “Keys” for the purpose of improving the quality of child care, community planning and early learning programs, etc. Our examination of DPW’s procedures for monitoring the statewide and six regional Keys for compliance with federal regulations revealed that DPW did not adequately perform during-the-award monitoring of these subgrantees for compliance with applicable federal regulations.

DPW developed a pilot site-visit monitoring instrument for the six regional Key agencies intended to include both a fiscal and programmatic review of operations. The monitoring instrument was provided to and used at each regional key visit; however, follow-up on issues noted in site-visits during SFYE June 30, 2008, was not completed timely. All final monitoring instruments for the six regional Keys were not completed and signed by DPW employees until May of 2009, or about a year later. In addition, sample sizes of records examined were based on staff resources and availability rather than on an established procedure or methodology. Also, documentation could not be provided to support monitoring of the statewide Key. The regional and statewide Key agencies accounted for approximately \$36.5 million or 11.5 percent of Child Care Cluster expenditures for SFYE June 30, 2008.

In addition, during SFYE June 30, 2008 DPW had contracts in place with 56 Child Care Information Services (CCIS) subgrantees that received approximately \$276.1 million (or 87 percent) of Child Care Cluster funding, \$31.0 million (or 30.0 percent) of SSBG funding, and \$27.6 million (or 5.8 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 is maintained and processed on DPW’s Child Care Management Information System (CCMIS). Our testing of DPW’s monitoring of a sample of 11 of 56 CCIS subgrantees (random and larger-dollar) disclosed the following:

- We tested CCIS monitoring documentation to ensure that all cases/invoices listed on DPW’s monitoring worksheets agreed to DPW’s CCMIS. Our testing revealed that 7 of the 11 on-site reviews tested had case and/or invoice numbers listed on the parent file worksheets and/or on the Caseload Management Worksheets that did not properly trace to the Excel Data Warehouse Reports and/or the RE403-Invoice Status Report. Both the Excel Data Warehouse Reports and the RE403-Invoice Status Report are generated from CCMIS. Therefore, we could not determine if all cases and invoices reviewed by DPW were accurately recorded in CCMIS.
- We tested the supporting parent worksheets used by DPW to record answers to various questions by case number for each CCIS reviewed, to ensure that results were properly transferred onto the on-site monitoring summary for each standard included in the review (where applicable). Our testing disclosed that 7 of the 11 on-site monitoring summaries reviewed did not properly reflect the results listed on the supporting parent worksheets.
- Our testing of The Plan of Correction (POC) disclosed that 4 of the 11 sampled POCs did not accurately reflect case numbers and/or number of cases in which issues/discrepancies were noted.
- According to established DPW monitoring policy, when completing the on-site monitoring reviews, DPW must review a maximum of (i.e., the lower of) 20 invoices or 3 percent of all active invoices at each CCIS. Our testing disclosed that in 2 of the 11 reviews tested where the maximum of 20 invoices were not reviewed, less than 3 percent (i.e., only 2.3 and 2.8 percent) of active invoices were reviewed in violation of this policy.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 48: (continued)

- CCIS monitoring documentation did not specifically include monitoring of TANF funding for compliance with the allowability provisions of OMB Circular A-87.
- Our testing of 11 of 56 CCIS subgrantee revenue and expenditure reports (also known as recap reports), disclosed that two CCIS agencies reported TANF interest totaling \$6,984 which was not remitted to the federal DHHS as required. Also, we noted that DPW was not requiring any subgrantees to return interest earned on TANF advances to DHHS.

In addition, during our testing of a sample of 22 out of 56 CCIS subgrant budgets and contracts, three CCIS agencies were identified as submitting budgets reflecting excessive personnel benefit amounts of greater than 60 percent of salaries and wages without any follow up by DPW.

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 since the timing, focus, and scope of A-133 auditing activities after year-end are clearly different than compliance monitoring by program officials during the year.

Further, we noted that CCMIS is an outsourced statewide computer network utilized by DPW and its 56 CCIS subrecipients to manage payments to CCISs and to child care providers. However, for our current year ended June 30, 2008, DPW did not obtain a service auditor's report on the outsourced CCMIS system in accordance with Statement on Auditing Standards (SAS #70) – *Reports on the Processing of Transactions by Service Organizations*. We consider this a material internal control weakness in our current year under audit because of the major utilization and reliance on CCMIS by DPW and its CCIS subrecipients.

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

*A pass-through entity is responsible for:*

*During-the-Award Monitoring – Monitoring the subrecipient's use of Federal awards through 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.*

The OMB Circular A-133 Compliance Supplement Part 3. C. Cash Management Compliance Requirements, states:

*...interest earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the Federal agency.*

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.*

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 stated that their system is updated monthly and therefore cases and invoices listed as active at the time of the on-site reviews may not be active when the CCMIS files were generated for the auditors. DPW does not appear to be

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 48: (continued)**

aware of the requirement on local government subgrantees to remit TANF interest earned to DHHS. In addition, regarding personnel benefit amounts, the DPW Family Support Services (FSS) CCIS allocations do not have specific instructions or limitations on how to populate FSS Rider budgets, and DPW does not limit the amount of personnel benefits. For the other weaknesses noted above, it appears that limited staffing resources existed during our current audit period.

Regarding the lack of a SAS# 70 service auditor's report on the outsourced CCMIS system, DPW personnel stated that CCMIS is not an outsourced system; however, we noted the CCMIS contractor was fully responsible for maintaining CCMIS on DPW's behalf during SFYE June 30, 2008, and all our audit requests for data from CCMIS had to be completed by contractor employees, not DPW employees.

**Effect:** DPW is not adequately performing or documenting during the award monitoring of all Keys and CCIS subgrantees to ensure subgrantee compliance with applicable federal regulations. As a result, DPW provides little assurance that all subrecipients are in compliance with federal requirements. Interest earned by subgrantees on TANF funds is not being remitted to DHHS as required. Without a SAS #70 review for the current year, DPW has limited assurance that the contractor's processes and controls over CCMIS were adequate and in compliance with Federal regulations.

**Recommendation:** DPW should adequately perform and document on-site during the award monitoring procedures for all Keys and CCIS subgrantees to ensure timely compliance with all applicable federal regulations. On-site monitoring results should be accurate and timely to ensure corrective action is completed. Also, we recommend that DPW ensure a SAS #70 review is performed at least annually of the outside contractor's CCMIS operations and network to verify that CCMIS is being administered adequately to comply with Federal regulations.

**Agency Response:** First bullet under Condition: PELICAN-CCW (CCMIS) was the source to identify all cases and invoices selected for review and all can be found in the system via inquiry. And, in every instance, reviewers "cross-walked" data recorded in PELICAN-CCW under those case numbers against information submitted by the family via hardcopy to insure that information was accurately recorded. Differences between case numbers on the sample lists and those on the review worksheets were due to several reasons:

1. In several instances, the case number identified on the Data Warehouse list had an associated case number in PELICAN-CCW that supported child care activity during the review period. The associated number was the one listed on the worksheet but the same family identified via Data Warehouse was still reviewed.
2. In one instance, a replacement case selected from the CCIS's local application log was used because the original case had been transferred to another CCIS office and was no longer available for review. This was permissible as long as the case could be traced in PELICAN-CCW and the family met the criteria for the review and both of these were true about the selected case.
3. In some instances, digits in the case numbers were transposed when entered on the review worksheets. The original case numbers and the family data associated with them were all able to be found in the system via inquiry and the accompanying cross-walk occurred.

Second bullet under Condition: Due to a flaw in the EXCEL logic in the specified monitoring tools, "no" answers were not appropriately transferred from individual parent worksheets to the monitoring results for Performance Standard #4, which pertains to verification requirements. OCDEL corrected the flaw and completed an impact analysis, which showed that the correction did not change the rating result for Performance Standard #4 for four of the seven. For the other three, the correction resulted in a "Needs Improvement" and a "Plan of Correction" for the affected standard. These corrections have been made.

Third bullet under Condition: All POC's contained the minimum information necessary to convey to the CCIS if a "Needs Improvement" existed and what needed to be done to correct the issue for the identified Performance Standard. The instructions for completing the POC do not specify listing every case number for which a problem existed.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 48: (continued)**

Fourth bullet under Condition: Basic rounding principles were used to determine the number of invoices to be reviewed. For one of the two cited, the total number of invoices was 283, 3 percent of which is 8.49 invoices. This was rounded down to 8 invoices (not 9) as the number reviewed. However, the other review was in error in that only 6 invoices were reviewed when 8 (3 percent of 262 or 7.86 invoices) should have been reviewed.

Also regarding the TANF interest, OCDEL does not agree with the auditor's interpretation of 45 CFR.

**Auditors' Conclusion:** Regarding the differences in case numbers, since dual, or associated, case numbers may have been in use for several individuals receiving child care in DPW's monitoring sample, one case file selected by DPW was inappropriately not reviewed, and transposition errors in additional case numbers occurred. As a result of these exceptions, DPW did not properly resolve and may not have appropriately detected and reported errors made during monitoring at these subrecipients.

Also, DPW should ensure that all errors noted in the summary documents and sample calculations for all subrecipients are corrected, and that POCs contain enough information for subrecipients to properly correct all errors.

Regarding interest earned on TANF funds, 45 CFR 74.22 and 92.21 quoted above apply to all TANF subrecipients and Federal agencies have required subrecipients to pay all interest earned above established thresholds back to the Federal government.

Several additional major audit exceptions reported in the Condition above, including the lack of a SAS #70 service auditor's report, were not addressed in DPW's response and, therefore, remain as is.

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.

**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, 2008***

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### **Finding 08 – 49:**

#### **CFDA #93.563 – Child Support Enforcement**

##### **DPW Failed to Obtain an Outside Service Auditor’s Report for the Statewide PACSES System**

**Condition:** In the CSE program, DPW utilizes the Pennsylvania Child Support Enforcement System (or PACSES) which is an outsourced statewide computer network utilized by DPW and its subrecipients, or county Domestic Relations Sections (DRS), to process, record, monitor, and track all activities related to child support enforcement. These enforcement activities include establishing paternity and identifying and tracking support orders for TANF or former TANF clients so that any collections received for these clients can be refunded as program income under CSE. Also, the Commonwealth and its 67 county DRS’s rely significantly on PACSES to properly track timelines imposed by federal regulations over the establishment of support orders. Furthermore, subrecipient auditors at the county DRS-level perform Circular A-133 audits and significantly utilize the statewide PACSES system to evaluate and conclude on DRS compliance with applicable CSE federal regulations.

For our current year ended June 30, 2008, DPW failed to obtain a service auditor’s report on the outsourced PACSES system in accordance with Statement on Auditing Standards (SAS #70) – *Reports on the Processing of Transactions by Service Organizations*. We consider this a material internal control weakness in our current year under audit because of the major utilization and reliance on PACSES described above within the CSE program.

**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 had obtained SAS #70 reports from the PACSES contractor in past years, but when the SAS #70 contract clause was recently renewed, the current year ended June 30, 2008 was missed due to oversight. SAS #70 reviews of PACSES are supposed to resume beginning in fiscal year ended June 30, 2009.

**Effect:** Without a SAS #70 review for the current year, DPW has limited assurance that the contractor’s processes and controls over the PACSES system were in compliance with CSE regulations.

**Recommendation:** We recommend that DPW ensure a SAS #70 review is performed at least annually of the outside contractor’s PACSES operations and network to verify that PACSES is being administered to comply with CSE regulations.

**Agency Response:** Unfortunately, the provider’s contract used Audit Clause D which requires only a Compliance Attestation when Audit Clause C which requires a Compliance Attestation and a SAS 70 should have been used. The DPW changed its procedure so that all large RFPs now are now forwarded to the Audit Resolution Section (ARS) where the proper audit clause is chosen. ARS makes the decision based on a review of the RFP Work Statement, and discussions with personnel from the affected program offices as well as the Division of Contract Execution and Management

When it became apparent that the SAS 70 requirement was omitted, the Bureau of Information Systems (BIS) amended the contract to require the submission of a Type II SAS 70 report. The audit period will be December 1, 2008 to May 31, 2009 (6 months) so that it can be relied upon for the next Commonwealth Single Audit. The next SAS 70 report will cover the period June 1, 2009 – May 31, 2010 (12 months) and this cycle will continue going forward.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 50:

#### CFDA #93.563 – Child Support Enforcement

##### Internal Control Deficiencies Over PACSES Contractor Costs Result in Likely Questioned Costs Greater Than \$10,000

**Condition:** Out of \$130.9 million in expenditures reported on the Commonwealth's SEFA for the CSE program during SFYE June 30, 2008, \$15.8 million (or 12 percent) was expended by DPW to outside contractors working on DPW's statewide Pennsylvania Child Support Enforcement System (PACSES) utilized by the 67 counties in the state to run the CSE programs at the subrecipient level. Out of this population of \$15.8 million charged to CSE for our current year, we randomly selected a sample of 7 charges totaling to \$303,251 (federal share), and reviewed each transaction for allowability, reasonableness, and compliance with applicable federal regulations. Our testing disclosed the following exceptions for 3 out of the 7 transactions tested as follows:

- For PACSES contract #SP4000009006, Invoice #LM-050-20072147 related to network services performed by the contractor (mostly labor) in June of 2007 was submitted in the amount of \$102,480, and \$67,637 was charged to CSE at the applicable FFP rate. Our review of the contractor timesheets supporting the charge showed major inconsistencies in contractor employees accounting and billing for lunch/break periods, and two separate instances where a contractor employee documented working an unusual 20 hours and 13 hours straight (on June 1 and June 20, 2007), respectively, without documenting a lunch or break period at all. Also, the timesheets showed no review/approval by a contractor supervisor. DPW failed to follow up on or question any of these exceptions, and paid the invoice.
- For PACSES contract #SP4000009006, Invoice #LM-059-20160796 related to network services performed by the contractor (mostly labor) in December of 2007 was submitted in the amount of \$90,964, and \$60,037 was charged to CSE at the applicable FFP rate. Our review of the contractor timesheets supporting the charge showed similar inconsistencies in accounting and billing for lunch/break periods as those mentioned above, and one contractor employee who documented working an unusual 15 hours straight (on December 14, 2007) without a lunch or break period at all. Again, timesheets showed no supervisor review/approval, and there was no DPW follow up on any of these exceptions.
- For PACSES contract #SP04500390121, Invoice #8000512220 related to an emergency purchase for the National Medical Support Notice – Phase 2 in September of 2007 was submitted in the amount of \$64,066, and \$42,284 was charged to CSE at the applicable FFP rate. Our review of the contractor invoice for this charge disclosed that it was not based on actual hours spent by the contractor on the project, but an estimate, with no follow up by DPW to determine actual hours.

As a result of the three exceptions noted above, we consider DPW's internal controls over PACSES contractor costs charged to CSE to be deficient and certain contractor charges are unreasonable and unallowable.

Also, for the above two contractors, plus contractor #SP4400000730, or all three contractors tested, DPW could not provide a contract clause or certification, or evidence that the Federal EPLS listing was reviewed to determine that the contractors were not debarred or suspended by the Federal government prior to awarding these contracts. While our review of the Federal EPLS listing disclosed that these three contractors were not actually debarred or suspended, since DPW could not provide evidence of management's review for compliance with Federal debarment/suspension regulations, an internal control weakness exists over DPW procurement of Federal contract awards.

**Criteria:** 45 CFR 92.20(b) applicable to CSE, states in part:

- (3) *Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 50: (continued)

(5) *Allowable cost. 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.*

Further, OMB Circular A-87, Attachment A, Section C. Basis Guidelines, states in part:

(2) *Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.*

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.*

Also, 2 CFR 180.300 implementing Federal Executive Orders 12549 and 12689 on Debarment and Suspension states:

*When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:*

- (a) *Checking the EPLS; or*
- (b) *Collecting a certification from that person; or*
- (c) *Adding a clause or condition to the covered transaction with that person.*

**Cause:** DPW provided no explanation as to why there was no follow up on the transactions in question to verify allowability and reasonableness of the amounts paid, or why it could not provide evidence that the contractors were not debarred or suspended prior to awarding the contracts. It appears that DPW's review/approval controls over PACSES contractor invoices and support are not detailed enough to detect and prevent the noncompliance and unallowable charges noted above.

**Effect:** Internal controls over PACSES contractor costs are weak and resulted in unreasonable and unallowable charges to the CSE program, with likely questioned costs greater than \$10,000. Also, internal controls over procurement related to Federal debarment/suspension regulations under CSE are weak.

**Recommendation:** We recommend that DPW improve their review/approval controls of PACSES contractor costs to ensure these costs are reasonable and allowable in accordance with federal regulations and that proper Federal debarment/suspension checks or certifications occur prior to contract awards. We also recommend that DPW pursue appropriate settlement of the questioned costs with HHS.

### **Agency Response:**

#### **Background for items (1) and (2):**

The entire PACSES Project team was located at 30 North Third Street, Harrisburg and consisted of contractor staff from Deloitte Consulting and Lockheed Martin, as well as Commonwealth of PA staff. It was required that these staff members be relocated to three separate locations along with the move of the Network Operations Center to the Willow Oak Building. All office and network equipment and furniture had to be moved within a short timeframe. This included the main telecommunications equipment and server hardware. Staff members were moved to Vartan Way Building on

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 50: (continued)**

Progress Avenue (Deloitte), Willow Oak Building (Lockheed Martin along with all network and server equipment), and the Ollie Building (All Commonwealth PACSES staff). This required a considerable effort by the Lockheed Martin (LM) staff.

#### **(1) PACSES Contract #SP4000009006, Invoice #LM-050-20072147 - Payment to LM For June 2007 Services:**

##### **Auditor Assertion:**

LM “Employee #1” worked 20 hours without a break (from June 1, 2007, 7:00 a.m. until June 2, 2007, 3:00 a.m.).

##### **Response:**

LM Employee #1 worked his normal working hours on June 1, 2007 preparing for the move, and then worked with Verizon to relocate termination of all data circuits from 30 North Third Street to Willow Oak Building. This had to be done after the close of business. Each data circuit had to be tested individually to ensure it was operational. These 72 data circuits connect each of the county Domestic Relations Offices to the host computer located in Harrisburg.

Employee #1 actually had to come back in on June 2, 2007 at 10:00 a.m. and worked a total of 14 hours to complete the above project. He did, however, take a half hour for lunch on June 2, 2007.

##### **Auditor Assertion:**

LM Employee #1 worked 13 hours without a break (from 8:30 a.m. to 9:30 p.m. on June 20, 2007).

##### **Response:**

LM Employee #1 worked his regular 8 hours during the day (2 hours on billable operations and 6 hours on the IVR Deliverable). LM Employee #1 then worked 5 hours overtime moving the Network Operations Center equipment from 30 North Third Street to the Willow Oak Building. This was due to the relocation of all PACSES staff from 30 North Third Street to the 3 separate locations as stated above in the Background section.

#### **(2) PACSES Contract #SP4000009006, Invoice #LM-059-20160796 - Payment to LM for December 2007 Services:**

##### **Auditor Assertion:**

LM “Employee #2” worked 15 hours without a break from 7:00 a.m. to 11:00 p.m. on December 14, 2007.

##### **Response:**

LM Employee #2 started his normal work day. Sometime that day LM received a call that the Jefferson County router was broken. LM Employee #2 had to travel to Jefferson County and repair the router and then travel back to his home. DPW pays for travel time. Breaks and lunches are not mandatory for LM employees. If work priorities permit and employees choose to, they take breaks and lunches.

#### **(3) Timesheets did not show approvals**

##### **Auditor Assertion:**

Most of the timesheets were not approved by a LM supervisor.

##### **Response:**

The LM Manager approves timesheets that are submitted in the LM E-TIME System, which is LM’s tracking and invoicing system. The Manager must individually approve each timesheet submitted electronically through the E-TIME system.

Typically, copies of the E-TIME Timesheets are not submitted with the invoice as a condition of payment. A DPW Bureau of Child Support Enforcement (BCSE) employee chose to submit the LM timesheets to Comptroller Operations so as not to cause confusion by submitting two separate timesheets for each employee. This version of the timesheets does not reflect approval by LM supervisors. Also, the BCSE employee uses the LM timesheets as an additional check to ensure that the correct hours are reflected on the invoice.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 50: (continued)

#### **(4) PACSES Contract #SP04500390121, Invoice #8000512220**

##### **Background:**

For the Deloitte PACSES contract, there are two types of deliverables the contractor can submit. A deliverable is the work product to be delivered for a project. For the DPW's contracts with Deloitte Consulting, deliverables can either be provided at a fixed price or provided and billed for actual time and materials.

**Fixed Price** – A type of contractual arrangement where the buyer (DPW) pays the seller (vendor) a set amount, regardless of the seller's cost.

**Time and Materials** – the full value of the arrangement is not defined at the time of the award. The unit rates for the work to be performed are preset by the buyer and seller.

##### **Auditor Assertion:**

A contractor charged for services based on estimated hours instead of actual hours, with no follow-up by DPW to determine actual hours

##### **Response:**

The DPW requires contract vendors to use the DPW System Development Methodology (SDM), which is comprised of seven phases. For the contracts DPW has with Deloitte, the Requirements and General System Design phases are billed as time and materials and the Detailed System Design through Deployment/Installation are billed as fixed priced deliverables. These are detailed in the chart below:

Project Phase	Billing Method
Requirements	Time and Materials
General System Design	Time and Materials
Detailed System Design	Fixed Price
Development	Fixed Price
System Integration Test	Fixed Price
Acceptance & Installation	Fixed Price
Completion	Fixed Price

The work order in question (PACSES Work Order - 0083 – National Medical Support Notice Phase 2) was generated out of the Detailed System Design through the Deployment/Installation section of our SDM and priced as a fixed price deliverable. The DPW approved the work order for this fixed price deliverable allowing this work to move forward. At completion, the deliverable was submitted to and accepted by the Department, thereby allowing for payment to the vendor. For fixed priced deliverables, the vendor is not required to submit actual hours worked. Acceptance of the agreed upon deliverable at the agreed upon price allows invoicing to occur by the vendor.

#### **(5) Lack of contract clause, certification, or evidence that the Federal EPLS listing was reviewed to determine that the contractors were not debarred or suspended by the Federal government prior to awarding the contracts**

Management Directive 215.9 governs contractor responsibility. In addition to requiring a contractor responsibility provision to be included in every contract, this Management Directive also mandates certain procedures to verify contractor responsibility. The contractor responsibility provision includes a certification of no suspension or debarment by the Commonwealth or any other governmental entity. Under 7.2.B, there is a requirement to check the federal file if federal funds are used.

Contract number SP4400000730 is not a DPW contract. It is a statewide contract that is with the Department of General Services (DGS) and has no money encumbered on it. Contrary to the auditor's position, there is a contract provision that

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 50: (continued)**

addresses suspension by the federal government; it is located in section 25 of the Standard Terms and Conditions. In order to purchase services under a statewide contract, a state agency must issue a purchase order. It is not until a purchase order is issued that funds are encumbered and the agency should perform applicable contractor checks at this point. If federal funds are used, the state should perform both the federal and state checks, but these would be performed in conjunction with the purchase order and not in conjunction with the contract.

It should be noted that during the time the DPW contracts were initiated, the PHHS Comptroller's office accepted the Contractor Responsibility Certification as verification that the EPLS check had been done if federal money was involved. This was the process up until a few years ago. The federal government took exception to this procedure and indicated that they wanted to see the actual check from EPLS instead of the just the certification from the state system. DPW Legal asked the Comptroller's office to enforce the requirement and ensure that DPW includes a copy of the EPLS printout with the contract as proof that the certification was performed. As such, the absence of EPLS documentation has already been corrected by DPW and is being maintained for new and renewed contracts.

**Auditors' Conclusion:** Regarding the hours charged on invoices related to Contract #SP4000009006 for June and December of 2007, no procedures were established by DPW to document the reasonableness and necessity of contractor overtime prior to or at the time of payment, and this represents a significant control deficiency in DPW's review/approval of contractor invoices. Only after auditor inquiry on a small sample of contractor charges were explanations provided so there is no change to our finding that there are likely questioned costs in our current audit period due to inadequate documentation. Also, since time keeping documents with evidence of approval by the employees' supervisors are not obtained or reviewed by DPW for contractor hours charged, there is an additional control deficiency related to assuring that hours claimed are reasonable and accurate.

Regarding Contract #SP04500390121, invoice #800051220, the memo in support of this payment from DPW to the PHHS Comptroller states: "The services included on this invoice are billable hours in accordance with ...", and provides a list of estimated hours and billing rates upon which the payment is based. Nothing on the invoice or in the contract provided to us indicates this was a fixed price procurement as stated in the agency response.

Regarding Contract #SP4400000730, we viewed the Terms and Conditions of the contract on the DGS website, [www.emarketplace.state.pa.us](http://www.emarketplace.state.pa.us), and no provisions addressing suspension and debarment by the Federal Government were included in this contract. Therefore, DPW's statement in the agency response is not correct in this regard. For all contracts awarded, DPW should ensure that either these clauses are included in contracts or ELPS checks are performed supporting that the contractor is not suspended and debarred by the Federal Government.

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.

**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, 2008***

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### **Finding 08 – 51:**

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

##### **Noncompliance and Internal Control Deficiencies in DCED’s Program Monitoring of LIHEAP Weatherization Subrecipients (A Similar Condition Was Noted in Prior Year Finding #07-50)**

**Condition:** Our prior two Single Audits of the Weatherization Assistance portion of the LIHEAP program administered by DCED disclosed numerous instances of noncompliance with federal regulations, potential questioned costs, and material internal control deficiencies at both the state and subrecipient levels. These prior-year findings were based on a June, 2007 report of 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 separate stand-alone audit report which we utilized in our Single Audit of LIHEAP. Our current year Single Audit follow-up for the fiscal year ended June 30, 2008 disclosed that while DCED issued memos to subrecipients in November of 2007 and sent additional letters and e-mails to subrecipients throughout SFYE June 30, 2008 in an attempt to resolve the prior-year control deficiencies, we noted that new subrecipient monitoring guidelines and procedures were not completed until June 30, 2008 for use beginning in July 2008. Also, the new state-wide Weatherization Assistance computer system procured by DCED to improve internal controls from prior years was not implemented until after June 30, 2008; therefore, our prior year control deficiencies were not corrected during the current audit period as follows:

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 51: (continued)**

- DCED approved payment requests from subgrantees but did not adequately review subgrantee costs for proper support. At the time of payment, DCED only ensured that payments did not exceed the subrecipient's budgeted allocation for the program year, with no supporting documentation provided. Also, during on-site monitoring visits, DCED did not properly review subgrantee payment requests for proper support and upon inquiry in the prior audit, subrecipients indicated that they did not develop or retain documentation to support their payment requests to DCED. While subgrantees also submitted quarterly reports to DCED showing expenditures and other program data, DCED's reviews of these reports for accuracy and propriety were not adequate.
- DCED did not properly monitor subrecipients' contracting procedures to verify reasonableness and ensure that bidding was appropriate, and contracts or subcontracts were awarded to the appropriate parties. In addition, no review of subcontractor invoices was performed by DCED to verify propriety, accuracy, etc. of costs.
- Subrecipients did not ensure that the most vulnerable and needy clients (i.e., low-income elderly and disabled) received priority for weatherization assistance, with insufficient monitoring and oversight by DCED. Nearly all the subrecipients had waiting lists of clients in the prior year, with no standard procedures in place for maintaining and using the lists to prioritize weatherization services appropriately. DCED also failed to monitor the promotional/outreach activities of its subrecipients to ensure the most needy residents were made aware of the Weatherization program.
- In addition to the more detailed control deficiencies reported above regarding DCED's on-site monitoring of its subrecipients, the auditors also noted that DCED had no overall written policies and procedures in place regarding this on-site monitoring activity, to include an assessment of internal controls at the subrecipients and a sampling methodology to ensure that a representative sample of client case files was reviewed. In addition, there was inadequate oversight of DCED's on-site reviewers to ensure that: significant problems at the subrecipient level were properly identified, reported, and followed up on; documentation of on-site reviews was adequate; and results of all subrecipient monitoring visits were properly summarized, reviewed, and evaluated at the overall state level by DCED program managers.

In our current-year audit for the year ended June 30, 2008, we also reviewed a small sample of three OMB Circular A-133 Single Audits of larger-dollar LIHEAP Weatherization subrecipients submitted to the Commonwealth. These reports provided additional corroborative evidence of DCED's weak controls over its Weatherization subrecipients. For example, one of the subrecipient audits (SEDA Council of Governments) reported material weaknesses related to payroll and reporting for the year ended June 30, 2008 that remain uncorrected since the year ended June 30, 2006. A second subrecipient audit (Energy Coordinating Agency of Philadelphia) reported a significant deficiency related to payroll for the year ended June 30, 2008 that remains uncorrected since the year ended June 30, 2007.

Also, our sampling of 10 LIHEAP Weatherization subrecipient invoices in our current-year audit for the year ended June 30, 2008 disclosed violations of federal cash management regulations due to the drawdown of excess cash as follows:

- Action Housing requested \$1,000,000 of a \$3,393,638 contract when the invoice reported zero dollars in cash needs (no disbursements or accrued costs).
- Carbon County Action Committee for Human Services requested \$66,100 of a \$152,567 approved program budget when the invoice reported only \$2,800 in cash needs.
- Berks County Action Program requested \$55,346 of a \$221,384 approved program budget when the invoice reported \$44,458 of cash on hand.
- Dauphin County Commissioners requested \$214,232 of a \$441,100 approved program budget when the invoice reported only \$83,704 in cash needs.

Total Weatherization program payments made by DCED to its 42 subrecipients during the fiscal year ended June 30, 2008 were \$24.3 million (or 13.4 percent) out of total federal LIHEAP expenditures of \$181.3 million reported on the June 30, 2008 SEFA under audit.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 51: (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 A-133 Compliance Supplement, Part 4, Section III.E. for LIHEAP eligibility, specifies the following:

#### 1. *Eligibility for Individuals*

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

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

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

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

*A pass-through entity is responsible for:*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 51: (continued)

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

According to U.S. Department of Energy (DOE) regulations, no grant funds may be used to weatherize a dwelling that was previously weatherized after September 30, 1993 unless the dwelling unit was damaged by fire, flood, or act of God and repair of the damage to weatherization materials is not paid for by insurance. This language is included in the subrecipient grant agreements with DCED.

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

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

**Cause:** DCED and the subrecipients lacked adequate policies and procedures to ensure Weatherization program objectives were being achieved and the risk of fraud, waste, and abuse was reduced. DCED management monitored the local agencies; however, we found that these procedures were inadequate due to ineffective management guidance and oversight. DCED management also stated that limited staffing prevented them from providing more guidance on the fiscal management of the Weatherization program to subrecipients.

DCED had no system in place to ensure the two local agencies in Philadelphia were not providing services to the same dwellings. DCED management stated that Philadelphia is the only geographic area in the state where local agencies service areas overlap. Additionally, PHDC and ECA did not compare client data to identify dwellings previously serviced by the other local agency.

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

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

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

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

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

**Agency Response:** DCED continues to review and strengthen its internal controls in monitoring and oversight of the Weatherization program. Revised systems and procedures are in place regarding: monitoring, income eligibility, client complaints, re-weatherization of ineligible units (Philadelphia), invoicing, contracting and procurement, and client prioritization, and are reviewed where appropriate at the local level during the monitoring process.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 51: (continued)**

The revised monitoring format was developed and tested in the field prior to June 30, 2008, and was implemented July 1, 2008 in order to coincide with the new contract period/state fiscal year.

Given the time needed to review various computer systems, go through the internal approval and procurement process, customize it for PA's Weatherization program, and train staff and local agencies, the HES system was not put into place until the 2008-09 fiscal year. The HES system is designed to address and improve many of the internal control issues noted in the audit.

Regarding the sampling of invoices:

Action-Housing: this was for the initial/advance payment for the LIHEAP Crisis program. Given the high volume of Crisis work/expenditures by this agency, the amount of the initial drawdown was not considered excessive.

Additionally, DCED's Legal Office has determined that advances of up to 50 percent, or even 100 percent, are acceptable.

Carbon County Action Committee: Again, this was an initial drawdown of Crisis funds, and given the volume of Crisis work performed, was not considered excessive.

Berks County CAP: Given the processing time of invoices, and the immediate needs of the Crisis program, the payment was allowed.

Dauphin County Commissioners: At the time of the invoice, Dauphin had a negative balance of \$83,704; with anticipated expenditures, we felt the request was not unreasonable.

**Auditors' Conclusion:** Regarding the DCED response stating that advances to subrecipients of up to 100 percent of LIHEAP contract amounts are acceptable, we do not believe this is reasonable or prudent. DCED should limit advances to subrecipients to immediate cash needs. Based on the agency response, our finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 52:**

#### **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 #07-51)**

**Condition:** Our prior two 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 based on a June, 2007 report of 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. For our current year ended June 30, 2008, the other auditors performed follow up on these prior-year findings and noted that DPW provided no updated evidence to demonstrate that these prior-year internal control deficiencies were resolved in the current year as reported below.

For cash benefits, there were material internal control deficiencies at the CAOs related to eligibility determinations, application processing, safeguarding of records, segregation of duties, and data entry errors impacting DPW’s compliance with the LIHEAP state plan and federal regulations. In particular, we noted the following for cash payments:

- Applicant case files lacked documentation to prove the applicant was responsible for heating bills, the type of heat, a landlord statement if heat is included in rent, and calculation of household income.
- Case files contained numerous undetected errors in calculating eligibility income for cash benefits in accordance with the LIHEAP State Plan.
- Applications did not contain supervisory review/approval signatures to demonstrate a proper supervisor review of cash benefits for compliance.
- There were significant undetected data entry errors into DPW’s LIHEAP Information System (or LIS) related to household members’ names, social security numbers, addresses, income amounts, and primary heating sources. We noted that the overall confirmation process that was used at the CAOs to ensure accurate data entry into LIS was deficient.
- Applications to support cash benefit payments could not always be located by the CAOs. In addition, CAO procedures for the safeguarding of records were deficient since case files were stored in boxes in unrestricted areas, allowing unlimited access and the potential for unauthorized removal or destruction of client files, which contain confidential information.

For crisis benefits, there were material internal control deficiencies at the CAOs and crisis contractors related to computer access to LIS, untimely crisis resolution, missing vendor receipts, lack of proper signatures, data entry errors, missing applications and Weatherization referral forms, and ineligible referrals to the Weatherization program run by DCED. In particular, we noted the following for crisis payments:

- Crisis situations were not being resolved within 48 hours, as required. In addition, crisis authorization and delivery dates were not entered accurately into LIS to support proper monitoring of the 48-hour requirement.
- Vendor receipts to confirm fuel delivery and crisis benefit amounts were missing.
- Certifier and/or crisis worker signatures were missing on crisis applications.
- Crisis applications could not always be located by the CAOs and crisis contractors.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 52: (continued)**

- Crisis referral forms to DCED’s Weatherization Program could not be located to show that repairs were properly completed as required.
- Ineligible applicants were referred by the CAOs to DCED for Weatherization Assistance.
- User IDs and passwords assigned to Philadelphia CAO crisis workers were not properly secured since they were inappropriately shared with non-data-entry employees when periodic application processing demand was high. In addition, because of software problems, crisis contractors in certain counties did not have proper access to LIS, and weatherization referrals in Philadelphia CAO were not data-entered into LIS.

According to SAP accounting system records, during SFYE June 30, 2008, DPW paid out \$87,376,760 in cash and \$59,691,341 in crisis benefits out of total LIHEAP expenditures of \$181,297,488 reported on the SEFA for the year.

**Criteria:** As part of administering LIHEAP, DPW must ensure adequate controls, including segregation of duties, are in place to ensure applicants requesting LIHEAP benefits are eligible and receive the appropriate benefit amounts. Because applicants’ eligibility is manually determined, adequate written procedures, training, and documented supervisory review and approval are essential to ensure that applicant information and support are sufficient to determine eligibility in compliance with applicable regulations. In addition, proper documentation must be present to include support for household income, heating bills or documentation from a landlord that the landlord pays for heat and type of fuel used, and Social Security cards or medical assistance cards for all household members. Once eligibility is determined, controls need to be established to ensure all applications are accurately data entered into LIS. Finally, applications and support should be filed in a restricted area to ensure proper safeguarding of records.

**Cause:** CAOs had no written policy or procedures on how to process, approve, and store LIHEAP applicant files. Also, DPW personnel were not adequately supervised in the performance of their LIHEAP duties within the CAOs. Further, some errors can occur due to the large number of applications being processed by limited staff in short periods of time. The LIHEAP Manual, used by the CAOs to administer the program, was ambiguous and inadequate in addressing specific LIHEAP application procedures to make them consistent within DPW’s 67 CAOs.

These prior-year control deficiencies could not be timely corrected by DPW prior to the end of our current audit period ended June 30, 2008.

**Effect:** There is an increased risk of misspending and noncompliance with the LIHEAP State Plan and federal regulations because of the various deficiencies noted above. Such misspending and noncompliance will continue into future years if these deficiencies are not corrected.

**Recommendation:** We recommend that DPW:

- ensure the CAO personnel receive adequate training to properly process LIHEAP cash applications, and are properly supervised;
- ensure each CAO has a written policy and procedure manual detailing application processing procedures beyond referencing to the State Plan and LIHEAP Manual, including safeguarding records;
- revise the LIHEAP Manual to provide proper guidance to the CAOs concerning the control environment and eliminate ambiguous wording of the State Plan requirements;
- monitor CAOs to ensure LIHEAP is adequately staffed and properly administered;
- complete all pertinent information, including authorization and delivery dates, on crisis worksheets and resolve crisis situations timely;
- accurately data enter information into LIS;

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 52: (continued)**

- require certifiers to approve crisis applications prior to data entry.

We also recommend that DPW ensure the crisis contractors:

- have adequate controls, including written policies and procedures, to accurately document and process crisis transactions;
- complete all pertinent information, including authorization and delivery dates, on crisis worksheet/data base output;
- verify applicant LIHEAP eligibility prior to forwarding crisis referrals to the weatherization program contractor;
- utilize LIS to promote efficiencies and properly code weatherization assistance referrals to ensure proper entry into LIS; and
- follow up on referrals to the weatherization program to ensure they are completed, to obtain the completed referral form, and to ensure the information is forwarded for proper entry into LIS.

**Agency Response:** The current audit appears to contain the same findings as the prior Single Audit released on June 5, 2008. DPW believes that many of the deficiencies identified in this audit have already been addressed. We did take your recommendations into consideration and implemented many program changes because of them. DPW is constantly striving to identify and eliminate any potential control deficiencies in its administration of LIHEAP. Effective September 8, 2009, DPW will integrate the LIHEAP Information System (LIS) into the electronic-Client Information System (e-CIS); which will further enhance the program. This new computer system will be utilized during the 2009-10 program year and will provide greater detail and accuracy concerning client information and benefit calculations.

DPW would also like to provide the following comments related to this audit finding:

- Lack of Approval Signature and Training: DPW is continually revising its training curriculum for this program to help ensure that supervisors are aware of this responsibility and all supervisory and program staff responsibilities are delineated as clearly as possible. DPW has taken steps to reinforce the importance of ensuring the completeness of all LIHEAP applications including signatures. Beginning in the 2009-10 program year with the implementation of e-CIS, manual approvals will no longer be required.
- Errors in Calculating Eligibility Income for Cash Benefits: Many of the errors found in manual income calculations are the result of worker error. Manual calculations will be discontinued in the 2009-10 program year, all calculations will be performed in e-CIS. The worker will be responsible for inputting the amount of the household's gross income, and the system will calculate the annual amount of the household income based on the regulations of the LIHEAP State Plan.
- Lack of Policy or Procedure Manuals and Training: As noted in our last response to your fiscal year 2007 Single Audit findings, LIHEAP policy and procedures have been incorporated into the LIHEAP Handbook, which is available on line for the County Assistance Offices (CAOs), for crisis contractors, and for the general public. The LIHEAP Handbook includes procedural information regarding the safeguarding of records, record retention, and processing applications and payments. The policies and procedures for LIHEAP are also contained in the LIHEAP State Plan. This document provides all the policy and procedures needed by County Assistance Office (CAO) and contractor staff and all of these documents were available to the workers operating the program prior to and during the LIHEAP season in question. All new LIHEAP employees receive training concerning policies and procedures by the CAOs and contractors. Training and reference materials are contained on the OIM intranet.
- Applications Not Found: DPW is improving accessibility to files by developing electronic scanning and filing at the CAOs. In the future, LIHEAP applications and supporting documentation will be captured in image files and archived.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 52: (continued)**

- Crisis Applications Not Resolved Within 48 Hours: According to federal regulations, when a household is determined to be eligible for crisis, DPW must provide some form of assistance within 48 hours or within 18 hours if a life-threatening situation exists to resolve weather-related, supply-shortage and other household-home-heating emergencies. In the 2008-09 program year, DPW implemented a new policy that allowed households who heat with deliverable fuels to apply for crisis if their fuel supply would last less than 15 days. The vendor did not have to make a delivery within 48 hours of the crisis request but was required to schedule a delivery before the household's fuel supply was expected to run out. The extra time provided to vendors eliminated the extra charges added for an emergency delivery and increased the purchasing power of the crisis grants. A household that reports they have no fuel or are in imminent danger of running out still received some form of assistance within 48 hours.
- Crisis Contractors Not Having LIS System Access: All crisis contractors have read-only access to the LIHEAP system to verify eligibility. For the 2008-09 program year, DPW visited all crisis contractor agencies to ensure that every office had access to LIS. When LIHEAP is integrated into the e-CIS for the 2009-10 program year, all crisis contractors will be given the same level of access to LIHEAP information.
- User IDs and Passwords Not Properly Secured for Crisis Contractors. DPW continues to train crisis contractors on the importance of protecting client privacy and reducing the risk of fraud. All contractors are required to sign a confidentiality agreement before the start of each program year. We have made changes to our curriculum for crisis contractors to reemphasize the importance of securing user IDs and passwords.
- Data Entry Errors: DPW has updated its training curriculum to help ensure that clerical staff and LIHEAP workers understand current data entry procedures.
- Ineligible Applicants Referred to Weatherization: DPW does not agree that it was in error for referring ineligible applicants to the Department of Community and Economic Development's (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:** Based on the agency response, DPW indicates that the corrective actions noted were, or will be, implemented after the current year under audit, and therefore, the finding and recommendation remain as previously stated. We will review these corrective actions, as applicable, in the subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 53:**

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

##### **DPW Failed to Adequately Monitor the Processing of LIHEAP Applications (A Similar Condition Was Noted in Prior Year Finding #07-52)**

**Condition:** Our prior two Single Audits of the LIHEAP program administered by DPW reported material weaknesses in DPW's overall monitoring and oversight of its 67 County Assistance Offices (or CAOs) who administer LIHEAP. These prior-year deficiencies were based on a June, 2007 report of 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. For our current year ended June 30, 2008, the other auditors performed follow up on these prior-year findings and noted that DPW provided no updated evidence to demonstrate that these prior-year internal control deficiencies were resolved in the current year as reported below.

During the 2007-08 LIHEAP year, DPW primarily employed only one monitor to perform its systematic review of processing LIHEAP cash and crisis applications at County Assistance Offices. Furthermore, in our prior audit period, despite the findings reported in our Single Audit, the monitor erroneously concluded on all monitoring reports that the CAOs complied with program policies and procedures and found no significant compliance and administrative problems. Since no current-year documentation was provided to support that the prior-year control deficiencies regarding the monitor's procedures for reviewing the LIHEAP application process at the CAOs were resolved, the weaknesses continued through our current audit period as follows:

- The monitor informed the CAO how many cash and crisis application acceptances and rejections to retrieve from the case files for review. However, the CAO was allowed to select which applications the monitor gets to review. This method does not allow the monitor to detect missing applications, as indicated in another finding disclosing that systemic weaknesses exist in LIHEAP that resulted in potential fraud and abuse.
- The monitor's testing procedures did not include verifying that the application information is properly entered into the LIHEAP Information System. Because the LIS uses household income, number of household members, type of fuel, and county of residence to determine the cash benefit amount, it is critical that this information be accurately entered. Additionally, SSN, household address, and vendor are also critical information to ensure the proper fuel account is credited.
- The monitor did not test any applications processed through the nine external crisis contractors with whom DPW contracts to process crisis applications for nine CAOs.
- The monitor did not assess the adequacy of the CAOs controls for processing LIHEAP applications. As noted in other findings for LIHEAP, auditors found major internal control weaknesses in the CAOs tested.
- Documentation supporting the monitor's review was not organized to allow an independent review to determine the adequacy of the results. The names and SSNs on the applications reviewed are listed on tablet paper. However, the steps tested and related conclusions were not documented or identified. Furthermore, the documentation that is supposed to support various interviews was limited to minimal notes on a tablet.
- The monitor does not ensure that each of the 67 CAOs was examined every four years, as required by DPW's LIHEAP State Plan. The monitor admitted that he does not keep track of where he visits or use any methodology to determine which CAOs are to be selected for sampling and monitoring.
- The monitor does not make unscheduled visits to CAOs during the LIHEAP program year for investigative or follow-up purposes.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 53: (continued)

Overall, DPW failed to adequately administer LIHEAP cash and crisis benefits, which amounted to \$147,068,100 in SFYE June 30, 2008 out of total LIHEAP expenditures of \$181,297,488 reported on the SEFA for the year. In addition to inadequate monitoring, DPW failed to ensure CAOs had written procedures to process LIHEAP applications, failed to ensure controls are adequate at CAOs, failed to assess the adequacy of application processing, written procedures and controls at crisis contractors, and failed to ensure the LIS has sufficient controls and edit checks to reduce the risk of fraud and abuse.

**Criteria:** The LIHEAP State Plan for the 2007-08 LIHEAP year identifies DPW's monitoring process as consisting of three-phases:

- *Reporting: All agencies (CAOs) are required to submit reports to the Office of Income Maintenance, which reviews them to determine any administrative problems that the agency may be encountering. If necessary, a monitor will visit that county [CAO] to observe the operation and suggest changes to alleviate existing problems.*
- *Systematic review: Approximately 25 percent of county operations are scheduled for review by a monitor during the program year. The review consists of an examination of case records and contacts with vendors and recipients, as needed, to determine if the agency is in compliance with State and Federal regulations.*
- *Unscheduled visits: Unscheduled visits will be used as an investigative measure. If information is received which suggests the possibility of misuse, misrepresentation, or any abuse, the monitor for the area will investigate the allegation.*

Prudent auditing and monitoring practices dictate that standard written procedures should exist to systematically select and monitor sites. These procedures would include: 1) a method of selecting case files to review, 2) ensuring that all necessary procedures were performed, 3) assessing the adequacy of controls, 4) ensuring procedures are adequately documented, summarized and reviewed, and 5) ensuring that all sites are monitored within a standard cycle.

**Cause:** DPW has not developed written procedures for selecting sites to monitor. Additionally, DPW did not have standard written procedures for conducting, documenting, reviewing and reporting on the monitoring visits during our audit period. Furthermore, the monitor stated that even if a control weakness is found at a CAO, he would not include it in his report to DPW or convey it to the CAO because the monitor believes that he does not have the authority to require the CAO to make the change.

These prior-year control deficiencies could not be timely corrected by DPW prior to the end of our current audit period ended June 30, 2008.

**Effect:** Without adequate overall monitoring of the processing of LIHEAP applications at the CAOs, DPW lacks assurance that LIHEAP applications are processed accurately and that CAO controls are adequate for preventing, detecting, and reporting noncompliance and any fraud and abuse. Also, the lack of an effective monitoring system presents a greater opportunity for fraud, noncompliance, and abuse to occur at the CAO level.

**Recommendations:** We recommend that DPW ensure that necessary resources are available to allow for a proper and timely review of all CAOs and crisis contractors participating in LIHEAP. In addition, we recommend that DPW develop written procedures and sampling methodology to ensure that all CAOs and crisis contractors processing LIHEAP applications are selected for systematic review by the monitor during a standard cycle. For those CAOs and crisis contractors who are considered high risk, a review should be conducted annually. These standard written procedures should include, but not be limited to:

- assessing controls;
- selection strategy of cash, crisis, and rejection applications, including the monitor determining which applications to examine, not the CAO;

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 53: (continued)**

- ensuring application materials are accurately entered into LIS;
- ensuring procedures performed and conclusions reached are adequately documented; and
- ensuring resolution to known deficiencies.

Finally, DPW should require that the monitor's documentation of its on-site monitoring be reviewed and approved by a supervisor to ensure that procedures performed were adequate and well documented and that the conclusions reached were reasonable.

**Agency Response:** The Department of Public Welfare (DPW) respectfully disagrees with the assertion that the processes put in place to monitor the processing of LIHEAP applications failed to adequately monitor the program. DPW, however, continues to implement improvements as a result of the recommendations. Monitoring of LIHEAP has been improved since the last audit finding that was issued on June 3, 2008 by the following actions:

- Starting in February 2008, the Bureau of Program Evaluation provides a random sample of applications that are to be reviewed by the monitoring team members during the course of the current LIHEAP season. CAOs and Crisis contractors no longer select the applications that are reviewed by the monitors.
- Starting with the 2008-2009 LIHEAP season, the Bureau of Program Evaluation took responsibility for coordinating the monitoring process.
- Starting in February 2008, an electronic monitoring instrument is used by the monitors to report and document their findings.
- Starting in February 2008, an OIM monitoring team of six reviewers (with members from the Bureaus of Operations, Program Evaluation and Policy) is employed and trained to monitor the LIHEAP program.
- Starting with the 2008-2009 LIHEAP season, an outside auditing consultant reviewed and provided input on the LIHEAP monitoring targets and protocols.
- Starting with the 2008-2009 LIHEAP season, the outside auditing consultant assisted the OIM monitoring team with the monitoring of the LIHEAP program. Additionally, to assure program integrity, the outside auditing consultant reviewed a sample of the LIHEAP reviews completed by the OIM monitoring team.
- Starting with the 2009-2010 LIHEAP season, the monitoring team will perform unscheduled visits in order to follow up on CAOs and Crisis contractors that had specified issues that were identified by the monitoring team in the previous LIHEAP season.
- Monitoring protocols have been improved:
  - Philadelphia and Allegheny CAOs and Crisis contractors are monitored annually;
  - All other Crisis contractors are reviewed annually;
  - All other CAOs are monitored at least every third year;
  - CAO Management staff members perform and electronically document Supervisory Reviews of LIHEAP applications in a secured database;
  - Area Managers and Staff Assistants review CAOs in the off years;
  - Executive Staff members and the Bureau of Program Evaluation oversee and review the findings of the monitoring team's reports and the corrective actions that are administered by the CAOs and Crisis Contractors in response to the monitoring team's findings;
  - Crisis contractors are reviewed by the Pennsylvania Health and Human Services (PPHS) Comptroller's Office on an annual cycle as requested by OIM in the DPW's Agency Annual Audit Plan.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 53: (continued)**

**Auditors' Conclusion:** During the 2007-08 fiscal year, only 12 of 67 CAOs (or 17.9 percent) were monitored, which is clearly less than the monitoring protocol (all CAOs “at least every third year”) stated in DPW’s agency response. Further, Philadelphia and Allegheny, the two largest CAOs, were not monitored in 2007-08, and none of the nine crisis contractors were monitored in 2007-08, which is contrary to DPW’s agency response that these entities are monitored annually. Also, only three of the 12 CAOs visited in the current-year were monitored during or after February 2008, the date indicated in the DPW response for some of the LIHEAP monitoring improvements. In addition, documents supporting these monitoring improvements were not provided by DPW so we could not determine if these improvements were implemented during February 2008. Lastly, after the initial issuance of our draft finding for DPW’s response, we learned that the Philadelphia District Attorney’s Office arrested 12 DPW employees in Philadelphia’s CAO in connection with fraud in the LIHEAP program. 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.

**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, 2008*

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### **Finding 08 – 54:**

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

#### **Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$2,315 in LIHEAP (A Similar Condition Was Noted in Prior Year Finding #07-53)**

**Condition:** Our prior year Single Audit of LIHEAP disclosed material weaknesses in DPW's internal controls designed to prevent and/or detect potential fraud and abuse in the LIHEAP program. Our prior audit also disclosed questioned costs as a result. These prior year disclosures were based on the report of other auditors who performed separate testing of LIHEAP cash and crisis benefits paid out by DPW and related internal controls, and issued a separate stand-alone audit report which we utilized in our Single Audit of LIHEAP. Our current year Single Audit follow up for the fiscal year ended June 30, 2008 disclosed that these prior year control deficiencies over potential fraud and abuse remained uncorrected as reported below.

DPW administers LIHEAP cash and crisis payments through its 67 CAOs and its nine outside crisis contractors, as applicable. DPW utilizes the LIHEAP Information System (LIS) to process cash and crisis applications and to determine the benefit amounts to be paid. The LIS relies on social security numbers (SSNs) to track each applicant. Additionally, the LIS identifies and tracks household members claimed by each applicant when applying for LIHEAP benefits. Total cash benefits paid during SFYE June 30, 2008 were \$87,376,760 and total crisis benefits paid were \$59,691,341 out of total LIHEAP expenditures of \$181,297,488 reported on the current year SEFA. We noted the following control deficiencies over cash and crisis payments processed through DPW's LIS for the SFYE June 30, 2008:

- Applicants were able to file multiple LIHEAP applications using variations of their SSNs and inappropriately receive more than one LIHEAP payment. Applicants also received LIHEAP benefits by using SSNs associated with deceased individuals. We noted that this was because DPW and LIS did not perform any SSN verification, edit checks, or other matching procedures with other computer systems to ensure SSNs are valid and associated with legitimate and living individuals.
- Applicants residing in the same household were able to inappropriately file separate applications for and receive LIHEAP benefits using slight variations in their addresses. In addition, applicants residing in separate residences were both able to inappropriately claim the same household member to receive LIHEAP benefits. We noted that these situations occurred because DPW and LIS did not perform any edit checks to detect potential irregularities related to applications submitted with similar names or addresses.
- Applicants residing in large subsidized housing complexes were able to receive LIHEAP benefits for which they may not have been eligible due to already receiving rent discounts. We noted that DPW did not obtain sufficient documentation to verify the eligibility of these applicants for LIHEAP benefits.
- Applicants were able to receive benefits for water/sewer bills with no indication or documentation obtained by CAOs to support that water was necessary to operate the heating system, as required.
- Applicants were able to under-report income on their LIHEAP applications to inappropriately obtain LIHEAP benefits since DPW does not check LIHEAP-reported income with other outside sources, such as tax returns.
- Applicants were able to receive excessive crisis benefits above the maximum allowable amount in situations where CAOs utilized outside crisis contractors to administer the crisis portion of LIHEAP. This was because there was inadequate coordination and supervisory review between the CAOs and their outside crisis contractors in the application approval process and data entry into the LIS and outside contractor databases. In addition, there was no requirement for routine reconciliations to be performed between crisis contractor databases and LIS to ensure all crisis transactions were properly accounted for on the separate systems.

In addition to re-reporting the above control deficiencies from our prior-year audit, we also noted from our current year testwork that DPW could not provide case files to support 4 payments for cash and crisis totaling \$930 out of the 60

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 54: (continued)

payments haphazardly sampled by us totaling \$16,013. As a result, DPW could not support the allowability and eligibility of \$930 in LIHEAP payments in the current year. In the case of all four of these payments, a case file was provided by DPW, but the file was incorrect since it did not pertain to the actual payment sampled in our audit.

We also noted that for four crisis payments in our haphazard sample of 60 items totaling \$1,100, DPW had no documentation in the case file provided to support that a crisis actually existed, so these costs are also unallowable.

Additionally, for one participant, the application provided to support eligibility was a North Dakota application for LIHEAP assistance. While the application contained a PA address, the application was not a PA DPW LIHEAP application form as required by the PA LIHEAP State Plan. As a result, the \$285 cash benefit payment is unallowable.

Therefore, from our current year sampling, we noted a total of \$2,315 from 9 LIHEAP cash and crisis payments to be unallowable or ineligible and are, therefore, questioned.

**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.*

The LIS must be designed to ensure accountability and accuracy for the processing of LIHEAP applications. Computer controls, such as automatic SSN verification and checks with similar names, dates of birth, and addresses, must be in place to reduce the risk of fraud and abuse by applicants applying for LIHEAP benefits. In addition, manual controls at each CAO and crisis contractor must be in place and functioning to ensure the propriety and accuracy of LIHEAP benefits processed and paid. These controls would include written standard operating procedures, supervisory review and approval of application processing, independent review of application data entry, verification of income, and proper reconciliations.

**Cause:** The LIS did not perform SSN verification or other matching procedures with other computer systems to ensure SSNs were valid and associated with legitimate and living individuals. Furthermore, the system did not perform edit checks with respect to detecting irregularities or potential fraud and abuse regarding applications submitted with similar

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 54: (continued)**

addresses, names, and SSNs. In addition, DPW lacked adequate monitoring of the LIHEAP program to ensure that fraud and abuse was minimized. As further explained in another finding, DPW's one monitor did not assess the adequacy of CAOs controls for processing applications, did not test any applications processed through the nine external crisis contractors, and did not verify that application information was properly entered into LIS.

Additionally, there were no requirements to perform reconciliations between the crisis contractor database and LIS to ensure all crisis transactions have been accounted for and forwarded to the CAO for data entry to LIS. Also, an adequate supervisory review did not exist in the application approval and data entry process of applications into the LIS and crisis contractor databases.

These prior year internal control deficiencies continued into the current year because DPW could not implement timely corrective action by the end of our current audit period.

DPW indicated that for the 9 case files identified above, eligibility was determined by the CAOs, and for some of the crisis payments identified, eligibility was determined by an outside contractor. DPW has not provided any explanation as to why adequate documentation/case files to support the allowability and eligibility of current-year LIHEAP payments could not be provided.

**Effect:** Due to the lack of documentation to support current-year LIHEAP cash and crisis payments, \$2,315 in LIHEAP costs are questioned. Because of the internal control deficiencies noted above, LIHEAP cash and crisis payments are being made in violation of federal regulations and the LIHEAP State Plan. In addition, there are clear indications that fraud and abuse occurred in the LIHEAP program. If these control deficiencies are not corrected, such noncompliance, fraud, and abuse will continue into future periods.

**Recommendations:** We recommend that DPW:

- pursue appropriate settlement of the \$2,315 in LIHEAP questioned costs with the federal award agency, HHS.
- improve LIS controls to ensure that SSNs entered into the system are valid and associated with legitimate and living individuals;
- ensure appropriate edit checks are developed to detect irregularities or potential fraud and abuse on applications submitted with similar addresses, names, and SSNs;
- require routine reconciliations to be performed between crisis contractor databases and LIS to ensure all crisis transactions have been accounted for and forwarded to the CAOs for data entry;
- require CAOs and crisis contractors to independently verify SSNs prior to application approval; and
- ensure adequate supervisory reviews exist at CAOs and crisis contractors in the application approval and data entry process of applications into the LIS and crisis contractor databases.

**Agency Response:** Regarding the \$2,315 from 9 LIHEAP cash and crisis payments that are claimed to be unallowable in the audit, DPW is in the process of recovering the documentation to support eligibility. The DPW will provide this documentation to the auditors.

DPW remains committed to administering LIHEAP with the highest possible degree of accuracy and will work toward fulfilling the recommendations put forth by the auditors. In many of the conditions presented, either steps have been taken in the 2007-2008 season to tighten the system or there are general situations that would require a detailed case analysis. Hence, DPW asks for specificity on a case-by-case basis for several of the conditions presented.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 54: (continued)**

Responses to several of the conditions are as follows:

- Beginning with the 2007-2008 LIHEAP season, applicants' demographic information was vetted against DPW's Master Client Index (MCI), a central repository of client information housed in various DPW eligibility systems. The client information includes such data elements as name, date of birth, social security number, citizenship, etc. If an applicant presented a variation of his/her SSN, and the remaining information such as name and date of birth was the same, the case worker would have had the opportunity to determine that the clients were the same even though the SSN was slightly different and to take the appropriate action.
  - DPW is developing exception reports for the 2009-2010 season, including a report showing slight variations of SSNs to further improve program integrity.
  - Beginning January 2009, lists of SSNs from the LIHEAP system were sent to SSA for verification, and those that could not be enumerated or verified by SSA, will be manually verified by CAO workers.
  - For the 2009-2010 season, the LIHEAP system will be upgraded to send SSN data via data exchanges to SSA for verification; an alert will be sent to the worker for follow up if proper verification cannot be obtained from SSA. The MCI will send data to SSA each month for verification, and each month that a LIHEAP applicant's SSN cannot be verified, an alert will be sent to the worker for client follow up.
- Beginning with the 2007-2008 LIHEAP season, an edit was placed into the system to disallow the claiming of the same individual in separate households. This prevented both conditions where (1) applicants residing in the same household were able to receive benefits with address variations and (2) applicants residing in different households were able to claim the same household member.
- The DPW's policy requires CAOs to verify heating responsibility for all applicants, including those who reside in subsidized housing. Additional information will be included in the LIHEAP Handbook and other training materials to reinforce this policy
- According to 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). Beginning with the 2009-2010 LIHEAP season, the upgraded LIHEAP system will include data exchanges with DLI, which will give income verification on all LIHEAP applicants.
- The DPW requires coordination between CAOs and outside crisis contractors. In response to the condition that applicants were able to receive excessive crisis benefits above the maximum allowable amount in situations where the CAOs utilized outside crisis contractors, the LIHEAP system does not allow any LIHEAP recipient to receive crisis benefits in excess of the maximum amount.

In response to the recommendations concerning adequate reviews, DPW has also implemented the following changes to the LIHEAP monitoring procedures to provide greater accuracy in identifying and correcting program deficiencies:

- LIHEAP supervisors complete weekly supervisory reviews of LIHEAP applications processed by Energy Assistance Workers (EAW). The supervisors report their findings and corrective action activities to the Bureau of Program Evaluation.
- An Office of Income Maintenance (OIM) monitoring team – comprised of staff from the Bureaus of Operations, Program Evaluation and Policy – monitors the administration of the LIHEAP activities including eligibility, benefit determination and corrective action activities by the CAOs and Crisis Contractors. Annually, the OIM monitoring team reviews over 1,500 applications that are randomly selected through data mining techniques. A corrective action plan is developed by the OIM monitoring team based on all findings, implemented by the CAOs and monitored for compliance by the Bureau of Program Evaluation.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 54: (continued)**

- DPW has contracted with an independent, private organization to conduct the annual monitoring reviews of the Philadelphia, Allegheny and selected CAOs as well as all of the current crisis contractors. Additionally, this organization reviews a sample of the work completed by the OIM monitoring team to ensure accuracy.
- Audits of designated LIHEAP vendors are being conducted by the Pennsylvania Comptroller Operations based on the request of OIM in the Agency Annual Audit Plan.
- The Bureau of Financial Operations provides OIM with technical assistance and conducts performance audits of specific CAOs and crisis contractors as needed to resolve systemic problems identified by the OIM Monitoring Team.

DPW continues to update its training curriculum for CAOs and crisis contractors to target weaknesses identified in the audit process. As noted in our last response to your fiscal year 2007 Single Audit findings, LIHEAP policy and procedures have been incorporated into the LIHEAP Handbook which is available online to CAOs, crisis contractors, and the general public. The LIHEAP Handbook includes procedural information regarding the safeguarding of records, record retention, and processing of applications and payments. All new LIHEAP employees receive training on policies and procedures conducted by the CAOs and Contractors. DPW provides training and reference materials that are updated annually and posted on the OIM intranet.

**Auditors' Conclusion:** Based on the agency response, DPW indicates that most of the corrective actions noted were, or will be, implemented after the current year under audit, so in this regard, our finding stands as is. Regarding the edits and information vetting DPW claims were in place for the 2007-2008 LIHEAP season, as noted in another finding related to LIHEAP for our current year ended June 30, 2008, other auditors performed follow up on these prior-year findings and noted that DPW provided no updated evidence to demonstrate that these prior-year internal control deficiencies were resolved in the current year. Also, our current year testing disclosed missing SSNs which could lead to circumvention of any edits and information vetting implemented by DPW.

Therefore, the finding and recommendations, 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.**

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 55:

#### CFDA #93.569 – Community Services Block Grant

##### Noncompliance Over Subgrantee Payments at DCED (A Similar Condition Was Noted in Prior Year Finding #07-54)

**Condition:** During prior audits, we reviewed SAP payments made by DCED to subrecipients and we reported that they were not limited to immediate cash needs and costs were not expended within the CSBG period of availability in violation of federal regulations. Any costs expended outside the period of availability would be unallowable. During our current audit follow up, we noted that for the fifth year in a row, the CSBG standard Request for Payment Form submitted by subrecipients did not include an actual service or cash disbursement date, but only total expenditures plus “accrued costs.” It is unclear whether the cash for expenditures and accrued costs has actually been disbursed by the subrecipient or whether all or a portion of these costs represent anticipated future cash disbursements. Based on this fact, there may be instances in which DCED advanced the subrecipients cash in excess of immediate needs, and costs were expended by subrecipients outside the period of availability, without being detected by DCED.

**Criteria:** Regarding the expenditure of funds, 45 CFR, Part 96.14(b) states:

- (a) *Expenditure. No limitations exist on the time for expenditure of block grant funds, except those imposed by statute with respect to the community services, maternal and child health services, and social services block grants.*

The Terms and Conditions of the Community Services Block Grant Awards state:

*Payments to grantees from their allotment for any fiscal year shall be expended by the grantee in such fiscal year or in the succeeding fiscal year, Section 678(b) (42 U.S.C. 9907).*

*Grantees shall adhere to the provisions of 678D which addresses the grantees responsibilities for fiscal control, fund accounting and audit procedures.*

(Note: Auditors conclude that this same period of availability criteria applies to all subgrantees conducting programs on behalf of the grantee.)

US Treasury Regulations in 31 CFR, Part 205, Part B, provides the rules applicable to federal assistance programs not included in a Treasury-State Agreement as follows:

- (a) *A State must minimize the time between the drawdown of Federal funds from the federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State’s actual cash outlay for direct program costs.....States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102.*
- (b) *Neither a State nor the Federal government will incur an interest liability under this part on the transfer of funds for a Federal assistance program subject to this subpart B.*

Regarding standards for financial management systems, 45 CFR, Part 96.20 states:

(b) *The financial management systems of other grantees and subgrantees must meet the following standards:*

- (7) *Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 55: (continued)

*subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.*

**Cause:** DCED personnel stated that subrecipients are advanced funds based on anticipated quarterly expenditures submitted on their invoices. Per CSBG Directive 2004-07 (revised), the first invoice is submitted with the signed contract. All subsequent invoices are submitted during the last month of the previous quarter. A final invoice may be submitted at the end of the contract period when all expenditures are complete. No adjustments are made to this established payment process for potential excess cash at the subrecipient level. Also, the invoices do not include applicable service or cash disbursement dates for expenditures and accrued costs, so it is not clear whether these cost totals include anticipated future costs.

In response to our prior year finding, DCED indicated that they would implement the following changes: (1) to revise the Request for Payment form to include a date/timeframe for the "Total Disbursements to Date" line; (2) allow subgrantees to invoice every other month instead of quarterly; and (3) request a reconciliation within 60 days after the end of the contract period to account for all funds received. However, although DCED personnel indicated that these changes would be implemented on July 1, 2008, the proposed changes are still in draft form and need to be finalized prior to implementation.

**Effect:** Payments to subrecipients may not be limited to immediate cash needs in compliance with federal cash management regulations. Also, there is not adequate control to ensure that subgrantee costs are incurred within the period of availability.

**Recommendation:** We recommend that DCED improve its invoicing and payment system to properly ensure that subrecipients are limited to immediate cash needs, and to properly document and ensure that expenditures are incurred by subrecipients within the period of availability.

**Agency Response:** The Commonwealth is embarking on a new payment system, and we would like to take advantage of that system to resolve the cash on hand issue. We propose creating a general invoice that agencies would submit monthly (after a two-month initial drawdown), and have them reconcile those payments with actual expenditures on a quarterly basis. Final reconciliations will be due within 60 days of the end of the contract period. The new payment system should allow for payments to be issued on a timelier basis. To address spending within the period of availability (until the new system is implemented), we have drafted a revised invoice form that includes a timeframe for expenditures, i.e., the subgrantee has to delineate when the expenditures occurred. Once approved, we will re-issue Directive 2007-07: Invoicing, which is used to clarify procedures for the submission of invoices for CSBG.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 56:**

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

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

#### **Internal Control Weaknesses Result in Noncompliance with Federal Earmarking Requirements and Questioned Costs of at Least \$569,175 (A Similar Condition Was Noted in Prior Year Finding #07-56)**

**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) 2006 (Federal Grant No. G-0601PACCDF) infant and toddler earmark applicable to Pennsylvania in our current audit period was \$3,074,811. For our seven prior year audits in a row, our test of expenditures charged and obligated to CCDF disclosed that DPW did not adequately track and/or could not provide adequate documentation to properly support the expenditures claimed for the infant and toddler minimum earmark. Our current-year follow-up to these prior year findings disclosed that DPW was able to provide support for certain current expenditures charged to the earmark for the FFY 2006 CCDF grant; however, as explained below, certain costs claimed by DPW to meet the earmark have been determined by us to be unallowable as the designated earmark or unallowable to the CCDF Cluster as a whole.

As of June 30, 2008, DPW reported infant and toddler earmark expenditures of \$3,342,999 on the Final ACF-696 Report for the 2006 grant, which exceeded the required minimum earmark noted above. These expenditures were claimed under 18 different subrecipient contracts, of which we selected two larger-dollar contracts for testing with expenditures totaling \$1,514,173. Our testing disclosed that a portion of these contract costs, \$19,140, did not agree to supporting documentation as follows: \$514,173 under SAP vendor number 117466 were claimed as costs for the earmark but supporting documents only added up to \$495,033, with a difference of \$19,140 in costs over-claimed since they were not supported by applicable subrecipient expenditures. Our testing also disclosed \$25,300 in contract costs under SAP vendor number 115749 that were charged to an infant and toddler earmark account on the SAP accounting system, but our review of supporting documents showed that these child care costs are unallowable for the earmark since they did not actually benefit the targeted infant and toddler client population as required. Therefore, \$44,440 in unallowable costs were charged under the infant and toddler earmark in the current year. While the amount claimed by DPW for the infant and toddler earmark exceeds the required minimum earmark by more than this unallowable amount, the transactions we selected for testing were only a sample of costs charged to the earmark, and there may be other unallowable expenditures claimed by DPW that could result in the earmark requirement to have not been met for the FFY 2006 CCDF grant.

In addition, our prior-year audit finding disclosed Nurse-Family Partnership (NFP) contracts earmarked by DPW for infants and toddlers which were unallowable to the CCDF Cluster and, therefore, were questioned. The NFP is a service program providing home-based nurse visits for first-time low income mothers and their infants. In a letter to DPW dated January 25, 2007, these contract costs were disallowed for use in CCDF by the U.S. Department of Health and Human Services (HHS). However, based on DPW's interpretation of the disallowance to be specific to the infant and toddler earmark only, DPW made adjustments during the current year under audit which moved the related expenditures from an infant and toddler earmark account on SAP to another discretionary CCDF account on SAP. Our interpretation of the HHS letter, along with a review of related legislation and the CCDF State Plan, is that these NFP costs are an unallowable use of CCDF funds in general, and should be adjusted out of CCDF on the SAP System altogether. As a result, we followed-up on NFP contracts questioned in the prior year Single Audit finding and identified \$524,735 of unallowable NFP costs charged to CCDF on SAP during SFYE June 30, 2008 from two contracts under SAP vendor numbers 132689 and 207435.

As a result of the above, our current-year testwork disclosed a total of at least \$569,175 in unallowable charges to CCDF during SFYE June 30, 2008, which are questioned.

**Criteria:** The terms and conditions issued with the FFY 2006 Child Care and Development Fund grant award state:

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 56: (continued)

#### *Discretionary Fund*

*Discretionary Funds must be obligated by September 30, 2007. States must liquidate obligations by September 30, 2008.*

#### *Earmarks associated with the Discretionary Fund*

*The Department of Labor, HHS, Education, and Related Agencies Appropriations Act, 2006 earmarked specific amounts for these activities:*

- *Child Care Quality Improvement Activities*
- *Infant and Toddler Quality Improvement*
- *Child Care Resource and Referral and School Aged Child Care Activities*

*The amount of these earmarks **is included** as part of the Discretionary Fund in calculating the “not less than 4% quality expenditure requirement” of Section 658G of the CCDBG Act. However, the expenditures of these earmarked amounts are **not** counted toward meeting the 4% quality expenditure requirement.*

*In addition, HHS’s Final Allocation for the FFY 2006 Final Allotments and Earmarked Funds established Pennsylvania’s infant and toddler earmark as \$3,074,811.*

Also, 45 CFR Part 98.60(d)(1) states:

- (1) *Discretionary Fund allotments shall be obligated in the fiscal year in which funds are awarded or in the succeeding fiscal year.*

Furthermore, 45 CFR Part 98.60(d)(7) states:

- (7) *Any funds not obligated during the obligation period specified in paragraph (d) of this section will revert to the Federal government.*

Finally, 45 CFR Part 98.66(a) states:

- (a) *Any expenditures not made in accordance with the Act, the implementing regulations, or the approved [State CCDF] Plan, will be subject to disallowance.*

**Cause:** DPW officials believe the \$19,140 in unsubstantiated costs may have been caused by an error in compiling the adjustment request spreadsheet; prior year amounts may have been entered in error. The \$25,300 costs not servicing the targeted infant and toddler population was a result of the facility (day care center) incurring the costs, and entering the costs incorrectly into the infant and toddler category on the Keystone-Stars Information Data System. Finally, DPW does not interpret the HHS disallowance notification to mean that the NFP costs are unallowable to the CCDF program as a whole, but only to the infant and toddler earmark.

**Effect:** DPW claimed \$44,440 of inappropriate expenditures to comply with the federal infant and toddler earmarking requirements for the FFY 2006, which are unallowable under this earmark and, therefore, questioned. Further, 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. In addition, we also question \$524,735 of NFP costs as an unallowable use of CCDF funds, and there is also the potential that additional unallowable NFP costs were or will be charged to the CCDF Cluster in SFYE June 30, 2008, and future years.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 56: (continued)**

Also, although other CCDF earmarks were not deemed material to our CCDF audit as a whole and were, therefore, not detail tested in our current year audit, subgrantee expenditures supporting the other CCDF earmarks (Child Care Quality, Infant and Toddler Quality, and Child Care Resource and Referral and School Aged Child Care) may be in question as well due to the deficiencies noted above.

**Recommendation:** We recommend that DPW pursue appropriate settlement with HHS regarding the \$569,175 in questioned costs for the FFY 2006 CCDF grant, and for all additional disallowed costs related to the Nurse-Family Partnership for all grant years affected. In addition, DPW should ensure that expenditures used for CCDF activities are approved in the CCDF State Plan by HHS prior to being charged to the program. Finally, DPW should improve their methodology for communicating all CCDF program-related earmark information to the servicing facilities and subrecipients to ensure proper categorization of all costs.

**Agency Response:** We appreciate the auditor's acknowledgement that DPW was able to provide support for certain infant and toddler expenditures charged to the FFY 2006 CCDF grant. This support relates to the Keystone STARS program and the information technology system called KIDS. We recently shared with ACF the functionality of KIDS in terms of its ability to collect detailed Infant and Toddler Earmark documentation and are very pleased that the initial Auditor General's review was favorable.

The questionable costs outlined in the report refer to Nurse-Family Partnership expenditures charged to CCDF. As the audit finding states, DPW interpreted ACF's Letter dated January 25, 2007 to be specific to the infant and toddler earmark only. Our interpretation was explicitly included in last year's audit response:

*OCDEL submitted expenditure adjustments to the PHHS Comptroller's Office to have all Nurse Family Partnership (NFP) costs moved from the infant and toddler Earmark to discretionary non-earmarked for FFY 2005 and 2006.*

If this was an oversight on behalf of both parties, DPW is in a position to enter an adjustment in the state accounting system to replace the FFY 2006 NFP expenditures with state funded child care expenditures. Pennsylvania expended \$30 million in state funds over the MOE and state matching requirements relating to CCDF. This effort would not change any federal reporting. DPW will await further clarification and direction from ACF on whether an adjustment is needed.

To resolve any disagreements or misunderstanding, DPW removed all NFP expenditures from the CCDF funding beginning FFY 2007.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 57:**

#### **CFDA #93.658 – Foster Care – Title IV-E**

#### **Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (A Similar Condition Was Noted in Prior Year Finding #07-57)**

**Condition:** In our prior year audits for the fiscal years ended June 30, 2004 to June 30, 2007 (for five fiscal years in a row), we identified an internal control weakness in that when a county submits a supplemental invoice to DPW, nobody within Office of Children, Youth and Families (OCYF) or the PHHS Comptroller Office compared the supplemental invoice to the original quarterly invoice to ensure that services were not billed twice. Our current year audit procedures disclosed that this weakness has not been corrected and still exists. In addition, although limited routine during-the-award (i.e., on-site and other) monitoring of the Foster Care subrecipients was performed by DPW during our current audit period, no specific monitoring or review of subrecipient records is performed by state officials to ascertain the propriety (allowability, eligibility, etc.) of supplemental payments. Based on Foster Care claims submitted by subrecipients in prior year audits, especially Philadelphia County, we noted that these supplemental claims can be material to the program.

As a result of the aforementioned weakness, DPW cannot demonstrate adequate monitoring of these higher-risk supplemental charges to the program. While this weakness would apply to all supplemental invoices submitted to DPW for reimbursement, the potential for significant double billings or unsupported/unallowable billings on supplemental invoices is especially high in large counties where the supporting summary documents are often in excess of 1,000 pages.

**Criteria:** 45 CFR 92.40 (a) states:

*Monitoring by grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with application Federal requirements. . .*

In addition, good internal controls should include timely procedures to ensure that supplemental subgrantee invoices are properly reviewed and costs monitored to ensure that expenditures are not being claimed inappropriately for reimbursement.

**Cause:** As noted within the prior year finding, OCYF and PHHS Comptroller Office personnel indicated that they do not compare supplemental invoices with the original invoices due to the large number of children being served. This comparison would require the use of a computer program, especially for large counties in which the supporting Summary of Maintenance Forms are over 1,000 pages. As a result, DPW currently relies mainly on OMB A-133 Single Audits of subgrantees to detect any noncompliance related to supplemental payments to subgrantees.

In response to our prior year finding, OCYF has worked with the PHHS Comptroller Office and the Department's Bureau of Information Systems to design an information technology system that will validate Title IV-E invoices. This system will reject any claim for an individual that was previously submitted for that date(s) unless there was a change in the contracted per diem amount during that billing time.

The Title IV-E invoices will no longer be paper copies that are sent from the counties directly to Pennsylvania Health and Human Services (PHHS), Office of the Comptroller. Instead, invoices will be electronically entered into this invoice validation system. After the invoice has been electronically validated by the system (including the supplemental review) and there are no errors found on the invoices, it will be ready for OCYF's review. Once OCYF has completed its review of the invoice, a paper invoice will then be taken to the Office of the Comptroller. If an error is found by the system, the entire invoice is rejected and sent back to the county for their correction and resubmission.

OCYF personnel indicated that the information technology system started processing invoices for the quarter ending September 30, 2008. As a result, we will review this system during our subsequent audit.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 57: (continued)**

**Effect:** OCYF and PHHS Comptroller Office officials do not timely or adequately review Foster Care claims submitted on supplemental invoices by the County Children and Youth Agencies. As a result of this internal control deficiency, additional DPW review and/or follow-up on the propriety of supplemental costs is necessary.

DPW's sole reliance on OMB A-133 or program audits of subrecipients in these situations is an internal control weakness since DPW's only on-site monitoring and assurance on these costs is not achieved in a timely manner. In addition, without adequate program monitoring of these costs during the year, potentially material subrecipient noncompliance would not be detected and corrected by DPW, including the prevention and/or collection of any potential questioned costs, in a reasonably timely manner.

**Recommendation:** OCYF and the PHHS Comptroller Office should continue with the implementation of procedures to specifically review Foster Care claims reported on subrecipient supplemental invoices, and strengthen monitoring procedures for these supplemental costs to ensure that these costs are not duplicates, and are allowable, reasonable, necessary, and for eligible participants in accordance with federal regulations.

**Agency Response:** The Office of Children, Youth and Families (OCYF) acknowledges the responsibilities as grantee of Title IV-E funds to monitor the day-to-day operations of grant and subgrant activities. In OCYF's October 2007 agreement with the Administration on Children, Youth and Families (ACYF), an automated invoicing system was to be developed by OCYF to insure that no duplicate claims are made for eligible Title IV-E foster care payments for any eligible child for the same service period. The Department's Bureau of Information Systems (BIS) has developed the automated Title IV-E invoicing system for the 67 Pennsylvania counties' invoice submissions with the service periods starting July 1, 2008. The system has been implemented and automatically rejects any County Title IV-E invoice that has a reimbursement claim for foster care placement expenditures of a child for the same duplicate reimbursable period. This validation is completed on all foster care invoices within the original invoice or any future supplemental invoices. Unfortunately, the audit finding in question covers a period that pre-dates our corrective action.

**PHHS Response:** PHHS Comptroller Office will continue to work with OCYF to strengthen monitoring procedures for Foster Care claims reported on subrecipient supplemental invoices to ensure that costs are not duplicates, and costs are allowable, reasonable, necessary, and for eligible participants in accordance with federal regulations.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 58:

#### CFDA #93.658 – Foster Care – Title IV-E

#### CFDA #93.659 – Adoption Assistance

#### Weaknesses in DPW Office of Children, Youth and Families Monitoring of Foster Care and Adoption Assistance Subrecipients (A Similar Condition Was Noted in Prior Year Finding #07-59)

**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 were outdated and no longer applicable. During our current audit period, DPW began updating their written monitoring procedures; however, many of these procedures were either in draft format or still in the development stage. As a result, it was unclear 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 a sample of 10 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 10 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 our current audit period to strengthen its monitoring controls, these reviews are not yet being performed timely and covered old and outdated periods. For the 10 agencies in our sample, we inquired in OCYF and reviewed the most recent monitoring documents and found that the latest periods covered in DPW's reviews were through March 31, 2008 and September 30, 2007, or a year or more prior to our April 2009 test date.

As a result, for the fourth year in a row, internal control weaknesses exist over DPW monitoring of Foster Care and Adoption Assistance subrecipients.

**Criteria:** 42 U.S.C., Section 671(a)(7) pertaining to the state agency responsibilities states in part:

*... the State agency will monitor and conduct periodic evaluations of activities carried out under this part. . . .*

42 U.S.C., Section 672 applies to Foster Care Maintenance Payment Program and Section 673 applies to Adoption Assistance Program.

Chapter 3140, Subchapter B relates to Foster Care eligibility requirements and allowable costs. Subchapter C relates to Adoption Assistance eligibility requirements and allowable costs.

Chapter 3170 relates to the overall fiscal management of County Children and Youth Agencies, such as personnel and operating expenditure guidelines.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 58: (continued)**

In addition, PA Code, Title 55 Chapter 20, Section 20.51 states:

*A certificate of compliance (License) will be issued to the legal entity by the Department if, after an inspection by an authorized agent of the Department, it is determined that requirements for a certificate of compliance are met.*

**Cause:** DPW personnel within OCYF indicated that during our audit period, they were updating their procedures used to perform their on-site monitoring, and also negotiating with a new outside contractor to assist with the monitoring. The new contractor was subsequently hired and they began to assist DPW in performing the on-site monitoring in accordance with the revised procedures, which should ensure that compliance with program regulations is more timely reviewed and better documented in the future.

**Effect:** Internal controls over DPW's on-site monitoring of subrecipients appear 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.

**Recommendation:** DPW OCYF should strengthen its controls to ensure more timely and better documented monitoring of Foster Care and Adoption Assistance agencies occurs, and provide greater assurance that they are in compliance with federal regulations.

**Agency 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, a copy of which was provided to the auditors. OCYF would like to meet with audit staff to revisit this aspect of the audit as we believe other documents (monitoring tools, schedules and procedures) may be available to address concerns related to on-site visits.

Regarding the audit testing of the OCYF on-site inspections and reviews of 10 County Agencies, OCYF is unsure what "key regulatory requirements" or "monitoring forms" are referenced in the finding. OCYF believes this finding should also be revisited in a meeting to determine what documents were originally requested, what documents were reviewed and what additional documents are available to better address the auditor's assessment of this component of the monitoring process.

Since the period covered by this audit (July 1, 2007 to June 30, 2008), OCYF has instituted a more rigorous quality assurance review schedule (provided to auditors) that provides for each county to be reviewed twice in any given State Fiscal Year. This effort was started during FY 2007-08, but the impact was not realized in that period.

OCYF believes the information provided herein partially address the internal control weaknesses identified in the April 2009 audit. We also are confident that we could produce further evidence of a sound and consistent monitoring process if there were an opportunity to meet and more thoroughly discuss the information needs for this component of the Single Audit. To this end, we ask that the auditors contact OCYF to arrange for appropriate OCYF representatives to meet with the auditors.

**Auditors' Conclusion:** For the fourth year in a row, DPW has not developed standardized monitoring procedures to adequately document DPW's monitoring of its 67 county subrecipients. Without such documented procedures, and without DPW monitoring personnel consistently and adequately documenting the scope, performance, and results of all the monitoring performed, we cannot determine if DPW adequately monitored all of its 67 county subrecipients during our current audit period. The monitoring checklist provided in response to this finding was last updated in December of 1999 and does not include key updates in laws and regulations since then, such as the fingerprint-based criminal records checks for Foster Care and Adoption Assistance. No additional documentation has been provided by OCYF personnel during the course of our audit or in its agency response to resolve the issues noted in the finding.

Further, in our current year and over the past four audit years, we have met with OCYF officials and repeatedly requested copies of any and all the Foster Care and Adoption Assistance monitoring procedures and the documentation

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 58: (continued)**

of the performance of Foster Care and Adoption Assistance monitoring reports and licensing reviews for the counties we selected to test. Over the course of this time, DPW has had the opportunity to provide additional information and documentation to demonstrate the adequacy of the DPW monitoring system, but has not done so. Therefore, since DPW has not provided the documentation requested through our current audit, we believe that further meetings for the current June 30, 2008 audit year are unproductive and unnecessary.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 59:

#### CFDA #93.659 – Adoption Assistance

#### Unallowable Costs Charged from the DPW Cost Allocation Plan Result in Questioned Costs of \$1,530,316

**Condition:** The Department of Public Welfare (DPW) has established a cost allocation plan (CAP) to ensure that the administrative costs incurred by or allocable to the organizational units within DPW in providing public assistance are properly allocated to the associated federal and non-federal programs. The CAP describes the procedures used to identify, measure and allocate costs to the various public assistance programs and is required to be approved by HHS, the federal agency responsible for the predominant amount of public assistance funding. Costs allocated to federal programs are allowable for federal financial participation only in accordance with the HHS-approved CAP.

In connection with our audit of the DPWCAP for the year ended June 30, 2008, we noted that a total of \$1,530,316 was allocated through the CAP and charged to the Adoption Assistance (AA) Program. The allocations related to costs from DPW's Bureaus of Information Systems and the County Children & Youth Programs. However, we further noted that the AA Program was not specifically included in the DPWCAP as an approved federal program subject to the cost allocation procedures. Accordingly, the costs allocated to the AA Program of \$1,530,316 are unallowable and therefore questioned.

**Criteria:** OMB Circular A-87, Attachment A, Section C, contains the "Basic Guidelines" for the determination of allowable costs and states in part:

#### 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, Attachment D addresses Public Assistance Cost Allocation Plans and states in part:

*C. Policy. State public assistance agencies will develop, document and implement, and the Federal government will review, negotiate, and approve, public assistance cost allocation plans in accordance with Subpart E of 45 CFR part 95. The plan will include all programs administered by the State public assistance agency.*

45 CFR Part 95, Subpart E regarding Cost Allocation Plans states in part;

#### *Section 95.507 Plan requirements.*

- (a) The State shall submit a cost allocation plan for the State agency as required below to the Director, Division of Cost Allocation (DCA) in the appropriate HHS Regional Office.*
- (b) The cost allocation plan shall contain the following information:*

- (1) An organizational chart showing the placement of each unit whose costs are charged to the programs operated by the State agency.*
- (2) A listing of all Federal and all non-Federal programs performed, administered, or serviced by these organizational units.*

#### *Section 95.509 Cost allocation plan amendments and certifications*

- (a) The State shall promptly amend the cost allocation plan and submit the amended plan to the Director, DCA if any of the following occur:*
  - (1) The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes in Federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 59: (continued)

- (2) *A material defect is discovered in the cost allocation plan by the Director, DCA or the State.*
- (3) *The State plan for public assistance programs is amended so as to affect the allocation of costs.*
- (4) *Other changes occur which make the allocation basis or procedures in the approval cost allocation plan invalid.*

**Cause:** DPW officials agree that the “Schedule of Federal and Non-Federal Programs” in the CAP lists only Foster Care Title IV-E as a federal program under the Bureau of Information Systems and under the Bureau of County Children and Youth Programs. However, DPW indicated that Title IV-E includes both Foster Care and AA so in actuality AA is included in the CAP intermingled with Foster Care. DPW also stated that the costs that were charged to the AA Program through the CAP in the current year were initially allocated to Foster Care-Title IV-E on the applicable worksheets in accordance with the approved plan (Worksheet #3 and Worksheet #5). These costs were then further allocated between Foster Care and Adoption Assistance based on a ratio computed by a DPW Grant Analyst but this additional allocation is not documented on the worksheets, or anywhere else in the approved plan.

**Effect:** Costs allocated to the AA Program through the DPW CAP during the year ended 6/30/08 totaling \$1,530,316 were not part of the approved federal programs in the DPW CAP and are questioned as unallowable. In addition, DPW procedures for preparation of the CAP do not ensure specific inclusion of all federal programs for proper HHS approval.

**Recommendation:** We recommend that DPW pursue appropriate settlement with HHS regarding the \$1,530,316 in questioned costs. Further, we recommend that DPW amend the CAP to specifically include the AA Program under the applicable organizational units in the “Schedule of Federal and Non-Federal Programs” and to make any other changes to the CAP and related worksheets to ensure that the CAP correctly describes the actual procedures used to identify, measure and allocate costs to the AA Program. Also, DPW should submit the amended plan to HHS as required by federal regulations.

**Agency Response:** The Bureau of Financial Reporting (BFR) Cost Allocation Unit has reviewed this finding. BFR agrees that the Schedule of Federal and Non-Federal Programs in the DCAP (pages vii and viii) lists Foster Care, Title IV-E but does not specifically identify Adoption Assistance. However, within the definition and methodology descriptions for Children and Youth account codes, both programs are noted. DCAP page I-3-53 identifies responsibilities of an OCYF Division to include “Title IV-E adoption services.” Foster Care and Adoption Assistance are intermingled throughout the DCAP pages and additional instances can be found in OCYF office descriptions on pages I-3-55, I-3-57, and I-3-59.

Title IV-E funding encompasses both Foster Care and Adoption Assistance. When doing a search on the Social Security Administration website Sec 470, the definition identifies Title IV-E as both Foster Care and Adoption Assistance. Also the ACF-HHS website combines Foster Care and Adoption Assistance in many instances when discussing allocation and methodology of Title IV-E.

DPW *annually* provides to the cognizant Federal Agencies the current DCAP describing the methodology used for allocation of expenditures. The DCAP pages in question were submitted and reviewed by the Federal agencies and approved as written. Furthermore, the statement referenced in the DCAP Schedule of Federal and Non-Federal Programs listed as Foster Care, Title IV-E has been submitted annually for over 20 years and was approved.

When BFR was initially contacted regarding this finding, we acknowledged that the column heading in the DCAP and in the worksheets could be changed to reflect a more accurate identification of the program being claimed. Suggestions were made by BFR staff to either include Adoption Assistance in the description or drop Foster Care completely to identify only Title IV-E. No decision was rendered until this finding was received.

BFR disagrees with the finding that costs allocated to the Adoption Assistance Program in the amount of \$1,530,316 are unallowable. Costs claimed have been processed according to ACF-HHS regulations. The methodology for allocation of costs identified to the Title IV-E programs has not changed over the course of the years. HHS routinely audits our claims and has found no reason to question our allocations.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 59: (continued)**

**Auditors' Conclusion:** We agree that Title IV-E includes both Foster Care and Adoption Assistance. However, as stated in the condition, the AA Program is not specifically included in the DPW CAP as required by federal regulations. DPW needs to communicate and work closely with HHS program officials to address this exclusion, and our finding and recommendation, therefore, remain as previously stated. We will review any corrective action taken in the subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 60:**

#### **CFDA #93.667 – Social Services Block Grant**

##### **Inadequate Controls Over Charging of YDS Personnel Costs**

**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, 2008, representing 9.7 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 testing, we found that YDC personnel activities were allowable under the SSBG program. However, of the six YDC employees sampled in our testing of SSBG personnel costs, two had job descriptions that lacked proper sign offs and approvals by the employee and the employee's supervisor, and another employee's timesheets were not signed by the employee or the employee's supervisor.

In addition, our testing of the reasonableness of YDC staff benefit costs revealed that incorrect and unreasonably high benefit rates were used each quarter in calculating the applicable benefits amounts chargeable to SSBG. However, because there were sufficient YDC salaries/wages to cover the entire current-year \$10 million federal YDC appropriation for SSBG without consideration of benefits, no unallowable benefits charges were noted in our current year under audit.

**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:** Based on discussions with DPW, Bureau of Juvenile Justice Services personnel, it was the unacceptable timekeeping practice on the part of clerical staff which resulted in timesheets not being properly signed and the Position Descriptions in question were never properly activated by the supervisor. According to DPW, Bureau of Budget personnel, the error in benefits percentage calculation could have been caused by the use of incorrect data or the use of an alternate method of calculation.

**Effect:** Although our audit determined SSBG personnel costs to be allowable, the lack of proper approvals for job descriptions and timesheets, and the errors in the benefits percentage calculations represent internal control weaknesses in the required documentation to demonstrate allowability of costs. In addition, while there were sufficient YDC salaries and wages expenditures to cover the entire \$10,000,000 authorized federal amount (without consideration of benefits), weaknesses in benefits percentage calculations used could result in unsubstantiated costs charged to the program if YDS funding level is increased in future years. These deficiencies have the potential to result in unallowable costs 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. We also recommend DPW implement adequate controls to ensure proper and accurate benefits percentages are used in calculating chargeable benefits to SSBG.

**Agency Response:** The Office of Children, Youth and Families (OCYF) will work to ensure that all timesheets are completed and acknowledged by both the individual employee and their supervisor as is required.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 60: (continued)**

The OCYF will also work to ensure that the On-line Position Description System includes active job descriptions for all employees that have been acknowledged by both the employee and his/her supervisor. It should be noted however that the current electronic format does not allow for documents related to specific individuals to be retrieved after the employee has separated. Therefore, in instances where position descriptions are not available, OCYF proposes that Pennsylvania State Civil Service Commission class specifications, which define the duties of all job classes, should also be sufficient to support that funds have not been used in violation of the statute authorizing the block grant.

In regards to the error in benefits percentage calculations, this issue has since been resolved as the DPW Office of Budget has begun providing a monthly spreadsheet to OCYF which reflects correct benefit rates to be used in the quarterly reporting process.

**Auditors' Conclusion:** Regarding the issue of employee position description not being available after employee separation, DPW should ensure that position descriptions acknowledged by the employee and his/her supervisor are retained in compliance with Federal record retention requirements. Based on the agency response, our finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 61:

#### CFDA #93.667 – Social Services Block Grant

#### CFDA #93.959 – Block Grants for the Prevention and Treatment of Substance Abuse

#### Weaknesses in DPW Program Monitoring of SSBG and SAPT Subgrantees (A Similar Condition Was Noted in Prior Year Finding #07-60)

**Condition:** For the sixteenth 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 \$43 million (or 42 percent) of total SSBG program expenditures of \$103.0 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, 2008. Total SAPT expenditures on the current SEFA were \$58.0 million.

Furthermore, for the compliance requirement related to cash management, we noted that DPW advanced funds to SSBG subgrantees in 4 of 9 SSBG program areas representing \$36 million (or approximately 35 percent) of SSBG program expenditures without adequate monitoring during the year to ensure subgrantee cash balances were reasonable. In particular, for the Legal Services component 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 site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*

Cash advances by a state to secondary recipients shall conform substantially to the same standards of timing and amount which apply to the state.

45 CFR 92.37, Subgrants, states:

- (a) *States. States shall follow state law and procedures when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local and Indian tribal governments. States shall:*
  - (4) *Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies.*

In addition:

*In discussions with our office, federal agencies have stated that cash advance balances on hand at subrecipients are reasonable if they approximate the grantee's (state's) payment cycle to the subgrantee. In light of the (state agencies) administrative system of making (daily, weekly or monthly) payments by check to subrecipients, a (daily, weekly or up to one month) cash advance on hand monitored at least quarterly is reasonable.*

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 61: (continued)**

**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 does not occur during the award and on-site.

Consistent with prior year audits, DPW management has again noted that there have been no changes to the payment methodology for the Legal Services, Mental Health, Mental Retardation and Child Welfare components of SSBG. These programs provide subgrantees with advances in part to comply with Commonwealth law and also to ensure that adequate funds are available to provide services to participants on a timely basis. DPW officials believe that their in-house payment review procedures for the SSBG program are as efficient as is administratively feasible and that controls exist in each of the program areas for SSBG. With no on-site program monitoring visits by funding agency officials except as noted above, we consider DPW's limited in-house reviews of subgrantee status reports or other documents to be insufficient to detect potential subrecipient noncompliance, including excess cash violations. DPW does not adjust payments to the subgrantees based on in-house reviews.

As stated in the prior year findings, DPW is waiting for HHS resolution of these issues. Also, as stated in the prior year finding, in our prior-year contact with HHS officials in the Division of Payment Management, HHS officials stated that, in order to resolve the issues in this finding, DPW must either change their payments from advances to reimbursements or set up a system to at least quarterly monitor cash balances throughout the fiscal year.

**Effect:** DPW is not adequately performing during-the-award monitoring of subgrantees, including the monitoring of subgrantee cash on hand, to ensure subgrantee compliance with applicable federal regulations. As a result, DPW provides little assurance of subrecipient compliance with federal requirements, including cash management standards.

**Recommendation:** DPW should perform on-site during-the-award monitoring procedures for all SSBG 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:** In general, the DPW has had numerous telephone conversations with the Grant Manager at the US DHHS, and continues to have discussions with that office regarding DPW's monitoring of the SSBG program. The Grant Manager has verbally stated to DPW that the Grant Manager is satisfied with DPW's level of monitoring. The DPW has emailed this person requesting a written response be provided via email or in a formal written letter from the US DHHS confirming these verbal conversations; however, to date, no such response has been received.

Following are the responses for each of the specific program offices to this finding related to subrecipient monitoring and cash management:

#### **Subrecipient Monitoring:**

##### **OCYF**

The Office of Children, Youth and Families (OCYF) relies on SSBG funds to supplement gaps in needed services provided to abused and neglected children. It should be noted that OCYF receives \$12 million in SSBG funds, which represents about 1 percent of the county, state, and federal funding expended to support a wide array services, which are provided through Pennsylvania's 67 County Children and Youth Agencies and numerous contracted providers.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 61: (continued)**

OCYF has continually followed the SSBG Planning and Reporting requirements to assure that client counts and expenditures are reported and responsive to the SSBG purpose. In addition, OCYF has in place the following other mechanisms to assure that funds are expended properly and timely:

SSBG is monitored as a part of the county OCYF programs. The agency promulgates instruction to the provider agencies (Bulletin No. 3140-00-05 County Children and Youth Program Title XX and Title IV-B Procedures) and monitors expenditures to assure funds are used in accordance with both state and federal regulations.

In addition, OCYF maintains contact and dialogue with the county agencies through a variety of venues, including the County Needs-based Plan and Budgeting process. Also, agency licensing visits and thorough ad hoc tactical assistance visits are conducted throughout the fiscal year.

#### **OIM**

During the fiscal year ended June 30, 2008, the legal services contract with Pennsylvania Legal Aid Network, contractor for this program, was being cost settled by Comptroller Operations, and the single audit was submitted to and reviewed by the DPW's Audit Resolution Section (ARS). In an effort to obtain complete monitoring of this contract, the Office of Income Maintenance (OIM) has requested that the Bureau of Financial Operations (BFO), Division of Audit and Review add the Pennsylvania Legal Aid Network to the Annual Audit Plan. During a May 2009 meeting with OIM and the BFO audit team, it was determined that the audit will include on-site visits to the contractor and various sub-contractors.

OIM performs the following monitoring activities of the Homeless Assistance Program (HAP). HAP funds are provided to the various counties. The county may retain primary responsibility for delivering HAP services, or the county may subgrant funds to nonprofit agencies to deliver services. If the county subgrants the administration of the HAP, the subgrantee is responsible to meet all county requirements. The county-appointed administrative agency is responsible for assuming responsibility as the Department's point of contact for the HAP. In all cases, the county is ultimately responsible for compliance with certain county and provider requirements, which include monitoring the compliance of each service provider using the HAP Instructions and Requirements and maintaining written monitoring reports on file at the county office. The reports must identify any programmatic or administrative issues needing to be resolved and the service provider's plan for resolution and follow-up. These reports are subject to review by the DPW. At a minimum, monitoring reviews and written reports must be completed at least once every 12 months. The county is also responsible for reviewing, approving, and summarizing all HAP reports submitted to the county by service providers and submitting the county summaries to the DPW. The provider reports must be maintained by the county. Additionally, county fiscal requirements include submission of Pre and Final Expenditure and quarterly reports that are submitted to the HAP Manager and the BFO. The BFO is required to conduct individual monitoring of homeless assistance either randomly or as designated by OIM's Bureau of Policy, if specific monitoring is required.

#### **OMHSAS**

The Office of Mental Health and Substance Abuse Services (OMHSAS) also uses SSBG funding to provide additional services under other federal programs. The BFO is in charge of monitoring all SSBG funds given to each of the program offices. For this reason, BFO will continue to work with OMHSAS and the other affected program offices (OCYF and OIM) to improve the monitoring of this funding.

#### **Cash Management:**

The DPW's policy has been that counties would be advanced funds to provide services on a consistent basis. If advanced funds were not given, it is possible that the county would need to obtain a short-term line of credit or in some instances suspend services. To monitor expenses, the BFO reviews the County Mental Health and Mental Retardation, Income and Expenditure reporting annually, as well as the OCYF's County Quarterly Expenditures Report.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 61: (continued)**

#### **OCYF**

The OCYF employs a complex system of quarterly advance payments and payments based on actual expenditures for State funds set in the Pennsylvania Code Title 55, Chapter 3140. Due to the fact that SSBG funds represent only a small percentage of the funds allocated to counties, it would not be efficient to set up a separate reimbursement-based system to distribute these funds. The counties are required to expend SSBG funds and report them within the same quarter that the funds were advanced. The County Quarterly Expenditures Reports are reviewed when submitted to assure funds are being used in accordance with the county allocations. These expenditures are reconciled at year's end with a final expenditure report.

#### **OIM**

The Pennsylvania Legal Aid Network provides data reports to OIM on a quarterly basis to ensure that cash on hand is reasonable compared to the number of clients served. In addition, the Comptroller's Office, Document Review and Control Section, receives a reporting of total expenditures 30 days after the end of each program year. The Pennsylvania Legal Aid Network provides the DPW with a single audit report for each fiscal year, which is accompanied by a Compliance Attestation and required supplementary schedule. This schedule mirrors the budget page within the contract and is used by Comptroller Operations to settle the contract for OIM.

In addition to the above, BFO is considering adding the SSBG monitoring to the DPW "Agency Annual Audit Plan" with the hopes of eliminating this finding in future years.

**Auditors' Conclusion:** The OCYF, Legal Aid and HAP agency response does not address the complete lack of during-the-award on-site monitoring of subgrantees by DPW.

Regarding the agency response on subgrantee cash management, the annual once-a-year monitoring of subgrantee cash balances referred to for Mental Health, Mental Retardation and PA Legal Aid clearly does not comply with Federal cash management regulations as noted in the criteria above. Also, no evidence was provided to document that DPW monitored subgrantee cash advances with the use of the OCYF Quarterly Expenditure Reports noted in the agency response.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 62:**

#### **CFDA #93.767 – State Children’s Insurance Program**

##### **Inadequate Controls Over Subrecipients Result in Unknown Questioned Costs (A Similar Condition Was Noted in Prior Year Finding #07-62)**

**Condition:** During SFYE June 30, 2008, the Pennsylvania Department of Insurance (PID) contracted with eight insurance providers to operate children’s health insurance programs and to provide CHIP health care services throughout the Commonwealth. For the fourth year in a row, we noted that PID did not adequately monitor its CHIP subrecipient insurance providers for compliance with federal regulations. During our current year audit, PID officials indicated that they did not perform any on-site during-the-award monitoring since they did not have any staff to perform the monitoring. To compensate for this lack of monitoring, in March 2008, PID requested the CS Comptroller Office to conduct performance audits of the eight insurance providers. However, only four of eight audits have been completed and issued as of April 2009, the date of our testwork and the audit period covered was July 1, 2006 to June 30, 2007, and was not current through June 30, 2008. In addition, the scope of the audits was limited to determining whether family unit and income information provided by applicants was being input accurately and used properly by the insurance company. Our review of the four issued performance audits disclosed that three of the four insurance providers had significant findings related to eligibility determinations.

Also, we reviewed the OMB Circular A-133 Single Audits of the eight insurance providers required to have audits for calendar year 2007 in order to determine the extent of any outstanding noncompliance or internal control weaknesses reported. This review revealed that two of the eight insurance providers had significant audit findings in their reports, all of which related to eligibility determinations by subrecipients.

Furthermore, our comparison of the three CS Comptroller Office Performance Audits with findings for the period July 1, 2006 to June 30, 2007 to Single Audit reports for the calendar years 2006 and 2007 disclosed the following:

- The Performance Audit of insurance company A disclosed that for 25 percent of the cases selected for testing the insurance company was unable to provide the application for the recipient; however, the Single Audit reports for the calendar years 2006 and 2007 reported no findings and classified the company as a low risk auditee.
- The Performance Audit of insurance company B disclosed that for 8 percent of the cases selected for testing the insurance company was unable to provide the application for the recipient and for 4 percent of the cases selected for testing the wrong amount of income was used; however, the Single Audit reports for the calendar years 2006 and 2007 reported no findings and classified the company as a low risk auditee.
- The Performance Audit of insurance company C disclosed that for 12 percent of the cases selected for testing the wrong amount of income was used; however, the Single Audit report for the calendar year 2007 reported no findings and classified the company as a low risk auditee.

In addition, although these three performance audits revealed that CHIP payments were made by the providers on behalf of individuals without properly supporting their eligibility, no costs were specifically identified and questioned by the performance auditors and there was no follow up by the performance auditors to determine the extent of the noncompliance or questioned costs at the provider level. Due to the conflicting results noted between CS Comptroller Office Performance Audits and Single Audits, and due to the higher risk of fraud and unallowable payments at the insurance providers where a high percentage of case files were missing and the wrong income amount was used, we requested documentation to support PID management follow-up and resolution of the significant eligibility determination issues. However, PID could not provide evidence that additional procedures were performed at these insurance companies noted above in order to address the higher risk of fraud and unallowable CHIP payments.

During the fiscal year ended June 30, 2008, PID reported CHIP payments to eight insurance providers totaling \$210.5 million, representing 97 percent of total program expenditures of \$216.9 million.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 62: (continued)

**Criteria:** Regarding subgrantee monitoring, 42 CFR 92.40 (a) states:

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

**Cause:** As disclosed in the condition above, PID indicated they did not have any monitoring staff available to perform any on-site monitoring during our audit period. PID officials stated that they have filled the vacant positions and will resume on-site monitoring in the future. Also, the performance audits completed to date do not cover the period July 1, 2007 to June 30, 2008 and, therefore, do not compensate for the lack of on-site monitoring for our audit period. Further, CHIP officials did not explain the inadequate follow up on the performance audit results during our current audit.

**Effect:** Since PID did not perform on-site monitoring of its insurance providers during the SFYE June 30, 2008, PID did not comply with federal monitoring regulations, and did not adequately ensure subgrantees were complying with federal CHIP regulations. Furthermore, based on our review of the performance audits of insurance companies A, B, and C mentioned above, there was an unknown amount of CHIP costs paid out by providers on behalf of individuals whose eligibility has not been adequately supported and are, therefore, questioned.

**Recommendation:** We recommend that PID strengthen its procedures and perform on-site during-the-award monitoring of all insurance providers of the CHIP program for compliance with federal regulations. We also recommend stronger follow up by PID on audit results that reveal ineligible costs paid out by providers or costs whose eligibility has not been properly supported. Finally, we recommend that PID pursue appropriate settlement of the unknown questioned costs reported above with the federal government.

**Central Services' Response:** The finding indicates that the Pennsylvania Insurance Department requested that we conduct performance audits on all eight contractors. This is not accurate. We were requested to complete performance audits on four of the eight contractors.

The finding includes comments on the scope of the audit, including the selection of the audit period and the audit objectives. The audit period was agreed to with the department and the objectives were chosen because they were considered the two most critical areas.

The finding includes comments on the results of our audits and the extent of our audit work. We follow Government Auditing Standards in conducting our audits and we respectfully disagree with the auditors in the comments made. The work that was conducted and the tests that were performed were based on the collective experience and professional judgment of our staff. We stand behind our work and the reports that were issued.

With regard to the questioned costs for company A, the only way we could reasonably make a determination whether the costs were allowable or not would be with the original applications which were missing.

With regard to the questioned costs for company B, the only way we could reasonably make a determination whether the costs were allowable or not would be with the original applications which were missing. Also, with regard to the situation in which the wrong amount of income was used, the family was still placed in the correct coverage group. Since the wrong amount was higher than the correct amount the family would have been placed in a higher coverage group which would actually result in the Insurance Department paying less to the company as the family would be required to pay for a larger portion of the insurance premium.

With regard to the questioned costs for company C, the errors did not result in an incorrect eligibility determination.

As a result of the audit findings, all three companies responded that they have improved their application handling and data entry functions including increased training on CHIP guidelines, policies and procedures. Furthermore,

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 62: (continued)**

before the reports were issued the Pennsylvania Insurance Department asked our office to conduct additional work on all eight CHIP contractors for calendar year 2008. This work will allow us to verify that these three companies successfully implemented the improvements contained in their responses.

#### **Insurance Department Response:**

##### **On-site and Internal Program Monitoring**

The monitoring of eligibility and enrollment applications for all CHIP contractors for this audit period was not completed in its entirety due to ongoing staffing shortages. Due to these ongoing staffing shortages, PID was only able to complete four eligibility audits and no on-site monitoring occurred during the audit period. CHIP has hired and trained two permanent program monitors which should alleviate this staffing shortage.

For the audit period, PID contracted with the CS Comptroller's Office to do the eligibility audits for four CHIP contractors initially, with the expectation that all eight CHIP contractors' audits would be completed prior to the current Single Audit. PID focused on getting the back-dated eligibility audits for SFY 2006-07 completed. PID focused first on the four contractors who were most prone to having eligibility and enrollment problems. PID also had the CS Comptroller's Office perform eligibility audits on the four adultBasic contractors. In sum, the CS Comptroller's Office performed eight audits. Like PID, the CS Comptroller's Office was experiencing staff shortages and the audits were delayed. Beginning in November 2008, PID began having bi-weekly meetings with the CS Comptroller's Office to stay on task and get the audits completed in a more timely fashion.

In a previous response to the auditors, PID indicated that on-site reviews were unnecessary because internal processes adequately monitor subrecipients. PID's position is that on-site reviews are still unnecessary due to the following:

- Health Management Systems (HMS) cross matches new applications on a daily basis via a central data base. The data base contains insurance coverage information for a substantial number of insurance companies nationally, and is used to determine if applicants already have insurance. This cross match also doubles as a fraud detector.
- The DPW Medicaid cross match is performed daily to ensure that children who are already in the Medicaid program are not dually enrolled in CHIP. This cross match also doubles as a fraud detector. In addition, the CHIP and adultBasic Office in October of 2008 instituted the "Health Care Handshake." This is an automated system that facilitates the referral of children back and forth between PID and the Medicaid program to ensure that children are placed in the appropriate program for which they are eligible.
- The CHIP and adultBasic Office maintains a complaint log for all correspondence received from the Governor's Office, legislators and directly from consumers. When trends develop, the CHIP and adultBasic Office conducts corrective regular conference calls with the contractor(s) in question until the situation is resolved.
- Contractors are required to submit reports of HIPAA security breaches as they occur. The CHIP and adultBasic Office maintains a tracking log for these breaches and reviews the corrective actions instituted by the contractor in question.
- The CHIP and adultBasic Office requires contractors to submit annual fraud reports. In addition, the CHIP and adultBasic Office has arranged with PID's Bureau of Enforcement to specifically investigate "whistle blower" cases referred directly to our office from the public. The Bureau of Enforcement conducts the basic investigation and our office forwards the information to the specific CHIP contractor for follow-up and resolution by the pertinent law enforcement entities, where applicable.
- The CHIP and adultBasic Office performs HEDIS/CAHPS reviews annually. HEDIS is a standard set of performance measures developed by the National Committee for Quality Assurance ("NCQA"). Performance measures were developed based on anomalies PID had trended over the past three years.

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 62: (continued)**

- CHIP contractors are required to be accredited by NCQA. The Department of Health attends all licensed HMO accreditation reviews scheduled by NCQA.

Further, the auditors cite 42 CFR 92.40 (a) as its basis stating that the onsite reviews are required. This federal regulation does not specifically mention nor require onsite review.

Nevertheless, PID will institute an on-site corrective action plan for SFY 2008-09.

#### **PID Audit Scope**

The auditors indicated that the scope of PID audits was limited to determining whether family unit and income information was accurately input and properly used. PID does not concur with this statement. Eligibility is also determined by other criteria for which we do not, and do not need to, audit directly. As noted above, we verify other insurance coverage by utilizing the HMS cross match and the Medicaid cross mach. Applications cannot be processed for enrollment until they pass both cross matching functions. The Children's Health Insurance Program and adultBasic Processing System automatically verifies age based on the birth date on the application. An application cannot be processed for enrollment unless the birth date is entered and determined to be within the required age range. We note that as a result of changes generated by the reauthorization of the CHIP program in February 2009 (CHIPRA), citizenship will be a basis for eligibility. CHIP is working to have direct access to the Social Security Administration's data base for verification purposes.

#### **A-133 Single Audits**

The A-133 single audits did produce findings for two of CHIP's eight contractors. One contractor submitted their CAP plan and refund on November 27, 2007. Our office inadvertently excluded the CAP on the tracking log reviewed by the Auditor General; and therefore, it appeared that we had not followed up on the finding. Our office, however, did overlook the findings for the other contractor and has since requested the corrective action plan and refund.

#### **Contractors' Inability to Provide Application Documents**

The auditors found anomalies between the three CS Comptroller Office Performance Audits with findings for the period July 1, 2006 to June 30, 2007 and the Single Audit reports for the calendar years 2006 and 2007 with respect to contractors being unable to provide the application documents and/or using the wrong amount of income in making eligibility determinations. PID does not disagree with this finding, but has already addressed the underlying situations:

Company A did in fact have five (5) applications out of twenty-five (25) samples missing. The CHIP and adultBasic Office considers this to be an automatic finding. Corrective Action Plans were requested, received and incorporated into the CS Comptroller's final report. PID also notes that this particular contractor experienced a transition in which the company relocated its enrollment and eligibility unit to another state.

Company B was missing two (2) applications out of the twenty-five (25) samples tested. The CHIP and adultBasic Office considers this to be an automatic finding. However, with no applications to determine appropriateness of the eligibility determination, we did not impose any penalties. Rather, a Corrective Action Plan was requested, received and incorporated into the CS Comptroller's final report. The CHIP and adultBasic Office will consider how to develop a monetary recovery policy to address missing applications.

Note also that even though Company B used an incorrect income methodology to determine eligibility, none of the findings by the CS Comptroller's Office resulted in Company B enrolling applicants who were not income eligible, even though they did not follow prescribed procedure. PID calculated the income using the correct methodology and the applicant families were still deemed eligible. A Corrective Action Plan was requested to address the appropriate application of eligibility policies. The Plan was received, approved and incorporated into the CS Comptroller's Office final report.

Company C applied incorrect methodology in determining eligibility. However, PID calculated the income using the correct methodology and the applicant families were still deemed eligible. A Corrective Action Plan was requested, received and incorporated into the CS Comptroller's final report.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 62: (continued)**

#### **Additional Actions**

Two permanent program monitors have been hired and trained. In addition, the CHIP and adultBasic Office is receiving the assistance of two temporary staff from the Mcare Fund Office of PID to help complete all four (4) adultBasic eligibility audits for SFY 2008-2009. This will free the program monitors to focus on auditing CHIP for the 2008-2009 fiscal year. PID has developed a proposed auditing schedule.

**Auditors' Conclusion:** Based on our review of the above agency responses, they do not resolve our current-year audit exceptions and the finding and recommendation remains as previously stated. There are material internal control weaknesses at the state level, including inadequate on-site monitoring and inadequate on-site auditing and follow-up, over ensuring that subrecipients are properly determining and adequately documenting compliance with key CHIP regulations related to eligibility of participants. In addition, as reported above, we found clear evidence of questioned costs. We will review all future corrective action planned by CHIP officials in the subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 63:**

#### **CFDA #93.917 – HIV Care Formula Grants**

##### **Weaknesses in Internal Controls Over Eligibility Determinations Result in an Undetermined Amount of Questioned Costs Up To \$18,684,980 (A Similar Condition Was Noted in Prior Year Finding #07-63)**

**Condition:** Within the HIV Care Formula Grants program, federal regulations established an AIDS Drug Assistance Program (ADAP) earmark, in which funds are to be used to provide therapeutics to treat HIV disease or prevent the deterioration of health arising from HIV disease in eligible individuals. The amount of the ADAP earmark is provided within the annual grant award. Each year the DOH, as lead agency for the program, enters into an interagency agreement with DPW to administer the ADAP portion of the grant, and this administration is the responsibility of DPW's Special Pharmaceutical Benefits Program (SPBP). During the current fiscal year ended June 30, 2008, the SPBP charged \$18,684,980 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 our prior-year Single Audit for SFYE June 30, 2006, we audited the HIV program as a major Type A program in accordance with OMB Circular A-133 and we reported material noncompliance, questioned costs, and multiple internal control weaknesses in DPW's administration of HIV. Because of the reduction in HIV program expenditures in the fiscal years ended June 30, 2007 and 2008, we no longer audited the program as a major Type A program in these years, 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, 2008 on these prior year issues are noted below.

DPW indicated that during September of 2007 it required the third party contractor that administers all pharmacy benefit claims for the HIV Care Formula grant to mail letters to all SPBP clients requiring them to submit a recertification of eligibility for SPBP. Those not responding were sent a letter 60 days later, then a final letter was sent 90 days later with a cutoff of SPBP benefits scheduled for December of 2007.

During our current audit, we performed a limited review of five sampled cases that were approved for HIV ADAP assistance near the end of SFYE June 30, 2007 and questioned in our prior audit, to determine if DPW properly followed up on these unresolved cases during SFYE June 30, 2008. Our follow up disclosed that all five cases (or 100 percent) turned out to have significant discrepancies for the HIV program as follows:

- 1) Case file SPxxxx72 dated May 30, 2007: Participant had no income, and indicated that Medical Assistance and Social Security was applied for, and was improperly enrolled into HIV ADAP without evidence of ineligibility for the Medical Assistance program. On July 22, 2007 DPW cancelled SPBP coverage due to enrollment in Medical Assistance.
- 2) Case file SPxxxx74 dated May 31, 2007: Participant was age 65 or older and income eligible for PACENET, but was not referred to PACENET, as required. Participant was disenrolled in June of 2008 for not responding to recertification requests.
- 3) Case file SPxxxx75 dated May 2, 2007: Participant provided PA ID Card dated September 12, 2006; however, Social Security benefits letter dated April 12, 2007 disclosed the participant lived in New Jersey and phone number on the application worksheet was a New Jersey area code. Participant resubmitted an application on March 7, 2008 that included copies of a PA ID card and a New York state ID card. Between the three states documented in the case file, DPW never reasonably established residency for this client.
- 4) Case file SPxxxx76 dated June 1, 2007: Participant did not provide documentation of PA residency, such as PA ID or voter registration card. Application was not signed by a Licensed Physician, but was signed by a Certified Registered Nurse Practitioner. Participant did not respond to recertification requests; however, on May 19, 2008 DPW cancelled SPBP coverage due to enrollment in Medical Assistance.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 63: (continued)**

- 5) Case file SPxxxxx78 dated May 16, 2007: Participant information disclosed individual was eligible and approved for Medical Assistance but was improperly enrolled into HIV ADAP. Application was not signed by a Licensed Physician, but was signed by a Certified Registered Nurse Practitioner. On June 17, 2007 DPW cancelled SPBP coverage due to enrollment in Medical Assistance.

Also, we reviewed five cases that were approved for HIV ADAP assistance near the end of our current year SFYE June 30, 2008. Four of the five cases (or 80 percent) included significant discrepancies as follows:

- 1) Case file SPxxxxx55 dated June 5, 2008: Application was not dated by or include the License Number of the Physician.
- 2) Case file SPxxxxx71 not dated by applicant received by DPW on June 18, 2008: Application includes a License Number that appears to be that of a Certified Registered Nurse Practitioner, not a Licensed Physician, as required.
- 3) Case file SPxxxxx84 dated June 23, 2008: Application includes Social Security benefits letter dated February 8, 2008, which disclosed that the participant lived in New Jersey, and no Pennsylvania residency identification was included such as PA ID or voter registration card.
- 4) Case file SPxxxxx82 dated June 24, 2008: Application includes a Social Security benefits letter dated May 21, 2008 disclosing the participant lives in Ohio and no Pennsylvania residency identification is included such as PA ID or voter registration card.

While the SPBP initiated an annual re-certification process to support continued participant eligibility during SFYE June 30, 2008, we noted that participants that were non responsive to re-certification were not cut off until May or June 2008. During our prior year reviews of case files, we found that most of the participants had originally applied for, and began to receive benefits several years ago, going back as far as 1989 without being re-certified as still eligible. Further, while we noted that procedures were implemented to require those eligible for Medicare Part D to be enrolled in Part D to maintain SPBP program eligibility, no procedures were in place to ensure that applicants or participants that are 65 years of age or older are enrolled in the state-funded PACE or PACENET program as required if they are income eligible. Also, for old applications prior to 1997, the form did not contain a statement by the participant that they were being treated for HIV/AIDS. As a result, DPW provided little documented assurance that these program participants remained eligible to receive benefits in the current year, or that other insurance that participants may have obtained would be used to reduce claims to ADAP.

Further, DPW uses a third party contractor to administer all pharmacy benefit claims for the HIV Care Formula grant. The primary oversight of the third party contractor is performed by the PA Department of Aging (PDA) since the same contractor administers the Pharmaceutical Assistance Contract for the Elderly (PACE) program, a state funded program at PDA. 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, the opinion is rendered on the receipts and disbursements taken as a whole. Since the HIV Care Formula grant funds less than 13 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 Care Formula grant pharmacy benefit claims, the propriety of reimbursements to the third party contractor, and in turn to the pharmacies, cannot be assured.

Because of the lack of documentation in the HIV participant case files supporting eligibility, and the lack of audit coverage of the third party contractor and the participating pharmacies in the HIV program, for the fifth year in a row DPW did not adequately document the eligibility and allowability of the drug portion of the HIV program as a whole in accordance with OMB Circular A-87. As a result, an unknown amount out of the \$18,684,980 in drug costs charged to HIV during the fiscal year June 30, 2008 are questioned.

**Criteria:** Section 2616(a) and (b) of the Ryan White Comprehensive AIDS Resource Emergency Act of 1990 states:

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## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 63: (continued)

SEC. 2616. *Provision of Treatments.*

- (a) *In General.* – A State may use amounts provided under a grant awarded under this part to establish a program under section 2612(a)(4) to provide treatments that have been determined to prolong life or prevent the serious deterioration of health arising from HIV disease in eligible individuals.
- (b) *Eligible Individual.* – To be eligible to receive assistance from a State under this section an individual shall—
- (1) *Have a medical diagnosis of HIV disease; and*
  - (2) *Be a low-income individual, as defined by the State.*

The Special Pharmaceutical Benefits application establishes the income limits for low-income limits for low-income individuals as follows:

*The financial component for Eligibility is determined by the following criteria:*

*Income Limits: Individuals - \$35,000 gross income per year  
Families - \$35,000 gross income per year, plus an allowance of \$2,839 for each additional family member. (Example: family of two \$37,893 combined gross; family of three \$40,786 combined gross; etc.)*

In addition, good internal controls dictate that all documentation supporting the participant's eligibility such as a physician's certification and insurance information, be maintained within the participant's case file.

In addition, Section 6.2 of DDS Program Policy Guidance No. 6, issued by HHS, regarding eligibility for the ADAP portion of the HIV Care Formula Grants program states:

#### 6.2 Eligibility

- (a) *The CARE Act indicates that ADAPs are to serve "low-income individuals," as defined by the States. The State's poverty criterion for ADAP eligibility should be based on Federal poverty guidelines.*
- (b) *All States should devise, implement, and rigorously monitor the use of consistent eligibility standards across all entities involved in certifying and re-certifying ADAP eligibility. Such certification is expected to include review and documentation of an applicant's income from all sources and any pharmaceutical benefits derived from private health insurance or other sources.*
- (c) *Every State should establish and implement procedures for ADAP client re-certification on a periodic basis, and for de-certifying individuals who qualify but have not utilized the program for a specific period of time (e.g., one year or longer). Re-certification procedures should include mechanisms to assure that individuals who have become eligible for Medicaid are transferred to the Medicaid program at the earliest possible date.*

**Cause:** SPBP personnel indicated that, to comply with Section 6.2(c) of HHS Policy Guidance No.6 quoted above, they do a monthly comparison of Medical Assistance participants with DPW's CIS system to identify program participants who may have become eligible for drug coverage through MA. If any matches are found, SPBP officials stated that the participants are removed from the SPBP roles so that they don't duplicate services. SPBP personnel indicated that, due to HHS resolution of our prior year Single Audit finding, they had implemented a new SPBP re-certification form during September of 2007, and sent letters to all program participants requiring them to complete a new SPBP re-certification form. However, as noted in our condition above non responsive participants were not removed from SPBP until near the end of our SFYE June 30, 2008 audit period.

Regarding the audit of the pharmacy benefits manager, SPBP personnel indicated that they believed that either PDA or the PHHS Comptroller Office was addressing the audits and any questionable charges by pharmacies would be resolved by PDA or the PHHS Comptroller Office.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 63: (continued)

**Effect:** Since SPBP did not begin annual re-certifications of the program participants until September of 2007, and did not remove non-responsive participants until toward the end of SFYE June 30, 2008, DPW was not in compliance with DSS Program Policy Guidance No 6 for most of SFYE June 30, 2008. In addition, without performing timely re-certifications, DPW has little assurance that program participants receiving ADAP benefits remain eligible. Given the errors noted in cases tested as listed in the condition above, SPBP provides limited assurance that the participants are eligible to receive ADAP benefits. Also, there is limited assurance that insurance information is still correct as on the original applications, and therefore costs to HIV ADAP may not be properly reduced for other insurance coverage available.

Also, based on the lack of audit or monitoring coverage of HIV Care Formula grant pharmacy benefit claims of the third party contractor, DPW cannot provide assurance on the propriety of pharmacy claims being paid.

As a result of not adequately documenting the allowability and eligibility of the drug portion of the HIV program as a whole, there is an undetermined amount of questioned costs for the current year under audit, up to the \$18,684,980 reported on the current SEFA (\$14,189,882 for Federal Grant No. 2-X07-HA-00021-16 and \$4,495,098 for Federal Grant No. 2-X07-HA-00021-17).

**Recommendation:** SPBP should pursue appropriate settlement with HHS on the undetermined amount of current-year questioned costs, up to \$18,684,980. Also, we recommend that DPW's SPBP closely monitor the implementation of its new re-certification process to ensure that all program participants remain eligible to receive ADAP benefits. In addition, SPBP should strengthen procedures to verify and ensure that applications are properly approved, rejected, or referred to other insurance programs and adequate documentation supporting the participants' eligibility is maintained within all participant case files. DPW should also ensure that proper auditing or monitoring is performed on the pharmacy benefits manager, and that an appropriate sample of HIV program claims are audited or tested at the benefits manager.

#### **Agency Response:**

**Recommendation 1:** SPBP should pursue appropriate settlement with HHS on the undetermined amount of current-year questioned costs.

**DPW-SPBP Response:** Agree in part. The Department will pursue settlement with the Department of Health and Human Services (HHS) as appropriate. However, the Department 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:** Also, we recommend that DPW's SPBP closely monitor the implementation of its new re-certification process to ensure that all program participants remain eligible to receive ADAP benefits.

**DPW-SPBP Response:** Agree. DPW's SPBP staff currently monitors all steps in the re-certification process. DPW's SPBP staff is also developing a Master Action Plan that documents all steps in the re-certification process to ensure compliance with all program requirements and consistency in the annual re-certification process. In addition, SPBP staff is performing specific quality assurances on all cases pending as a result of recertification for final determination of eligibility. All work sheets are filed in the case record.

**Recommendation 3:** 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 staff has been working diligently in updating existing documents or designing and developing new documents and materials for SPBP. The most recent effort was the development of a series of written notice templates to ensure compliance with all enrollee legal rights to due process. DPW's SPBP is developing an SPBP Eligibility Handbook that will centralize eligibility requirements and processes in one master

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 63: (continued)**

document. Staff is also reviewing changes to the various SPBP documents including the SPBP Application which must be updated to reflect current practice. For example, attestation of HIV must be by a clinician licensed to diagnose but the outdated wording on the application limits attestation to a physician. The wording will be changed to a licensed clinician to be consistent with Pennsylvania Department of State licensing and current practice in SPBP.

**Recommendation 4:** DPW should also ensure that proper auditing or monitoring is performed on the pharmacy benefits manager, and that an appropriate sample of HIV program claims are audited or tested at the benefits manager and at the pharmacies.

**DPW-SPBP Response:** Agree. In response to Single Audit Finding 93917A, the Public Health and Human Services Comptroller Audits Office has been auditing SPBP claimed pharmacy services. The procedures for audit review, audit reports and audit resolution are in writing and the Assistant Comptroller for Audits confirmed that audit reviews are being performed.

### **SAMPLED CASES**

DPW's SPBP staff wishes to respond to the reported findings from the limited review of five sampled cases that were approved for HIV ADAP assistance near the end of SFYE June 30, 2007. Our comments are as follows:

- 1) Case file SPxxxxx72 dated May 30, 2007: Participant had no income, and indicated that Medical Assistance and Social Security was applied for, and was improperly enrolled into HIV ADAP without evidence of ineligibility for the Medical Assistance program. On July 22, 2007, DPW cancelled SPBP coverage due to enrollment in Medical Assistance.

**DPW-SPBP RESPONSE:** Disagree. SPBP eligibility staff performs a Medical Assistance Program eligibility file clearance via the Client Information System (CIS) at application and every month thereafter to determine if the client was determined eligible for Medicaid. In this case the CIS file verified that the client was not eligible for MA at the time of application with SPBP. When eligibility was identified during the monthly match, the case was closed and a letter was sent to the client.

If at the point of application for SPBP the applicant reported zero income, the SPBP will authorization eligibility to ensure immediate access to life sustaining medications pending a decision of eligibility by another payer.

- 2) Case file SPxxxxx74 dated May 31, 2007: Participant was age 65 or older and income eligible for PACENET, but was not referred to PACENET, as required. Participant was disenrolled in June of 2008 for not responding to recertification requests.

**DPW-SPBP RESPONSE:** SPBP agrees that PACE/PACENET is a potential resource and will refer persons age 65 and older to PACE/PACENET to apply for coverage. However, if at the point of application for SPBP the applicant, age 65 or older, has not applied to PACE/PACENET, SPBP will authorize eligibility pending confirmation of approval or denial of PACE/PACENET eligibility. SPBP will authorize eligibility to ensure immediate access to life sustaining medications pending a decision of eligibility by another payer. SPBP will inform the SPBP applicant of the requirement to apply for PACE/PACENET and set a control to confirm clients' application. SPBP will follow this procedure to ensure that SPBP is the payer of last resort but the cost impact is minimal since persons age 65 and older are eligible for a Medicare Part D.

- 3) Case file SPxxxxx75 dated May 2, 2007: Participant provided PA ID Card dated September 12, 2006; however, Social Security benefits letter dated April 12, 2007 disclosed the participant lived in New Jersey and phone number on the application worksheet was a New Jersey area code. Participant resubmitted an application on March 7, 2008 that included copies of a PA ID card and a New York state ID card. Between the three states documented in the case file, DPW never reasonably established residency for this client.

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 63: (continued)**

**DPW-SPBP RESPONSE:** Disagree. While the client presented three sets of documents, some with out of state addresses to meet various verification requirements, the most current dated documents validating PA residency were multiple prescriptions with a Philadelphia address, and a letter from SSA stating that the client's Social Security benefits will increase in 2008.

- 4) Case file SPxxxxx76 dated June 1, 2007: Participant did not provide documentation of PA residency, such as PA ID or voter registration card. Application was not signed by a Licensed Physician, but was signed by a Certified Registered Nurse Practitioner. Participant did not respond to recertification requests; however, on May 19, 2008 DPW cancelled SPBP coverage due to enrollment in Medical Assistance.

**DPW-SPBP RESPONSE:** Disagree. The client presented a statement from employer verifying income and address. Attestation of HIV must be by a clinician licensed to diagnose. In PA this includes a CRNP. SPBP will edit the SPBP application form to indicate attestation of HIV by a licensed clinician.

- 5) Case file SPxxxxx78 dated May 16, 2007: Participant information disclosed individual was eligible and approved for Medical Assistance but was improperly enrolled into HIV ADAP. Application was not signed by a Licensed Physician, but was signed by a Certified Registered Nurse Practitioner. On June 17, 2007 DPW cancelled SPBP coverage due to enrollment in Medical Assistance.

**DPW-SPBP RESPONSE:** Agree in part. SPBP eligibility staff did not perform a Medical Assistance Program eligibility file clearance at application as required; however, client's SPBP coverage was cancelled during the monthly MA match. Attestation of HIV must be by a clinician licensed to diagnose. In PA this includes a CRNP. SPBP will edit the SPBP application form to indicate attestation of HIV by a licensed clinician.

DPW's SPBP staff wishes to respond to the reported findings from the five cases that were approved for HIV ADAP assistance near the end of SFYE June 30, 2008. Our comments are as follows:

- 1) Case file SPxxxxx55 dated June 5, 2008: Application was not dated by or included the License Number of the Physician.

**DPW-SPBP RESPONSE:** Agree in part. Although the physician did not date the application nor include the License Number on the application, a copy of a prescription was provided and included the date, license number of doctor, and signature.

- 2) Case file SPxxxxx71 not dated by applicant received by DPW on June 18, 2008: Application includes a License Number that appears to be that of a Certified Registered Nurse Practitioner, not a Licensed Physician, as required.

**DPW-SPBP RESPONSE:** Agree in part. SPBP agrees that the client did not date the application. Attestation of HIV must be by a clinician licensed to diagnose. In PA this includes a CRNP. SPBP will edit the SPBP application form to indicate attestation of HIV by a licensed clinician.

- 3) Case file SPxxxxx84 dated June 23, 2008: Application includes Social Security benefits letter dated February 8, 2008 which disclosed that the participant lived in New Jersey, and no Pennsylvania residency identification was included such as PA ID or voter registration card.

**DPW-SPBP RESPONSE:** Disagree. Information provided by Allegheny General Hospital verifies client was resident of PA, but was homeless. In the case of a homeless person, a statement such as the one provided constitutes verification of residency until the person can secure housing and provide traditional proof of residency.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 63: (continued)**

- 4) Case file SPxxxxx82 dated June 24, 2008: Application includes a Social Security benefits letter dated May 21, 2008 disclosing the participant lives in Ohio and no Pennsylvania residency identification is included such as PA ID or voter registration card.

**DPW-SPBP RESPONSE:** Disagree. The client provided verification of residency dated June 18, 2008 from Mt. Emergency Associates. The SSA document was dated February 2008 and was not used to validate residency.

**Comptroller Response:** The Office of the Budget, Comptroller Operations, will assist DPW to ensure that proper auditing or monitoring is performed on the pharmacy benefits manager, and that an appropriate sample of HIV program claims are audited or tested at the benefits manager.

**Auditors' Conclusion:** Regarding the small sample, since the HIV Care Formula Grants is not a major Single Audit program we did not perform an 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 SFYE June 30, 2007 still existed during SFYE June 30, 2008 and if those weaknesses could result in likely questioned costs of \$10,000 or more we must reissue a finding in our current year audit. Based on the discrepancies noted in our limited sample a significant amount of question costs are likely resulting in the continuation of the finding for SFYE June 30, 2008.

Regarding cases where SPBP applicants have little or no income, approval should not be granted for SPBP benefits unless evidence of ineligibility for the Medical Assistance (MA) is determined. Also, any SPBP benefits paid on behalf of MA eligible clients should be repaid to HHS and claimed under MA.

Regarding cases where SPBP applicants present evidence of possible residence in other states DPW should implement procedures to contact the other states to ensure the SPBP applicants are not already receiving HIV Care Formula Grants benefits in other states, and notify the other state of pending approval of benefits in PA in order to prevent claiming benefit in two or more states by one individual.

Also, DPW should resolve the practice of accepting the attestation of HIV by medical clinicians other than licensed physicians with HHS.

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.

**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, 2008

### Finding 08 – 64:

#### CFDA #93.959 – Block Grants for the Prevention and Treatment of Substance Abuse

##### Noncompliance and Internal Control Weaknesses Result in \$2,048 of Questioned Personnel Costs

**Condition:** During the state fiscal year ended June 30, 2008, DOH claimed \$4.5 million of personnel expenditures under the SAPT program. This represents 7.8 percent of total SAPT program expenditures for the year of \$58.0 million. Our testing of \$5,474 in SAPT salary charges for a random sample of five employees disclosed that two of the five employees (consisting of \$2,409 in our salary sample) worked on other activities in addition to SAPT. The costs of these two employees were initially claimed 100 percent under SAPT for the pay period ended November 23, 2007, the test period selected for the two employees.

Since DOH subsequently adjusts (i.e., transfers) costs out of SAPT claims at the end of each calendar quarter based on timesheets prepared by employees, we obtained and tested the quarter ended December 31, 2007 transfer. Included in this December transfer was \$30,977 in salary costs for these two sampled employees for the quarter. Our testing of this transfer disclosed that the personnel charges for one of the two employees was not properly transferred from the SAPT program to the State Incentive Grant (SIG) program or to the Compulsive Gambling program resulting in an overcharge to the SAPT program of \$1,437 in salaries and, based on the average fringe benefits rate of 42.5 percent claimed under SAPT, \$611 of benefits, or \$2,048 in total for the quarter. In addition we found that the posting of the quarterly transfer of personnel charges for the quarter ended December 31, 2007 was not completed in a timely manner since it was not posted to the Commonwealth's system until September of 2008, or nearly nine months after the quarter ended.

**Criteria:** 45 CFR Part 96.30 under "Subpart C – Financial Management" and applicable to SAPT, 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, *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:*

*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:** DOH stated that at the time of the transfer various circumstances contributed to the errors noted above and to the delay in the processing of the actual salary transfer including the lack of adequate personnel due to newly filled and vacant positions.

**Effect:** Our testing disclosed an overcharge of \$1,437 of salaries and \$611 in benefits to SAPT, and \$2,048 in personnel costs are therefore questioned as unallowable. Further, due to weakness in internal controls over DOH's charging of personnel costs, an additional unknown amount of unallowable benefit costs were also claimed, and other employee charges not tested are likely to have unallowable personnel costs charged to the SAPT program which exceed \$10,000.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 64: (continued)**

**Recommendation:** DOH should pursue appropriate settlement of the known and likely questioned costs with the federal awarding agency, and review its personnel transfer documentation for additional questioned costs due to the discrepancy noted above. In addition, DOH management should strengthen internal controls to ensure that salaries and fringe benefits charged to the SAPT block grant are properly supported by timesheets and that quarterly transfers are completed timely.

**Agency Response:** DOH concurs with the auditors' finding. As a result, DOH personnel reviewed transfers applicable to this period as well as the current fiscal period. Upon investigation of previous records, all appropriate corrections were made to assure that personnel time not associated specifically with activities funded under the block grant was properly coded through expenditure transfer.

Although the methodology for recording appropriate assignment of time is considered adequate, DOH personnel will continue to review and improve the current methodology utilized to complete salary and benefit transfers.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 65:

#### CFDA #93.994 – Maternal and Child Health Services Block Grant to the States

##### Noncompliance and Internal Control Weaknesses Result in \$101,394 in Questioned Personnel Costs (A Similar Condition Was Noted in Prior Year Finding #07-66)

**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 our current year ended June 30, 2008, we no longer audited the program as a major Type A program in the current year, but we conducted limited follow-up on the prior year findings. The results of our current year follow up on prior-year finding #07-66 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, 2008. Our testing found that there was inadequate documentation to support the charging of 100 percent of the \$85,920 in salary and benefits to the MCH program for this employee for SFYE June 30, 2008.

To follow-up on allocated personnel charges during our current audit we selected a quarterly transfer of personnel costs totaling \$1,029,024 posted to MCH for the quarter ended June 30, 2008. These charges represented transfers for employees working at DOH's State Health Care Centers, whose total costs allocated for the quarter amounted to \$4,551,190. DOH allocated the payroll charges for the quarter by requiring employees to enter their hours worked by program into the Community Health Reporting System database for a sample period within the fiscal year, in this case the two pay periods from January 7, 2008 through February 1, 2008. During DOH's sampling period, staff entered their time and their supervisors approved it. At the end of the quarter, and after the sampling period was closed, DOH ran reports which were provided to the program areas. These reports were then used by the program offices to determine what percentage of State Health Care Centers' expenditures were to be charged to the various programs, including MCH, for the entire quarter.

In testing the quarterly State Health Care Center personnel transfer of \$1,029,024 to MCH for the quarter ended June 30, 2008, we obtained the DOH summarized report that supported the transfer. In order to test the detail in the report, we obtained an excel file for DOH's sampling period of January 7, 2008 through February 1, 2008, generated from the Community Health Reporting System showing detail by employee, date, program, and hours worked. However, we could not reconcile this detail to the summarized report used to calculate the quarterly transfer tested. The summary reported an MCH percentage of 22.61 percent; however, the detail provided for audit supported an MCH percentage of only 22.27 percent, or 0.34 percent less than the costs actually charged to MCH. Therefore, in recalculating the percentage to be used to allocate personnel charges to MCH from the \$4,551,190 in total State Health Care Center Costs for the quarter, we found that the MCH Block Grant was overcharged by \$15,474 (or 34 percent) of the total State Health Care Center personnel expenditures.

Therefore, the results of our testing disclosed a total of \$101,394 in unsupported personnel charges to the MCH Block Grant for SFYE June 30, 2008 (\$23,753 claimed under Federal grant no. B04MC07805 and \$77,641 claimed under Federal Grant No. B04MC08899)

**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)*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 65: (continued)

*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. Regarding the transferred personnel charges, MCH personnel indicated that the Community Health System database is a live system and if someone leaves employment and are removed from the personnel database, their data will no longer appear on the system reports. Therefore, MCH personnel stated that the system changed after the report was produced for the quarterly personnel transfer, causing the variance between the current data available supporting that time period and the original data used for the quarterly personnel transfer. DOH personnel stated this was an oversight when the system was designed years ago, and currently, a rewrite of the system is in the works and should be completed in time for the 3rd quarter 2009 reporting period.

**Effect:** Our testing disclosed \$101,394 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 \$101,394 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:** During the audit period, the direct charge employee's job description showed that the position provides fiscal support for all divisions within DOH's Bureau of Family Health (BFH), which includes coordination of federal funds expended and the match/maintenance of effort (MOE) requirements of the block grant. In fact, this position supports the work from a fiscal perspective to increase the number of low income children to receive preventative and primary care services in the Commonwealth. The prudent oversight and monitoring of all federal and state expenditures is essential for this position.

Regarding the transferred personnel charges, DOH's Bureau of Information Technology (BIT) is rewriting the Community Health Reporting System database to correct this finding. In the meantime, DOH's Bureau of Community Health Systems (BCHS) will maintain a hard copy of all backup documentation provided by DOH's BIT to support the Quarterly Summary Report Statewide, which supports the Quarterly Transfer request. The discrepancy for the fourth quarter of the state fiscal year (SFY) ending June 30, 2008 was due to the fact that the time frame of the backup data did not match the original submission, creating an artificial discrepancy. DOH's BFH incurred costs in excess of the funded transfers of the \$4,045,000 budgeted for DOH's BCHS for the SFY ending June 30, 2008. This exhausted the BFH's MCH funds during the third quarter of the SFY ending June 30, 2008; therefore, no overcharge occurred.

**Auditors' Conclusion:** DOH did not provide any additional documentation with the agency response; therefore, the finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 66:**

#### **CFDA #97.036 – Disaster Grants-Public Assistance (Presidentially Declared Disasters)**

##### **Internal Control Deficiencies in Systems of Cash Management and Federal Reporting for PAG Program (A Similar Condition Was Noted in Prior Year Finding #07-69)**

**Condition:** The amount and timing of the payment of federal funds for public assistance grants is dependent on whether the project is small or large. For small projects, (< \$59,700 for the period July 1, 2007 through September 30, 2007 and < \$60,900 for the period October 1, 2007 through June 30, 2008), FEMA requires the full federal share of the eligible costs to be paid to the subrecipient/applicant as soon as possible following approval of the Project Worksheet (PW) by FEMA and PEMA and obligation of the federal share by FEMA. If the actual cost for small projects is less than the estimated cost on the approved PW, FEMA generally will not ask for a refund. For large projects, (greater than the above thresholds), FEMA requires the federal share to be paid to the subrecipient/applicant on the basis of actual costs incurred as the work is completed and the applicant submits requests for reimbursement to PEMA.

In connection with our SFYE 2006 audit, we noted that PEMA paid, via interagency transfers, the full federal share to other state agencies for large projects under the Ivan and April 2005 Storms disasters upon approval of the PWs by FEMA and PEMA. PEMA then drew down the funds from FEMA to cover these interagency transfers. However, there were no procedures in place to coordinate and minimize the time between the drawdown of federal funds by PEMA and the disbursement for the project costs by other state agencies, which is a violation of federal cash management standards. We specifically noted that PEMA advanced federal funds to one state agency, DCNR, during SFYE 2006 for large projects under the Ivan and April 2005 Storms disasters totaling \$19,422,928. However, DCNR only incurred \$881,336 in expenditures on the SYFE 2006 Schedule of Expenditures of Federal Awards (SEFA) for such large projects so excess cash clearly existed at DCNR as of June 30, 2006. Our prior year audit revealed that DCNR only incurred an additional \$909,139 in expenditures under these two disasters on the 2007 SEFA resulting in excess cash of \$17.6 million as of June 30, 2007.

The practice of advancing the full federal share to applicants, including other state agencies, for large projects was applicable to the Ivan and April 2005 Storms disasters and was discontinued by PEMA in the prior year effective with the June 2006 disaster. Our current year follow up confirmed that no advances were made to subrecipients or other state agencies for large projects during the year under audit. However, our current year follow up also revealed that DCNR only incurred an additional \$592,213 in expenditures on the current year SEFA under the Ivan and April 2005 Storms disasters and therefore a material amount of excess cash (\$17 million) still existed at DCNR as of June 30, 2008.

Our prior two audits also revealed that PEMA's interagency transfers were reported as program outlays by PEMA to FEMA on the quarterly FEMA FF20-10 Financial Status Report. However, these interagency transfers were not actually program outlays, but only represented cash transferred from one state agency to another state agency. Additionally, PPR did not make any adjustment for the difference between the cash transferred and the actual expenditures reported by the state agency. Since these program outlays are only reported on a cumulative basis and a material amount of excess cash existed at DCNR, the program outlays reported on the FF20-10 reports under the Ivan and April 2005 Storms disasters were materially misstated in SFYE 2006 and 2007. Our current year follow up revealed that PPR did not adjust these program outlays on the FF20-10 reports as of the beginning of the year for these two disasters. As a result, the program outlays reported on the FF20-10 reports submitted for the year under audit were also materially misstated.

A total of \$45,821,719 in federal expenditures was reported on the SEFA under CFDA #97.036 for the year ended June 30, 2008. A total of \$1,978,308 and \$323,403 of these expenditures was reported under grant #1557 for the Ivan Disaster and grant #1587 for the April 2005 Storms Disaster, respectively.

**Criteria:** US Treasury Regulations in 31 CFR, Part 205, Subpart B, provide the rules applicable to federal assistance programs not included in a CMIA Treasury-State Agreement as follows:

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 66: (continued)

205.33 (a) *A State must minimize the time between the drawdown of Federal funds from the federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs.....States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102.*

*(b) Neither a State nor the Federal government will incur an interest liability under this part on the transfer of funds for a Federal assistance program subject to this subpart B.*

Further, section 205.35 regarding a State's non-compliance with the rules in subpart B states:

*We may require a State and a Federal Program Agency to make the affected Federal assistance programs subject to subpart A of this part, consistent with Federal assistance program purposes and regulations, notwithstanding any provision of this part, if:*

*(a) A State demonstrates an unwillingness or inability to comply with this subpart B; or*

Reporting Procedures, for CFDA #97.036 Disaster Grants, state:

*A separate Financial Status Report (FF20-10) is required for each declared disaster showing the financial outlays, obligations, authorizations and fund balance of each Disaster Grant Program (i.e., PA, IFG) approved under the Disaster.*

In addition, the Federal Common Rule mandates that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

**Cause:** The advances made to DCNR in a prior year were the result of a directive that was issued to PEMA from the Governor's Office to advance the full federal share to all applicants for large projects under the Ivan disaster as soon as the funding became available in order to expedite the recovery work. This practice was also applied to large projects under the April 2005 Storms disaster. PEMA stated that this was done without obtaining FEMA approval.

With respect to the material amount of excess cash that remains at DCNR, we were informed in a prior year that a large portion of the federal funds that were advanced to DCNR under Ivan was for repairs to the Delaware Canal State Park Projects and that before DCNR could request bids on these repairs, further damage was done to the park during the April 2005 Storms and then again during the June 2006 Storms. As a result, DCNR grouped similar types of work for contracting purposes. According to DCNR, as of June 30, 2008, four contracts totaling \$14,780,368 were awarded for these projects and the contractors were given notice to proceed. DCNR also indicated that additional contracts have or will be awarded in fiscal year 2009 and that all work for these projects is expected to be completed by June 2010.

**Effect:** A material amount of excess cash (\$17 million) still exists at DCNR as of June 30, 2008 as a result of advances made to DCNR by PEMA in fiscal year 2006 under the Ivan and April Storms disasters. While PAG is not included in the CMIA Treasury-State Agreement, the CMIA regulations for non-covered programs (subpart B) provide that if a state shows an unwillingness or inability to comply with subpart B of the CMIA regulations, the US Treasury can require the program to be covered by the CMIA Agreement. As a result, the state could potentially incur a significant interest liability based on the excess cash at DCNR as of June 30, 2008 and the current CMIA interest rate of 2.99 percent.

In addition, program outlays on the FF20-10 Reports submitted to FEMA during the year under audit for the Ivan and April Storms disasters are materially misstated by approximately \$17 million representing the difference between the cash transfers from PEMA to DCNR in a prior year and the actual expenditures incurred and reported by DCNR as of June 30, 2008 for these two disasters.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 66: (continued)**

**Recommendation:** We recommend that PEMA contact FEMA and discuss returning all or a portion of the excess cash at DCNR to the federal government to resolve the continuing noncompliance with federal cash management regulations. We also recommend that DCNR expedite the awarding of remaining contracts for the Delaware Canal State Park Projects and closely monitor the status of the projects in order to eliminate the excess cash identified in the finding and avoid any potential future CMIA interest liability.

We also recommend that, unless FEMA instructs PEMA otherwise, program outlays on the FF20-10 Report to FEMA do not include interagency cash transfers from PEMA to other state agencies, without program costs incurred to date. Further, we recommend that PPR adjust the cumulative outlays on the FF20-10 reports for the Ivan and April Storms for the difference between the cash transferred to DCNR and the actual expenditures reported on the current and prior years' SEFA by DCNR for these two disasters.

**PPR Response:** As the finding indicates, effective with the June 2006 disaster, the PP&R Comptroller's Office now requires a DAP-9 Request for Reimbursement Form for all large project payments. Although disaster payments made during prior fiscal years were based on the approved Project Worksheets rather than actual project costs, these payments occurred before implementing DAP-9 Request for Reimbursement Form requirement for all large project payments.

Until FEMA instructs PEMA otherwise, the PP&R Comptroller's Office will include interagency cash transfers as outlays on the FF20-10 report.

**DCNR Response:** DCNR will continue to expedite the awarding of contracts for the remaining project components, mainly the Delaware canal. It should be noted that DCNR did not request the drawdown of funds, and we will work with PEMA and the Comptroller's Office to insure all expenditures are properly documented.

Furthermore, it should be noted that damages from subsequent storms in April 2005 and June 2006 resulted in significant re-survey and re-design of work under the original contracts. We now have eleven construction contracts totaling \$36 million in process for repair work at this site. The Department estimates it will have committed or expended all available funds by Fall of 2008, thereby reducing or eliminating the current cash balance of funds received from PEMA.

**PEMA Response:** At the current time, all but \$1.3 million of the federal funds advanced to DCNR under the Ivan and April 2005 disasters have either been bid, with notice to proceed, or the project has been completed (see below). In addition, FEMA has been informed quarterly as to the progress of the canal work and has been granting time extensions for the work.

DCNR has 11 contracts for the flood repair work at the Delaware Canal State Park projects. They are:

- FDC-450-4093.1, \$10,720,410.00, Notice to Proceed (NTP) 2/22/2008, Work is 90% complete and approx. 75% disbursed.
- FDC-450-4094.1, \$8,775,615.30, NTP 9/12/2008, 30% complete.
- FDC-450-4095.1, \$3,323,960.00, being awarded, NTP expected by 5/15/2009.
- FDC-450-4096.1, \$3,396,456.66, NTP 6/30/2008, 20% complete.
- FDC-450-4111.1, \$318,931.28, NTP 2/25/2008, complete.
- FDC-450-4113.1, \$344,570.00, NTP 6/30/2008, complete.
- FDC-450-4115.1, \$157,298.54, NTP 2/3/2009.
- FDC-450-4484.1, \$137,370.00, awarded, NTP expected by 4/30/2009.

# ***COMMONWEALTH OF PENNSYLVANIA***

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 66: (continued)**

Remaining to be bid:

- FDC-450-4485.1, estimated cost \$1,000,000
- FDC-450-4486.1, estimated cost \$200,000
- FDC-450-4483.1, estimated cost \$100,000

Based on the progress DCNR has made on letting contracts for the Canal projects, PEMA feels that we should allow them to move forward with the completion of the projects in process and bidding the three remaining projects, without contacting FEMA to discuss returning funding that has been slated to repair this State Park.

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

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 67:

- CFDA #10.561 – State Administrative Matching Grants for Food Stamp Program
- CFDA #93.568 – Low-Income Home Energy Assistance
- CFDA #93.778 – Medicaid Cluster
- CFDA #93.658 – Foster Care – Title IV-E
- CFDA #93.659 – Adoption Assistance
- CFDA #93.667 – Social Services Block Grant
- CFDA #93.575 – Child Care and Development Block Grant
- CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund
- CFDA #93.558 – Temporary Assistance for Needy Families
- CFDA #93.563 – Child Support Enforcement

### Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (A Similar Condition Was Noted in Prior Year Finding #07-71)

**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. For the fourth year in a row, we found that these procedures are not adequate since they are not being performed consistently or in a timely manner, and there is inadequate oversight of the reconciliation process. We noted that DPW does not centrally perform its subrecipient SEFA verification procedures, but requires each of the various funding offices within the agency to perform this task for its individual federal programs. Further, there are no centralized or oversight controls in DPW to ensure that all audit reports are properly transmitted to the funding offices, the SEFA reconciliations are properly and timely completed by all the funding offices, and discrepancies properly followed up on and corrected.

In a prior audit, we made auditor inquiries concerning several sampled large dollar subrecipient audits which contained uncorrected SEFA errors, and we concluded that DPW's overall SEFA reconciliation, follow-up, and resolution procedures were untimely and inadequate to ensure its subrecipient funds are being properly subject to Single Audit under OMB A-133 every year as required. In our current year update, we learned that there were no significant changes made by DPW to correct the prior year finding.

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:*
- (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.*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 67: (continued)**

(6) *Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.*

In order to carry out these responsibilities properly, good internal control dictates that state pass-through agencies ensure A-133 subrecipient SEFAs are properly and timely reconciled to state payment records each year, and reconciling items properly resolved.

**Cause:** DPW's Audit Resolution Section distributes subrecipient A-133 audit reports to the various offices within the department since the individual offices possess the needed state payment information to reconcile their program amounts on the SEFAs. The offices do not appear to be adequately monitored for timeliness or consistency in performing the SEFA reconciliations, and staffing and workload issues make it difficult to complete the reconciling of all SEFA amounts. Also, audit resolution personnel stated that they centrally perform a preliminary review of the SEFAs to ensure that all DPW's federal programs are included. However, no reconciliations of the SEFA amounts are being centrally performed in the Audit Resolution Section and there is poor oversight to ensure Audit Resolution correctly processes all audit reports.

**Effect:** There are inadequate controls over DPW's A-133 subrecipient SEFA reconciliations to state payment records, and an increased risk that DPW's payments to subrecipients in its major federal awards are not being properly audited each year in accordance with the Single Audit Act. In addition, there is an increased risk that subrecipients could be mis-spending and/or inappropriately tracking and reporting federal funds over multiple-year periods, and these discrepancies may not be properly monitored, timely detected, and corrected by DPW as required.

**Recommendation:** We recommend that DPW strengthen its controls over its A-133 subrecipient SEFA reconciliation process in the agency to ensure all subrecipient SEFA amounts are timely reconciled to state payment records each year, and discrepancies are properly followed up on and corrected as soon as possible. This process should be more effectively monitored within the agency to enforce better timeliness and consistency each year in ensuring subrecipients properly spend and account for federal funds. DPW should also complete, as soon as possible, the reconciliations that have not yet been done.

**Agency Response:** The Audit Resolution Section (ARS) reviews the A-133 audits for program compliance. As part of this review, ARS reviews the Schedule of Expenditures of Federal Awards (SEFA) to ensure all the Department of Public Welfare (DPW) funded programs are properly listed. However, the DPW records total payments in our SAP system, and the subrecipient's SEFA would show only federal expenditures. As this may not always be an accurate way to reconcile federal programs, the ARS and the Bureau of Child Support Enforcement settle most programs through audited supplemental documents and reported payment amounts.

Beginning in FY 2008-09, the ARS has implemented new program settlement procedures. These procedures incorporate the program settlements into the audit report review. This will allow the DPW to make a management decision on Findings and recoup funds within the 6 months allowed by A-133. As this new process was implemented in March 2009, the ARS has already completed back settlements through fiscal year 2003-04. By June 30, 2010, the ARS expects to have all back settlements completed, and program settlements will be current with the audit reports received.

**Auditors' Conclusion:** Based on the agency response, in order for the review of funds performed by DPW's program settlement unit to be effective in satisfying OMB Circular A-133 requirements, this review needs to be performed on an annual basis when the subrecipient audit report is received by DPW, and the review needs to include the subrecipient audit report SEFA. This would enable any discrepancies between DPW's records and the subrecipient's records to be followed up and resolved on a timely basis. The finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 68:

- CFDA #10.550 – Food Donation
- CFDA #10.557 – Special Supplemental Nutrition Program for WIC
- CFDA #10.558 – Child and Adult Care Food Program
- CFDA #14.228 – Community Development Block Grants/State's Program
- CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds
- CFDA #84.010 – Title I Grants to Local Educational Agencies
- CFDA #84.048 – Career and Technical Education – Basic Grants to States
- CFDA #84.287 – Twenty-First Century Community Learning Centers
- CFDA #84.367 – Improving Teacher Quality State Grants
- CFDA #93.558 – Temporary Assistance for Needy Families
- CFDA #93.563 – Child Support Enforcement
- CFDA #93.568 – Low-Income Home Energy Assistance
- CFDA #93.658 – Foster Care – Title IV-E
- CFDA #93.659 – Adoption Assistance
- CFDA #93.667 – Social Service Block Grant
- CFDA #93.767 – State Children's Insurance Program
- CFDA #93.959 – Substance Abuse Prevention and Treatment Block Grant
- CFDA #97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)
- CFDA #Various – Homeland Security Cluster
- CFDA #Various – Child Nutrition Cluster
- CFDA #Various – WIA Cluster
- CFDA #Various – CCDF Cluster
- CFDA #Various – Medicaid Cluster
- CFDA #Various – Highway Planning and Construction Cluster
- CFDA #Various – Aging Cluster
- CFDA #Various – Special Education (IDEA) Cluster

### Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (A Similar Condition Was Noted in Prior Year Finding #07-72)

**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:

- 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 third year in a row. Out of a sample of 20 subrecipient audit reports we detail tested, we noted the average time OB-BOA took to forward the desk reviewed reports to the funding agencies for further resolution was 3.3 months, which represents 50 percent of the federal requirement to resolve subrecipient findings within six months after receipt. Based on our sampling and based on further overall review of OB-BOA's listings of forwarded reports, we concluded that OB-BOA's desk review process is not reasonably timely.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 68: (continued)**

- For the fourth 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 33 reports with findings at a sample of four different funding agencies (Agriculture, DCED, PEMA and DPW), we noted 8 (or 24 percent) with findings that were resolved between approximately 7 months to 15 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 PEMA's subrecipient audit resolution procedures disclosed that PEMA's subrecipient audit report tracking list was not adequate because it did not identify whether audit reports received during SFYE June 30, 2008 had findings. In addition, our testing also disclosed that for 91 out of 101 subrecipient Single Audit reports received by PEMA during SFYE June 30, 2008 (or 90 percent), PEMA's audit report review process, which includes making management decisions on PEMA findings, if any, and reconciling the audit report SEFAs to PEMA's financial records was not complete as of our testing date in April 2009. Therefore, we were unable to determine if PEMA received any subrecipient audit reports with findings for which PEMA was responsible for a management decision, and if so, whether PEMA complied with OMB Circular A-133 requirements. Our detailed testing also disclosed that for 1 out of 10 subrecipient audit reports selected for detailed testing, PEMA personnel did not retain the subrecipient audit report and SEFA reconciliation documentation.
- Our detailed testing of DPW's subrecipient audit resolution procedures disclosed that for 7 out of 57 subrecipient audit reports with findings, the time period for making management decisions on findings ranged from approximately 10 months to over 16 months from the date that DPW received the audit reports.
- Our review of the DOH agency listing and inquiry of DOH personnel disclosed that DOH was not processing subrecipient audit reports in a timely manner, which resulted in a substantial backlog of unreviewed subrecipient audit reports during SFYE June 30, 2008. Our testing disclosed that for 2 out of 5 subrecipient audit reports with findings, management decisions on findings had not been made for over 14 months and 15 months, respectively, as of the March 2009 date of the DOH agency listing. Our current year testing also disclosed that for 89 subrecipient audit reports without findings out of 97 audit reports received, DOH did not perform SEFA reconciliations or correspond with the subrecipient as to the adequacy of the audit reports and SEFA.
- Our review of the Pennvest agency listing and inquiry of Pennvest personnel disclosed that Pennvest received 1 subrecipient audit report with findings, for which the time period for making a management decision on findings was over 19 months as of our test date in April 2009.
- Our review of the PennDOT agency listing and inquiry of PennDOT personnel disclosed that for 4 out of 16 subrecipient audit reports with findings, the time period for making management decisions on findings ranged from approximately 8 months to over 18 months from the date that PennDOT received the audit reports.
- Our review of the PDE agency listing and inquiry of PDE personnel disclosed that for 19 out of 70 subrecipient audit reports with findings, the time period for making management decisions on findings ranged from approximately 7 months to over 19 months from the date that PDE received the audit reports.
- Our detailed testing of DCED's subrecipient audit resolution procedures disclosed that for 8 subrecipient audit reports without findings out of 132 audit reports received, SEFA reconciliation procedures had not been started as of our testwork date in March 2009, between 9 and 15 months since DCED had received the audit reports in question.

**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.

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 68: (continued)

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.

**Cause:** The common reason provided by Commonwealth personnel for untimely audit resolution in all the agencies was a lack of adequate staff to process A-133 subrecipient audit reports more timely, which was further exacerbated by the budget crisis and hiring freeze recently implemented by the Governor's Office.

In addition, the explanation given by PDE personnel for untimely audit resolution was that PDE's policy is to not begin resolution procedures for a subrecipient's audit report until the resolution process for the same subrecipient's prior year audit report has been completed. As a result, PDE does not always begin audit resolution procedures upon receipt of a subrecipient audit report. In addition, PDE personnel stated that there has been an increase in the volume of audit reports received.

**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. With respect to the SEFA reconciliations which are not being performed, there is an increased risk that subrecipients could be misspending and/or inappropriately tracking and reporting federal funds over multiple year periods, and these discrepancies may not be properly monitored, detected, and corrected by agency personnel as required.

**Recommendation:** We recommend that the above weaknesses that cause untimely OMB A-133 audit resolution, including untimely SEFA reconciliations, be corrected to ensure compliance with federal audit resolution requirements and to better ensure more timely subrecipient compliance with program requirements.

### **Agency Response:**

**BOA Response:** BOA agrees that an average of 3.3 months to process and transmit single audit reports to the commonwealth funding agencies for final review and resolution of findings is too long. However, BOA strongly disagrees with the assertion that 3.3 months "...represents 50 percent of the federal requirement to resolve subrecipient findings within six months after receipt." In accordance with Management Directive 325.9, *Processing Audits of*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 68: (continued)**

*Federal Pass-through Funds*, the pass-through agency will “Make management decisions, within six months after the receipt of report submission from BOA, relative to audit disclosures and findings affecting the agency...” As noted in the prior year’s audit finding response, the commonwealth’s position has always been that the six-month time frame for management decision on findings begins with transmittal of an acceptable report to the commonwealth pass-through agency. This had also been the auditors’ position in the past, until their criterion changed in 2006-2007, which indicated that the six-month time frame begins with the receipt of the single audit report in BOA. We still strongly disagree with this criterion.

BOA continually strives to make the desk review process more efficient without compromising quality. During this audit period, BOA had only one full-time employee to perform desk reviews for approximately 1,770 subrecipient audit reports per year. Ideally, BOA would like to be able to process all reports within a 30-60 day time frame. BOA has added several new staff in the desk review area and will be able to meet this turn around time for 2009-2010.

Numerous factors impact the time required to complete desk reviews, including but not limited to the following:

1. Single audit reports are received on a cyclical basis, with the majority of the reports received between March and October.
2. Audit reports with findings are given priority resulting in delays in reviewing reports without findings.
3. Since single audit report packages do not always include all of the essential elements, follow-up procedures are performed to obtain the additional essential elements or revisions. Conversely, these revisions are cited deficiencies with the single audit report. Some of the deficiencies are the auditor’s improper application of the risk-based approach in major program determination, cluster program identification, improper disclosures on the Schedule of Expenditures of Federal Awards (SEFA), and improper disclosures on the Schedule of Findings and Questioned Costs. These deficiencies noted with the report can sometimes add weeks to the processing time, follow-up and receipt of the revised single audit report.

**PEMA Response:** PEMA will modify its subrecipient audit tracking report to include a column that identifies if the report had findings, therefore necessitating a follow-up response from the subrecipient. Since March 30, 2009, 188 single audit reports have been reviewed and processed. Out of the 130 with findings, we have received responses from 60 subrecipients, and those audits have been resolved and closed. PEMA will send out second notice letters to the remaining subrecipients that do not respond in a timely manner.

**DPW Response:** The DPW reviewed the 7 out of 57 subrecipient audit reports with findings for which decisions on those findings were untimely, and determined the following:

- One of the untimely decisions was an isolated incident which was due to a typographical entry error in the Audit Resolution Section (ARS) single audit tracking system. It was not indicative of a procedural deficiency and therefore, no procedural changes will be made related to this untimely decision.
- One of the untimely decisions was an isolated incident where the person working on the correspondence missed three findings that should have been included in the letter to the auditee/auditor. It was not indicative of a procedural deficiency and therefore, no procedural changes will be made related to this untimely decision.
- The remainder of the untimely decisions were for audits of the Intermediate Care Facilities for the Mentally Retarded (ICF/MR) program. The ICF/MR findings are sent to the DPW’s Division of Audit and Review (DAR) for resolution. Our analysis of the correspondence to DAR indicated that ARS did not specify the deadline for a decision on the findings. Without this guidance, the DAR would wait until the next round of ICF/MR fieldwork or the next desk review to address the findings. ARS has since revised its correspondence to include a due date that is no more than 6 months from the date ARS receives the single audit. The DAR has also revised its procedures to

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 68: (continued)**

track the deadlines for making management decisions on the ICF/MR single audit findings. The DPW believes the revised procedures will adequately address this finding and ensure that decisions are made within six months from the date the single audit reports are received.

**DOH Response:** As stated in the first paragraph of the finding's cause section, the reason for DOH's untimely audit resolution "was a lack of adequate staff to process A-133 subrecipient audit reports more timely, which was further exacerbated by the budget crisis and hiring freeze recently implemented by the Governor's Office." Specifically, the individual that held the DOH subrecipient audit coordinator (i.e. audit resolution) position retired from the position on November 9, 2007. This position was charged with the review and resolution of all of DOH's subrecipient single and program-specific audits. The position has remained vacant ever since. (In addition to this, the position was vacant for approximately one year before this individual took the position. As a result, the individual took the position with an already existing backlog of reports.) DOH has made numerous attempts to fill the position, but each time there was either no response to DOH's posting of the position or there were no qualified applicants for the position. The position has been posted as both an Accountant and as an Audit Specialist in order to get a sufficient pool of qualified applicants to interview for filling the position. Even with these moves, DOH has been unable to get a sufficient pool of qualified applicants to interview for filling the position. Further, as stated in the finding's cause section, the current hiring freeze prevents DOH from posting the subrecipient audit coordinator position at the present time. The chief of DOH's Audit Resolution Section works on the subrecipient audit reports as time permits. However, this individual can only devote a limited portion of his time each day to this process. Given the rate at which new reports are received, DOH will continue to have a backlog until the subrecipient audit coordinator position is filled.

**PENNVEST Response:** PENNVEST is in general agreement with the substance of the finding that PENNVEST failed to make a management decision within the time period for 1 subrecipient audit report with findings. The subrecipient was notified by certified letter five times for the 2004 single audit. A total of \$248,397.15 is being withheld until compliance with submittal of several years of audited reports for this subrecipient.

The subrecipient submitted the 2004 single audit on April 4, 2007 and sent it to the Bureau of Audits on April 9, 2007. It was returned from the Bureau of Audits on September 11, 2007. Due to staffing shortages, the report was misplaced. This issue has been researched and reconciled as of May 18, 2009.

**PennDOT Response:** We agree with the finding as stated involving PennDOT. PennDOT does have a formalized program to review both the financial information and findings within all subrecipient single audit reports that are received by the Department. We also have a detailed database that provides various subrecipient information, such as the data requested by the auditors for their audit.

The Department received 180 single audit reports for fiscal year 07-08 and all audit reports have been resolved and management letters have been mailed to all entities, including the four audit reports that were not processed in a timely manner as noted in the audit finding.

The four reports noted contained findings that required extensive detailed follow-up by the Department with both the program offices overseeing the grants and also the entities receiving the funding. Many times responses to our requests to provide information such as what action has taken place to resolve the issue or what corrective action is planned took a large amount of time. The Department will be more conscientious in the future of the six month timeframe requirement while we gather information from various sources before making an informed management decision regarding these findings.

**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 (6) 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.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 68: (continued)**

**DCED Response:** Due to a vacancy, DCED did not have adequate staff to process A-133 subrecipient audit reports more timely, which was further exacerbated by the budget crisis and hiring freeze recently implemented by the Governor's Office. Therefore, DCED will effectively assign work to existing staff so that SEFA reconciliation procedures are handled in a timely manner.

**Auditors' Conclusion:** Based on the corrective actions indicated in the agency response above, we will review these corrective actions in our subsequent audits and our finding remains as previously stated. In past years, we concluded that the federal six-month timeframe could begin with agency receipt of an audit report from BOA as long as BOA's transmission of audit reports to agencies was reasonably timely on an overall basis. Based on recent testing results in the last three years, we concluded that this is no longer the case and there is a control deficiency in the overall system causing untimely resolution of subrecipient audits vs. federal requirements. BOA should pursue appropriate resolution of this finding with federal audit resolution officials, as applicable.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 69:

- CFDA #10.550 – Food Donation
- CFDA #10.557 – Special Supplemental Nutrition Program for WIC
- CFDA #14.228 – Community Development Block Grants/State’s Program
- CFDA #20.205 – Highway Planning and Construction
- CFDA #93.558 – Temporary Assistance for Needy Families
- CFDA #93.563 – Child Support Enforcement
- CFDA #93.575 – Child Care and Development Block Grant
- CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund
- CFDA #93.658 – Foster Care – Title IV-E
- CFDA #93.659 – Adoption Assistance
- CFDA #93.667 – Social Services Block Grant
- CFDA #93.778 – Medicaid Cluster
- CFDA #93.959 – Substance Abuse Prevention & Treatment Block Grant
- CFDA #97.036 – Disaster Grants – Public Assistance (Presidentially Declared)
- CFDA #Various – Child Nutrition Cluster
- CFDA #Various – Homeland Security Cluster
- CFDA #Various – Aging Cluster

### Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements (A Similar Condition Was Noted in Prior Year Finding #07-73)

**Condition:** As part of our audit of OB’s statewide A-133 subrecipient audit monitoring system, we evaluated the significance of unaudited subrecipient dollars for each of the 26 major programs or clusters with material subgranted funds recorded on OB-BOA’s subrecipient universe in the prior fiscal year (SFYE June 30, 2007) for which audits were required to be submitted in the current year (SFYE June 30, 2008). Our testwork disclosed that for 24 out of the 26 major programs/clusters, unaudited dollars were not considered material to the program/cluster and represented immaterial noncompliance with OMB Circular A-133. However, for 2 out of the 26 major programs/clusters we tested, unaudited dollars were considered material to the program/cluster as follows:

CFDA #	Program Name	SFYE June 30, 2007 Expenditures	
		Total Subgranted Funds Per OB-BOA Universe	Total Subgranted To Entities Without Audits
93.563	Child Support Enforcement (CSE)	\$101,900,149	\$5,181,015
16.007, 97.004 and 97.067	Homeland Security Cluster	46,834,561	16,149,159

Totals subgranted to entities without audits only include entities receiving \$500,000 or more which were required to submit audits in our current audit period. The unaudited federal funds listed above were subgranted to three entities (Bucks County, Crawford County, and Potter County) which did not submit audit reports for the year ended December 31, 2006. The audit reports in question were due by September 30, 2007. Therefore, the required subrecipient audit reports were more than 19 months late as of our test date in May, 2009. In addition, as disclosed in our prior-year Single Audit Finding #07-73, Bucks County and Potter County had not submitted Single Audit Reports

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

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### Finding 08 – 69: (continued)

for years prior to December 31, 2006 as of our May, 2009 test date. These required subrecipient audit reports from prior years were more than 31 months late as of our 2009 test date. Therefore, additional prior-year funds remain unaudited as well.

**Criteria:** OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, Subpart C, Section .320, Report Submission, states the following:

(a) *General. The audit shall be completed and ... submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.*

OMB Circular A-133, Subpart D, Section \_\_.400, states:

(d) *Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:*

- (2) *Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.*

To ensure Commonwealth enforcement of OMB A-133 for subrecipient noncompliance with audit requirements, Commonwealth Management Directive 325.8, Remedies for Recipient Noncompliance with Audit Requirements, Section 5 related to policy states, in part:

(a) *Agencies must develop and implement a progressive series of remedial actions to be taken when recipients exhibit a continued inability or unwillingness to comply with performance, reporting and resolution requirements for audits of Commonwealth-funded programs.*

(c) *Where recipients receive Commonwealth financial assistance from multiple state agencies, the agency providing the largest amount of such assistance shall be the lead agency, responsible for coordinating the imposition of remedial actions, in accordance with the provisions of this directive.*

(d) *The progressive series of remedial actions should be tailored to the unique aspects of each program... Such actions should be implemented in a timely and judicious manner to ensure that those entities who exhibit an inability or unwillingness to comply with the requirements of OMB Circular A-133 and/or Commonwealth policy, rules, and regulations related to audit performance, reporting, and resolution, are promptly brought into compliance or are properly sanctioned.*

*Overall time frames for the implementation of the series of remedial actions should not exceed six months from the date the first remedial action is initiated. At the end of the six-month time period, either the appropriate corrective action should be taken by the recipient or the final stage of progressive remedial action should be imposed on the recipient.*

**Cause:** Although the Homeland Security Cluster is administered by PEMA, in accordance with Commonwealth Management Directive 325.8, DPW was designated as the lead agency for the county audit reports and was primarily responsible for implementing and coordinating remedial action among the affected state agencies in order to ensure that the county audit reports were submitted to the Commonwealth. DPW personnel did contact the counties at various times to request that the required audit reports be completed and submitted, but to no avail. However, DPW did not adhere to the progressive steps in its Remedial Action Plan, which include suspending payments to the recipients, and did not adhere to the overall six month timeframe for the implementation of the series of remedial actions.

**Effect:** Since the Commonwealth did not obtain and review the required audit reports, material federal funds in the CSE program and the Homeland Security Cluster were not audited in violation of OMB Circular A-133. Also, there is an increased risk that subrecipients could be mispending federal funds in numerous additional major programs (see above)

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 69: (continued)**

and not be detected and followed up by Commonwealth personnel since multiple years' audits have been outstanding for years. In addition, a weakness exists since DPW was not following its established remedial action plan. Material dollars may be unaudited in the future without effective remedial action from DPW to enforce compliance.

**Recommendation:** We recommend that DPW continue its efforts to obtain A-133 audits from the unaudited entities. We also recommend that if the unaudited amounts identified above are not ultimately subjected to audit as required by OMB Circular A-133, DPW and the affected agencies should consider implementation of other remedial action procedures as outlined in Management Directive 325.8 (such as additional on-site program monitoring). Finally, DPW should adhere to the steps and timeframes in its Remedial Action Plan.

**Agency Response:** While the DPW does have a policy in place to sanction subrecipients for noncompliance with audit requirements, this would not be a favorable option in this situation. Due to the nature of the County programs, suspending grant funding may impact on the Commonwealth's most vulnerable citizens.

The Remedial Action Plan (Officially called the DPW Audit Policies – Section III – Sanctions Policy for Noncompliance With Audit Requirements), under the Policy section, states that "...overall time frames for the implementation of the series of remedial actions should not exceed six months from the date of the Notice of Final Remedial Action." It must be noted that the Audit Resolution Section (ARS) has not sent a Notice of Final Remedial Action to the counties due to extenuating circumstances which include the implementation of a new accounting system, and turnover of key employees. Accordingly, the six month timetable for remedial action on these counties has not begun.

As lead agency, the DPW has remained in contact with Bucks, Crawford, and Potter Counties through emails, phone calls, and letters. The DPW is making progress. As of May 20, 2009, the DPW expects the 2006 single audit report for Bucks by the end of this week and the 2007 report by the end of the month. Potter County submitted its 2006 single audit on May 14, 2009 and we expect the 2007 audit by the end of the month. The 2006 Crawford County single audit was delayed due to significant accounting problems with its MH/MR program. The county is unsure when the report will be finished. The DPW will continue to follow up on this situation through monitoring or, if warranted, sending a Notice of Final Remedial Action or sending the BFO (internal) auditors if necessary.

**Auditors' Conclusion:** Based on the agency response, in addition to DPW's acknowledgment that DPW's Remedial Action Plan was not being followed for the subrecipient audits cited above, it appears that DPW's Remedial Action Plan for ensuring submission of required subrecipient Single Audit reports was not adequate since the six month time period for remedial action does not start until DPW sends the Notice of Final Remedial Action to the noncompliant subrecipients. Commonwealth Management Directive 325.8 states that overall time frames for the series of remedial actions should not exceed six months from the date the first remedial action is implemented. The finding and recommendation remain as previously stated. We will review any corrective action in the subsequent audit.

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

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 70:

- CFDA #10.561 – State Administrative Matching Grants for Food Stamp Program
- CFDA #12.401 – National Guard Military Operations and Maintenance Projects
- CFDA #84.010 – Title I Grants to Local Educational Agencies
- CFDA #84.027 and 84.173 – Special Education Cluster
- CFDA #84.048 – Career and Technical Education – Basic Grants to States
- CFDA #93.558 – Temporary Assistance for Needy Families
- CFDA #93.563 – Child Support Enforcement
- CFDA #93.568 – Low-Income Home Energy Assistance
- CFDA #93.575 – Child Care and Development Block Grant
- CFDA #93.658 – Foster Care Title IV-E
- CFDA #93.667 – Social Services Block Grant
- CFDA #93.778 – Medical Assistance
- CFDA #93.994 – Maternal and Child Health Services Block Grant to the States
- CFDA #97.067 – Homeland Security Grant Program
- CFDA #Various – Various Non-Major Programs

### Unallowable Payments for Unused Employee Leave Result in \$3,826,028 in Questioned Costs (A Similar Condition Was Noted in Prior Year Finding #07-74)

**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, 2008, 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, 2008, and they are as follows:

CFDA #	Program Name	Amount
10.560	State Administrative Expenses for Child Nutrition	\$11,629
12.401	National Guard Military Operations and Maintenance Projects	\$89,274
20.218	National Motor Carrier Safety	\$67,757
84.010	Title I Grants to Local Educational Agencies	\$20,493
Various	Special Education Cluster (CFDA #84.027 and 84.173)	\$94,958
84.048	Career and Technical Education - Basic Grants to States	\$36,695
93.568	Low-Income Home Energy Assistance	\$20,902
93.575	Child Care and Development Block Grant	\$28,918
93.889	National Bioterrorism Hospital Preparedness Program	\$15,722
93.994	Maternal and Child Health Services Block Grant to the States	\$58,862
97.067	Homeland Security Grant Program	\$49,221
Total Leave Payouts Over \$10,000 Per Program/Cluster:		\$494,431

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 70: (continued)

We also noted that similar leave payouts of \$7,139,009 were also allocated and charged to various state and federal welfare programs through DPW's department-wide cost allocation plan (or CAP). We estimated that 46.67 percent of these leave payouts, or \$3,331,597, was allocated directly to federal programs through DPW's CAP. Since these represent direct rather than indirect charges through DPW's cost allocation system, they are also considered unallowable. The breakout of the \$3,331,597 by federal program was estimated by the auditors as follows:

CFDA #	Program Name	Amount
93.778	Medical Assistance	\$1,566,923
10.561	State Administrative Matching Grants for Food Stamp Program	\$861,173
93.558	Temporary Assistance for Needy Families	\$426,202
93.563	Child Support Enforcement	\$164,600
93.658	Foster Care Title IV-E	\$43,624
93.667	Social Services Block Grant	\$269,075

Total Leave Payouts From DPW Cost Allocation Plan: \$3,331,597

Total unallowable costs for leave payouts inappropriately charged to the above federal programs were, therefore, \$3,826,028 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 states in part:

*The auditor shall report the following as audit findings in a schedule of findings and questioned costs:*

- (3) *Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. . .*
- (4) *Known questioned costs which are greater than \$10,000 for a Federal program which is not audited as a major program. . .*

**Cause:** According to BFM, the charges to federal programs for leave payouts have historically been small in prior years and, therefore, were not closely scrutinized by management. As a result, there had been no specific policy in

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 70: (continued)**

Commonwealth Management Directives or other issuances to provide guidance to agencies on the charging of these costs to federal programs. 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 finding, Commonwealth management indicated that they were aware of the situation and were taking action to address it. However, complete corrective action was not achieved during the period under audit.

**Effect:** At least \$3,826,028 in unused annual and sick leave payments charged to the above federal programs are questioned as unallowable. Furthermore, unallowable unused leave charges will continue to occur in the future if the methodologies for charging these costs to federal programs are not corrected.

**Recommendation:** We recommend that Commonwealth management pursue appropriate settlement with the Federal Government regarding the \$3,826,028 in questioned costs. Finally, we recommend that management change their methodology for charging unused leave payouts as a direct expense to federal programs, and ensure that these costs are allocated or charged in accordance with applicable federal regulations.

**Agency Response:** We are aware of this situation and are taking action to address it.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 71:**

**CFDA #10.551 and #10.561 – Food Stamp Cluster**

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

**CFDA #93.563 – Child Support Enforcement**

**CFDA #93.575 and #93.596 – Child Care and Development Fund Cluster**

**CFDA #93.775, 93.777 and #93.778 – Medicaid Cluster**

### **Deficiencies in Information Technology Controls at DPW**

**Condition:** In connection with our audit of the DPW major programs for the year ended June 30, 2008, we performed an information technology (IT) general controls review over the significant applications identified for these major programs. As part of our IT procedures, we also reviewed audits conducted by the Commonwealth's Office of the Budget - Bureau of Audits (BOA) for the User Control Considerations (UCCs) identified in the SAS 70 reports for the DPW PROMISe System and the DPW EBT System. Our IT testing and review of the BOA audit reports disclosed the following deficiencies in IT access controls at DPW that need to be addressed by Commonwealth management:

- **Client Information System (CIS)**-Four of 40 separated DPW users sampled for termination user testing in CIS appeared on the CIS Active User Listing after the user was terminated, indicating that access had not been disabled/deleted by DPW. The CIS system tracks participant eligibility for Food Stamps, TANF, CCDF, and Medicaid. CIS also tracks child support payments to TANF participants to determine the amount of program income to be credited to the Child Support Enforcement Program.
- **PROMISe**-Our review of the BOA audit over the UCCs in the SAS 70 report for the Medicaid PROMISe System, run by an independent contractor (EDS), disclosed that 22 of 25 DPW users tested with access to PROMISe were not appropriately documented as authorized.
- **EBT**-Our review of the BOA audit over the UCCs in the SAS 70 report for the EBT system (for Food Stamps, TANF, and CCDF Cluster) disclosed that controls over logical access to the CAO Administrative Work Stations (AWS) and Card Activation and PIN Selection (CAPS) Devices were not adequate. Specifically, 17 separated DPW employees were not deleted in a timely manner and three new hires were not appropriately documented as authorized.

In addition to the above, we also performed procedures to determine if DPW is conducting an ADP Risk Analysis and Security System Review as required by the OMB A-133 Medicaid Compliance Supplement. We determined that BOA performs and administers limited reviews of DPW-related SAS 70 reports which constitute ADP risk assessment activity. However, this limited activity is not coordinated or administered by program management in DPW or PHHS, and this is an internal control weakness since no other significant ADP Risk Analysis or system review activity is documented or performed.

Finally, in our testing of the quarterly payment review process performed by PHHS Comptroller personnel in Medicaid, we noted that the independent contractor, EDS, identifies the population of Medicaid transactions on its PROMISe system via a quarterly automated computer application (i.e., a query), and selects a sample each quarter for PHHS review. Although review and analysis of the EDS population query and related controls was performed by DPW IT personnel and reasonably verified as part of our audit, PHHS does not independently verify the population dollar amount used by EDS in selecting each quarter's sample to definitively ensure all Medicaid payments were properly subject to sample as intended.

**Criteria:** Good internal control dictates that sound general computer controls be established and functioning to best ensure that federal programs are administered in accordance with management's intent.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 71: (continued)**

**Cause:** Management has not been able to improve its operations within the overall agency general computer controls areas to resolve the control deficiencies reported above. The main cause relates to limited staffing/budgets available to the agencies. Commonwealth management also believes that, although strong general computer controls are clearly important in agency operations, there are additional manual internal controls in place elsewhere within these integrated agency operations that serve to directly mitigate the impact of the general controls deficiencies reported above.

**Effect:** The weak controls noted above could result in inappropriate system access and noncompliance with federal regulations.

**Recommendation:** We recommend that DPW management review the weaknesses in IT general controls noted above, discuss open and unresolved weaknesses with applicable federal program officials, and ensure that only properly documented, authorized, and appropriate individuals are granted access to the above-noted systems on a regular basis. We also recommend stronger population verification controls within the Medicaid quarterly payment review process in the PHHS Comptroller Office.

### **DPW Response:**

#### **CIS/PROMISE**

DPW is currently working with Governor's Office of Administration, Office of Information Technology (GOA/OIT) to implement IBM's Tivoli for user account provisioning and de-provisioning. We are also working on implementing Remedy Tracking system for user account maintenance. Both of these products have back end databases that store information about when access was granted, who granted the access and also when the access was removed. The Tivoli product will be used when user accounts are created and deleted. It will automatically provision the application access and record the information in a backend database that will provide the ability to create audit reports. With Tivoli having a centralized database of all the access a specific user account has, it will ensure that all access is revoked once a user is de-activated or disabled and keep a record of the action in its database.

Also as part of the Tivoli project, DPW has been currently working on a RBAC (Role Based Access Control) project since July 2008. This has been focusing on streamlining the process for application requests and role approval process and as part of the project, we have been doing reviews of various sites to verify that the appropriate people have the correct application access and that there aren't any user accounts that aren't needed.

Remedy will be used to request the modification of existing user accounts and to request access to various DPW applications. Once the request is entered into Remedy, DPW's account administration team will assign the appropriate application roles depending on what is being requested. This information will also be stored in a backend database with the ability to pull off audit reports on who requested the access and when the request was completed.

Both of these initiatives will solve the issue of recording who requested application access, when it was granted and also ensure that timely removal of access occurs.

#### **EBT**

DPW's Local Security Officer (LSO) will reconcile documentation for additions and deletions with the database on a weekly basis. Additionally, the LSO will work through the Project Director's Offices so that the vendor personnel will perform a coordinated reconciliation on a quarterly basis. In addition, a County Assistance Office personnel separation form employment checklist and automated process is being developed, and the EBT system access will be addressed therein. Lastly, the LSO will coordinate with the Human Resources Administrative Officer on a quarterly basis to reconcile the database against a list of all active employees; the names in the database that do not match the active employees list will be deleted from the EBT system.

**PHHS Response:** The PHHS Comptroller Office submitted Change Order (CO) number 11730 on October 10, 2008 to strengthen the population verification controls within the Medicaid quarterly payment review process performed by the Office of Comptroller Operations, Bureau of Quality Assurance.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 71: (continued)**

The results of this change order will provide the Comptroller Office with the information needed to independently verify the population dollar amount used by EDS in selecting each quarter's sample. When EDS selects the quarterly sample of paid Medicaid claims for review, a report will be generated showing the total number and dollar amount of paid claims included in the population of claims available for random selection in each stratum. The Comptroller Office, Bureau of Quality Assurance will utilize existing PROMISE financial reports to accumulate the total number and dollar amount of paid claims processed during the quarter to confirm that EDS used the entire population for each stratum.

This will definitively ensure all Medicaid payments were properly subject to sample as intended. In addition to the prospective change, the change order also requests EDS recreate information showing the population dollar amount used when selecting each quarterly sample from July 1, 2008 to present. This information will be compared to historical data to independently confirm the population used by EDS.

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

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

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 72:**

**CFDA #17.207, #17.801, #17.804 – Employment Services Cluster**

**CFDA #17.225 – Unemployment Insurance**

**CFDA #17.245 – Trade Adjustment Assistance**

**CFDA #17.258, #17.259, and #17.260 – Workforce Investment Act Cluster**

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

**CFDA #96.001 – Social Security – Disability Insurance**

### **Deficiencies in Information Technology Controls at L&I**

**Condition:** In connection with our audit of the L&I major programs for the year ended June 30, 2008, we performed an information technology (IT) general controls review over the significant applications identified for these major programs, and noted the following deficiencies that need to be addressed by Commonwealth management:

- **CareerLink**-A total of 19 of 170 terminated users were found in the CareerLink system (used for WIA and TAA and replaced by CWDS in September of 2007) whose access was not removed timely. Also, appropriate documented approvals for four of 25 new users selected were not obtained and documentation was not provided. Further, documentation provided for six of the 25 new users was from outside of the audit period.
- **Commonwealth Workforce Development System (CWDS)**-Changes were made directly to production data without following the controlled change management process. Also, there are no formal monitoring procedures in place surrounding changes that were moved into production. Further, there is a segregation of incompatible duties issue relative to user role listings since at least one user has the ability to both develop and promote changes. Additionally, appropriate documented approvals for at least four of the 25 new users selected were not obtained and users were found in CWDS whose access was not removed in a timely fashion. Also, there is no formal documented review to make sure user access is authorized and appropriate. CWDS was implemented in September of 2007 and is utilized in the WIA Cluster, TAA, and RSBS programs.
- **Unemployment Compensation (UC)**-Four of 19 separated users tested still appeared on the active user listing, indicating that access was not disabled/deleted.
- **VERSA**-There is no formal documented process in place surrounding the authorization and testing of changes for the VERSA application used for the DDS program. Changes are informally discussed among BDD Directors through e-mail or verbal communication, but no documentation is retained. Unit testing and User Acceptance Testing (UAT) is performed by OIT, however, no documented evidence is retained around the testing performed. Additionally, changes are reviewed informally and are not conducted with any specific frequency and evidence of review is not retained. Also, individuals with non-limited command line access are able to access libraries in both the test and production environments.
- **Financial Management System (FMS)**-Changes to FMS (used for WIA and TAA) or its supporting infrastructure are not made through a formalized Change Management Process. The authorization, testing, and approval of FMS changes are communicated verbally or through e-mail and are not documented. A formalized Change Management Process has not been created due to the infrequent rate of FMS changes and the limited resources assigned to FMS. Additionally, the production environment is not monitored for unauthorized changes (application changes or infrastructure). Due to the small number of changes being made to FMS, and the limited number of individuals involved with development and maintenance of FMS, L&I has not implemented a monitoring procedure. Also, FMS developers are also responsible for moving changes into the production environment, indicating that a segregation of incompatible duties does not exist within the manage change environment. Further, there have been no minimum password length or complexity requirements established for FMS passwords. Also, a periodic appropriateness review of access rights assigned to active users is not documented and performed, and documented reviews of database audit logs are not completed.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 72: (continued)**

**Criteria:** Good internal control 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:** Management has not been able to improve its operations within the overall agency general computer controls areas to resolve the control deficiencies reported above. The main cause relates to limited staffing/budgets available to the agencies. Commonwealth management also believes that, although strong general computer controls are clearly important in agency operations, there are additional manual internal controls in place elsewhere within these integrated agency operations that serve to directly mitigate the impact of the general controls deficiencies reported above.

**Effect:** The weak controls noted above could result in inappropriate system access, unauthorized changes, and noncompliance with federal regulations.

**Recommendation:** We recommend that L&I management review and resolve the weaknesses in IT controls noted above to ensure that: 1) only properly documented, authorized, and appropriate individuals are granted access to the above-noted systems on a regular basis, and 2) all changes are properly authorized, tested, documented, and monitored by management.

**Agency Response:** In regard to the condition involving the CareerLink system, the CareerLink system has been fully integrated into the CWDS system. The former CareerLink system was fully paper based authorization and controlled at central office location. The new CWDS system allows for decentralized system administration and tighter access controls and role based application security design.

The first statement noting that CWDS changes are made directly in Production gives the reader an incorrect impression that no change control management process is followed or instituted in the CWDS application system and the Department takes issue with that. CWDS does have a controlled change management process, does provide for segregation of testing and production level changes, and does have monitoring of errors and system functionality. It should be noted that during this audit period, the CWDS application system had just been launched in September of 2007 and was not fully integrated with all Workforce Partner Agencies until the end of November 2007. This was the culmination of an aggressive complex 22-month design, development, testing and training effort. During a roll out and implementation of any new fully integrated system with multiple user levels of access with an application system the size and scope of the CWDS system, it would not be unexpected that unforeseen outages or circumstance would arise that had not been seen or planned for during system integration and testing. Some changes were not able to be replicated in the lower test environments due to the complexity of the technology and nature of the errors that had occurred. However, all of the changes were fully discussed, authorized and given management oversight and monitoring during any of those instances. The L&I CWDS project management took every precaution and due diligence in handling these corrections, and disputes the broad statement as stated above.

The Department recognizes that the ideal situation would be to have fully delegated and segregation of all IT duties in development, testing, and administration of system change process. L&I further recognizes that it would be ideal to have multiple staff in key positions to allow for oversight and monitoring of any and all changes. L&I CWDS project management team further recognizes and has instituted a full change management and approval process for all CWDS Production level changes. It is noted that the L&I is constrained in the IT staffing levels necessary to have the full segregation of every IT duty and process; however, mitigation strategies are in place to minimize this. It is recognized that there may be some key management staff that do have both a development and production level access to the application system. The L&I does take due diligence in ensuring those management staff are aware of their responsibilities and reviews and gains signature agreement with the access rights and user agreements with such system administrators. The L&I CWDS project management team has developed, reviewed and elevated to the executive management teams at L&I and DPW and the IT staff fully supports and manage the CWDS project.

In regard to the information for documented approvals for users and also the statements indicating separated users still appeared on the active user listing indicating access was not disabled or deleted, there was not enough time to conduct the research necessary to determine the validity or background of these statements before preparing this response. The Department will review this to ascertain if further action is necessary.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 72: (continued)**

In regard to the VERSA program, it was stated that there is no formal documented process in place surrounding the authorization and testing of changes for the VERSA application used for the DDS program. It was further stated that changes are informally discussed among BDD Directors through e-mail or verbal communication but no documentation is retained. It should be noted that all changes are approved by BDD management. The OIT staff now archives electronic copies of the e-mails that document authorizations of the program changes.

It was stated that unit testing and User Acceptance Testing (UAT) is performed by OIT, however, no documented evidence is retained around the testing performed. Additionally, changes are reviewed informally and are not conducted with any specific frequency and evidence of review is not retained. We are in disagreement with this in that User Acceptance Testing for major releases is conducted by OIT staff and BDD program area staff using a test plan provided by SSA specifically for the release. OIT staff frequently adds steps to this test plan to concentrate on areas of particular concern. Results are recorded via e-mail reporting to BDD management. This e-mail is also used to formally request permission to implement the release in the production environment. Testing of bug fixes is done on an as-needed basis in response to when these fixes are received from VERSA. Depending on the nature of the fix, testing is performed by OIT alone, or by OIT and the BDD program staff. When a bug is reported to VERSA by OIT staff, the specific steps needed to recreate the error are documented and sent to VERSA via e-mail. When the fix is received, these same steps are used to verify that the problem no longer occurs. The results of the testing are sent to BDD management via e-mail along with a request for formal approval to implement the fix in the production environment. Testing procedures are well-established and consistently followed but up to now, not well-documented. Likewise, testing results were informally recorded and reported. The original testing materials and testing results were also retained informally. However, OIT has recently implemented more formal e-mails and document retention strategies to ensure a more thorough audit trail of the process.

Lastly, it was stated that individuals with non-limited command line access are able to access libraries in both the test and product environment. Only limited OIT staff authorized by BDD have this ability.

Regarding the Financial Management System and the information cited, it should be noted that the Department acknowledges the current FMS system is outdated and slated for termination in July 2010. The development of additional controls, changes and enhancements were delayed and held to avoid any duplication of costs incurred since the system was always planned to be integrated as part of the CWDS application. Again, the Department recognizes that it would be ideal to separate all duties in an application life cycle to segregated staff and roles, however the current staffing situation does not allow for this. Any erring on the side of good responsible customer service and application system availability, the Department's OIT management team provides oversight on any and all Production changes. The Department acknowledges that there are key management staff having development, testing and production level administration access. It is additionally noted that the two staff having these access rights are Management OIT staff who are held duly accountable and who must acknowledge their roles and responsibilities with Department User and System Administrator agreements and review and sign those documents yearly.

**Auditors' Conclusion:** Regarding the CareerLink system, we agree with L&I that CareerLink was replaced with CWDS in September 2007. However, the CareerLink system remained active for three months into the audit period, and therefore the deficiencies cited in the condition would still be relevant for the period under audit.

Regarding the CWDS and changes made directly to production data, we agree with L&I that a change management process was established for CWDS. We walked through and documented the established change management process with CWDS representatives (approvals, documenting and tracking of changes through use of IBM Rational ClearQuest, testing in Mercury Quality Center test system, etc.). However, in our discussions with CWDS personnel, it was communicated, as indicated in the finding, that changes were made to production data (e.g. combining records), without following the controlled change management process including documentation of the changes in the appropriate systems.

Regarding the documented approval for granting access to CWDS, we noted during our testing that at least three users were acknowledged by local office staff to have been granted access to CWDS without the completion of the appropriate forms.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 72: (continued)**

Regarding the removal of terminated users from CWDS, we noted during our testing that separated users still were active in the system. Per discussion with the Information Technology Generalist Administrator I, it was acknowledged that the mechanism to synchronize users between Active Directory and CWDS, which would remove old users, was not working adequately.

Regarding the documentation of VERSA changes (authorization, testing, approvals), we agree with the process described and improvements to be implemented by L&I. However, based on our testing, emails containing the documentation were not being retained during our audit period.

Regarding individuals with non-limited (command line) access to VERSA, a review of the User Profile Report showed that the majority of active accounts (account is enabled, password is not set to none, and initial menu is not set to \*SIGNOFF) have non-limited access (limited capability = \*YES). Since no formal change monitoring has been established, and the informal review is conducted by personnel with command line access, there is still a risk that unauthorized changes may be made.

Regarding the lack of controls around the Financial Management System, we understand that the system has been slated for decommission in July 2010. However, the only measures in place are agreements signed off by the users and administrators and there are no formal monitoring processes in place, either of changes made or user activity logs.

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**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 73:**

- CFDA #10.555 – National School Lunch Program for Children**
- CFDA #10.561 – State Administrative Matching Grants for Food Stamps Program**
- CFDA #17.260 – Workforce Investment Act Dislocated Workers**
- CFDA #20.205 – Highway Planning and Construction**
- CFDA #23.003 – Appalachian Development Highway System**
- CFDA #66.458 – Capitalization Grants for State Revolving Funds**
- CFDA #84.010 – Title I Grants to Local Educational Agencies**
- CFDA #84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States**
- CFDA #84.367 – Improving Teacher Quality State Grants**
- CFDA #93.558 – Temporary Assistance for Needy Families**
- CFDA #93.563 – Child Support Enforcement**
- CFDA #93.568 – Low-Income Home Energy Assistance**
- CFDA #93.575 – Child Care and Development Block Grant**
- CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund**
- CFDA #93.658 – Foster Care – Title IV-E**
- CFDA #93.659 – Adoption Assistance**
- CFDA #93.667 – Social Services Block Grant**
- CFDA #93.767 – State Children’s Insurance Program**
- CFDA #93.778 – Medical Assistance Program**
- CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse**
- CFDA #96.001 – Social Security – Disability Insurance**

### **Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$5.6 Million Known Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding #07-75)**

**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 fifteenth year in a row, since the initial implementation of the CMIA in the Commonwealth during SFYE June 30, 1994, the following control weaknesses remain unresolved:

Check clearance studies to determine the ADC for applicable Federal programs, the last of which was performed untimely about 10 years ago during the period of February 1, 1999 through May 31, 1999, included the following deficiencies:

- The Commonwealth did not reconcile expenditure totals from the check clearance study to its general ledger to ensure the accuracy and completeness of data used in the ADC study. Further, as noted in our Single Audits since SFYE June 30, 1994, each Voucher Transmittal (VT) can only be captured in the study under one appropriation, regardless of how many appropriations are present on the VT. Since some appropriations are used for more than one program, but are assigned to only one program for the ADC study, some programs had significantly less or significantly more expenditures in the study than were actually incurred.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 73: (continued)**

- The posting dates used for the clearance studies did not always agree to the actual general ledger posting dates. As a result, this material weakness regarding incorrect posting dates from the study caused material noncompliance with CMIA during SFYE June 30, 2008 since the Commonwealth is still using ADC patterns established from the February 1, 1999 through May 31, 1999 clearance study.
- A disproportionate amount of payroll cost was included in the clearance studies for CFDA #20.205, Highway Planning and Construction (HPC). We believe this occurred due to the fact that appropriations other than HPC related appropriations were included on the payroll VTs which were used in the HPC studies.

Further, starting on July 1, 2002, the Commonwealth began decommissioning its legacy accounting system with a phased implementation of an Enterprise Resource Planning (ERP) software known as SAP that impacted all Commonwealth business functions, including the timing of the payment process. However, the Commonwealth has yet to perform a new check clearance study for SAP to ensure the accuracy of the delay of draw for federal programs, all of which are now using SAP.

Excess cash on hand results from the rejection of payment invoices by the PA Department of Treasury if timely adjustments are not made (as indicated in the first four bullets below) and interest due to the federal government for such transactions is not recorded by CDS. While the Commonwealth has improved its system by modifying CDS to record adjustments immediately and not subject them to a draw delay, not posting adjustments to the Commonwealth accounting system on a timely basis (i.e., from Treasury rejections) results in unrecognized interest liabilities.

Our testing of monthly draws for Food Stamps Admin (CFDA #10.561) program costs allocated through DPW's department-wide Cost Allocation Plan (CAP) disclosed that PHHS 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 the actual allocation of costs for the preceding six months and reconciled monthly. However, DPW's monthly draws for its CAP costs 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 LECS Comptroller Office posted three expenditure adjustments during September 2007 totaling \$10.4 million, to transfer federal expenditures to the state ledger. The transfers were made to increase underfunded state expenditures to the required state match percentage for the RSBS grant that was closing out on September 30th. The result of these transfers 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, 2008, or nine months later, the required state match for the two open RSBS grants was still underfunded by approximately \$9.3 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, CMIA interest is owed on this excess RSBS federal cash for SFYE June 30, 2008 to be remitted during SFYE June 30, 2009.

Also, the interest liability on the CMIA Annual Report for SFYE June 30, 2007 which was submitted to the U.S. Treasury during our current audit period SFYE June 30, 2008, was misstated by a minimum of \$5,621,120 as follows:

- We noted that invoice #KR1901529620 selected for testing during SFYE June 30, 2007 posted \$21,694,007 of payments to a subgrantee on SAP. As a result, federal funds were received under the TANF program, CFDA #93.558, on June 27, 2006; however, the PA Treasury Department rejected the invoice and the funds were not returned to HHS until August 21, 2006. Since the Commonwealth did not pay any interest to the federal government for the period that these excess funds were on hand for 55 days, the Commonwealth's interest liability was understated by \$162,670.

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 73: (continued)**

- We noted that DPW reposted invoice # KR190152960 as invoice #KR1901764056 for \$21,694,007 of payments to a subgrantee on SAP. As a result, federal funds were received under the TANF program, CFDA #93.558, on March 15, 2007; however, the PA Treasury Department once again rejected the invoice and the funds were not returned to HHS until April 30, 2007. Since the Commonwealth did not pay any interest to the federal government for the period that these excess funds were on hand for 46 days, the Commonwealth's interest liability was understated by \$137,314.
- We noted that invoice #KR1901529857 selected for testing during SFYE June 30, 2007 posted \$10,094,562 of payments to a subgrantee on SAP. As a result, federal funds were received under the TANF program, CFDA #93.558, on July 12, 2006; however, the PA Treasury Department rejected the invoice and the funds were not returned to HHS until August 14, 2006. Since the Commonwealth only paid interest to the federal government for 10 days that these excess funds were on hand as opposed to the 33 days the cash was actually on hand, the Commonwealth's interest liability was understated by \$31,947.
- We noted that invoice #KR1901715472 selected for testing during SFYE June 30, 2006 posted \$10,897,448 of payments to a subgrantee on SAP. As a result, federal funds were received under the TANF program, CFDA #93.558, on January 16, 2007; however, the PA Treasury Department rejected the invoice and the funds were not returned to HHS until March 8, 2007. Since the Commonwealth did not pay any interest to the federal government for the period that these excess funds were on hand for 51 days, the Commonwealth's interest liability was understated by \$76,474.
- 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 \$106,917,750 at June 30, 2007, with a carry-forward balance from the prior fiscal year of \$96,662,550. 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 \$101.79 million during the June 30, 2007 fiscal year, the state's interest liability was understated by an estimated \$5,110,000 for the Medical Assistance program, CFDA#93.778. We also found that the excess cash in this account was \$118.08 million as of June 30, 2008, so additional CMIA interest is owed for SFYE June 30, 2008 to be remitted during SFYE June 30, 2009.
- Within the Food Stamps Admin program (CFDA #10.561), we noted that the LECS Comptroller Office posted document #EA7803051881 to SAP on April 2, 2007 to transfer \$2,332,745 of federal Food Stamp expenditures to TANF MOE as a result of a prior year closeout of subgrantee contracts for the SFYE June 30, 2006. The funds were subsequently returned to the federal government on May 16, 2007. Since these funds related to the SFY that ended on June 30, 2006, the Commonwealth owes CMIA interest on these funds from at least July 1, 2006 to May 16, 2007, or 320 days. However, we noted that the Commonwealth did not pay any interest to the federal government for the period that these funds were on hand. Therefore, the Commonwealth's interest liability was understated by \$102,715 for the period in question.

**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.*

# COMMONWEALTH OF PENNSYLVANIA

## *Federal Award Findings and Questioned Costs - June 30, 2008*

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### **Finding 08 – 73: (continued)**

- 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 six months and shall be reconciled monthly. This funding technique is interest neutral.*

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.*

# COMMONWEALTH OF PENNSYLVANIA

## Federal Award Findings and Questioned Costs - June 30, 2008

### Finding 08 – 73: (continued)

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.*

**Cause:** Regarding the accuracy and completeness of the data used in the ADC studies, BFM personnel stated that the current system in place to calculate the ADC can only sort expenditures by appropriation. Therefore, each voucher transmittal could only be included in a study under one appropriation, regardless of how many appropriations are included on the voucher. Since some appropriations are used for more than one program, in these instances, the appropriation must be assigned to one program for ADC purposes.

For the differences noted between the actual posting dates and the posting dates used in prior ADC studies, we found that the date used for the ADC study was the date on which magnetic tapes were forwarded to Treasury for payment, not the date the expenditures were actually posted to Commonwealth's accounting system which is used by CDS. As in prior years, the Commonwealth had no controls in place to make sure the correct posting dates were included on these magnetic tapes and incorporated into check clearance studies.

Regarding the issue of payments rejected by PA Treasury causing unrecognized interest liabilities, BFM personnel have indicated that this issue is not significant. Also, PA Treasury rejecting payments is outside the control of BFM and is an inherent limitation within the CDS system because the draw delay is based on general ledger postings and not check issuance. Therefore, when PA Treasury rejects paying an invoice, excess cash can result under the current system. While BFM has continued to state that number of invoices rejected by the State Treasury is minimal, no proof of this assertion has ever been provided.

For other items addressed in the condition relating to errors and weaknesses in the CMIA interest calculation, Commonwealth personnel indicated they either did not agree that the transactions created an interest liability or the transactions arose outside of CDS and were not considered when preparing the Annual Report of CMIA interest liabilities.

**Effect:** As a result of the weaknesses noted, the Commonwealth is not in compliance with the CMIA regulations and procedures for clearance pattern requirements and for the interest calculation in the CMIA Annual Report as stated in 31 CFR 205.

The state and federal interest liability amounts reported on the CMIA Annual Report for SFYE June 30, 2007 are not accurate. Our testing disclosed a minimum estimate of \$5,621,120 in understatements in the state interest liability to the federal government.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 73: (continued)**

Because of the overall pervasiveness of the check clearance discrepancies involving untimeliness, new ERP system, incorrect populations and posting dates, 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 made to compensate for this system weakness, the Commonwealth's CMIA interest calculation is further understated by an undetermined amount.

**Recommendation:** We recommend that BFM pursue appropriate settlement with the federal government regarding the \$5.6 million in additional interest owed to the U.S. Treasury.

For future audit periods, we recommend BFM personnel implement a system to ensure that the clearance patterns developed and utilized on CDS accurately represent the flow of federal funds as required by 31 CFR 205.20.

In addition, BFM personnel should determine the additional amount of June 30, 2008 CMIA interest due to the federal government as a result of all of the above noted discrepancies for CMIA-covered programs, and report and remit this additional interest liability to the U.S. Treasury.

Also, we recommend that BFM modify the CDS system or have Comptroller personnel review possible interest generating transactions occurring outside of CDS so that all transactions that generate CMIA interest are accurately included in the CMIA interest calculation.

Further, we recommend that BFM calculate any prior-year additional June 30, 2007 CMIA interest due to the U. S. Treasury as a result of the system weaknesses disclosed above and repay the amount calculated or pursue additional settlement with U.S. Treasury.

Also, we recommend BFM pursue amending the Commonwealth's CMIA Agreement to reflect the current actual monthly draws methodology used by PHHS Comptroller for DPW CAP costs.

### **Agency Response:**

#### **Check Clearance Study:**

Regarding the auditors' statement that "a disproportionate amount of payroll cost was included in the clearance studies for CFDA #20.205...", the Commonwealth historically selected appropriations that contained payments to CFDA No. 20.205. The new check clearance study has been completed which identifies all VTs and payments for CFDA No. 20.205. A separate check clearance pattern is not required for payroll; the check clearance study is based on all expenditures for a program. For this reason, it is appropriate that we continue to include payroll costs in our study.

The statement that "the Commonwealth has yet to perform a new check clearance study" is inaccurate, as one was completed during this audit period. As stated in our response to the prior year finding, a new check clearance study has been completed which identifies all VTs and SAP payments for a specific CFDA. This study was completed in June of 2008 and was implemented in July. Thus, the results of the new check clearance study are in effect for the Commonwealth's 2008-09 fiscal year. As stated previously, we believe that this new study will alleviate the concerns identified in the finding.

#### **Monthly Draws**

As a result of discussions with the auditors about the draw process for the Food Stamps Admin (CFDA #10.561) program, the Treasury-State Agreement should be changed to reflect the use of a 12 month period in regard to the request for funds rather than a 6 month period. This change will be included in the 2009-10 Agreement.

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 73: (continued)**

#### RSBS Program

The EA documents in question were processed to increase state match obligations and expenditures to the required match calculated for the final award amount, including reallocated funds, by the end of the initial year of the grant. This action was taken in accordance with the US Department of Education, Rehabilitation Services Administration's Policy Directive RSA-PD-01-01 dated October 26, 2000. The directive states "Section 19 of the Rehabilitation Act (the Act), as amended, permits unobligated formula grant funds appropriated for one Federal fiscal year to be carried over for obligation by the end of the next Federal fiscal year provided that any applicable matching requirement for the carryover funds has been met in the year of appropriation."

The auditors refer to two RSBS grants in their finding:

- The first grant is for the two-year period of October 1, 2006 to September 30, 2008. RSA policy requires that the state match for this grant be achieved by September 30, 2007. As noted in the finding, this was achieved by transferring \$10.4 million from the federal share to the state share during September 2007. Because the Federal G5 draw system and Pennsylvania's Treasury Department cannot accommodate a negative total draw, the Commonwealth had no choice but to reject the negative draws in CDS until sufficient expenditures were posted to offset the negative amounts. The federal funds were returned to RSA through this offset process by October 31, 2007.
- The second grant is for the two-year period of October 1, 2007 to September 30, 2009. The state match for this grant must be achieved by September 30, 2008. The auditors indicate that this match was not met by June 30, 2008. This is irrelevant since the state match need not be met until September 30, 2009. Thus, the auditors' comment that the state match was underfunded by \$9.3 million at June 30, 2008 should be removed from the finding.

#### TANF Program

- The original invoice was rejected by Treasury over concerns with the backup documentation containing potential duplicate items. Funds for the original expenditure were drawn and returned as stated. Since there was no check issued, the Commonwealth agrees that there was cash on hand and that the Commonwealth's interest liability was understated. The Commonwealth will adjust the next CMIA Annual Report to pay the interest liability of \$162,670 to the US Treasury.
- The original invoice was rejected by Treasury over concerns with the backup documentation containing potential duplicate items. Funds for the original expenditure were drawn and returned as stated. Since there was no check issued, the Commonwealth agrees that there was cash on hand and that the Commonwealth's interest liability was understated. The Commonwealth will adjust the next CMIA Annual Report to pay the interest liability of \$137,314 to the US Treasury.
- The original invoice was actually part of a group of five invoices rejected by Treasury due to Treasury's inability to redline individual invoices that had been bank assigned and wrapped together. Funds for the original expenditure were drawn and returned as stated. Since there was no check issued, the Commonwealth agrees that there was cash on hand and that the Commonwealth's interest liability was understated. The Commonwealth will adjust the next CMIA Annual Report to pay the interest liability of \$31,947 to the US Treasury.
- The original invoice was rejected by Treasury over concerns with the backup documentation containing potential duplicate items. Funds for the original expenditure were drawn and returned as stated. Since there was no check issued, the Commonwealth agrees that there was cash on hand and that the Commonwealth's interest liability was understated. The Commonwealth will adjust the next CMIA Annual Report to pay the interest liability of \$76,474 to the US Treasury.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Federal Award Findings and Questioned Costs - June 30, 2008***

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### **Finding 08 – 73: (continued)**

The Commonwealth intends to resolve these issues by a change in procedures, particularly in regard to notifications of redlined invoices. Discussions will be held with all of the affected parties to formulate a method to prevent such occurrences in the future.

#### Medical Assistance Program

*In 1988, Congress enacted the Medicare Catastrophic Coverage Act (PL 100-360). This law provides that federal Medicaid funds must be available to reimburse expenditures for health-related services included in each child's individualized education program (IEP), individualized service plan (ISP), or individualized family service plan (IFSP) for all children who are also Medicaid eligible.*

The Pennsylvania Department of Education (PDE) developed the ACCESS Program in response to this legislation. ACCESS is a means for gaining medical assistance (MA) reimbursements for the cost of the health-related services currently being provided to MA eligible students. Billable services include speech therapy, occupational therapy, physical therapy, psychological services, etc. Local education agencies (LEAs) must enroll as medical assistance providers in order to submit their invoices to MA for the billable services they are providing to the eligible students.

Based on the claims submitted for valid MA eligible expenditures incurred by the LEAs, DPW pays PDE on behalf of the LEAs and draws down the funds in accordance with the Treasury State Agreement and MA program guidelines. The funds received from MA are reported as expenditures on the Single Audit and are maintained in LEA specific accounts managed by PDE and may accumulate over several state fiscal years. Each LEA controls its own draw down of reimbursements through the filing of ACCESS Requests with PDE. ACCESS funds must be used by LEAs to enhance or expand special education services and programs for students with disabilities.

As in prior years, the Commonwealth again maintains that the medical access funds were drawn for program purposes in accordance with the Treasury State Agreement. The funds were drawn based on approved expenditures, and each LEA requested their funds at their discretion. Therefore, the Commonwealth continues to disagree that CMIA interest is due.

In a letter from the US Department of Health & Human Services dated November 7, 2008, a status of this issue was requested. The Commonwealth reiterated our position that no CMIA interest was due in regard to this matter. In a follow-up telephone call, we explained the process noted above. DHHS indicated that they may call us for further discussion, but to date no such call has been received from them.

#### Food Stamps Admin Program

As part of the closeout process for the Joint Jobs Initiative program the Local Workforce Investment Area (LWIA) fiscal agents send requests to the Comptroller's Office to transfer their WIA FMS draws to align them with their actual expenditures as reported in FMS. FMS draws and draw transfers crosswalk to SAP as expenditures. Since FMS expenditures and draws are in agreement after all the LWIAs' closeouts are complete, expenditures are then correct based on participant data and are recorded as such in SAP. The final draw transfer was not posted until September 29, 2006.

Final expenditure figures for the 05/06 program year were sent to DPW's Office of Income Maintenance and Office of the Budget on December 28, 2006 for their review and preparation of the final closeout figures. Those numbers were emailed to the Comptroller's Office on February 26, 2007, but all parties were not in agreement on the final distribution of the expenditures until April 2, 2007, the date the EA was processed.

We recognize that some CMIA interest may be due in relation to the date the funds were returned to the federal government; however, the amount noted in the finding is incorrect, because the entire amount of the EA was not on hand at July 1, 2006. The federal funds were drawn over a period a time which included dates after July 1.

# COMMONWEALTH OF PENNSYLVANIA

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## *Federal Award Findings and Questioned Costs - June 30, 2008*

### **Finding 08 – 73: (continued)**

**Auditors' Conclusion:** Based on our review of the Office of the Budget's response, we note that the Commonwealth did not implement the results of their new check clearance study until after our current audit period ended June 30, 2008, or nine years since the last study was performed in 1999. For the current audit year, our finding remains and implementation of the new study will be tested in our subsequent audit.

Regarding 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 at the time of the drawdowns the Commonwealth owes interest to the Federal Government until the match is adequately funded by the Commonwealth. The agency response fails to address this cash management regulation.

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. The Commonwealth should resolve this issue with U.S. Treasury.

Regarding the Food Stamps Admin, since we could not determine the actual date the excess cash arose related to the SFYE June 30, 2006, and no additional documentation was provided to support how long the excess Food Stamps funds were on hand, we continue to believe that interest could be due, at a minimum from July 1, 2007, and the Office of the Budget should perform a review to determine if any additional interest is actually due the Fed.

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.

**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, 2008

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### Finding 08 – 74:

**CFDA #16.UNKNOWN – Various Unknown Programs**

**CFDA #81.UNKNOWN – Various Unknown Programs**

**CFDA #93.UNKNOWN – Various Unknown Programs**

**CFDA #99.UNKNOWN – Various Unknown Programs**

### CFDA Numbers and Program Names Were Not Properly Reported on the Schedule of Expenditures of Federal Awards

**Condition:** Our review of the Commonwealth of Pennsylvania Schedule of Expenditures of Federal Awards (SEFA) for the fiscal year ended June 30, 2008 disclosed that for approximately 30 Federal programs totaling to \$3,042,000, Commonwealth management did not properly report the Federal program name and CFDA number on the SEFA as required by OMB Circular A-133. Approximately \$964,000 was reported as unknown under the U. S. Department of Justice (Department 16), \$36,000 was reported as unknown under the U. S. Department of Energy (Department 81), \$1,443,000 was reported as unknown under the U. S. Department of Health and Human Services (Department 93), and \$599,000 was not assigned to any Federal department and was listed overall as Miscellaneous (Department 99) at the end of the SEFA.

**Criteria:** OMB Circular A-133; Section \_\_\_\_\_.310 states in part that the schedule of expenditures of Federal awards shall, at minimum:

(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.*

**Cause:** BFM personnel indicated that they tried to identify a specific Federal program name and CFDA number, but they were unable to. Instead, BFM personnel, in most cases, could identify the Federal awarding agency and a State grant number as an identifying number. However, this does not comply with the provisions of OMB Circular A-133 as stated above.

**Effect:** Without the proper identification of the Federal program name and CFDA or other Federal grant number for these programs, there is a possibility that these \$3,042,000 in federal expenditures could pertain to a Federal program that is: 1) designated as “major” in the current year and required by Circular A-133 to be tested as such, or 2) designated as “non-major”, but is at, or near, the threshold for determining major programs, and could cause an inaccurate major program determination in the Single Audit. Based on our current-year SEFA testwork, we obtained reasonable evidence to verify that our major program determination for SFYE June 30, 2008 was not impacted by these SEFA errors reported above.

**Recommendation:** We recommend that Commonwealth management personnel investigate the source of these grant funds and include the correct Federal program name and CFDA number or other correct identifying number on the SEFA each year. This will ensure that the SEFA is accurate and all major program dollars are identified and audited in accordance with OMB Circular A-133.

**Agency Response:** Comptroller Operations disagrees with this finding. The amounts in question are expenditures of Federal dollars, however, the Commonwealth did not receive the Federal funds through a program specific grant award that had an assigned CFDA number. One example is when the Commonwealth receives monies for property that is seized by or forfeited to the Federal Government. Another example would be monies that the Commonwealth receives as Federal contract payments.

Since no CFDA information was available for these Federal funds, the expenditures related to the use of these Federal dollars were reported on the SEFA under an identifying CFDA number that used the applicable Federal Agency number followed by UNKNOWN. For instances when there was no CFDA information and the Federal Agency number could not be determined, expenditures related to the use of Federal dollars were reported on the SEFA under CFDA number 99.UNKNOWN.

# **COMMONWEALTH OF PENNSYLVANIA**

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## ***Federal Award Findings and Questioned Costs - June 30, 2008***

### **Finding 08 – 74: (continued)**

OMB Circular A-133 states that the SEFA should include the CFDA number or other identifying number when the CFDA number is not known. When the CFDA number was not known, the Federal grant number was included; if the Federal grant number was not known, the state grant number was listed. The auditor's cause statement about noncompliance with the provision in section .310(b)(3) is incorrect, because there is nothing to preclude the use of grant numbers as "other identifying numbers."

**Auditors' Conclusion:** Based on our previous discussions with, and guidance from, HHS-OIG, the Single Audit cognizant agency for Pennsylvania, our finding and recommendation should stay as is. Commonwealth officials need to work with, and obtain guidance from, federal awarding agencies to ensure the SEFA is accurate and contains the information required by Circular A-133. 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.**

# Summary Schedule of Prior Audit Findings



Commonwealth of Pennsylvania



# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2008

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
<b><u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2007:</u></b>			
<b>OFFICE OF THE BUDGET (OB)</b>			
07-31	Weaknesses in the Calculation of CWSRF and DWSRF Outstanding Federal Loans Receivable Balances Reported in the Footnotes to the SEFA	EPA	Unresolved – Corrective action has been taken to change the methodology used to determine outstanding federal loans receivable. Awaiting resolution action by EPA.
07-41	Noncompliance and Internal Control Weakness in the LECS Comptroller Office System of Cash Management (Prior Year Finding #06-40)	USDE	Unresolved – Additional information provided to USDE from September 2008 to April 2009 in response to requests from USDE. New procedures for all new projects were implemented effective July 1, 2007. Awaiting audit resolution action.
07-58	Internal Control Weakness Over Expenditure Information Reported on the SEFA (Prior Year Finding #06-65)	HHS	Unresolved – Office of the Budget, Comptroller Operations Directive 405.11 has been reissued to provide guidance for SEFA reporting and note disclosure of disallowances related to current year and prior period expenditures. This reissued directive will help ensure the proper reporting and disclosure of disallowances in the future.
07-70	Internal Control Deficiency Over Expenditure Information Reported on the SEFA by PPR Comptroller and PADOT Comptroller	DHS	Unresolved – DHS has not yet issued an initial determination in regard to this finding.
07-72	Noncompliance and Internal Control Weaknesses Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding #06-73)	HHS	Unresolved – HHS has not yet issued an initial determination in regard to this finding.
07-74	Unallowable Payments for Unused Employee Leave Result in at Least \$10,436,574 in Questioned Costs	HHS	Unresolved – HHS has not yet issued an initial determination in regard to this finding. U.S. Department of Justice (DOJ) letter of March 30, 2009 requests additional information regarding corrective action and documentation to support DOJ portion of the questioned costs of \$54,585.
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 – HHS has not yet issued an initial determination in regard to this finding.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2008

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)</b>			
07-26	Noncompliance and Internal Control Deficiencies Over Federal Reporting	HUD	Unresolved – This finding was the result of staff not running a report from IDIS to substantiate data used in the PER report submitted to HUD. This problem was corrected in 2008. HUD has not yet contacted DCED regarding resolution of this finding.
07-27	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #06-21)	HUD	Unresolved – DCED has made progress in meeting its monitoring requirements and continues to make progress in reducing the backlog of monitoring reports that accumulated over prior years. HUD has not yet contacted DCED regarding resolution of this finding.
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 – HHS has not yet contacted DCED regarding resolution of this finding. However, see response for similar prior year’s findings below.
07-54	Noncompliance and Internal Control Deficiencies at DCED Over Subgrantee Payments (Prior Year Finding #06-59)	HHS	Unresolved – HHS has not yet contacted DCED regarding resolution of this finding. However, see response for similar prior year’s findings below.
<b>DEPARTMENT OF EDUCATION (PDE)</b>			
07-33	Inadequate Controls Over Ensuring LEA Compliance With MOE Requirements (Prior Year Finding #06-31)	USDE	Unresolved – Corrective action has been taken. PDE has provided a response as requested in a letter dated August 13, 2008 from USDE and is awaiting a Program Determination Letter.
07-34	Inadequate Controls Over PDE’s Consolidated State Performance Report (Prior Year Finding #06-30)	USDE	Unresolved – Corrective action has been taken. PDE has provided a response as requested in a letter dated August 13, 2008 from USDE and is awaiting a Program Determination Letter.
07-35	Errors and Internal Control Weaknesses in PDE’s VOC ED Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (Prior Year Finding #06-33)	USDE	Unresolved – Corrective action has been taken. PDE is awaiting a 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 taken. PDE has provided additional documentation to USDE September 24, 2008 and is awaiting a Program Determination Letter.

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## Summary Schedule of Prior Audit Findings – June 30, 2008

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF EDUCATION (Continued)</b>			
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 taken. PDE has provided a response as requested in a letter dated August 13, 2008 from USDE and is awaiting a Program Determination Letter.
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 taken. PDE has provided a response as requested in a letter dated August 13, 2008 from USDE and is awaiting a Program Determination Letter.
<b>DEPARTMENT OF ENVIRONMENTAL PROTECTION (DEP)</b>			
07-32	Internal Control Weakness in State Matching Procedures at DEP for DWSRF	EPA	Unresolved – DEP has communicated with the program office to insure that reports are timely.
<b>DEPARTMENT OF HEALTH (DOH)</b>			
07-24	Noncompliance and Weaknesses Related to Compliance Investigations at WIC Vendors, Food Instrument Redemption and Follow-Up Results in Likely Questioned Costs Over \$10,000	USDA	Resolved – Closed per USDA letter of May 5, 2009. Questioned costs have been waived.
07-45	Noncompliance and Internal Control Weakness in Charging Personnel Costs (Prior Year Finding #06-43)	HHS	Unresolved – HHS has not yet contacted DOH regarding resolution of this finding.
07-46	Weaknesses in DOH Program Monitoring of CDC Subgrantees (Prior Year Finding #06-44)	HHS	Unresolved – HHS has not yet contacted DOH regarding resolution of this finding.
07-64	Internal Control Deficiencies Result in Questioned Costs of \$27,231 and Improper Reporting on the SEFA	HHS	Unresolved – HHS has not yet contacted DOH regarding resolution of this finding.
07-65	Weakness in DOH Program Monitoring of MCH Subgrantees	HHS	Unresolved – HHS has not yet contacted DOH regarding resolution of this finding.
07-66	Noncompliance and Internal Control Weaknesses Result in \$194,610 in Questioned Personnel Costs	HHS	Unresolved – HHS has not yet contacted DOH regarding resolution of this finding.
07-67	DOH Could Not Support Information Submitted to HHS on its Annual Statistical Report	HHS	Unresolved – HHS has not yet contacted DOH regarding resolution of this finding.
07-68	Internal Control Deficiencies Result in Questioned Costs of \$36,912	HHS	Unresolved – HHS has not yet contacted DOH regarding resolution of this finding.

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## Summary Schedule of Prior Audit Findings – June 30, 2008

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
<b>PENNSYLVANIA INSURANCE DEPARTMENT (PID)</b>			
07-61	Noncompliance With Procurement Standards Related to Ensuring Actuarial Soundness of Monthly Premium Rates (Prior Year Finding #06-67)	HHS	Unresolved – HHS has not yet contacted PID regarding resolution of this finding. However, PID believes that this finding and prior year finding 06-67 should be deemed resolved. The Centers for Medicare & Medicaid Services’ letter of October 6, 2006 expressed satisfaction with the PID’s use of the approval stamp as a means to satisfy finding 05-39. Findings 07-61 and 06-67 identified the same “monthly premium rates” issue as finding 05-39 that has been resolved.
07-62	PID Did Not Perform Adequate Monitoring of CHIP Subrecipient Insurance Providers (Prior Year Finding #06-68)	HHS	Unresolved – HHS has not yet contacted PID regarding resolution of this finding. However, the monitoring issue has been resolved in part. The CMS October 6, 2006 letter notes CMS’s agreement with PID onsite monitoring and use of the automated monitoring database system. The monitoring issue is unresolved as to onsite monitoring. With the help of the Comptroller’s Office, PID is beginning the audit process for the eight CHIP contractors for SFY 2007-08. In addition, PID now performs internal application monitoring through a subcontract to perform cross matching services for CHIP population to determine the insurance status of new applicants. PID produces a monthly report to capture the results of the cross match. In addition, PID cross-matches CHIP applications with the Medical Assistance program, a process that has been in place for several years.
<b>DEPARTMENT OF LABOR AND INDUSTRY (L&amp;I)</b>			
07-30	Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (Prior Year Finding #06-24)	DOL	Unresolved – The determination for this finding is currently in process.
07-36	A Weakness Exists in L&I’s Procurement System Related to Debarment and Suspension (Prior Year Finding #06-34)	USDE	Unresolved – Coordination towards resolution is ongoing between the Department of Labor & Industry and USDE.
07-37	Unallowable Payment to a Vendor Results in Questioned Costs of \$146 and Likely Questioned Costs Over \$10,000	USDE	Unresolved – Coordination towards resolution is ongoing between the Department of Labor & Industry and USDE.

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## Summary Schedule of Prior Audit Findings – June 30, 2008

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
<b>DEPARTMENT OF LABOR AND INDUSTRY (Continued)</b>			
07-38	Internal Control Weakness Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA Results in \$22,268 in Unsupported Program Income (Prior Year Finding #06-36)	USDE	Unresolved – Coordination towards resolution is ongoing between the Department of Labor & Industry and USDE.
07-39	Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs (Prior Year Finding #06-35)	USDE	Unresolved – Coordination towards resolution is ongoing between the Department of Labor & Industry and USDE.
<b>DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)</b>			
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 awaiting resolution by DOD.
<b>PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)</b>			
07-28	Unallowable Equipment Purchases and Cash Payments Result in Questioned Costs of \$9,768 and Internal Control Deficiencies and Noncompliance in PEMA's Subrecipient Monitoring (Prior Year Finding #06-22)	DHS	Unresolved – Conversations with DHS have resulted in a determination that the questioned costs are ineligible. PEMA has developed a Policy and Procedures Manual which provides guidance to subgrantees on all aspects of the Homeland Security Grant Program, to include monitoring visits, equipment requests, and biannual financial/program reporting. The Manual is in final draft and will be implemented no later than February 2009.
07-29	Noncompliance and Internal Control Deficiency Over Period of Availability Requirements Results in Questioned Costs of \$1,632,447	DHS	Unresolved – PEMA now requires subgrantees to encumber all funding 60 days prior to the end of the grant period to allow for liquidation of all grant funds by the end of the 90 day liquidation period. The HSGP 2003 Part I and Part II grants have been closed and final FSRs submitted. Procedures have been implemented for timely submission of FSRs.
07-69	Internal Control Deficiencies in System of Cash Management and Federal Reporting for PAG Program (Prior Year Finding #06-71)	DHS	Unresolved – Procedures are still in place to ensure that all payments of federal funds for large projects are based on actual costs incurred. PEMA has not had any additional communications with DHS regarding this finding.
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>			
07-22	Internal Control Weaknesses at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #06-18)	HHS	Unresolved – HHS has not yet contacted DPW regarding resolution of this finding.

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## Summary Schedule of Prior Audit Findings – June 30, 2008

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF PUBLIC WELFARE (Continued)</b>			
07-23	Internal Control Weaknesses at DPW Related to Returned EBT Cards	HHS	Unresolved – HHS has not yet contacted DPW regarding resolution of this finding.
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 – HHS has not yet contacted DPW regarding resolution of this finding.
07-48	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #06-47)	HHS	Unresolved – HHS has not yet contacted DPW regarding resolution of this finding.
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 – HHS has not yet contacted DPW regarding resolution of this finding.
07-51	Internal Control Deficiencies in DPW's Administering of LIHEAP Cash and Crisis Benefits (Prior Year Findings #06-50 and #06-51)	HHS	Unresolved – HHS has not yet contacted DPW regarding resolution of this finding.
07-52	DPW Failed to Adequately Monitor the Processing of LIHEAP Applications (Prior Year Finding #06-52)	HHS	Unresolved – HHS has not yet contacted DPW regarding resolution of this finding.
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 – HHS has not yet contacted DPW regarding resolution of this finding.
07-55	Weaknesses in DPW Program Monitoring of Subgrantees (Prior Year Finding #06-62)	HHS	Unresolved – HHS has not yet contacted DPW regarding resolution of this finding.
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 – HHS has not yet contacted DPW regarding resolution of this finding.
07-57	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #06-63)	HHS	Unresolved – HHS has not yet contacted DPW regarding resolution of this finding.
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 – HHS has not yet contacted DPW regarding resolution of this finding.

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## Summary Schedule of Prior Audit Findings – June 30, 2008

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
<b>DEPARTMENT OF PUBLIC WELFARE (Continued)</b>			
07-60	Weaknesses in DPW Program Monitoring of SSBG Subgrantees (Prior Year Finding #06-62)	HHS	Unresolved – HHS has not yet contacted DPW regarding resolution of this finding.
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 – HHS has not yet contacted DPW regarding resolution of this finding.
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 – HHS has not yet contacted DPW regarding resolution of this finding.
07-73	Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements	HHS	Unresolved – HHS has not yet contacted DPW regarding resolution of this finding.
<b>DEPARTMENT OF STATE (DOS)</b>			
07-44	DOS Did Not Perform Adequate Monitoring of Subrecipients (Prior Year Finding #06-42)	EAC	Resolved – Closed per EAC letter of February 4, 2009.

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## Summary Schedule of Prior Audit Findings – June 30, 2008

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>FINDINGS FOR THE YEAR ENDED JUNE 30, 2006:</b>			
<b>OFFICE OF THE BUDGET (OB)</b>			
06-40	Noncompliance and Internal Control Weakness in the LECS Comptroller Office System of Cash Management	USDE	Unresolved – Additional information provided to USDE from September 2008 to April 2009 in response to requests from USDE. Awaiting final audit resolution action.
06-65	Internal Control Weakness Over Expenditure Information Reported by PHHS Comptroller on the SEFA (Prior Year Finding #05-6)	HHS	Unresolved – Written procedures have been developed to ensure that significant federal awarding agency deferral, disallowance and settlement activity is appropriately disclosed in the footnotes to the SEFA.
06-73	Noncompliance and Internal Control Weaknesses Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Findings #05-43 and #05-44)	HHS	Unresolved – BOA provided additional information to HHS on May 30, 2008 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 – BFM provided additional information to HHS on May 30, 2008 and January 26, 2009. Awaiting federal audit resolution action.
<b>DEPARTMENT OF AGRICULTURE (AGRI)</b>			
06-17	Internal Control Weaknesses and Noncompliance With Processor Recordkeeping and Reporting Requirements Result in Inaccurate SEFA Reporting and Questioned Costs of \$1,145 (Prior Year Finding #05-1)	USDA	Resolved – Closed per USDA letter of February 26, 2009. Questioned costs resolved per USDA letter of April 14, 2008.
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)</b>			
06-21	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #05-8)	HUD	Unresolved – DCED has made progress in meeting its monitoring requirements and continues to make progress in reducing the backlog of monitoring reports that accumulated over prior years.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2008

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (Continued)</b>			
06-53	Control Weaknesses and Potential Abuse Found in Administering the Weatherization Assistance Program Result in Potential Questioned Costs	HHS	Unresolved – DCED issued revised administrative policy directives for grantees and created a monitoring handbook to ensure compliance with program requirements. HHS letter of January 12, 2009 requests return of questioned costs of \$165,670. On February 10, 2009, DCED’s legal counsel asked for a hearing to dispute these questioned costs. On January 29, 2009, DPW paid this portion back to HHS since the original noticed co-mingled the return of funds. If the appeal is denied, DCED will then return the funds to DPW.
06-54	Two Local Agencies Wasted \$94,081 Providing Weatherization Services to the Same Dwellings in Philadelphia and Result in Potential Questioned Costs	HHS	<p>Unresolved – A client information exchange procedure has been developed for the two Philadelphia weatherization agencies, whereby they each have access to the other client list. Exchanges take place several times weekly. On June 13, 2008, DCED contacted DOE regarding a possible resolution on the questioned costs. DOE agreed to allow DCED to weatherize an equivalent number of homes using non-federal monies. Those homes have been weatherized by the Energy Coordinating Agency with utility funding. The report of those completed units was sent to DOE for review and approval on January 26, 2009, and DCED is awaiting their response.</p> <p>HHS letter of January 12, 2009 requests return of questioned costs of \$94,081. On February 10, 2009, DCED’s legal counsel asked for a hearing to dispute these questioned costs. On January 29, 2009, DPW paid this portion back to HHS since the original noticed co-mingled the return of funds. If the appeal is denied, DCED will then return the funds to DPW.</p>
06-55	DCED Does Not Adequately Review Weatherization Assistance Program Expenditures for Accuracy Prior to Approving Local Agency Grant Payments	HHS	Unresolved – DCED implemented a computer database system that will provide comprehensive job costs for each of the agencies in real time, including administrative costs, training and technical assistance costs, health and safety costs, and vehicle and equipment uses. The system was rolled out in four phases from October 7 – November 18, 2008. Agencies are currently in various stages of utilizing the system. DCED hopes to be fully up and running in FY 2009-10. The system will also provide the information that is needed for federal reports.

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## Summary Schedule of Prior Audit Findings – June 30, 2008

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (Continued)</b>			
06-56	Weaknesses in Contracting for Services Exist at Local Agencies	HHS	Unresolved – DCED reviewed and approved all grantees’ procurement procedures. A policy directive on minimum acceptable procurement and bidding requirements was also issued. This area will also be reviewed on monitoring visits.
06-57	The Most Vulnerable and Needy Pennsylvanians Do Not Always Receive Priority and are Waiting up to Nine Years to Receive Weatherization Services	HHS	Unresolved – DCED developed a new point scoring system to prioritize homes for weatherization services. The system was implemented in November 2007. To address the backlog, DCED worked with DPW to increase funds for the program.
06-58	DCED Failed to Adequately Monitor Local Agencies	HHS	Unresolved – DCED has developed a Monitoring Guidelines/Procedures Manual that covers standards and practices such as client eligibility and file documentation, and administrative and fiscal procedures. It was issued to local agencies and monitoring staff for implementation on July 1, 2008. It was further revised from July to December of 2008. Monitors are currently using the new procedures. HHS letter of January 12, 2009 states that the auditors should verify in the next audit that policies and procedures have been implemented to ensure that agencies are properly monitored and procedures are adequately documented.
06-59	Weaknesses in Internal Controls Over Subgrantees Result in \$37,772 in Questioned Costs (Prior Year Finding #05-33)	HHS	Unresolved – DCED has drafted a revised invoicing format that should address this audit concern and will proceed with proper Departmental approvals of the form to determine whether it would adequately address the finding and then develop appropriate protocols to monitor. The revised invoice form is going through the appropriate process for printing, after which we will revise the directive for invoicing. HHS letter of January 13, 2009 requests return of the questioned costs of \$37,772. On February 10, 2009, DCED’s legal counsel asked for a hearing to dispute these questioned costs. On April 28, 2009, DCED returned the above questioned costs to HHS, pending the appeal.
06-60	Weaknesses in Internal Controls Over DCED On-Site Monitoring of Subgrantees	HHS	Unresolved – DCED has reinstated its monitoring tracking log that maintains records of monitoring dates, reports received, transmittal dates, response due dates, and the date of the final close-out letter. HHS letter of January 13, 2009 states that auditors should verify in the next audit that procedures have been implemented.

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FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF EDUCATION (PDE)</b>			
06-29	Internal Control Weaknesses in PDE Scheduling of On-Site Monitoring Visits to LEAs	USDE	Unresolved – Corrective action has been taken. PDE has provided additional documentation to USDE September 28, 2007 and is awaiting a Program Determination Letter.
06-30	Inadequate Controls Over PDE’s Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #05-21)	USDE	Unresolved – Corrective action has been taken. PDE provided additional information to USDE on December 3, 2008 and is awaiting a Program Determination Letter.
06-31	Inadequate Controls Over Ensuring LEA Compliance With MOE Requirements	USDE	Unresolved – Corrective action has been taken. PDE has provided additional information to USDE on September 28, 2007 and is awaiting a Program Determination Letter.
06-32	PDE Allocated VOC ED Funds to Subrecipients Based on Outdated Statistical Data (Prior Year Finding #05-23)	USDE	Resolved – Corrective action has been taken. Closed per USDE letter of October 1, 2008.
06-33	Errors and Internal Control Weaknesses in PDE VOC ED Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (Prior Year Finding #05-22)	USDE	Resolved – Corrective action has been taken. Closed per USDE letter of October 1, 2008.
06-37	Internal Control Weaknesses in the OMB Circular A-133 Subrecipient Audit Monitoring System	USDE	Unresolved – Corrective action has been taken. PDE has provided additional documentation to USDE September 28, 2007 and is awaiting a Program Determination Letter.
06-38	Internal Control Weakness in PDE’s Monitoring of Federal Earmarking Requirements	USDE	Unresolved – Corrective action has been taken. PDE has provided additional documentation to USDE September 28, 2007 and is awaiting a Program Determination Letter.
06-39	Noncompliance Noted in PDE’s Allocations of Reading First Subgrant Awards to LEAs	USDE	Unresolved – Corrective action has been taken. PDE has provided additional documentation to USDE September 28, 2007 and is awaiting a Program Determination Letter.
06-41	Internal Control Weaknesses and Noncompliance With Earmarking Requirements Result in Questioned Costs of \$1,669,416	USDE	Unresolved – Corrective action has been taken. PDE has provided additional documentation to USDE September 28, 2007 and is awaiting a Program Determination Letter.

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## Summary Schedule of Prior Audit Findings – June 30, 2008

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF HEALTH (DOH)</b>			
06-43	Noncompliance and Internal Control Weakness Regarding Semi-Annual Certifications for Personnel Costs (Prior Year Finding #05-26)	HHS	Resolved – Closed per HHS/CDC letter of October 30, 2008.
06-44	Weaknesses in DOH Program Monitoring of CDC Subgrantees (Prior Year Finding #05-27)	HHS	Resolved – Closed per HHS/CDC letter of October 30, 2008.
06-69	DOH Did Not Perform On-Site Monitoring of HIV Subgrantees	HHS	Resolved – Closed per HHS letter of September 26, 2008.
<b>PENNSYLVANIA INSURANCE DEPARTMENT (PID)</b>			
06-67	Internal Control Weakness in PID Procedures to Ensure Actuarial Soundness of Monthly Premium Rates (Prior Year Finding #05-39)	HHS	Unresolved – See response to Finding 07-61.
06-68	PID Did Not Perform Adequate Monitoring of CHIP Subrecipient Insurance Providers (Prior Year Finding #05-38)	HHS	Unresolved – See response to Finding 07-62.
<b>DEPARTMENT OF LABOR AND INDUSTRY (L&amp;I)</b>			
06-23	Weaknesses Exist in the SAP FARS Replacement System Resulting in Questioned Costs of \$1,023,100 (Prior Year Finding #05-12)	DOL	Resolved – This finding was closed per USDOL Final Determination Letter dated June 17, 2008. The Commonwealth was liable for only \$64,886 of the questioned costs. This reduced amount was remitted to USDOL on November 5, 2008.
06-24	Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (Prior Year Finding #05-15)	DOL	Resolved – This finding was determined to be corrected by USDOL in their Final Determination Letter dated June 17, 2008.
06-25	Unallowable Benefit Payments Result in Questioned Costs of \$638 (Prior Year Finding #05-16)	DOL	Unresolved – Planning and development of the benefits portion of the TRA continues to be ongoing within the Department’s Unemployment Insurance electronic system modernization project. The questioned costs of \$638 were remitted to USDOL on November 5, 2008.
06-34	A Weakness Exists in L&I’s Procurement System Related to Debarment and Suspension (Prior Year Finding #05-25)	USDE	Unresolved – Coordination towards resolution is ongoing between the Department of Labor & Industry and USDE.
06-35	Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs	USDE	Unresolved – Coordination towards resolution is ongoing between the Department of Labor & Industry and USDE.

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## Summary Schedule of Prior Audit Findings – June 30, 2008

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF LABOR AND INDUSTRY (Continued)</b>			
06-36	Internal Control Weakness Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA Results in \$64,177 in Unsupported Program Income	USDE	Unresolved – Coordination towards resolution is ongoing between the Department of Labor & Industry and USDE.
<b>DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)</b>			
06-20	Noncompliance and Weakness in Internal Control Over Charging of Personnel Costs	DOD	Unresolved – DOD letter of September 5, 2008 indicated that six of eight recommendations had been implemented. The remaining two would be monitored and follow-up would be performed as part of the subsequent audit.
<b>PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)</b>			
06-22	Internal Control Weaknesses and Noncompliance in PEMA’s Subrecipient Monitoring (Prior Year Finding #05-11)	DHS	<p>Unresolved – PEMA is mapping the entire DHS grant program which will determine the grant flow process and identify gaps. The final process will include the following:</p> <ul style="list-style-type: none"> <li>• Individual(s) responsible for performing and coordinating monitoring activities.</li> <li>• Written guidance or procedures for performing monitoring activities.</li> <li>• Written plan or schedule for monitoring.</li> <li>• Documented quantifiable goals or criteria to determine the effectiveness of each grant specific to each grant year.</li> <li>• Subrecipient monitoring or financial or programmatic performance of effectiveness.</li> </ul> <p>The scheduled completion date of the mapping is March 31, 2009. Following the completion of the mapping process, PEMA plans on implementing an e-Grant system.</p>
06-71	Internal Control Weaknesses in PEMA’s System of Cash Management and Federal Reporting (Prior Year Finding #05-19)	DHS	Unresolved – PEMA will not advance funds on large projects. As large projects are worked on and applicant submits actual costs for reimbursement, PEMA will determine eligibility and then costs will be paid. PEMA has not yet received a response from DHS on this finding.

# COMMONWEALTH OF PENNSYLVANIA

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FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>			
06-18	Internal Control Weaknesses at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #05-2)	HHS	Resolved – Closed per HHS letter of October 31, 2008.
06-45	DPW Did Not Specify CFDA Number and Other Required Award Information in Subrecipient Award Documents, Resulting in Noncompliance with OMB Circular A-133	HHS	Unresolved – On June 24, 2008, DPW submitted a response to HHS’s initial determination letter of April 4, 2008. Awaiting federal audit resolution action.
06-46	Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (Prior Year Finding #05-28)	HHS	Resolved – Closed per HHS/ACF letter of September 2, 2008. Finding was not repeated in subsequent audit.
06-47	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #05-29)	HHS	Unresolved – HHS/ACF sent a determination letter dated September 2, 2008, to the DPW stating that they agree with the auditor’s recommendations. However, based on the ACF review of case files, the DPW has a 92% accuracy rate, which results in a recalculation of the ACF penalty to \$2,133,678.
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 – HHS/ACF determination letter of September 2, 2008 states that they agree with the auditor’s recommendations and will request the sampling done by the DPW’s quality control section to determine if corrective action has been achieved. At that time, ACF will take appropriate action to recover costs and enforce any penalties required.
06-49	Systemic Weaknesses Exist in LIHEAP That Resulted in Potential Fraud and Abuse and Questioned Costs	HHS	Unresolved – HHS letter of January 12, 2009 requests return of questioned costs of \$475,974. Questioned costs were returned on January 29, 2009; however, DPW has filed an appeal on that date.
06-50	Control Weaknesses Found in Administering LIHEAP Cash Benefits Result in Questioned Costs	HHS	Unresolved – HHS letter of January 12, 2009 indicates that the DPW’s corrective action plan has been reviewed and the auditors should verify implementation of that plan in the next audit.
06-51	Control Weaknesses Found in Administering LIHEAP Crisis Benefits Result in Questioned Costs	HHS	Unresolved – HHS letter of January 12, 2009 indicates that the DPW’s corrective action plan has been reviewed and the auditors should verify implementation of that plan in the next audit.
06-52	DPW Failed to Adequately Monitor the Processing of LIHEAP Applications	HHS	Unresolved – HHS letter of January 12, 2009 indicates that the DPW’s corrective action plan has been reviewed and the auditors should verify implementation of that plan in the next audit.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2008

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF PUBLIC WELFARE (Continued)</b>			
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 – HHS/ACF sent a determination letter dated October 20, 2008, to the DPW stating that the Infant/Toddler Earmarking Requirement cannot be supported. As requested by ACF, the DPW returned questioned costs totaling \$3,135,166 for FFY 2004 and \$2,276,806 for FFY 2005 on November 18, 2008; however, the DPW has appealed this determination.
06-62	Weaknesses in DPW Program Monitoring of Subgrantees (Prior Year Finding #05-34)	HHS	Unresolved – HHS/ACF letter of October 20, 2008 states that ACF concurs with the auditor’s recommendation and will review corrective action in the subsequent audit.
06-63	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #05-36)	HHS	Unresolved – DPW has submitted a response to HHS’s initial determination letter of April 4, 2008. PHHS has met with the Office of Children, Youth and Families (OCYF) to address system requirements connected with OCYF’s development of a system, which requires the submission of electronic foster care invoices. System processes are being developed that will identify any duplicate claims between the initial and supplemental invoices. The system is expected to be in operation beginning July 1, 2008. 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 – DPW has submitted a response to HHS’s initial determination letter of April 4, 2008. 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 – DPW has submitted a response to HHS’s initial determination letter of April 4, 2008. PHHS implemented a process to examine supporting documentation for charges to the Social Services Block Grant (SSBG) for costs incurred at DPW’s YDC’s to ensure that charges to the SSBG are properly supported. Awaiting federal audit resolution action.
06-70	Weaknesses in Internal Controls Over Eligibility Determinations Result in an Undetermined Amount of Questioned Costs Up To \$27,118,545 (Prior Year Finding #05-41)	HHS	Resolved – Closed per HHS letter of September 26, 2008. Questioned costs have been waived.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2008

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF PUBLIC WELFARE (Continued)</b>			
06-72	Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (Prior Year Finding #05-45)	HHS	Unresolved – DPW submitted additional information in response to HHS's initial determination letter of April 4, 2008. Awaiting federal audit resolution action.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2008

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
<b><u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2005:</u></b>			
<b>OFFICE OF THE BUDGET (OB)</b>			
05-3	Internal Control Weakness Over Submission of SF-269 Financial Status Report to USDA	USDA	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued and USDA is not currently following up on the finding.
05-6	Internal Control Weakness Over Expenditure Information Reported by PHHS Comptroller on the SEFA and Statewide Subrecipient Payment Records	HHS	Resolved – Closed per HHS/OARCP letter of January 31, 2007.
05-10	Internal Control Weakness in Reporting Expenditure Information on the SEFA	DHS	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued and DHS is not currently following up on the finding.
05-18	Weaknesses in PPR Comptroller Office Internal Controls Over Federal Reporting (Prior Year Finding #04-14)	DHS	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued and DHS is not currently following up on the finding.
05-46	Weaknesses in Cash Management System Cause Noncompliance With CMIA and at Least a \$560,548 Known Understatement of the CMIA Interest Liability (Prior Year Finding #04-37)	HHS	Unresolved – Additional information provided to HHS in a letter dated October 3, 2006. Resolution of this finding is related to the resolution of finding 06-74, so this finding remains open as of December 31, 2008.
<b>DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)</b>			
05-7	Performance/Evaluation Report Submitted to HUD Was Inaccurate	HUD	Closed – DCED recommends that this finding should be closed based on OMB Circular A-133, paragraph 315(b)(4). More than two years have passed since the finding was issued and HUD is not currently following up on this finding.
05-8	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #04-6)	HUD	Unresolved – DCED has made progress in meeting its monitoring requirements and continues to make progress in reducing the backlog of monitoring reports that accumulated over prior years.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2008

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
<b>DEPARTMENT OF EDUCATION (PDE)</b>			
05-20	PDE Does Not Properly Monitor LEAs for Compliance With Title I Comparability Requirements	USDE	Resolved – Closed per USDE letter of September 29, 2008.
05-21	Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #04-18)	USDE	Unresolved – Corrective action has been taken. PDE provided additional documentation to USDE December 3, 2008 and is awaiting a Program Determination Letter.
05-22	Errors and Internal Control Weaknesses in PDE's VOC ED Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (Prior Year Finding #04-19)	USDE	Resolved – Closed per USDE letter of October 1, 2008.
05-23	PDE Allocated VOC ED Funds to Subrecipients Based on Outdated Statistical Data (Prior Year Finding #04-20)	USDE	Resolved – Closed per USDE letter of October 1, 2008.
05-24	Unallowable Use of Subgrantee Equipment and Uncollected Questioned Costs of \$62,941	USDE	Resolved – Closed per USDE letter of October 1, 2008. Questioned costs in the amount of \$62,941 were received by PDE in December 2006 and refunded to USDE on February 12, 2007.
<b>DEPARTMENT OF ENVIRONMENTAL PROTECTION (DEP)</b>			
05-9	Noncompliance With OMB Circular A-133 Pass-Through Entity Requirements	DOI	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued and DOI is not currently following up on the finding. Corrective action has been taken.
<b>DEPARTMENT OF HEALTH (DOH)</b>			
05-43	An Internal Control Weakness Exists in DOH's Subrecipient Audit Resolution Process	HHS	Resolved – Closed per HHS/OARCP letter of January 31, 2007.
<b>DEPARTMENT OF LABOR AND INDUSTRY (L&amp;I)</b>			
05-12	Weaknesses Exist in the SAP FARS Replacement System Resulting in an Undetermined Amount of Questioned Costs up to \$17,731,902 (Prior Year Finding #04-8)	DOL	Resolved – Resolution of this finding was contingent upon the outcome of the 2006 Single Audit. That year's finding was resolved in the USDOL Final Determination Letter dated June 17, 2008. The associated questioned costs have been waived.
05-25	A Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #04-21)	USDE	Unresolved – Coordination towards resolution is ongoing between the Department of Labor & Industry and USDE.
05-44	An Internal Control Weakness Exists in L&I's Subrecipient Audit Resolution Process	HHS	Resolved – Closed per HHS/OARCP letter of January 31, 2007.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2008

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)</b>			
05-11	Unallowable Equipment Purchases Result in Questioned Costs of \$2,625 and Internal Control Weaknesses and Noncompliance in PEMA's Subrecipient Monitoring	DHS	Closed – PEMA has received documentation for the questioned costs of \$2,625 and the expenditure is allowable under the grant program. Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued and DHS is not currently following up on the finding.
05-19	Internal Control Weaknesses in PEMA's System of Cash Management	DHS	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued and DHS is not currently following up on the finding.
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>			
05-2	Internal Control Weaknesses at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #04-3)	HHS	Unresolved – Addressed in HHS/OARCP letter of January 31, 2007. Awaiting federal audit resolution action.
05-28	Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (Prior Year Finding #04-23)	HHS	Resolved – Closed per HHS/ACF letter of September 2, 2008.
05-29	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #04-24)	HHS	Unresolved – HHS/ACF sent a determination letter dated September 2, 2008, to the DPW stating that they agree with the auditor's recommendations. However, based on the ACF review of case files, the DPW has a 92% accuracy rate, which results in a recalculation of the ACF penalty to \$2,133,678.
05-30	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Questioned Costs of \$271,758	HHS	Unresolved – HHS/ACF determination letter of September 2, 2008 states that they agree with the auditor's recommendations and will request the sampling done by the DPW's quality control section to determine if corrective action has been achieved. At that time, ACF will take appropriate action to recover costs and enforce any penalties required.
05-31	Internal Control Weaknesses in the Administration of Child Support Enforcement Program Collections	HHS	Unresolved – Additional information provided to HHS Resolution Official on September 21, 2006 and September 25, 2006. Awaiting federal audit resolution action.
05-34	Weaknesses in DPW Program Monitoring of Subgrantees (Prior Year Finding #04-29)	HHS	Unresolved – Additional information provided to HHS Resolution Official on September 21, 2006 and September 25, 2006. Awaiting federal audit resolution action.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2008

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF PUBLIC WELFARE (Continued)</b>			
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 – HHS/ACF sent a determination letter dated October 20, 2008, to the DPW stating that the Infant/Toddler Earmarking Requirement cannot be supported. As requested by ACF, the DPW returned questioned costs totaling \$3,135,166 for FFY 2004 and \$2,276,806 for FFY 2005 on November 18, 2008; however, the DPW has appealed this determination.
05-36	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #04-30)	HHS	Unresolved – Additional information provided to HHS Resolution Official on September 21, 2006 and September 25, 2006. Awaiting federal audit resolution action.
05-37	DPW Office of Children, Youth and Families Documentation Supporting the Licensing of Foster Care and Adoption Assistance Agencies is Incomplete	HHS	Unresolved – Additional information provided to HHS Resolution Official on September 21, 2006 and September 25, 2006. Awaiting federal audit resolution action.
05-40	Internal Control Weaknesses in the Administration of the MA Program (Prior Year Finding #04-32)	HHS	Unresolved – Additional information provided to HHS Resolution Official on September 21, 2006 and September 25, 2006. Awaiting federal audit resolution action.
05-45	Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports	HHS	Resolved – Closed per HHS/OARCP letter of January 31, 2007.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2008

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
<b><u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2004:</u></b>			
<b>DEPARTMENT OF EDUCATION (PDE)</b>			
04-16	Internal Control Weakness in Monitoring Subrecipient Compliance With Maintenance of Effort Requirements	USDE	Unresolved – Corrective action has been taken. PDE provided additional documentation as requested in the Program Determination Letter dated September 21, 2006 from USDE and is awaiting a final determination.
04-17	Inadequate Controls in PDE's On-Site Monitoring of Subrecipients	USDE	Unresolved – Corrective action has been taken. PDE provided additional documentation as requested in the Program Determination Letter dated September 21, 2006 from USDE and is awaiting a final determination.
04-18	Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card	USDE	Unresolved – Corrective action has been taken. PDE provided additional documentation as requested in the Program Determination Letter dated September 21, 2006 from USDE and is awaiting a final determination.
04-19	Errors and Internal Control Weaknesses in PDE's VOC-ED Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (Prior Year Finding #03-15)	USDE	Resolved – Corrective action has been taken. Closed per USDE letter of October 1, 2008.
04-20	PDE Allocated VOC-ED Funds to Subrecipients Based on Outdated Statistical Data	USDE	Resolved – Corrective action has been taken. Closed per USDE letter of October 1, 2008.
<b>DEPARTMENT OF LABOR &amp; INDUSTRY (L&amp;I)</b>			
04-8	Weaknesses Exist in the FARS and SAP FARS Replacement Systems Resulting in an Undetermined Amount of Questioned Costs up to \$4,484,751	DOL	Resolved – Resolution of this finding was contingent upon the outcome of the 2006 Single Audit. That year's finding was resolved in the USDOL Final Determination Letter dated June 17, 2008. The associated questioned costs have been waived.
04-21	A Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #03-17)	USDE	Resolved – Closed per USDE letter of December 16, 2008.
04-22	Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs	USDE	Resolved – Closed per USDE letter of December 16, 2008.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2008

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>			
04-23	Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (Prior Year Finding #03-20)	HHS	Resolved – Closed per HHS/ACF letter of September 2, 2008.
04-24	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #03-21)	HHS	Unresolved – HHS/ACF sent a determination letter dated September 2, 2008, to the DPW stating that they agree with the auditor’s recommendations. However, based on the ACF review of case files, the DPW has a 92% accuracy rate, which results in a recalculation of the ACF penalty to \$2,133,678.
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 – HHS/ACF sent a determination letter dated October 20, 2008, to the DPW stating that the Infant/Toddler Earmarking Requirement cannot be supported. As requested by ACF, the DPW returned questioned costs totaling \$3,135,166 for FFY 2004 and \$2,276,806 for FFY 2005 on November 18, 2008; however, the DPW has appealed this determination.
04-29	Weaknesses in DPW Monitoring of Subgrantees Results in \$4.8 Million in Excess Subgrantee Federal Cash at June 30, 2004 (Prior Year Finding #03-24)	HHS	Unresolved – Additional comments and information provided to HHS Resolution Official on September 21, 2006. Awaiting federal audit resolution action.
04-30	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients	HHS	Unresolved – Additional information provided to HHS Resolution Official on December 14, 2005. By ACF correspondence dated March 30, 2006, the results of OCYF’s review must be provided within 30 days of the letter date. DPW review provided by letter dated May 8, 2006, and any additional corrective action will be assessed in the subsequent year audit. Awaiting federal audit resolution action.
04-32	Internal Control Weaknesses in the Administration of the MA Program	HHS	Unresolved – By correspondence dated January 20, 2006, HHS-CMS requested assurance that access to the PROMISE System is adequately restricted, and that computer system hardware, software, and data are adequately safeguarded. DPW provided assurance by correspondence dated March 28, 2006. Awaiting federal audit resolution action.

# COMMONWEALTH OF PENNSYLVANIA

## Summary Schedule of Prior Audit Findings – June 30, 2008

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
<b><u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2003:</u></b>			
<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>			
03-20	Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (Prior Year Finding #02-23)	HHS	Resolved – Closed per HHS/ACF letter of September 2, 2008.
03-21	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #02-24)	HHS	Closed – HHS is not currently following up on this finding. Resolution is being tracked under similar findings in subsequent audits (see Findings 04-24, 05-29 and 06-47). A TANF penalty that was imposed as a result of this finding has been reduced.
03-23	Internal Control Weaknesses and Noncompliance With Federal Earmarking Requirements Result in Questioned Costs of \$3,224,570 (Prior Year Finding #02-27)	HHS	Closed – HHS is not currently following up on this finding. Resolution is being tracked under similar findings in subsequent audits (see Findings 04-28, 05-35 and 06-61).

### **FINDINGS FOR THE YEAR ENDED JUNE 30, 2002:**

<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>			
02-23	Lack of Documentation to Support Compliance with Federal Welfare Reform Regulations (Prior Year Finding #01-13)	HHS	Resolved – Closed per HHS/ACF letter of September 2, 2008.
02-24	Inaccurate Reporting on the TANF ACF-199 Report (Prior Year Finding #01-14)	HHS	Closed – HHS is not currently following up on this finding. Resolution is being tracked under similar findings in subsequent audits (see Findings 04-24, 05-29 and 06-47). A TANF penalty that was imposed as a result of this finding has been reduced.

### **FINDINGS FOR THE YEAR ENDED JUNE 30, 2001:**

<b>DEPARTMENT OF PUBLIC WELFARE (DPW)</b>			
01-14	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #00-11)	HHS	Closed – HHS is not currently following up on this finding. Resolution is being tracked under similar findings in subsequent audits (see Findings 04-24, 05-29 and 06-47). A TANF penalty that was imposed as a result of this finding has been reduced.

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# Corrective Action Plans



Commonwealth of Pennsylvania



# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Corrective Action Plans - Financial Statement Findings - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
08-1	LECS	<p><b>Internal Control Weakness Over Financial Reporting in the Unemployment Compensation Fund (Prior Year Finding #07-2)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
08-2	OB OA	<p><b>Lack of Documentation to Support Contracting and Procurement (Prior Year Finding #07-11)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
08-3	CS	<p><b>Weakness in BFS Reporting of Capital Facilities Fund Encumbrances by CS Comptroller Office</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
08-4	LECS	<p><b>Weakness in BFS Reporting of DCED Encumbrances by LECS Comptroller Office (Prior Year Finding #07-13)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
08-5	CS	<p><b>Accruals in the BFS Are Not Properly Reviewed for Accuracy</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
08-6	OB/BFM PADOT	<p><b>Lack of Procedures to Monitor, Assess, and Report the Impact of Highway and Bridge Infrastructure Replacement Activity in the BFS (Prior Year Finding #07-4)</b></p> <p>PennDOT Finance has requested, and received, materials usage data from our Engineers for 2003 through 2008. Included in the data received are the following metrics: total asphalt usage in tons, asphalt wearing surface usage in tons, asphalt binder course usage in tons, asphalt base course usage in tons, concrete usage in cubic yards, cost data for asphalt and concrete purchases on a per ton and per cubic yard basis, estimated useful life estimates for asphalt wearing surfaces and concrete and average asphalt tonnage consumption per linear mile paved.</p> <p>Finance will be meeting with Office of the Budget, Bureau of Financial Management by May 2009 to discuss this various data recently gathered. Finance will recommend that the data be used to calculate a macro-level adjustment “factor” to be used annually to write-down fixed asset balances. The acceptance of the data, design of the calculations and timing of the adjustments must be approved by Office of the Budget prior to implementation.</p>
08-7	PADOT	<p><b>Internal Control Weaknesses Over Financial Reporting for Assets Under Construction and Highway/Bridge Infrastructure Accounts</b></p> <p>PennDOT Finance has implemented a monthly process in which phase 1 costs are identified and expensed. This process began in July 2008, prior to the audit finding, and is being conducted once a month. Phase 1 cost balances in Assets Under Construction on March 27, 2009, were approximately \$500,000.</p>

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Corrective Action Plans - Financial Statement Findings - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-7 (continued)</b>		<p>Finance has implemented a monthly process in which phase 9 costs are reviewed in order to determine proper accounting treatment. Due to some items qualifying for capitalization, while others should be expensed for accounting purposes, the monthly evaluation is time-consuming. The phase 9 balance in Assets Under Construction on March 27, 2009 was approximately \$20M. Finance will continue monthly processing with the goal of reducing the non-capitalizable balance to below \$500,000 by June 30, 2009.</p> <p>Regarding the miscoded GL accounts resulting in unsettled costs, Finance has manually generated the data to allow settlement of these costs. Approximately \$80M of these monies have been settled out of Assets Under Construction as of March 27, 2009. We will continue to manually review these projects monthly in order to process as many as possible by June 30, 2009. With no methodology available to estimate how many projects were miscoded by other PennDOT entities, it is not possible to predict how many incremental projects will appear between March 27 and June 30, 2009.</p>
<b>08-8</b>	<b>PADOT</b>	<p><b>Inadequate Procedures to Properly Report Highway and Bridge Infrastructure Assets in the BFS</b></p> <p>PennDOT Finance separated the entire Assets Under Construction balance into districts in January 2009. All WBS elements within the district inventory were segregated by hybrid project and then converted into a “super” hybrid project by converting the roadway designator into a wild card.</p> <p>All the super hybrid projects were reviewed to determine whether any phase 7 or 8 activities had occurred. Phase 7 or 8 elements were then reviewed to see if final settlement rules had been entered into SAP. If so, phase 3 or 4 elements under the super hybrid were identified. If the phase 3 or 4 elements had a different roadway designator than the phase 7 or 8 elements, the rule used for phase 7 and 8 was inserted as a final rule for the phase 3 or 4 elements.</p> <p>As of March 27, 2009, the final settlement rules for district 1 have been processed. The rules for districts 2-12 will be loaded during March and April of 2009. Upon completion of the upload, the entire process will be run again, beginning with a new sort of the March 31, 2009 Assets Under Construction balances into districts.</p> <p>Finance plans on running the entire process and completing the second round of final rule entry by May 8, 2009. The third iteration will begin with a sort of the May 15, 2009 Assets Under Construction balance and entry of related final rules by June 15, 2009. A fourth iteration is planned for the week of June 15, with data entry completed by June 30, 2009.</p>
<b>08-9</b>	<b>OB/BFM</b>	<p><b>Internal Control Weakness Over Litigation Accruals</b></p> <p>No additional information provided. See <b>Agency Response</b> and Corrective Action Plan in the body of the finding.</p>

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Corrective Action Plans - Financial Statement Findings - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-10</b>	<b>PADOT</b>	<b>Internal Control Deficiency Over Lottery Fund Shared-Ride Program (Prior Year Finding #07-5)</b>  There are 59 grantees that receive funding from PennDOT for the shared-ride program. PennDOT is implementing a program in which the main goal will be that each of these grantees will receive on site monitoring at least every five years. PennDOT is currently finalizing a list of shared-ride providers that will be visited in the 2009-10 fiscal year. PennDOT expects to perform approximately a dozen site visits each fiscal year.  We have already started this program with site visits in 2009. So far in 2009, PennDOT has visited the Mifflin-Juniata Counties Call-A-Ride Service and the Northumberland County Transportation Department. A third visit is scheduled in April for Lackawanna County and another visit in May to Centre County. We believe that these site visits address the finding and the auditor's recommendation.
<b>08-11</b>	<b>CS</b>	<b>Internal Control Weaknesses Over Financial Reporting for the Lottery Fund (Prior Year Finding #07-6)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>08-12</b>	<b>L&amp;I/ SWIF</b>	<b>Noncompliance With Statutory Limits for Equity Investments (Prior Year Finding #07-1)</b>  The SWIF Board will continue to exercise its fiduciary responsibility by reviewing its securities and liquidating them from equities to fixed in order to come into compliance in such a manner as not to negatively impact its financial portfolio. The Board had already conducted a rebalancing that was implemented in 2008 which resulted in some movement from equities to fixed.
<b>08-13</b>	<b>OB/BFM</b>	<b>Internal Control Weaknesses Identified in Recording Securities Lending Obligations</b>  BFM will establish a control whereby one or more BFM employees will review proposed securities lending accounting entries before posting to ensure that the correct amounts are being posted. Then, after the securities lending entries are posted, a supervisory review will occur.
<b>08-14</b>	<b>OB/BFM TREAS</b>	<b>Internal Control Weaknesses in Investment Note Disclosure Reporting</b>  The Treasury Department recognizes the importance of proper classification of investments. The Treasury Department Comptroller's Office has established regular meetings with the Investment Center to identify new investments. Further, the Comptroller's Office will review investments recorded at BNY Mellon to ensure proper classification.
<b>08-15</b>	<b>DGS/ BRIM</b>	<b>Internal Control Weaknesses in Reporting Self-Insurance Liability in the BFS (Prior Year Finding #07-20)</b>  The Department of General Services, Bureau of Risk and Insurance is pleased to advise that an IFB (Invitation For Bid) has been completed for a certified property and casualty

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Corrective Action Plans - Financial Statement Findings - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-15 (continued)</b>		<p>actuarial service firm to develop on an annual basis, the Incurred But Not Reported (IBNR) projected amount, factor, and a summary of the actuarial methodology used to establish the IBNR calculation, in order to maintain adequacy of reserves for the self-insurance funds.</p> <p>Bids from five (5) highly qualified actuarial firms were received by the bid due date of June 10, 2009. The proposed bids are currently being reviewed by BRIM management and a vendor will be chosen and contractually secured before June 30, 2009. BRIM management spoke with the GAAP auditors from to confirm when the completed IBNR calculations will be needed for the 2009 GAAP Audit. We were given a date in September, but have requested that the chosen actuarial firm complete the IBNR calculations by August 21, 2009.</p>
<b>08-16</b>	<b>DCNR</b>	<p><b>Internal Control Weaknesses Over Accounting for Land Capital Asset Purchases Reported in the BFS</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
<b>08-17</b>	<b>TREAS</b>	<p><b>Internal Control Weakness Over Accounting for the OPEB Fund Investments in the Consolidated Cash Pool</b></p> <p>The Treasury Department recognizes the importance of proper classification of cash and investments. The Treasury Department Comptroller's Office has established regular meetings with the Investment Center to identify new investments. The Comptroller's Office will review postings to both TABS and Mellon to ensure proper classification.</p>
<b>08-18</b>	<b>PHHS</b>	<p><b>Internal Control Weaknesses Over Financial Reporting in the Department of Public Welfare GAAP Template (Prior Year Finding #07-17)</b></p> <p>The Bureau of Commonwealth Accounting (BCA) (includes the former Public Health and Human Services Comptroller's Office) Federal Accounting has modified its process for including the effects of federal disallowances when calculating fiscal year end federal receivables used in the preparation of the DPW GAAP template.</p> <p>Also, BCA has modified its GAAP template preparation and review process to ensure that reported amounts such as DPW's accounts receivable are properly accounted for in the GAAP template.</p> <p>BCA will require that the agencies provide estimates using reasonable and measurable estimation methodologies related to the Medicaid third party liability accounts receivable and other program office estimates with supporting documentation at a sufficient level of detail. In addition, BCA will perform a validation of such estimates before finalizing GAAP template entries.</p> <p>Regarding nursing home accounts receivable balances, it should be noted that although the agency used incorrect reports when calculating its nursing home accounts receivable balances, BCA identified this error as part of its analysis and review during the GAAP template preparation process. As a result, the actual receivable balances included in the GAAP template by BCA were correct and required no audit adjustment. BCA will work with the agency to ensure that it calculates the nursing home accounts receivable balances correctly in the future.</p>

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## ***Corrective Action Plans - Financial Statement Findings - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-18 (continued)</b>		Finally, BCA will include the liability owed to the county nursing facilities for the Medical Assistance Day One Incentive (MDOI) program when calculating the aggregate county nursing facilities payable balances in the preparation of future GAAP templates.
<b>08-19</b>	<b>OB OA</b>	<b>General Computer Controls in Various Commonwealth Agencies Need Improvement</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>08-20</b>	<b>OB/BFM</b>	<b>Internal Control Weakness in the Financial Accounting Records (Prior Year Finding #07-12)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>08-21</b>	<b>OA/IES OB/BFM</b>	<b>Statewide Weaknesses Within the SAP Accounting System Related to Segregation of Duties Conflicts (Prior Year Finding #07-21)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.

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## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
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<b>08-22</b>	<b>DPW</b>	<b>Internal Control Weaknesses at DPW Related to Returned EBT Cards (Prior Year Finding #07-23)</b>
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The following responses address the three recommendations contained in this finding:

1. The central processing of undeliverable and returned EBT cards has been formally documented which includes procedures that outline the return of the 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.
2. The recommendation that two staff be present for all steps of the process creates an unnecessary administrative redundancy, especially due to the fact that exact days on which returned cards are received are unknown. In addition, returned cards are inactive and can only be activated by the intended recipient upon providing specific detailed personal information, which would be unknown to the clerical staff obtaining and processing the returned cards.
3. To utilize DPW's EBT contractor to perform this function is under consideration. However, there would be a significant cost to DPW if this function is transferred to the contractor.

<b>08-23</b>	<b>DPW</b>	<b>Internal Control Deficiencies at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #07-22)</b>
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DPW has ensured that caseworkers receive additional training by utilizing e-learning modules offered through the Staff Development Program. Since the audit, DPW has increased the frequency of e-learning and established standards for successful completion of each e-learning module. Management will reinforce to staff the importance of following established DPW policies and procedures regarding eligibility determinations and re-determinations. Supervisors are continuing to complete Targeted Supervisory Reviews (TSR) and Rushmore reviews to further identify trends and determine where additional training is needed.

Current policy provided in the Cash Assistance Handbook does not require a review of *all* changes to income, but requires a review of changes to income of \$100 or more to adjust benefit levels. For food stamps, earned income is reviewed at application, SAR review, recertification, and when changes are reported through Income Eligibility and Verification System (IEVS) for TANF/GA or Medical, or by the household when income exceeds 130 percent of FPIGs. No greater frequency is required under state or federal rules.

As of May 24, 2007, DPW determined that it was not beneficial to collect auto insurance information as a third party resource. Information required by our Third Party Liability program is used to pursue claims with trauma diagnoses. This would also include trauma by other than auto accidents. Caseworkers are instructed to continue to complete a PA 176K/176KM and 173S with all pertinent accident information, thereby making documentation of auto insurance unnecessary.

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## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-23 (continued)</b>		<p>DPW continues to revise paper and online applications, SAR and renewal forms to ensure that clients and CAO staff clearly understand changes that must be reported to maintain welfare eligibility. Reporting requirement timeframes are aligned with other programs as much as possible for simplification. Clients increasingly use Customer Service Centers to report changes. IEVS internal system logic is being reviewed and updated.</p> <p>Participants in the Welfare-to-Work Program that are employed at a CAO are not granted access to CIS. An email was sent to all Area Managers on May 25, 2007 reiterating the Security Process Overview tool, and Area Managers were charged with ensuring proper completion of the tool by the CAOs. Currently, there are three Welfare-to-Work clients statewide performing duties at the CAOs; none of which have access to CIS. Although this issue has been repeatedly included in the audit, procedures and safeguards are in place and there is no evidence that a security breach has occurred.</p> <p>To ensure recipient compliance with court-order payment plans, DPW uses the IEVS which allows for the exchange of information with local courts and other authorities. IEVS Exchange 10 screens have been revised to make it easier for the caseworker to interpret the information on the screens. It is OIM's policy to review criminal history at application, reapplication, or if new information is received.</p> <p>A memorandum was issued on April 24, 2008 instructing all CAOs to complete CSRs and TSRs on a monthly basis. DPW continues to use the automated TSR that focuses on problematic areas identified through audit reviews, internal data reviews, and effective management strategies.</p> <p>DPW investigated the inconsistencies in family relationship information between the action screens and inquiry screens in MEDA. System logic deficiencies were identified and software updates have been implemented to correct existing and closed cases.</p>
<b>08-24</b>	<b>PDE</b>	<p><b>PDE Failed to Reconcile PEARS Meal Count and Expenditure Information to the SAP Accounting System</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> As mentioned in the Audit Finding, the Pennsylvania Department of Education (PDE) had already started completing monthly reconciliations as of January 2008. However, the practice was that only the most recent month's reconciliation was maintained once the current month was reconciled and the previous month was overridden. Beginning January 2009, monthly reconciliations were performed as usual and monthly documentation is being maintained.</p> <p>Per the United States Department of Agriculture (USDA) recommendations from the Financial Management Review conducted in March 2008, procedures for the PDE's Division of Food and Nutrition to determine the amount of unliquidated obligations for inclusion in line K of the SF-269 report were implemented as of the SF-269 report due to USDA in August 2008 for the third quarter of Federal Fiscal Year 2008 (April – June 2008). These amounts are being maintained through an Excel spreadsheet. The Office of the Auditor General's auditors observed the implementation of this procedure during their review of this current audit period. As of August 2008, supporting documentation for these SF-269 quarterly reports has been maintained electronically.</p>

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-24</b> <b>(continued)</b>		<p><b>Description of Monitoring:</b> Supervisor for Budget Analyst 3 will review monthly reconciliations and SF-269 documentation on a quarterly basis beginning July 2009, which is the third quarter of the 2009 Federal Fiscal Year.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Budget Analyst 3</p> <p><b>Anticipated Completion Date for Corrective Action:</b> As described above, the procedures have already been implemented.</p>
<b>08-25</b>	<b>DOH</b>	<p><b>Noncompliance and Internal Control Weaknesses Related to Voided Food Instrument Follow-Up Results in Likely Questioned Costs Over \$10,000 (Prior Year Finding #07-24)</b></p> <p>DOH will pursue resolution of the known and potential questioned costs in this finding with USDA's FNS. No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
<b>08-26</b>	<b>DPW</b>	<p><b>Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs (Prior Year Finding #07-49)</b></p> <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"><li>- 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.</li><li>- October 2007: Implemented PA WORKWEAR (PAWW), currently operating in 44 counties. In these counties, CAOs no longer issue payments for work/training appropriate clothing to individuals; instead, the participant gets a voucher that can only be redeemed at PAWW. To date in FY 08/09, DPW saved \$6.5 million (72 percent) over FY 07/08 through this initiative.</li><li>- January 2008: Stopped issuing recurring special allowances for transportation; CAOs verify participation and issue a monthly allowance only if the individual is participating as required.</li><li>- 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.</li><li>- August 2008: Implemented system changes to improve accuracy in coding and tracking special allowances; updated and consolidated Special Allowance policies and guidance for CAOs.</li><li>- 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.</li></ul>

Revised Special Allowance regulations are expected to be promulgated in the fall of 2009 that will significantly improve accountability and integrity. Examples of key changes are:

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## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-26</b> <b>(continued)</b>		<ul style="list-style-type: none"><li>- Assure 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.</li><li>- Assure that special allowances are issued only for actual costs by eliminating set amounts and allowing payment only for actual cost.</li><li>- Reduce 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).</li><li>- Establish recoupment of payments from recipients if payments are not used for the intended purpose or where other instances of fraudulent activity are found.</li></ul> <p>OIM is currently reviewing and revising Special Allowance policies and processes to ensure proper supervisory review and oversight is being conducted. Targeted supervisory reviews will be conducted, focusing on proper data entry and identifying error trends. Additionally, the current process of supervisory review and sign-off before a special allowance is authorized is being reemphasized.</p> <p>Special Allowance authorizations are tracked in the Client Information System (CIS) by issuance codes and dates. DPW staff will review policies and procedures with supervisory and Income Maintenance Case Worker staff to ensure verification is received and reviewed. Additional policies and procedures are being developed to strengthen this process.</p> <p>OIM's Bureau of Program Evaluation, Division of Corrective Action (DCA) conducts an annual internal monitoring review of Electronic Benefits Transfer (EBT) card protocols based on direction provided by the USDA, Food and Nutrition Service (FNS) in the Management Evaluation Review. FNS provides DCA with a table of mandatory target areas and a description of the pertinent review objectives. The results of these internal reviews are used to develop corrective action plans for individual CAOs as appropriate.</p>
<b>08-27</b>	<b>DMVA</b>	<b>Noncompliance and Deficiencies in Internal Control Over Charging of Personnel Costs (Prior Year Finding #07-25)</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>08-28</b>	<b>DMVA</b>	<b>Improper FFP Rate Results in Questioned Costs of \$44 and Likely Questioned Costs of Over \$10,000</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>08-29</b>	<b>DCED</b>	<b>DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #07-27)</b>  As stated in the agency response, monitoring of grantees and closing out completed projects will be priority tasks in the 2009 reporting period. All staff will be advised of the expectation to complete the monitoring schedule. All checklists will be completed in the future even if a segment of the report is not applicable, it will be noted on the checklist.  As for the closeout of the HOME and CDBG grants, each staff will continue to work on closing out at least 10 HOME grants this coming reporting period as well as 25 CDBG grant

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-29</b> (continued)		<p>contracts. We believe that this will be an adequate number this reporting period. The Division Chief will periodically review each grant manager's progress and provide any necessary guidance to keep on track with the monitoring goals.</p> <p>The development and implementation (May 2009) of the electronic tracking system will be a tool used by the Division Chief as well as each grant manager to monitor the work load and help effectively manage their work progress.</p>
<b>08-30</b>	<b>PPR</b>	<p><b>Internal Control Deficiency Over Expenditure Information Reported on the SEFA and Financial Status Reports by PPR Comptroller</b></p> <p>As the finding indicates, DMVA expenditures for the Homeland Security Grant Program were included on the SEFA twice. The double posting occurred because interagency reimbursement documents were posted using a general ledger account number that is not excluded from the SEFA. Comptroller Operations will ensure that interagency reimbursement documents are posted using the proper general account number so that the transfer of funds between state agencies is excluded from the SEFA.</p> <p>The \$2 million contribution that was received by PEMA from the local government is to be used to offset the cost of a standby generator. Since the amount of the contribution exceeded the applicable costs incurred by June 30, 2008, Comptroller Operations is tracking the project expenditures to ensure that only expenditures in excess of the contribution amount are reported as federal expenditures.</p> <p>As stated in the auditor's condition, the SEFA was corrected.</p>
<b>08-31</b>	<b>PEMA</b>	<p><b>Unallowable Equipment Purchase Results in Questioned Costs of \$10,204 and Internal Control Deficiencies and Noncompliance in PEMA's Subrecipient Monitoring (Prior Year Finding #07-28)</b></p> <p>PEMA has requested that DHS approve the \$10,204 for voice minutes. We are waiting for a response.</p> <p>PEMA has added one homeland security staff person to each of the three Area Offices and one to the headquarters office. These individuals will work directly with the subgrantees, reviewing their equipment lists to ensure they are in line with the State Homeland Security Strategy (SHSS) and that the lists address the gaps that have been identified in the yearly capability assessments. An equipment approval form is being developed for use in verifying eligibility of equipment requests, along with a process that will include review and sign off by the Area Offices, Bureau of Plans and Division of Grants Management/Homeland Security Grants Section. The new equipment approval form will be finalized for use with the 2009 Homeland Security Grant Program grant agreements.</p> <p>A monitoring visit schedule is being finalized for the 2009-2010 state fiscal year. It is anticipated that the first subgrantee monitoring visit will be during the fall of 2009.</p> <p>In an effort to accurately report non-cash assistance, a coding structure has been created at the procurement level through distinguishing identifiers for each county. This new coding structure begins on July 1, 2009.</p>

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## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-31</b> (continued)		<p>PEMA has developed a form for subgrantees to use for submitting the biannual Categorical Assistance Progress Report (CAPR). The report is due January 2 and July 2 of each year. PEMA will monitor submission of the reports. Failure to submit the CAPR will result in a stop payment of all open grants to the subgrantees. This new procedure will be implemented with the submission of the July 2, 2009 CAPRs.</p>
<b>08-32</b>	<b>PEMA</b>	<p><b>Noncompliance and Internal Control Deficiency Over Period of Availability Requirements Results in Questioned Costs of \$251,420 (Prior Year Finding #07-29)</b></p> <p>On February 24, 2009, PEMA published a Federal Grant Programs Administrative Manual. A grant closeout timeline is included in the Manual. Language from the grant closeout timeline is now included in all federal grant agreements between PEMA and its subgrantees. PEMA and its subgrantees will adhere to the grant closeout timeline to ensure that all expenditures are liquidated by the grant ending date. Additionally, PEMA will shorten the performance period of the grant agreements beginning with the 2010 grant award, which will also assist in the liquidation of expenditures by the grant ending date.</p> <p>PEMA will request an exception to the liquidation period for the SAP activity that occurred outside that State Homeland Security Grant Program Part II time period. This request will be made by June 30, 2009.</p>
<b>08-33</b>	<b>L&amp;I</b>	<p><b>Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (Prior Year Finding #07-30)</b></p> <p>The IT area receives notification from the IES and HR systems which would provide the notifications to the DLI security staff to deactivate any CWOPA user that leaves Commonwealth employment. Upon receipt of this notification, the DLI security team would disable the user from using any CWOPA system, which includes the CWDS system. What it does not cover is the transfer or re-assignments of duties of an existing user. It also would not send notifications of any business partner employee actions. Those actions must be handled either by distributed or central security administration and be completed timely. Further monitoring of this process will address sharing agreements, partner agreements and delegated security and office administrator responsibility statements.</p> <p>The programming will be changed to include training applications with statuses new to CWDS and based on the actual start date of the training, after the training was verified. The statuses include RA, SAR, RSA, T &amp; TT.</p> <p>Waiver errors will be rectified by expanding BR 181 to only revoke waivers that are eligible to be revoked, which must enforce a date check. This process should be implemented with the Trade 2009 changes of October 3, 2009.</p> <p>In reference to the TAA training during the Common Measure participation period, the OIT Federal Report Lead for CWDS presented an update at the ARRA conference to follow up with the region on what is expected of them as far as a resubmit goes for late entered data. A reminder was submitted to the Trade Regional Representative.</p> <p>The programming changes that need to be addressed for the co-enrollment deficiency will be implemented in the second quarter of 2009.</p>

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## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-33</b> <b>(continued)</b>		<p>In reference to the 563 sampling, we will provide the spreadsheet of individuals that will show which data items on the report where the individual was counted. The program area will make assurances to confirm that where the individual is counted is correct. If this is not correct, we will determine which items the individual should be counted in, and once this determination is made we can see where the error exists. The error could exist in the data that was input, in the job that extracted the data, in the job that loads the data for the report, or the way the report is counting the individual. This process could/would involve Program Area and OIT assistance. We anticipate having the spreadsheet of data available by the end of the month. The Program Area will notify us when they are able to begin testing the results that are produced.</p>
<b>08-34</b>	<b>L&amp;I LECS</b>	<p><b>Internal Control Weakness and Inaccurate Reporting on the ETA 9130 Reports</b></p> <p><b>L&amp;I Corrective Action Plan:</b> As noted in the Department's response, most revisions have been completed on this report to correct the programming inaccuracies with two remaining to be concluded in July 2009. Upon confirmation of those revisions, the Department will rerun the Accrual Summary Report for the period June 30, 2008 and the LECS Comptroller's Office will submit revised 9130 Reports from that time period forward to the present time to reflect the corrected accrued training expenditures. Additionally, reviews of the reports and the amounts will be monitored by Program and Comptroller staff to ensure accuracy in reporting.</p> <p><b>LECS Response:</b> No Additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
<b>08-35</b>	<b>PDE</b>	<p><b>PDE During-The-Award Monitoring Failed to Document and Ensure Subrecipient Compliance With Title I and Title II Regulations</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> The Pennsylvania Department of Education, Division of Federal Programs (DFP) has modified the online system that records the results from the on-site monitoring visits to ensure that no reports can be "locked" if there are incomplete responses by the monitor. The monitor will be directed to complete each section addressing all requirements.</p> <p>DFP staff responsible for the monitoring process will review the monitoring reports to ensure that all required items have responses, and that all areas marked "Not Met" have corresponding comments.</p> <p>The Philadelphia City School District is monitored every year, on-site, by a team of 20-30 educators. This on-site monitor encompasses all aspects of the federal programs administered by the DFP. While DFP monitors current year programs once a year, if changes to the programs are made after that visit or at the close-out of the grant, DFP will not know of these changes. The DFP will review the schedule of monitoring and the processes used to ensure that it is done as effectively and efficiently as possible.</p> <p><b>Description of Monitoring:</b> Staff directly involved with the review and processing of monitoring reports will be reminded to review all of the components of the completed instruments and to ensure that no information is missed or left blank.</p> <p><b>Titles of Officials Responsible for Corrective Action:</b> Division of Federal Programs,</p>

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<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-35</b> (continued)		<p>Monitoring Manager; Division of Federal Programs, Team Leader/Monitoring Manager; Division of Federal Programs, Clerk Typist 3</p> <p><b>Anticipated Completion Date for Corrective Action:</b> Corrections to the system have been completed. New checks in the monitoring system will be implemented with the review and approval of 2008/2009 monitoring reports and will continue in subsequent years.</p> <p>Changes that are needed for the monitoring of the Philadelphia City School District will be completed for the monitoring conducted in January/February 2010.</p>
<b>08-36</b>	<b>PDE</b>	<p><b>Inadequate Controls Over Ensuring Compliance With MOE Requirements (Prior Year Finding #07-33)</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> The Pennsylvania Department of Education, Division of Food and Nutrition submitted a Corrective Action Plan (CAP) in June 2008 for prior year audit Finding #07-33. As indicated in the CAP, the corrective action was implemented and would reflect audit review period 2008/2009. Therefore, the corrective action was not evident in the current year audit. The prior year's CAP information is provided below: (<i>Excerpts from prior year CAP</i>)</p> <p><i>These changes include:</i></p> <ol style="list-style-type: none"><li><i>Reassignment of responsibilities to improve management oversight of the MOE process;</i></li><li><i>Moving the timeline for the process up by six (6) months to ensure adequate time within the FY to complete and correct any areas of non-compliance;</i></li><li><i>Developing letters that will be sent to ALL LEAs upon completion of MOE calculations to inform them of their status with MOE—both compliance and non-compliance letters. This will provide LEAs annual MOE status which will assist the monitoring of expenditures and deter future MOE findings. This will also provide a formal notification to those out of compliance along with documenting guidance and instruction.</i></li></ol> <p><i>These new procedures will go into effect when Division of Federal Programs begins to look at MOE calculations review for the 2007/2008 school year (comparison of 2006/2007 and 2005/2006 AFR data). The 2008/2009 allocations will reflect reductions of LEAs out of compliance.</i></p> <p>As stated above, the corrective action has been implemented and will be reflected in the audit review for the 2008/2009 fiscal year.</p> <p><b>Description of Monitoring:</b> The Division of Federal Programs has revised its Maintenance of Effort (MOE) procedures as outlined above, but will continue to work with LEAs to rectify MOE situations, with the priority that that no funds are returned unless MOE requirements have been violated. The Division of Federal Programs staff will ensure that all non-compliance issues with LEAs are resolved by the end of each fiscal year.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Division of Federal Programs Fiscal Manager, Clerk Typist 3</p> <p><b>Anticipated Completion Date for Corrective Action:</b> Correction actions were completed August/September 2008 and again in June 2009.</p>

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## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
08-37	PDE LECS	<p><b>Inadequate PDE Monitoring Controls Over Subrecipient Compliance With Cash Management Regulations</b></p> <p><b>PDE Corrective Action Plan:</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> The Pennsylvania Department of Education, Division of Federal Programs (DFP) will no longer issue Ed Flex waivers to Local Education Agencies (LEAs) for interest earned on federal funds. The DFP will notify the LEAs previously awarded a waiver for interest earned of the new policy and inform them of the need to return any interest earned over \$100.</p> <p>The Pennsylvania Department of Education, Bureau of Special Education (BSE) will amend the Final Expenditure Report to include a question regarding the earned/retained interest in excess of \$100 on federal cash balances during the grant year. To be completed by August 7, 2009.</p> <p><b>Description of Monitoring:</b> The DFP Ed Flex Manager will ensure that no Ed Flex waivers are issued for interest earned. The DFP Division Chief will review annual Ed Flex report to ensure that no such waivers are approved. The BSE will review the procedures regarding returning funds quarterly to United States Department of Education and follow up with LEAs.</p> <p><b>Title of Officials Responsible for Corrective Action:</b> Division of Federal Programs, ED Flex Manager; Division of Federal Programs, Division Chief; Bureau of Special Education, Education Administration Supervisor</p> <p><b>Anticipated Completion Date for Corrective Action:</b> Immediately—The Division of Federal Programs has notified the Philadelphia City School District that there will no longer be any Ed Flex waivers approved and the Ed Flex Manager will not issue waivers for this in any other instance.</p> <p>November 30, 2009 – Completion of First Final Expenditure Review Process by the Bureau of Special Education.</p> <p><b>LECS Response:</b> No Additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
08-38	PDE	<p><b>Noncompliance and Inadequate Controls Over PDE’s Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #07-34)</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> The Executive Summary will be presented to the PDE Cabinet at the July meeting to request that the CSPR process be assigned to a specific PDE Deputy Secretary. To be completed by July 31, 2009.</p> <p>The Deputy Secretary will assign a Bureau Director and at least one staff member to initiate the PDE’s CSPR Procedures. To be completed by July 31, 2009.</p> <p>The lead Bureau Director will conduct a meeting, inviting all data-suppliers, where all data elements of the CSPR are discussed and assigned to individuals within the PDE. To be completed by August 31, 2009.</p>

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-38 (continued)</b>		<p>The lead Bureau Director will hold another meeting when the CSPR for 2008/2009 is released by United States Department of Education (USDE) to review any new data elements, the requirements for data verification, source document retention and submissions. To be completed upon release of the CSPR, usually October/November.</p> <p>The PDE Cabinet will receive a report regarding the status of the CSPR data collection. Beginning in December 2009 and continuing at a minimum of twice a year. The lead Bureau Director will maintain all source documents, correspondence and signed data verification forms from data-suppliers. To be completed by spring 2010.</p> <p><b>Description of Monitoring:</b> The lead Bureau Director will require ongoing reports from the other staff member charged with collecting data and communicating with data-suppliers. The lead Bureau Director will review all data prior to the submission to USDE to ensure accuracy and completeness. The lead Bureau Director will provide status reports to the PDE Cabinet at a minimum of twice a year.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Deputy Secretary, Bureau Director Administrative Support.</p> <p><b>Anticipated Completion Date for Corrective Action:</b> All new protocols, reviews and safeguards will be in place during the data collection and reporting that will take place beginning in the fall of 2009.</p>
<b>08-39</b>	<b>PDE</b>	<p><b>Errors and Internal Control Weaknesses in PDE's CTE Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (Prior Year Finding #07-35)</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> Pennsylvania Department of Education (PDE), Bureau of Career and Technical Education has implemented an ongoing Data Quality Committee which meets with all PDE staff responsible for collecting, analyzing and compiling data for the Consolidated Annual Performance, Accountability and Financial Status Report (CAR). The committee's guidance document, written December 2008, is entitled: "Pennsylvania Department of Education Policy and Procedures on Internal Controls pursuant to section 113(c) of the Perkins ACT."</p> <p>The purpose of the Data Quality Committee is to address all issues pertaining to CAR data collection, data verification and annual submission of the CAR to United States Department of Education (USDE). PDE updates and negotiates the Federal Agreed Upon Performance Levels (FAUPL) annually with USDE and meets quarterly beginning in July of the current fiscal year to review all FAUPL sub-indicators with all staff members responsible for the CAR. Audit findings will be reviewed and addressed in regards to data collection and validation during these meetings. Systems have changed to address the previous specific data errors. Agenda items will now ensure review of FAUPL definitions and CAR definitions.</p> <p><b>Description of Monitoring:</b> Education Research Associate II will prepare agendas for quarterly data meetings to include current audit finding and updated FAUPL definitions. Continued review of past data audit findings will remain on the agenda. Education Research Associate II will review the CAR data and work with the other bureaus to ensure all processes and definitions align.</p>

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## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-39</b> (continued)		<p><b>Title of Official Responsible for Corrective Action:</b> Education Research Associate II, Bureau of Career and Technical Education.</p> <p><b>Anticipated Completion Date for Corrective Action:</b> June 2010.</p>
<b>08-40</b>	<b>L&amp;I</b>	<p><b>Control Deficiency Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA Results in Unsupported Program Income (Prior Year Finding #07-38)</b></p> <p>During the time period of the audit, OVR was still using the mainframe system for part of the fiscal year. Since then, it has migrated to the Department's upgraded computer modernization system known as the Commonwealth Workforce Development System (CWDS). This new system has allowed access to invoices for all services provided to OVR participants and also provides an electronic audit trail of approvals from the district office level to the central office level. Also during the audit period, notifications were sent to the field offices stating that the SSA documentation would be filed at the district offices and in OVR's central office.</p>
<b>08-41</b>	<b>L&amp;I</b>	<p><b>A Control Deficiency Exists in L&amp;I's Procurement System Related to Debarment and Suspension (Prior Year Finding #07-36)</b></p> <p>As indicated in our Department response, OVR does verify new vendors, as well as those requiring any kind of change to their records, against the Federal Excluded Parties Listed System (EPLS) to ensure they are not suspended or disbarred. Additionally, testing is continuing with the computer modernization system, the Commonwealth Workforce Development System (CWDS), to develop a suitable interface with it and the EPLS website. A further initiative is to include language on all new contracts whereby the vendor will certify that it is not suspended or disbarred. Other actions relating to the inclusion of this clause are under discussion and will be considered as part of a meeting that is planned for July 2009 between Program, CWDS and Audit Coordination personnel to determine further initiatives to determine the most comprehensive measures to comply with this regulation. Lastly, in keeping with the guidelines expressed by USDE in the recent 2004 audit determination decision, verification will be submitted to them for any vendors listed during the audit testing indicating they have not been suspended or disbarred. It should be noted that those tested for this audit were already shown to have been verified against the EPLS system.</p>
<b>08-42</b>	<b>L&amp;I</b>	<p><b>Noncompliance and Control Deficiency Over Charging of Personnel Costs Results in Unknown Questioned Costs of at Least \$72,851 (Prior Year Finding #07-39)</b></p> <p>Our corrective action can be found within the <b>Agency Response</b> in the body of the finding.</p>
<b>08-43</b>	<b>L&amp;I</b>	<p><b>Noncompliance and a Control Deficiency Over Preparation and Submission of the Annual RSA-2 Report</b></p> <p>Our corrective action can be found within the <b>Agency Response</b> in the body of the finding.</p>

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<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
08-44	PDE	<p><b>Control Deficiency in PDE's Monitoring of Federal Earmarking Requirements Result in Questioned Costs of \$199,709 (Prior Year Finding #07-40)</b></p> <p><b>Specific Steps to be Taken and Timetable:</b> The Pennsylvania Department of Education, Division of Migrant Education established new earmarking/tracking procedures in August 2007. The separate account codes were established for Fiscal Year 2007/2008 and subsequent years.</p> <p>The Pennsylvania Department of Education, Division of Migrant Education will contact the United States Department of Education (USDE), 21st Century Community Centers' Program Officer to pursue the resolution of the questioned costs in the amount of \$199,709 and to follow USDE's recommendations.</p> <p><b>Description of Monitoring:</b> The Division of Migrant Education's Chief will meet with the Bureau of Community and Student Services' Administrative Officer each spring to ensure that the proper account codes are established for the upcoming fiscal year. The Division of Migrant Education will have monthly communication with the USDE's Program Officer to ensure the proper resolution of the finding and questioned costs in the amount of \$199,709.</p> <p><b>Title of Official Responsible for Corrective Action:</b> Division of Migrant Education, Chief</p> <p><b>Anticipated Completion Date for Corrective Action:</b> January 15, 2010</p>
08-45	DPW	<p><b>DPW Did Not Specify CFDA Number and Other Required Award Information in Subrecipient Award Documents, Resulting in Noncompliance with OMB Circular A-133 (Prior Year Finding #07-47)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
08-46	DPW	<p><b>DPW Did Not Perform Adequate During-The-Award Monitoring of TANF Subrecipients</b></p> <p>It was recommended that the Bureau of Employment and Training Programs (BETP) strengthen processes to ensure adequate and timely onsite monitoring of all TANF subrecipients. BETP does conduct on-site monitoring and oversight in a manner that is consistent with timeliness mentioned in the program guidelines and the TANF Work Verification Plan. The challenge, however, is that producing comprehensive and accurate reports requires considerable resources of field staff and the supervisory/editorial team. BETP's goal is to produce quality documents within 30 days of the on-site visit. However, to ensure that providers are aware of program strengths and weaknesses prior to release of the official report, BETP conducts detailed exit interviews with agencies and provides draft reports so that corrective action plans can be developed immediately upon completion of the on-site visit.</p> <p>It is also recommended that BETP evaluate the Bureau of Financial Operations (BFO) evaluation results related to oversight and administration within the Philadelphia Workforce Development Corporation (PWDC). They further suggest that BETP communicate corrective action planning to BFO regarding the findings of that evaluation. BETP continues to be proactive with regard to that review. BETP has met with PWDC to discuss the results and has received a corrective action plan from the agency. Additionally, BETP has advised</p>

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<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-46</b> (continued)		BFO that a corrective action protocol is in place to evaluate and follow-up with PWDC regarding completion and implementation of recommendations from the evaluation.
<b>08-47</b>	<b>DPW</b>	<b>Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #07-48)</b>  The Department disagrees with this finding. 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. These policies and procedures are detailed in our Work Verification Plan, which was approved by HHS in their letter dated September 12, 2007. Virtually all of the cases cited by the auditor as having “errors and/or documentation discrepancies” meet the Department’s verification requirements as approved by HHS.  The audit finding stated that to perform their case review, the auditors “obtained the file for the sample month.” However, 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 31 <sup>st</sup> , for the past several years HHS has extended that deadline to late summer (for FFY 2008 the deadline was June 12, 2009). The Department submits quarterly data throughout the FFY repeatedly for each quarter. However, the auditors did not use the final data submitted to HHS to perform their audit. As a result, the audit findings identifying insufficient verification for some cases is incorrect, since the audit was not based on the final data submitted to HHS for which the Department had verification.  The Department has for several years focused significant time and resources on reporting accurate data in the TANF Data Report (ACF-199) and continues to improve the accuracy of the report. Over the last few years, the Department 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.
<b>08-48</b>	<b>DPW</b>	<b>Weaknesses in DPW Program Monitoring of Child Care Subgrantees (Prior Year Finding #07-55)</b>  PELICAN-CCW (CCMIS) is the source to identify all cases and invoices selected for review and all can be found in the system via inquiry. Reviewers are able to “cross-walk” data recorded in PELICAN-CCW under those case numbers against information submitted by the family via hardcopy to ensure that information is accurately recorded. A flaw in the EXCEL logic in the specified monitoring tools has been corrected. An impact analysis has also been completed which shows that the correction did not change the rating result for Performance Standard #4.
<b>08-49</b>	<b>DPW</b>	<b>DPW Failed to Obtain an Outside Service Auditor’s Report for the Statewide PACSES System</b>  This was the result of using the incorrect Audit Clause in the provider’s contract, which required only a Compliance Attestation, when a Compliance Attestation and a SAS 70 report should have been required. The DPW has since changed its procedure so that all large RFPs are now forwarded to the Audit Resolution Section (ARS) to verify that the proper audit clause is included. ARS makes this decision based on a review of the RFP Work Statement and discussions with personnel from both the affected program office(s) and the Division of Contract Execution and Management.

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<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-49</b> <b>(continued)</b>		<p>When it became apparent that the SAS 70 requirement was omitted, the Bureau of Information Systems (BIS) amended the contract to require the submission of a Type II SAS 70 report. The audit period will be 12/1/08 to 5/31/09 (6 months) so that it can be relied upon for the next Commonwealth Single Audit. The next SAS 70 report will cover the period 6/1/09 – 5/31/10 (12 months) and this cycle will continue going forward.</p>
<b>08-50</b>	<b>DPW</b>	<p><b>Internal Control Deficiencies Over PACSES Contractor Costs Result in Likely Questioned Costs Greater Than \$10,000</b></p> <p>The DPW disagrees with this finding. During this time period, the entire PACSES Project Team was being relocated to three separate locations along with the move of the Network Operations Center to the Willow Oak Building. All office, network equipment and furniture had to be moved within a short timeframe, as well as the main telecommunications equipment and server hardware. This required a considerable effort by the Lockheed Martin (LM) staff. The DPW response includes documentation which disproves the exceptions noted regarding contractor payments.</p> <p>It should be noted that during the time the DPW contracts were initiated, if federal money was involved, the PHHS Comptroller's Office accepted the Contractor Responsibility Certification as verification that the Excluded Parties List System (EPLS) check had been done. The federal government took exception to this procedure and indicated that they wanted to see the actual check from EPLS instead of just the certification from the state system. The Comptroller's Office now ensures and enforces the requirement that DPW includes a copy of the EPLS printout with the contract as proof that the certification was performed. As such, this issue has already been corrected by DPW and is being maintained for new and renewed contracts.</p>
<b>08-51</b>	<b>DCED</b>	<p><b>Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of LIHEAP Weatherization Subrecipients (Prior Year Finding #07-50)</b></p> <p>DCED has and will continue to strengthen its internal controls by instituting revised systems and procedures regarding monitoring, income eligibility, client complaints, re-weatherization of ineligible units (Philadelphia), invoicing, contracting and procurement, and client prioritization. These systems, where appropriate, are used to monitor this program at the local level. Similarly, the revised monitoring format was developed and tested in the field prior to June 30, 2008, and was implemented July 1, 2008 in order to coincide with the new contract period/state fiscal year. Lastly, the new (HES) system is designed to address and improve many of the internal control issues noted and was put into place during the 2008-09 fiscal year.</p>
<b>08-52</b>	<b>DPW</b>	<p><b>Internal Control Deficiencies in DPW's Administration of LIHEAP Cash and Crisis Benefits (Prior Year Finding #07-51)</b></p> <p>The current audit appears to contain the same findings as the prior Single Audit released on June 5, 2008. DPW believes that many of the deficiencies identified in this audit have already been addressed. We have implemented many of the recommendations and have made some program changes. DPW is constantly striving to identify and eliminate any potential control deficiencies in its administration of LIHEAP. Effective September 8, 2009, DPW will integrate the LIHEAP Information System (LIS) into the electronic-Client</p>

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<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-52 (continued)</b>		<p>Information System (e-CIS), which will further enhance the program. This new computer system will be utilized during the 2009-10 program year and will provide greater detail and accuracy concerning client information and benefit calculations.</p> <p>In addition, specific to Crisis Benefits: In the 2008-09 program year, DPW implemented a new policy that allowed households who heat with deliverable fuels to apply for crisis if their fuel supply would last less than 15 days. The vendor did not have to make a delivery within 48 hours of the crisis request, but is required to schedule a delivery before the household's fuel supply is expected to run out. The extra time provided to vendors eliminated the extra charges added for emergency delivery and increased the purchasing power of the crisis grants. A household that reports they have no fuel or are in imminent danger of running out, still received some form of assistance within 48 hours.</p> <p>All crisis contractors have read-only access to the LIHEAP system to verify eligibility. For the 2008-09 program year, DPW visited all crisis contractor agencies to ensure that every office had access to LIS. When LIHEAP is integrated into the e-CIS for the 2009-10 program year, all crisis contractors will be given the same level of access to LIHEAP information.</p> <p>DPW continues to train crisis contractors on the importance of protecting client privacy and reducing the risk of fraud. We have made changes to our curriculum for crisis contractors to reemphasize the importance of securing user IDs and passwords.</p> <p>DPW does not agree that it was in error for referring ineligible applicants to the Department of Community and Economic Development (DCED). DCED has other funding streams, such as the federal Department of Energy (DOE) Weatherization Assistance Program, which has its own eligibility guidelines.</p>
<b>08-53</b>	<b>DPW</b>	<p><b>DPW Failed to Adequately Monitor the Processing of LIHEAP Applications (Prior Year Finding #07-52)</b></p> <p>Starting with the 2008-2009 LIHEAP season, the OIM Bureau of Program Evaluation (BPE) took responsibility for coordinating the monitoring process. An OIM monitoring team of six reviewers (with members from the Bureaus of Operations, Program Evaluation, and Policy) is employed and trained to monitor the LIHEAP program. In addition, the monitoring team is supported by staff from a forensic accounting firm. Staff from this agency conducts the annual monitoring of the Philadelphia and Allegheny CAOs and all of the Crisis Contractors. The remaining CAOs are reviewed every three years. To further assure program integrity, the outside auditing consultant reviews a sample of the LIHEAP reviews completed by the OIM monitoring team. Starting with the 2009-2010 LIHEAP season, unscheduled monitoring visits of a CAO or Crisis Contractor will be used as an investigative measure if information is received that suggests the possibility of misuse, misrepresentation, or any abuse.</p>

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<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-54</b>	<b>DPW</b>	<b>Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$2,315 in LIHEAP (Prior Year Finding #07-53)</b>  <p>Regarding the \$2,315 from nine LIHEAP cash and crisis payments that are claimed to be unallowable in the audit, DPW is in the process of recovering the documentation to support eligibility. The DPW will provide this documentation to the auditors.</p> <p>Beginning with the 2007-2008 LIHEAP season, applicants' demographic information was vetted against DPW's Master Client Index (MCI), a central repository of client information housed in various DPW eligibility systems. The client information includes such data elements as name, date of birth, social security number, citizenship, etc. If an applicant presented a variation of his/her SSN, and the remaining information such as name, and date of birth was the same, the case worker would have had the opportunity to determine that the clients were the same even though the SSN was slightly different and to take the appropriate action. DPW is developing exception reports for the 2009-2010 season, including a report showing slight variations of SSNs to further improve program integrity.</p> <p>Beginning January 2009, lists of SSNs from the LIHEAP system were sent to SSA for verification, and those that could not be enumerated or verified by SSA, will be manually verified by CAO workers. In addition, for the 2009-2010 season, the LIHEAP system will be upgraded to send SSN data via data exchanges to SSA for verification; an alert will be sent to the worker for follow-up if proper verification cannot be obtained from SSA. The MCI will send data to SSA each month for verification, and each month that a LIHEAP applicant's SSN cannot be verified, an alert will be sent to the worker for client follow-up.</p> <p>DPW requires coordination between CAOs and outside crisis contractors. In response to the condition that applicants were able to receive excessive crisis benefits above the maximum allowable amount in situations where the CAOs utilize outside crisis contractors, the LIHEAP system does not allow any LIHEAP recipient to receive crisis benefits in excess of the maximum amount.</p>
<b>08-55</b>	<b>DCED</b>	<b>Noncompliance Over Subgrantee Payments at DCED (Prior Year Findings #07-54)</b>  <p>DCED/CSBG is now under the new financial transformation system (more of the invoicing and payment processes will be electronic). We are working to implement the new system for CSBG. Staff has been trained and is now submitting the payments electronically. Once the trial period is over, we will request that subgrantees submit invoices more regularly, either every two months or monthly (staff limitations will probably be the determining factor). Our next step is to finalize the revised paper invoice to specify and certify the time period of the expenditures, to be followed by the revision of CSBG Directive 2007-07: Invoicing. All of this will be accomplished no later than June 22, 2009.</p>
<b>08-56</b>	<b>DPW</b>	<b>Internal Control Weaknesses Result in Noncompliance with Federal Earmarking Requirements and Questioned Costs of at Least \$569,175 (Prior Year Finding #07-56)</b>  <p>The Office of Child Development and Early Learning (OCDEL) was able to provide support for certain infant and toddler expenditures charged to the FFY 2006 Child Care and Development Fund (CCDF) grant. This support relates to the Keystone STARs program and the information technology system called KIDS. OCDEL recently shared with the</p>

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<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-56</b> <b>(continued)</b>		<p>Administration for Children and Families (ACF) the functionality of KIDS in terms of its ability to collect detailed Infant and Toddler Earmark documentation and are very pleased that the initial Auditor General's review was favorable.</p> <p>The questionable costs outlined in the report refer to Nurse-Family Partnership expenditures charged to CCDF. As the audit finding states, DPW interpreted ACF's letter dated January 25, 2007 to be specific to the infant and toddler earmark only. Our interpretation was explicitly included in last year's audit response:</p> <p style="text-align: center;"><i>OCDEL submitted expenditure adjustments to the PHHS Comptroller's Office to have all Nurse Family Partnership (NFP) costs moved from the infant and toddler Earmark to discretionary non-earmarked for FFY 2005 and 2006.</i></p> <p>If this was an oversight on behalf of both parties, DPW is in a position to enter an adjustment in the state accounting system to replace the FFY 2006 NFP expenditures with state funded child care expenditures. Pennsylvania expended \$30 million in state funds over the MOE and state matching requirements relating to CCDF. This effort would not change any federal reporting. DPW will await further clarification and direction from ACF on whether an adjustment is needed.</p> <p>To resolve any disagreements or misunderstanding, DPW removed all NFP expenditures from the CCDF funding beginning FFY 2007.</p>
<b>08-57</b>	<b>DPW PHHS</b>	<p><b>Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #07-57)</b></p> <p><b>DPW Corrective Action Plan:</b> The Office of Children, Youth, and Families (OCYF) acknowledges the responsibilities as grantee of Title IV-E funds to monitor the day-to-day operations of grant and subgrant activities. In OCYF's October 2007 agreement with the Administration for Children and Families (ACF), an automated invoicing system was to be developed by OCYF to ensure that no duplicate claims are made for eligible Title IV-E foster care payments for any eligible child for the same service period. The Department's Bureau of Information Systems developed the automated Title IV-E Invoicing System for the 67 Pennsylvania counties' invoice submissions with the service period starting July 1, 2008. The system has been implemented and automatically rejects any county Title IV-E invoice that has a reimbursement claim for foster care placement expenditures of a child for the same duplicate reimbursable period. This validation is completed on all foster care invoices within the original invoice or any future supplemental invoices. The audit finding in question covers a period that pre-dates the implementation of OCYF's corrective action.</p> <p><b>PHHS Response:</b> No additional information Provided. See <b>Agency Response</b> in the body of the finding.</p>
<b>08-58</b>	<b>DPW</b>	<p><b>Weaknesses in DPW Office of Children, Youth and Families Monitoring of Foster Care and Adoption Assistance Subrecipients (Prior Year Finding #07-59)</b></p> <p>Since the period covered by this audit (July 1, 2007 to June 30, 2008), OCYF has instituted a more rigorous quality assurance review schedule that provides for each county to be reviewed twice in any given state fiscal year. This effort was started during FY 2007-2008,</p>

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<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-58</b> <b>(continued)</b>		<p>but the impact was not realized in that period. Checklists and procedures for monitoring programs and facilities can vary from Region to Region within OCYF, based on local resources and practices. However, all regional offices follow the same checklist for the 3800 Regulations that cover Residential Facilities.</p> <p>OCYF believes other available documents, such as monitoring tools, schedules, and procedures, would address concerns related to on-site visits. OCYF is planning to meet with audit staff to revisit this aspect of the audit. The discussion will include the “key regulatory requirements” or “monitoring forms” as referenced in the finding. Such a discussion may enable OCYF to provide additional documentation and better address the auditor’s assessment of this component of the monitoring process for the subsequent single audit.</p>
<b>08-59</b>	<b>DPW</b>	<p><b>Unallowable Costs Charged from the DPW Cost Allocation Plan Result in Questioned Costs of \$1,530,316</b></p> <p>The DPW disagrees with the finding that costs allocated to the Adoption Assistance Program in the amount of \$1,530,316 are unallowable. Costs claimed have been processed according to ACF-HHS regulations. The methodology for allocation of costs identified to the Title IV-E programs has not changed over the course of the years. HHS routinely audits DPW claims and has found no reason to question the allocations. The Schedule of Federal and Non-Federal Programs on pages vii and viii in the DPW Department Cost Allocation Plan (DCAP) lists Foster Care, Title IV-E, but does not specifically identify Adoption Assistance. However, within the definition and methodology descriptions for Children and Youth account codes, both programs are noted.</p> <p>The column heading in the DCAP and in the worksheets will be changed to reflect a more accurate identification of the program being claimed. Specifically, the Schedule of Federal and Non-Federal Programs in the DCAP will be changed with the next submission to identify only Title IV-E. Furthermore, column heading changes will be made on our Cost Allocation Worksheet #3 – GGO and Cost Allocation Worksheet #5 – Information Systems to identify all programs claimed under Title IV-E as supporting documentation. Additionally, a statement will be included in the DCAP to reflect the actual procedures used to identify, measure, and allocate costs to the Foster Care and Adoption Assistance programs.</p>
<b>08-60</b>	<b>DPW</b>	<p><b>Inadequate Controls Over Charging of YDS Personnel Costs</b></p> <p>The Office of Children, Youth and Families (OCYF) will work to ensure that all timesheets are completed and acknowledged by both the individual employee and their supervisor, as is required.</p> <p>OCYF will also work to ensure that the online position description system includes active job descriptions for all employees that have been acknowledged by both the employee and his/her supervisor. It should be noted, however, that the current electronic format does not allow for documents related to specific individuals to be retrieved after the employee has separated. Therefore, in instances where position descriptions are not available, OCYF proposes that Pennsylvania State Civil Service Commission class specifications, which define the duties of all job classes, should also be sufficient to support that funds have not been used in violation of the statute authorizing the block grant.</p> <p>In regard to the error in benefits percentage calculations, this issue has since been resolved as</p>

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## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-60</b> (continued)		the Department of Public Welfare/Office of Budget has begun providing a monthly spreadsheet to OCYF which reflects correct benefit rates to be used in the quarterly reporting process.
<b>08-61</b>	<b>DPW</b>	<p><b>Weaknesses in DPW Program Monitoring of SSBG and SAPT Subgrantees (Prior Year Finding #07-60)</b></p> <p>The DPW has been in contact with the Grant Manager at the US Department of Health and Human Services (DHHS) regarding DPW's monitoring of this funding. The Grant Manager has verbally stated to DPW that the Grant Manager is satisfied with DPW's level of monitoring. The DPW has requested a written response via email or formal letter from the DHHS confirming these verbal conversations; however, to date, no such response has been received.</p> <p><b>With regard to Subrecipient Monitoring:</b> The Office of Children, Youth and Families (OCYF) relies on SSBG funds to supplement gaps in needed services provided to abused and neglected children. These funds represent about 1% of the county, state, and federal funding to support a wide array of services provided through Pennsylvania's 67 County Children and Youth Agencies and numerous contracted providers. SSBG is monitored as a part of the county children and youth program. Instructions and procedures regarding Title XX and Title IV-B funding are provided to counties and provider agencies via Bulletin number 3140-00-05. In addition, OCYF maintains contact and dialogue with the county agencies through a variety of venues, including the County Needs-based Plan and Budgeting process, licensing visits, and ad hoc tactical assistance visits which are conducted throughout the fiscal year.</p> <p>Through the Office of Income Maintenance (OIM), Homeless Assistance Program (HAP) funds are provided to the various counties. These funds may be subgranted to nonprofit agencies for delivery of services. Regardless, the county is ultimately responsible for compliance with certain county and provider requirements, which include monitoring the compliance of each service provider using the HAP Instructions and Requirements and maintaining written monitoring reports. The reports must identify any programmatic or administrative issues needing to be resolved and the service provider's plan for resolution and follow-up. At a minimum, these reports must be completed at least once every 12 months. The county is also responsible for reviewing, approving, and summarizing all HAP reports for submission to DPW. Additionally, county fiscal requirements include submission of Pre and Final Expenditure and quarterly reports that are submitted to the HAP Manager and the BFO. The BFO is required to conduct individual monitoring of homeless assistance either randomly or as designated by OIM's Bureau of Policy, if specific monitoring is required.</p> <p>During the fiscal year ended June 30, 2008, the legal services contract with Pennsylvania Legal Aid Network was cost settled by Comptroller Operations and the single audit report was submitted to and reviewed by the DPW's Audit Resolution Section. In an effort to obtain more complete monitoring of this contract, OIM has requested that the DPW Bureau of Financial Operations (BFO), Division of Audit and Review add the Pennsylvania Legal Aid Network to the Annual Audit Plan. This audit will include on-site visits to the contractor and various sub-contractors.</p>

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## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-61</b> (continued)		<p><b>With regard to Cash Management:</b> The DPW's policy has been that counties would be advanced funds to provide services on a consistent basis. If advanced funds were not given, it is possible that the county would need to obtain a short-term line of credit or, in some instances, suspend services. To monitor expenses, the BFO reviews the County Children &amp; Youth Quarterly Expenditures Reports and the annual County Mental Health and Mental Retardation Income and Expenditure reports.</p> <p>The Pennsylvania Legal Aid Network provides data reports to OIM on a quarterly basis to ensure that cash on hand is reasonable compared to the number of clients served. In addition, the Comptroller's Office, Document Review and Control Section, receives a reporting of total expenditures 30 days after the end of each program year. The Pennsylvania Legal Aid Network provides the DPW with a single audit report for each fiscal year, which is accompanied by a Compliance Attestation and required supplementary schedule. This schedule mirrors the budget page within the contract and is used by Comptroller Operations to settle the contract for OIM.</p>
<b>08-62</b>	<b>PID CS</b>	<p><b>Inadequate Controls Over Subrecipients Result in Unknown Questioned Costs (Prior Year Finding #07-62)</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>
<b>08-63</b>	<b>DPW PHHS</b>	<p><b>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)</b></p> <p><b>DPW Corrective Action Plan:</b> DPW staff from the Special Pharmacy Benefits Program (SPBP) currently monitors all steps in the re-certification process. SPBP staff is also developing a Master Action Plan that documents and updates all steps in the re-certification process to ensure compliance with all program requirements and consistency in the annual re-certification process. In addition, SPBP staff is performing specific quality assurances on all cases pended as a result of re-certification for final determination of eligibility. All work sheets are filed in the case record. Attestation of HIV must be by a clinician licensed to diagnose, but the outdated wording on the application limits attestation to a physician. This wording will be changed to be consistent with Pennsylvania Department of State licensing and current practice in the SPBP.</p> <p>In response to this finding, the Comptroller's Office has been auditing SPBP claimed pharmacy services. The procedures for audit review, audit reports, and audit resolution are in writing and the Assistant Comptroller for Audits confirmed that audit reviews are being performed. In addition, the full response disagrees with all of the sampled cases included in the audit, in-part or entirely. Further documentation would be available to dispute the preliminary finding.</p> <p><b>PHHS Response:</b> No additional information provided. See Agency Response in the body of the finding.</p>

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## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-64</b>	<b>DOH</b>	<b>Noncompliance and Internal Control Weaknesses Result in \$2,048 of Questioned Personnel Costs</b>  Personnel transfers have been reviewed and all necessary adjustments to the SAPT Block Grant have now been completed.
<b>08-65</b>	<b>DOH</b>	<b>Noncompliance and Internal Control Weaknesses Result in \$101,394 in Questioned Personnel Costs (Prior Year Finding #07-66)</b>  DOH will pursue resolution of the questioned costs in this finding with HHS. No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>08-66</b>	<b>PEMA DCNR PPR</b>	<b>Internal Control Deficiencies in Systems of Cash Management and Federal Reporting for PAG Program (Prior Year Finding #07-69)</b>  <b>PEMA Corrective Action Plan:</b>  While PEMA feels that DCNR has made substantial progress letting contracts for work on the Delaware Canal State Park, we will continue to monitor the status of the two contracts that remain to be bid as well as the completion of the projects that are in progress. PEMA will review the DAP-11s (Quarterly Project Status Report forms) that DCNR is required to submit on all open projects on a quarterly basis and address any concerns with DCNR.  PEMA does not recommend returning funding to FEMA. In order for DCNR to award a contract and give the contractor notice to proceed, funding must be available.  Below is an update to the projects that DCNR has for the Delaware Canal State Park: <ul style="list-style-type: none"><li>○ FDC-450-4093.1, \$10,720,410.00, Notice to Proceed (NTP) 2/22/2008, work is 99% complete and approximately 80% disbursed.</li><li>○ FDC-450-4094.1, \$8,775,615.30, NTP 9/12/2008, 50% complete.</li><li>○ FDC-450-4095.1, \$3,323,960.00, being awarded, NTP expected by 5/15/2009, 10% complete.</li><li>○ FDC-450-4096.1, \$3,396,456.66, NTP 6/30/2008, 50% complete.</li><li>○ FDC-450-4111.1, \$318,931.28, NTP 2/25/2008, 100% complete.</li><li>○ FDC-450-4113.1, \$344,570.00, NTP 6/30/2008, 100% complete.</li><li>○ FDC-450-4115.1, \$157,298.54, NTP 2/3/2009, 25% complete.</li><li>○ FDC-450-4484.1, \$137,370.00, awarded, NTP expected by 4/30/2009, 5% complete.</li><li>○ FDC-450-4483.1, estimated cost \$100,000, out to bid 6/8/09, bids are due 7/7/09.</li></ul> Remaining to be bid: <ul style="list-style-type: none"><li>○ FDC-450-4485.1, estimated cost \$1,000,000, design is 98% done.</li><li>○ FDC-450-4486.1, estimated cost \$200,000, design is 95% done.</li></ul> <b>DCNR Corrective Action Plan:</b> <ol style="list-style-type: none"><li>1. The practice of advancing the full federal share to applicants, including other state agencies, for large projects was applicable to the Ivan and April 2005 Storms disasters and was discontinued by PEMA in the prior year effective with the June</li></ol>

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## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-66</b> (continued)		<p>2006 disaster. Our current year follow up confirmed that no advances were made to subrecipients or other state agencies for large projects during the year under audit.</p> <ol style="list-style-type: none"><li>2. As stated in the Agency Response to the finding, both PPR Comptroller Operations and PEMA have taken steps to prevent drawdowns in advance.</li><li>3. DCNR will continue to monitor contracts awarded and ensure expenditures are properly applied to alleviate the excess cash condition.</li></ol> <p><b>Timetable:</b> Most contracts are underway and are actively monitored by DCNR staff. We estimate that work will be completed by June 30, 2010.</p> <p><b>PPR Corrective Action Plan:</b></p> <p>As stated in the Auditor's condition, the practice of advancing the full federal share to applicants, including other state agencies, for large projects was applicable to the Ivan and April 2005 Storms disasters and was discontinued by PEMA in the prior year effective with the June 2006 disaster.</p>
<b>08-67</b>	<b>DPW</b>	<p><b>Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (Prior Year Finding #07-71)</b></p> <p>Beginning in fiscal year 2008-09, the DPW Bureau of Financial Operations, Audit Resolution Section (ARS) has implemented new program settlement procedures. These procedures incorporate program settlements into the audit report review. This should result in a management decision on findings and reconciliation of funds within the six months allowed by Circular A-133. ARS staff is working to complete the backlog of prior year program settlements. By June 30, 2010, it is expected that program settlements will be current as the audit reports are received and processed.</p>
<b>08-68</b>	<b>OB/BOA Various State Agencies</b>	<p><b>Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding #07-72)</b></p> <p><b>BOA Corrective Action Plan:</b></p> <p>To ensure timely transmittal of the single audit reports and more timely resolution of audit findings, the following corrective measures are in the process of being implemented and/or are under consideration:</p> <ul style="list-style-type: none"><li>• Due to the Finance Transformation, effective May 15, 2009, a complement of two staff personnel will be permanently assigned to perform single audit desk reviews, which will effectively address the current backlog situation.</li><li>• BOA will generate a weekly listing of audit reports with findings and review those reports first instead of the application of first-in/first-out. This approach will ensure timely transmittal and resolution of findings by funding agencies.</li><li>• BOA created a comprehensive process allowing subrecipients to electronically transmit to BOA their single audit reporting package. Effective July 1, 2009, BOA will begin accepting electronic submission of single audit reporting packages.</li></ul>

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## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-68</b> <b>(continued)</b>		<p>Electronic submission is mandatory for fiscal year ending December 31, 2008 and subsequent years. The single audit reporting package must be submitted electronically in a single Portable Document Format (PDF) file to a resource e-mail account. This will reduce the time to review and transmit the reports to the pass-through agencies, and should also reduce audit resolution time.</p> <ul style="list-style-type: none"><li>• BOA is considering a more streamlined approach in performing the desk review process. Currently, BOA performs either a preliminary or limited review of all subrecipient single audit reports received. By reviewing only a percentage or sample of reports without findings and continuing to review all reports with findings, it will streamline the review process for those entities that have had no problems or deficiencies over the last few years.</li></ul> <p><b>PEMA Corrective Action Plan:</b></p> <p>PEMA will modify its subrecipient audit tracking report by June 30, 2009 to include a column that identifies if the report had findings, therefore necessitating a follow-up response from the subrecipient.</p> <p>Out of the 130 subrecipients that had audit findings, we have been sending and will continue to send out Second Notice letters to those that have not responded. We will continue to follow up with the subrecipients until all discrepancies have been resolved.</p> <p><b>DPW Corrective Action Plan:</b></p> <p>The ARS has reviewed the untimely sample subrecipient audits. As a result of this review, ARS has revised procedures and correspondence related to the processing of audits related to the Intermediate Care Facilities for the Mentally Retarded (ICF/MR) program. The revised correspondence to the Division of Audit and Review (DAR) will include a deadline for a decision on the findings. The DAR has also revised its procedures to track these deadlines for making management decisions on the ICF/MR single audit findings.</p> <p><b>DOH Corrective Action Plan:</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p> <p><b>PENNVEST Corrective Action Plan:</b></p> <p>Beginning on June 30, 2005, the criteria for subrecipient single audits was defined as to corresponding federal capitalization grant amount with the additional requirement of receiving \$500,000 or more of fund money. This greatly reduced the number of subrecipients required to submit single audits. Correspondingly, the numbers of subrecipient single audit findings were reduced with the number of required single audits. This identification of subrecipient projects to be equivalent to the federal capitalization grant reduced the scope of single audits to be monitored.</p> <p><b>PennDOT Corrective Action Plan:</b></p> <p>PennDOT has a formalized subrecipient program that has been in place for many years. As part of this program we have a very detailed database that includes the date reports are received and also if they contain findings that require action by PennDOT.</p>

# ***COMMONWEALTH OF PENNSYLVANIA***

## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-68 (continued)</b>		<p>A new policy recently put into effect will be to run reports off the database each month. These reports will indicate how many days PennDOT has held reports containing findings. We will then put a high priority on closing out older reports which are getting close to exceeding the required 180 day time period. We will also be more aggressive with follow-ups regarding audit finding questions with the grant recipients and program offices.</p> <p><b>PDE Corrective Action Plan:</b></p> <p>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.</p> <p>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.</p> <p>Responsible Official is the Audit Coordinator, Division of Budget, Bureau of Budget and Fiscal Management.</p> <p>Every effort is being made to increase the number of management decisions provided within the six month timeframe for audit reports with findings by June 2010.</p> <p><b>DCED Corrective Action Plan:</b></p> <p>DCED understands the importance of timely review and the subrecipient audit resolution procedure. DCED currently only has one full time equivalent position to handle the subrecipient audit resolutions, which has been vacant since the end of January 2009 and is still currently vacant due to the hiring freeze. DCED will continue to strive to ensure that all SEFA reconciliations are started and processed in a timely manner with the limited staff that currently resides in this area until such a time that the vacancy can be filled.</p>
<b>08-69</b>	<b>DPW</b>	<p><b>Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements (Prior Year Finding #07-73)</b></p> <p>The DPW, ARS is responsible for obtaining and reviewing subrecipient audits. ARS does have a policy in place to notify subrecipients of their noncompliance with OMB Circular A-133. As the lead agency, ARS has remained in contact with Bucks, Crawford, and Potter Counties for submission of their audits. As of June 26, 2009, the Bureau of Audits has received the outstanding audits ending December 31, 2006 from Bucks and Potter Counties. The 2006 Crawford County single audit remains outstanding due to accounting system issues related to its MH/MR program. At this time, the county is unsure when the report will be finished. The ARS will continue to follow up on this situation through monitoring; or, if warranted, sending a Notice of Final Remedial Action or sending the internal Bureau of Financial Operations (BFO) auditors if necessary.</p>

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## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-70</b>	<b>OB/BFM</b>	<b>Unallowable Payments for Unused Employee Leave Result in \$3,826,028 in Questioned Costs (Prior Year Finding #07-74)</b>  Effective for the Fiscal Year beginning July 1, 2009, the Commonwealth will implement a Leave Payout Benefit Rate that will result in the 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 has been reviewed and approved by the U.S. Department of Health and Human Services, Division of Cost Allocation.
<b>08-71</b>	<b>DPW PHHS</b>	<b>Deficiencies in Information Technology Controls at DPW Finding Statewide-2 Deficiencies in Information Technology Controls at DPW</b>  <b>DPW Corrective Action Plan:</b>  DPW's Local Security Officer (LSO) will reconcile documentation for additions and deletions with the database on a weekly basis. The LSO will work through the Project Director's Offices so that the vendor personnel will perform a coordinated reconciliation on a quarterly basis. In addition, a County Assistance Office personnel separation form employment checklist and automated process is being developed, and the EBT system access will be addressed therein. Lastly, the LSO will coordinate with the Human Resources Administrative Officer on a quarterly basis to reconcile the database against a list of all active employees; the names in the database that do not match the active employees list will be deleted from the EBT system.  <b>PHHS Response:</b>  No additional information provided. See <b>Agency Response</b> in the body of the finding.
<b>08-72</b>	<b>L&amp;I</b>	<b>Deficiencies in Information Technology Controls at L&amp;I</b>  Beginning in January of 2009, VERSA application enhancements or Program Change Requests (PCR's) are documented in a spreadsheet table recording a brief description of the proposed enhancement, the originator of the proposal, request date, cost (VERSA's quote), BDD approver and authorized date, VERSA delivery date, tester and date testing completed, and install date. Email messages are retained which detail the original request for quote from VERSA, the quote (cost) of said enhancement from VERSA, BDD's authorization of the enhancement/cost, authorization to VERSA to proceed, delivery of enhancement to test, testing completion, authorization to implement to production, and production implementation. The messages are archived by PCR# and correspond to the entries in the spreadsheet table.  VERSA application errors or bug fixes are documented similarly to PCR's; however, since the cost of these items is covered under the terms of the maintenance agreement, no quote is involved. The email messages documenting the error and the fix are organized by date and information similar to the PCR's is maintained in a separate spreadsheet table recording a brief description of the problem, affected programs, the entity reporting the problem and the date it was reported, the date fix delivered, the tester and date testing completed, and the date the fix is implemented.

# **COMMONWEALTH OF PENNSYLVANIA**

## ***Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2008***

<b>Finding</b>	<b>State Agency</b>	<b>Finding Title/Corrective Action</b>
<b>08-72</b> (continued)		<p>There is a supervisory/Project management sign off on every PROD change that is completed. The DLI OIT Enterprise Change Control Board approves all PROD application release changes, and the implementation of any CWDS application release is performed by the Enterprise Services Change Control Unit. CWDS management staff is on site for advisory and guidance as necessary, and to deploy changes that they are responsible for. The staff shortage does cause some changes to both be created by and implemented by the same individual. These types of changes are not frequent, and only done when necessary to fix/restore PROD data, correct performance related problems, or correct reporting process error. All changes are performed by OIT management staff and they do have project management staff approval before being implemented.</p> <p>In reference to the users not being removed from the system when separated, OIT is researching the existing processes to determine if there is any automation point available for this to occur. One of the limitations that usurps the process is that the employees may be both COPA and Business Partner employees, and we do not readily receive notification of their termination or separations from the respective employers in a timely manner.</p> <p>The CareerLink user removal deficiency will be addressed under CWDS since the system has been fully integrated into it.</p> <p>The Financial Management System is slated for termination in July 2010 and the development of additional controls, changes or enhancements were delayed and held to avoid any duplication of costs since the system will be integrated as part of the CWDS application.</p>
<b>08-73</b>	<b>OB/BFM</b>	<p><b>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)</b></p> <p>In regard to the RSBS program, Comptroller Operations intends to meet with IES and OA Services &amp; Solutions personnel to discuss the feasibility of including EA documents that debit a state fund and credit a federal fund on CMIA interest report CDS-301, Interest Payable for Refunds and Adjustments.</p> <p>For the TANF issues, Comptroller Operations intends to meet with the appropriate parties and devise a method to ensure that the proper areas receive quicker notifications about interactions with Treasury (e.g. redlined invoices). This change in procedures will result in more timely returns of federal funds to the federal government when necessary.</p> <p>See <b>Agency Response</b> in the body of the finding in regard to other items.</p>
<b>08-74</b>	<b>OB/BFM</b>	<p><b>CFDA Numbers and Program Names Were Not Properly Reported on the Schedule of Expenditures of Federal Awards</b></p> <p>No additional information provided. See <b>Agency Response</b> in the body of the finding.</p>

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# Appendix



Commonwealth of Pennsylvania



# **COMMONWEALTH OF PENNSYLVANIA**

## **APPENDIX - Legend of Abbreviations - June 30, 2008**

The following legend presents descriptions of abbreviations that appear throughout the report:

<b><u>ABBREVIATION</u></b>	<b><u>DESCRIPTION</u></b>
21 <sup>ST</sup> CCLC	Twenty-First Century Community Learning Centers
ACF	Administration for Children and Families
ADC	Average Daily Clearance
BFM	Bureau of Financial Management
BFS	Basic Financial Statements
BOA	Bureau of Audits
BRIM	Bureau of Risk and Insurance Management
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
CRP	Contractor Responsibility Program
CS	Central Services Comptroller's Office
CSBG	Community Services Block Grant
CSE	Child Support Enforcement
CSR	Comprehensive Supervisory Review
CWSRF	Clean Water State Revolving Fund
DCED	Department of Community and Economic Development
DEP	Department of Environmental Protection
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
EAC	Elections Assistance Commission
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

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## ***Legend of Abbreviations (Continued) - June 30, 2008***

<b><u>ABBREVIATION</u></b>	<b><u>DESCRIPTION</u></b>
ICS	Integrated Central System
IES	Integrated Enterprise System
IT	Information Technology
L&I	Pennsylvania Department of Labor and Industry
LEA	Local Educational Agency
LECS	Labor, Education & Community Services Comptroller's Office
LIHEAP	Low Income Home Energy Assistance Program
MA	Medical Assistance Program
MCH	Maternal and Child Health Care Services Block Grant to the States
MD	Management Directive
MLF	Motor License Fund
MOE	Maintenance of Effort
NGMO	National Guard Military Operations and Maintenance Projects
OA	Office of Administration
OB	Office of the Budget
OCYF	Office of Children, Youth and Families
ODP	Office of Domestic Preparedness
OIG	Office of Inspector General
OIM	Office of Income Maintenance
OMB	Office of Management and Budget
OVR	Office of Vocational Rehabilitation
PADOT	Pennsylvania Department of Transportation
PAG	Public Assistance Grants
PDA	Pennsylvania Department of Aging
PDE	Pennsylvania Department of Education
PEMA	Pennsylvania Emergency Management Agency
PENNVEST	Pennsylvania Infrastructure Investment Authority
PHHS	Public Health and Human Services Comptroller's Office
PID	Pennsylvania Insurance Department
PLCB	Pennsylvania Liquor Control Board
PPR	Public Protection and Recreation Comptroller's Office
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
SFYE	State Fiscal Year Ended
SSA	Social Security Administration
SSBG	Social Services Block Grant
SWIF	State Workers' Insurance Fund
TAA	Trade Adjustment Assistance - Workers
TANF	Temporary Assistance for Needy Families
TRA	Trade Readjustment Assistance
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