

Commonwealth of Pennsylvania



Single Audit Report

For the Fiscal Year Ended June 30, 2009

Edward G. Rendell
Governor



THIS PAGE INTENTIONALLY LEFT BLANK

Commonwealth of Pennsylvania
Single Audit Report
For the Fiscal Year Ended June 30, 2009



Edward G. Rendell, Governor

Prepared By:

Mary A. Soderberg, Secretary
Office of the Budget

Anna Maria Kiehl, CPA, CGFM
Chief Accounting Officer

This document is available on the Office of the Budget homepage at <http://www.budget.state.pa.us>.
Click on "Financial Reports" for access to the current and previous audit reports.

THIS PAGE INTENTIONALLY LEFT BLANK

**Commonwealth of Pennsylvania
Single Audit Report
For the Fiscal Year Ended June 30, 2009**

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
Title Page	1
Table of Contents	3
Letter of Transmittal	4
INDEPENDENT AUDITORS' REPORTS	
Independent Auditors' Report on the Basic Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	9
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	13
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	16
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	
Schedule of Expenditures of Federal Awards.....	24
Notes to the Schedule of Expenditures of Federal Awards.....	38
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	
Summary of Auditors' Results	42
Index to Basic Financial Statement Findings.....	45
Basic Financial Statement Findings.....	47
Index to Federal Award Findings and Questioned Costs	99
Federal Award Findings and Questioned Costs	113
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	
June 30, 2008 Single Audit	320
June 30, 2007 Single Audit	327
June 30, 2006 Single Audit	334
June 30, 2005 Single Audit	339
June 30, 2004 Single Audit	341
CORRECTIVE ACTION PLANS	
Corrective Action Plans – Basic Financial Statement Findings.....	345
Corrective Action Plans – Federal Award Findings and Questioned Costs.....	351
APPENDIX	
Legend of Abbreviations	372



COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

MARY A. SODERBERG
SECRETARY
OFFICE OF THE BUDGET

June 30, 2010

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, 2009. This audit has been performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and satisfies the requirements of the Single Audit Act Amendments of 1996 and the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The Commonwealth's Comprehensive Annual Financial Report for the year ended June 30, 2009 has been issued under separate cover. The auditors' report on the supplementary schedule of expenditures of federal awards, and the reports on compliance and internal control over financial reporting and compliance with requirements related to major federal programs are contained in this document.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying Schedule of Expenditures of Federal Awards reflects \$25.8 billion of federal expenditures by the Commonwealth during the fiscal year ended June 30, 2009. Most of the \$25.8 billion in federal expenditures occurred in nine state agencies, as follows:

AGENCY NAME	<u>FEDERAL EXPENDITURES</u> <u>(in thousands)</u>
Public Welfare	\$14,096,394
Labor & Industry	6,717,223
Education	1,868,836
Transportation	1,568,557
Health	372,876
Insurance	252,432
Community & Economic Development	148,650
Military & Veterans Affairs	141,183
Aging	136,919
Subtotal	<u>\$25,303,070</u>
Other Agencies (20)	492,275
Grand Total	<u><u>\$25,795,345</u></u>

For purposes of the Commonwealth's single audit, a Type A federal program is any program with federal expenditures of at least \$38.7 million. Of the \$25.8 billion expended, 96.1 percent, or \$24.8 billion, represents expenditures under federal programs audited as major programs. The Summary of Auditors' Results lists the Commonwealth's 30 major federal programs for the fiscal year ended June 30, 2009.

FINDINGS AND RECOMMENDATIONS - CURRENT YEAR

The accompanying report for the fiscal year ended June 30, 2009 contains various findings, as disclosed in the Schedule of Findings and Questioned Costs. Findings pertaining to the audit of the Commonwealth's basic financial statements are detailed in the Basic Financial Statement Findings. Findings pertaining to the audit of the Commonwealth's federal programs are detailed in the Federal Award Findings and Questioned Costs. The findings contain detailed explanations of the compliance issues, questioned costs, the auditors' recommendations, and the agency responses. This report also includes the Commonwealth's corrective action plan for each finding.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

The Summary Schedule of Prior Audit Findings reflects the current status of prior, unresolved findings and recommendations. A total of 145 findings remain unresolved from single audits for the years ended June 30, 2004 through June 30, 2008.

INDEPENDENT AUDIT

The Commonwealth's June 30, 2009 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.

ACKNOWLEDGMENTS

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

Sincerely,



Mary Soderberg
Secretary
Office of the Budget

THIS PAGE INTENTIONALLY LEFT BLANK

Independent Auditors' Reports



Commonwealth of Pennsylvania

THIS PAGE INTENTIONALLY LEFT BLANK



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



Ernst & Young LLP
Two Commerce Square
Suite 4000
2001 Market Street
Philadelphia, Pennsylvania 19103-7096
Tel: + 1 215 448 5000
Fax: + 1 215 448 4069
www.ey.com

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, 2009, 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 Trust Funds and 100 percent of the total assets, 100 percent of the total net assets, and 100 percent of the total revenues of the Private Purpose Trust Fund. This comprises 84 percent of total assets, 94 percent of total net assets and 85 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 Department of the Auditor General acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Tobacco Settlement Fund, Tuition Payment Fund, and those component units, 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, 19 percent of total net assets and 31 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 Department of the Auditor General has audited separately 100 percent of the Tobacco Settlement Fund.

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, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions. The financial statements of the State Employees Retirement System, the Public School Employees Retirement System, the Deferred Compensation Fund, the PA Life and Health Insurance Guaranty Association, the PA Property and Casualty Insurance Guaranty Association, the Tuition Account Investment Program, the PA Industrial Development Authority, the PA Turnpike Commission, the State Public School Building Authority, the PA Higher Educational Facilities Authority, the Insurance Fraud Prevention Authority, Port of Pittsburgh Commission, Ben Franklin Technology Development Authority, Philadelphia Regional Port Authority and Patient Safety Trust Authority were not audited in accordance with *Government Auditing Standards*.

As discussed in Note A to the basic financial statements in the Comprehensive Annual Financial Report, the Commonwealth adopted Governmental Accounting Standards Board Statement No. 49 "Accounting and Financial Reporting for Pollution Remediation Obligations."

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, 2009, 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.

As discussed in Notes N and R to the basic financial statements in the Comprehensive Annual Financial Report, disruptions in the capital markets have impacted The Pennsylvania Higher Education Assistance Agency's, a discretely presented component unit, ability to fund the origination of new student loans and to fulfill its commitments to purchase loans from various financial institutions.

In accordance with *Government Auditing Standards*, we have also issued our report as of and for the year ended June 30, 2009, dated January 22, 2010 on our consideration of the Commonwealth of Pennsylvania's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Pennsylvania's basic financial statements. The introductory section, combining non-major fund and component unit financial statements, budgetary comparison schedules for budgeted non-major special revenue funds, and statistical section included in the Comprehensive Annual Financial Report are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund and component unit financial statements and budgetary comparison schedules for budgeted non-major special revenue 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 elect to have their own single audits performed (when required) in accordance with OMB Circular A-133 and 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.



January 22, 2010



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



Ernst & Young LLP
Two Commerce Square
Suite 4000
2001 Market Street
Philadelphia, Pennsylvania 19103-7096
Tel: + 1 215 448 5000
Fax: + 1 215 448 4069
www.ey.com

**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, 2009, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated January 22, 2010.

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 Trust Funds and 100 percent of the total assets, 100 percent of the total net assets, and 100 percent of the total revenues of the Private Purpose Trust Fund. This comprises 84 percent of total assets, 94 percent of total net assets and 85 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 Department of the Auditor General acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Tobacco Settlement Fund, Tuition Payment Fund, and those component units, 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, 19 percent of total net assets and 31 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 Department of the Auditor General has audited separately 100 percent of the Tobacco Settlement Fund.

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, Port of Pittsburgh Commission, Ben Franklin Technology Development Authority, Philadelphia Regional Port Authority and Patient Safety Trust Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commonwealth 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 09-1 through 09-20.

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 09-1, 09-2, 09-4 through 09-15, 09-17, and 09-19 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 09-08.

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

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

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.



January 22, 2010



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



Ernst & Young LLP
Two Commerce Square
Suite 4000
2001 Market Street
Philadelphia, Pennsylvania 19103-7096

Tel: + 1 215 448 5000
Fax: + 1 215 448 4069
www.ey.com

**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, 2009. The Commonwealth's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Commonwealth's management. Our responsibility is to express an opinion on the Commonwealth's compliance based on our audit.

The Commonwealth's basic financial statements include the operations of the State System of Higher Education, the Pennsylvania Higher Education Assistance Agency, the Philadelphia Shipyard Development Corporation, the Pennsylvania Housing Finance Agency, and the Judicial Department of Pennsylvania, 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, 2009. Our audit, described below, did not include the operations of these five component units or agencies because these entities elect to have their own single audits performed (when required) in accordance with OMB Circular A-133.

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 09-13 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 09-13, 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 #12.400, CFDA #12.401, 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.

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 SNAP Cluster (CFDA #10.551 and #10.561) did not comply with eligibility and allowable costs requirements as reported in Finding 09-22, did not comply with allowable costs/cost principles and eligibility requirements as reported in Finding 09-26, and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- 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 09-73 and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- 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 09-25, did not comply with subrecipient monitoring requirements as reported in Finding 09-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- The Child and Adult Care Food Program (CFDA #10.558) did not comply with subrecipient monitoring requirements as reported in Finding 09-73 and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- 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 09-28.
- The Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii Program (CFDA #14.228) did not comply with federal reporting requirements as reported in Finding 09-30 and did not comply with subrecipient monitoring requirements as reported in Findings 09-29, 09-73, and 09-74.
- The Homeland Security Cluster (CFDA #16.007, #97.004, and #97.067) did not comply with allowable costs requirements, equipment management requirements, procurement and suspension and debarment requirements, and subrecipient monitoring requirements as reported in Finding 09-33 and did not comply with subrecipient monitoring requirements as reported in Finding 09-73 and Finding 09-74.
- The WIA Cluster (CFDA #17.258, #17.259, and #17.260) did not comply with subrecipient monitoring requirements as reported in Finding 09-73.

- The Highway Planning and Construction Cluster (CFDA #20.205, #20.219, and #23.003) did not comply with subrecipient monitoring requirements as reported in Finding 09-73 and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- The Capitalization Grants for Clean Water State Revolving Funds Program (CFDA #66.458) did not comply with federal reporting requirements as reported in Finding 09-37, did not comply with subrecipient monitoring requirements as reported in Finding 09-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- The Title I Grants to Local Educational Agencies Program (CFDA #84.010) did not comply with subrecipient monitoring and cash management requirements as reported in Finding 09-40, did not comply with special tests and provisions related to identifying schools and LEAs needing improvement as reported in Finding 09-41, did not comply with allowable costs and subrecipient monitoring requirements as reported in Finding 09-42, did not comply with subrecipient monitoring requirements as reported in Finding 09-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- The Special Education Cluster (CFDA #84.027 and #84.173) did not comply with subrecipient monitoring and cash management requirements as reported in Finding 09-40, did not comply with allowable costs and subrecipient monitoring requirements as reported in Finding 09-43, did not comply with subrecipient monitoring requirements as reported in Finding 09-73, and did not comply with CMIA cash management regulations as reported in Finding 09-77.
- The Career and Technical Education – Basic Grants to States Program (CFDA #84.048) did not comply with subrecipient monitoring and cash management requirements as reported in Finding 09-40 and did not comply with subrecipient monitoring requirements as reported in Finding 09-73.
- The Vocational Rehabilitation Cluster (CFDA #84.126 and #84.390) did not comply with procurement and suspension and debarment requirements as reported in Finding 09-46, did not comply with eligibility requirements as reported in Finding 09-47, did not comply with allowable costs and special tests and provisions related to awards with ARRA funding as reported in Finding 09-48, and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- The Improving Teacher Quality State Grants Program (CFDA #84.367) did not comply with subrecipient monitoring and cash management requirements as reported in Finding 09-40, did not comply with allowable costs and subrecipient monitoring requirements as reported in Finding 09-42, did not comply with subrecipient monitoring requirements as reported in Finding 09-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- The Aging Cluster (CFDA #93.044, #93.045, and #93.053) did not comply with subrecipient monitoring requirements as reported in Finding 09-49 and Finding 09-73.
- The Temporary Assistance for Needy Families Program (CFDA #93.558) did not comply with eligibility and allowable costs requirements as reported in Finding 09-22 and Finding 09-57, did not comply with allowable costs/cost principles and eligibility requirements as reported in Finding 09-26, did not comply with allowable costs, federal reporting, and subrecipient monitoring requirements as reported in Finding 09-51, did not comply with allowable costs, subrecipient monitoring, and cash management requirements as reported in Finding 09-52, did not comply with allowable costs, federal reporting, and special tests and provisions related to TANF emergency fund grants as reported in Finding 09-58, did not comply with federal reporting requirements and special tests and provisions related to the penalty for failure to comply with the work verification plan as reported in Finding 09-59, did not comply with subrecipient monitoring requirements as reported in Findings 09-55, 09-72, and 09-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.

- The Child Support Enforcement Program (CFDA #93.563) did not comply with subrecipient monitoring requirements as reported in Finding 09-50, Finding 09-72, and Finding 09-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- The Low-Income Home Energy Assistance Program (CFDA #93.568) did not comply with allowable costs, eligibility, subrecipient monitoring, and cash management requirements as reported in Finding 09-39, did not comply with special tests and provisions related to LIHEAP state plan requirements as reported in Finding 09-54, did not comply with allowable costs and eligibility requirements as reported in Finding 09-57, did not comply with subrecipient monitoring requirements as reported in Finding 09-72 and Finding 09-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- The CCDF Cluster (CFDA #93.575 and #93.596) did not comply with eligibility and allowable costs requirements as reported in Finding 09-22, did not comply with allowable costs, subrecipient monitoring, and cash management requirements as reported in Finding 09-52, did not comply with subrecipient monitoring requirements as reported in Findings 09-50, 09-72, and 09-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- The Foster Care Program (CFDA #93.658) did not comply with allowable costs, federal reporting, and subrecipient monitoring as reported in Finding 09-51, did not comply with subrecipient monitoring requirements as reported in Findings 09-50, 09-72, and 09-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- The Adoption Assistance Program (CFDA #93.659) did not comply with allowable costs, federal reporting, and subrecipient monitoring requirements as reported in Finding 09-51, did not comply with subrecipient monitoring requirements as reported in Findings 09-50, 09-72, and 09-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- The Social Services Block Grant Program (CFDA #93.667) did not comply with allowable costs, subrecipient monitoring, and cash management requirements as reported in Finding 09-52, did not comply with subrecipient monitoring and cash management requirements as reported in Finding 09-64, did not comply with subrecipient monitoring requirements as reported in Findings 09-72 and 09-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- The Children's Health Insurance Program (CFDA #93.767) did not comply with subrecipient monitoring and allowable costs requirements as reported in Finding 09-66, did not comply with subrecipient monitoring requirements as reported in Finding 09-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- The Medicaid Cluster (CFDA #93.775, #93.777, and #93.778) did not comply with eligibility and allowable costs requirements as reported in Finding 09-22, did not comply with special tests and provisions related to inpatient hospital and long-term care facility audits as reported in Finding 09-68, did not comply with subrecipient monitoring requirements as reported in Findings 09-72 and 09-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- 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 09-64, did not comply with subrecipient monitoring requirements as reported in Findings 09-70, 09-72, and 09-73, and did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.
- The Social Security - Disability Insurance Program (CFDA #96.001) did not comply with CMIA-90 cash management regulations as reported in Finding 09-77.

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, 2009. 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 09-27, 09-32, 09-60, 09-62, 09-63, 09-69, 09-71, and 09-75.

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.

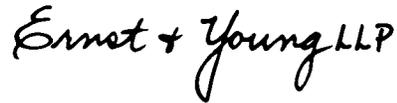
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed 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 09-21 through 09-68, 09-70, 09-72 through 09-74, 09-76, and 09-77 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 09-22, 09-25 through 09-34, 09-37, 09-39 through 09-43, 09-46 through 09-59, 09-61, 09-64 through 09-66, 09-68, 09-70, 09-72 through 09-74, 09-76, and 09-77 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 30, 2010

THIS PAGE INTENTIONALLY LEFT BLANK

Schedule of Expenditures of Federal Awards



Commonwealth of Pennsylvania

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2009

CFDA #	CFDA Program Name	Federal Expenditures (000's)
10.551	Supplemental Nutrition Assistance Program	1,703,158
10.561	State Admin Matching Grants for Supp Nutrition Assist Prgm	154,965
	Total SNAP Cluster	1,858,123
10.553	School Breakfast Program	63,244
10.555	National School Lunch Program (Cash Assistance)	259,157
10.555	National School Lunch Program (Commodities)	41,822
	Total National School Lunch Program	300,979
10.556	Special Milk Program for Children	603
10.559	Summer Food Service Program for Children (Cash Assistance)	12,275
10.559	Summer Food Service Program for Children (Commodities)	344
	Total Summer Food Service Program for Children	12,619
	Total Child Nutrition Cluster	377,445
10.568	Emergency Food Assistance Program (Administrative Costs)	3,165
10.568	ARRA - Emergency Food Assistance Program (Admin Costs)	319
	Total Emergency Food Assistance Program (Admin Costs)	3,484
10.569	Emergency Food Assistance Program (Food Commodities)	14,615
	Total Emergency Food Assistance Cluster	18,099
10.025	Plant and Animal Disease, Pest Control, and Animal Care	3,181
10.029	Avian Influenza Indemnity Program	50
10.069	Conservation Reserve Program	50
10.156	Federal-State Marketing Improvement Program	19
10.162	Inspection Grading and Standardization	141
10.163	Market Protection and Promotion	25
10.169	Specialty Crop Block Grant Program	100
10.170	Specialty Crop Block Grant Program - Farm Bill	23
10.304	Homeland Security - Agricultural	89
10.458	Crop Insurance Education in Targeted States	734
10.557	Special Supplemental Nutrition Program for WIC	179,186
10.558	Child and Adult Care Food Program (Cash Assistance)	79,148
10.558	Child and Adult Care Food Program (Commodities)	88
	Total Child and Adult Care Food Program	79,236
10.560	State Administrative Expenses for Child Nutrition	4,170
10.565	Commodity Supplemental Food Program (Cash Assistance)	952

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2009

CFDA #	CFDA Program Name	Federal Expenditures (000's)
10.565	Commodity Supplemental Food Program (Commodities)	2,823
	Total Commodity Supplemental Food Program	3,775
10.572	WIC Farmers' Market Nutrition Program (FMNP)	3,504
10.579	Child Nutrition Discretionary Grants Limited Availability	512
10.582	Fresh Fruit and Vegetable Program	1,040
10.664	Cooperative Forestry Assistance	1,982
10.665	Schools and Roads - Grants to States	5,000
10.675	Urban and Community Forestry Program	12
10.676	Forest Legacy Program	5
10.678	Forest Stewardship Program	153
10.680	Forest Health Protection	26
10.766	Community Facilities Loans and Grants	(24)
10.902	Soil And Water Conservation	1,193
10.913	Farm and Ranch Lands Protection Program	197
	Total - U.S. Department of Agriculture	\$2,538,046
11.307	Economic Adjustment Assistance	2,161
11.407	Interjurisdictional Fisheries Act of 1986	125
11.419	Coastal Zone Management Administration Awards	2,007
11.450	Automated Flood Warning Systems (AFWS)	61
11.457	Chesapeake Bay Studies	133
11.474	Atlantic Coastal Fisheries Cooperative Management Act	151
11.555	Public Safety Interoperable Communications Grant Program	2,152
	Total - U.S. Department of Commerce	\$6,790
12.112	Payments to States in Lieu of Real Estate Taxes	98
12.400	Military Construction, National Guard	45,415
12.401	National Guard Military Operations and Maintenance Projects	55,264
	Total - U.S. Department of Defense	\$100,777

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2009

CFDA #	CFDA Program Name	Federal Expenditures (000's)
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	49,276
14.231	Emergency Shelter Grants Program	2,849
14.235	Supportive Housing Program	217
14.239	Home Investment Partnerships Program	16,332
14.241	Housing Opportunities for Persons with AIDS	1,639
14.401	Fair Housing Assistance Program - State and Local	1,462
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	1,125
14.908	ARRA - Healthy Homes Demonstration Grants	1
Total - U.S. Department of Housing and Urban Development		\$72,901
15.605	Sport Fish Restoration Program	10,262
15.611	Wildlife Restoration	11,149
	Total Fish and Wildlife Cluster	21,411
15.250	Regulation of Surface Coal Mining	13,342
15.252	Abandoned Mine Land Reclamation (AMLR) Program	26,629
15.612	Endangered Species Conservation	48
15.616	Clean Vessel Act	57
15.622	Sportfishing and Boating Safety Act	100
15.625	Wildlife Conservation and Restoration	99
15.633	Landowner Incentive Program	16
15.634	State Wildlife Grants	2,350
15.808	U.S. Geological Survey - Research and Data Collection	426
15.810	National Cooperative Geologic Mapping Program	41
15.904	Historic Preservation Fund Grants-In-Aid	1,328
15.916	Outdoor Recreation - Acquisition, Development and Planning	1,208
15.929	Save America's Treasures	16
Total - U.S. Department of the Interior		\$67,071
16.004	Law Enforcement Asst - Narcotics & Dangerous Drugs Training	1,069
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	270
16.321	Antiterrorism Emergency Reserve	(2)

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2009

CFDA #	CFDA Program Name	Federal Expenditures (000's)
16.523	Juvenile Accountability Block Grants	1,361
16.540	Juvenile Justice & Delinquency Prevention - Alloc to States	1,830
16.548	Title V - Delinquency Prevention Program	75
16.550	State Justice Statistics Prgm for Statistic Analysis Centers	98
16.554	National Criminal History Improvement Program (NCHIP)	356
16.560	Natl Inst of Justice Research, Eval and Devel Project Grants	550
16.572	State Criminal Alien Assistance Program	6,488
16.574	Byrne Evaluation Partnership Program	5,793
16.575	Crime Victim Assistance	15,039
16.576	Crime Victim Compensation	4,402
16.579	Edward Byrne Memorial Formula Grant Program	950
16.580	Ed Byrne Memorial St & Loc Law Enforce Asst Disc Grants Prgm	1,077
16.582	Crime Victim Assistance/Discretionary Grants	166
16.588	Violence Against Women Formula Grants	3,758
16.590	Grants For Arrest Policies and Protection Order Enforcement	433
16.593	Residential Substance Abuse Treatment for State Prisoners	542
16.607	Bulletproof Vest Partnership Program	63
16.609	Community Prosecution and Project Safe Neighborhoods	502
16.610	Regional Information Sharing Systems	3,209
16.710	Public Safety Partnership and Community Policing Grants	187
16.727	Enforcing Underage Drinking Laws Program	346
16.735	Protecting Inmates and Safeguarding Communities Grant Prgm	383
16.738	Edward Byrne Memorial Justice Assistance Grant Program	8,823
16.740	Statewide Automated Victim Info Notification (SAVIN) Program	496
16.UNKNOWN	Federally Seized/Forfeited Property	825
Total - U.S. Department of Justice		<u>\$59,089</u>
17.207	Employment Service/Wagner-Peyser Funded Activities	35,058
17.207	ARRA - Employment Service/Wagner-Peyser Funded Activities	<u>1,052</u>
	Total Employment Service/Wagner-Peyser Funded Activities	36,110
17.801	Disabled Veterans' Outreach Program (DVOP)	2,745
17.804	Local Veterans' Employment Representative Program	<u>3,108</u>

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2009

CFDA #	CFDA Program Name	Federal Expenditures (000's)
	Total Employment Service Cluster	41,963
17.258	WIA Adult Program	29,581
17.258	ARRA - WIA Adult Program	244
	Total WIA Adult Program	29,825
17.259	WIA Youth Activities	35,547
17.259	ARRA - WIA Youth Activities	1,259
	Total WIA Youth Activities	36,806
17.260	WIA Dislocated Workers	34,390
17.260	ARRA - WIA Dislocated Workers	759
	Total WIA Dislocated Workers	35,149
	Total WIA Cluster	101,780
17.002	Labor Force Statistics	3,123
17.005	Compensation and Working Conditions	50
17.225	Unemployment Insurance	5,832,425
17.225	ARRA - Unemployment Insurance	387,872
	Total Unemployment Insurance	6,220,297
17.235	Senior Community Service Employment Program	5,845
17.245	Trade Adjustment Assistance	17,558
17.261	WIA Pilots, Demonstrations, and Research Projects	1,278
17.266	Work Incentive Grants	15
17.267	Incentive Grants - WIA Section 503	367
17.268	H-1B Job Training Grants	4,476
17.271	Work Opportunity Tax Credit Program (WOTC)	1,076
17.273	Temporary Labor Certification for Foreign Workers	292
17.600	Mine Health and Safety Grants	546
17.603	Brookwood-Sago Grant	45
	Total - U.S. Department of Labor	\$6,398,711
20.205	Highway Planning and Construction	1,433,898
20.205	ARRA - Highway Planning and Construction	9,328
	Total Highway Planning and Construction	1,443,226
20.219	Recreational Trails Program	1,379

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2009

CFDA #	CFDA Program Name	Federal Expenditures (000's)
23.003	Appalachian Development Highway System	72,749
	Total Highway Planning and Construction Cluster	1,517,354
20.513	Capital Assistance Program for Elderly and Disabled Persons	4,430
20.516	Job Access - Reverse Commute	850
20.521	New Freedom Program	353
	Total Transit Services Programs Cluster	5,633
20.600	State and Community Highway Safety	13,758
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	3,049
20.602	Occupant Protection Incentive Grants	3,152
20.604	Safety Incentive Grants for Use of Seatbelts	1,516
20.610	State Traffic Safety Information System Improvement Grants	349
20.612	Incentive Grant Program to Increase Motorcyclist Safety	1
	Total Highway Safety Cluster	21,825
20.005	Boating Safety Financial Assistance	2,455
20.106	Airport Improvement Program	10,537
20.218	National Motor Carrier Safety	7,318
20.232	Commercial Driver License State Programs	1,452
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort	63
20.500	Federal Transit - Capital Investment Grants	1,292
20.505	Federal Transit - Metropolitan Planning Grants	3,371
20.509	Formula Grants for Other Than Urbanized Areas	21,062
20.515	State Planning and Research	9,279
20.700	Pipeline Safety Program Base Grants	921
20.703	Interagency Hazardous Materials Training and Planning Grants	407
20.930	Payments for Small Community Air Service Development	133
Total - U.S. Department of Transportation		\$1,603,102
23.002	Appalachian Area Development	300
23.008	Appalachian Local Access Roads	44
23.009	Appalachian Local Development District Assistance	433
23.011	Appalachian Research, Technical Assistance and Demo Projects	153
Total - Appalachian Regional Commission		\$930

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2009

CFDA #	CFDA Program Name	Federal Expenditures (000's)
30.002	Employment Discrimination - State and Local Agency Contracts	2,044
	Total - Equal Employment Opportunity Commission	<u>2,044</u>
39.003	Donation of Federal Surplus Personal Property	4,010
39.011	Election Reform Payments	1,475
	Total - General Services Administration	<u>5,485</u>
45.025	Promotion of the Arts - Partnership Agreements	765
45.310	Grants to States	5,510
	Total - National Foundation on the Arts and Humanities	<u>6,275</u>
64.005	Grants to States for Construction of State Home Facilities	4
64.010	Veterans Nursing Home Care	462
64.014	Veterans State Domiciliary Care	4,333
64.015	Veterans State Nursing Home Care	26,395
64.111	Veterans Education Assistance	1,122
	Total - U.S. Department of Veterans Affairs	<u>32,316</u>
66.032	State Indoor Radon Grants	457
66.034	Surveys, Studies, Activities Relating to the Clean Air Act	114
66.202	Congressionally Mandated Projects	108
66.419	Water Pollution Control State and Interstate Program Support	5,774
66.432	State Public Water System Supervision	5,601
66.436	Clean Water Act Surveys, Studies, Investigations and Demos	119
66.438	Construction Management Assistance	(6)
66.454	Water Quality Management Planning	426
66.458	Capitalization Grants for Clean Water State Revolving Funds	44,765
66.460	Nonpoint Source Implementation Grants	3,590

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2009

CFDA #	CFDA Program Name	Federal Expenditures (000's)
66.461	Regional Wetland Program Development Grants	94
66.463	Water Quality Cooperative Agreements	32
66.466	Chesapeake Bay Program	3,072
66.467	Wastewater Operator Training Grant Program	10
66.468	Capital Grants for Drinking Water State Revolving Funds	26,658
66.469	Great Lakes Program	44
66.471	State Grants to Reimburse Operators of Small Water Systems	(29)
66.474	Water Protection Grants to the States	168
66.479	Wetland Program Grants - Environmental Outcome Demo Prgm	140
66.511	Office of Research and Development Consolidated Research	22
66.605	Performance Partnership Grants	7,285
66.606	Surveys, Studies, Investigations and Special Purpose Grants	886
66.608	Environmental Information Exchange Network Grant Program	140
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	564
66.707	TSCA Title IV State Lead Grants Certification	366
66.708	Pollution Prevention Grants Program	160
66.714	Pesticide Environmental Stewardship Regional Grants	14
66.801	Hazardous Waste Management State Program Support	6,509
66.802	Superfund State Site - Specific Cooperative Agreements	23
66.804	Underground Storage Tank Prevention and Compliance Program	967
66.805	Leaking Underground Storage Tank Trust Fund Program	1,352
66.808	Solid Waste Management Assistance Grants	(13)
Total - Environmental Protection Agency		\$109,412
81.041	State Energy Program	1,626
81.042	Weatherization Assistance for Low-Income Persons	14,031
81.117	Energy Efficiency and Renewable Energy Info Dissemination	59
81.119	State Energy Program Special Projects	577
81.UNKNOWN	State Grant # 935070 - Oil Overcharge Expenditures	150
Total - U.S. Department of Energy		\$16,443

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2009

CFDA #	CFDA Program Name	Federal Expenditures (000's)
84.027	Special Education - Grants to States	382,879
84.173	Special Education - Preschool Grants	13,207
	Total Special Education Cluster (IDEA)	396,086
84.126	Rehabilitation Services - Vocational Rehab Grants to States	116,934
84.390	ARRA - Rehab Services - Vocational Rehab Grants to States	219
	Total Vocational Rehabilitation Cluster	117,153
84.002	Adult Education - Basic Grants to States	19,852
84.010	Title I Grants to Local Educational Agencies	580,216
84.011	Migrant Education - State Grant Program	6,765
84.013	Title I Program for Neglected and Delinquent Children	1,138
84.048	Career and Technical Education - Basic Grants to States	43,179
84.144	Migrant Education - Coordination Program	65
84.169	Independent Living - State Grants	545
84.177	Rehab Serv - Indep Living Services for Older Blind Indiv	1,389
84.181	Special Education - Grants for Infants and Families	13,388
84.184	Safe and Drug-Free Schools & Communities - National Programs	546
84.186	Safe and Drug-Free Schools and Communities - State Grants	11,631
84.187	Supp Employment Serv for Indiv with Significant Disabilities	835
84.196	Education for Homeless Children and Youth	2,453
84.213	Even Start - State Educational Agencies	2,612
84.235	Rehabilitation Services Demonstration and Training Programs	261
84.243	Tech-Prep Education	4,063
84.255	Literacy Programs for Prisoners	319
84.265	Rehab Training - State Voc Rehab Unit In-Service Training	398
84.282	Charter Schools	4,988
84.287	Twenty-First Century Community Learning Centers	36,320
84.293	Foreign Language Assistance	146
84.298	State Grants for Innovative Programs	1,041
84.318	Education Technology State Grants	8,413
84.323	Special Education - State Personnel Development	929
84.330	Advanced Placement Program	192
84.331	Grants to States for Training for Incarcerated Individuals	1,047
84.357	Reading First State Grants	27,816

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2009

CFDA #	CFDA Program Name	Federal Expenditures (000's)
84.358	Rural Education	584
84.365	English Language Acquisition Grants	10,403
84.366	Mathematics and Science Partnerships	4,170
84.367	Improving Teacher Quality State Grants	118,782
84.368	Grants for Enhanced Assessment Instruments	308
84.369	Grants for State Assessments and Related Activities	8,356
84.372	Statewide Data Systems	548
84.377	School Improvement Grants	8,218
84.378	College Access Challenge Grant Program	1,694
84.902	National Assessment of Educational Progress	132
Total - U.S. Department of Education		\$1,436,981
89.003	National Historical Publications and Records Grants	8
Total National Archives and Records Administration		\$8
90.400	Help America Vote College Program	532
90.401	Help America Vote Act Requirements Payments	6,835
Total - Elections Assistance Commission		\$7,367
93.044	Special Programs for the Aging - Title III, Part B	23,854
93.045	Special Programs for the Aging - Title III, Part C	24,558
93.053	Nutrition Services Incentive Program	5,798
	Total Aging Cluster	54,210
93.575	Child Care and Development Block Grant	208,353
93.596	Child Care Mandatory and Matching Funds of the CCDF	122,684
	Total CCDF Cluster	331,037
93.775	State Medicaid Fraud Control Units	3,343
93.777	State Survey and Cert of Health Care Providers and Suppliers	15,642
93.778	Medical Assistance Program	9,822,727
93.778	ARRA - Medical Assistance Program	1,058,455

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2009

CFDA #	CFDA Program Name	Federal Expenditures (000's)
	Total Medical Assistance Program	10,881,182
	Total Medicaid Cluster	10,900,167
93.041	Special Programs for the Aging - Title VII, Chapter 3	234
93.042	Special Programs for the Aging - Title VII, Chapter 2	610
93.043	Special Programs for the Aging - Title III, Part D	1,014
93.048	Special Programs for the Aging - Title IV and Title II	326
93.051	Alzheimer's Disease Demonstration Grants to States	134
93.052	National Family Caregiver Support, Title III, Part E	8,551
93.069	Public Health Emergency Preparedness	27,518
93.103	Food and Drug Administration - Research	74
93.110	Maternal and Child Health Federal Consolidated Programs	126
93.116	Project Grants and Coop Agreements for Tuberculosis Control	819
93.127	Emergency Medical Services for Children	94
93.130	Primary Care Offices Coordination and Dev Coop Agreements	201
93.136	Injury Prevention and Control Research	1,839
93.150	Projects for Asst in Transition from Homelessness (PATH)	1,991
93.165	Grants to States for Loan Repayment Program	184
93.197	Childhood Lead Poisoning Prevention Projects	602
93.234	Traumatic Brain Injury State Demonstration Grant Program	123
93.235	Abstinence Education Program	21
93.240	State Capacity Building	476
93.241	State Rural Hospital Flexibility Program	452
93.243	Substance Abuse and Mental Health Services - Projects	3,325
93.251	Universal Newborn Hearing Screening	203
93.259	Rural Access to Emergency Devices Grant	103
93.268	Immunization Grants	7,478
93.283	Centers for Disease Control & Prevention - Investigations	9,534
93.296	State Partnership Grant Program to Improve Minority Health	94
93.556	Promoting Safe and Stable Families	13,054
93.558	Temporary Assistance for Needy Families	510,866
93.563	Child Support Enforcement	134,734
93.563	ARRA - Child Support Enforcement	5,939
	Total Child Support Enforcement	140,673

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2009

CFDA #	CFDA Program Name	Federal Expenditures (000's)
93.566	Refugee and Entrant Assistance - State Administered Programs	7,730
93.568	Low-Income Home Energy Assistance	335,879
93.569	Community Services Block Grant	24,702
93.576	Refugee and Entrant Assistance - Discretionary Grants	699
93.584	Refugee and Entrant Assistance - Targeted Assistance Grants	518
93.585	Empowerment Zones Program	2,065
93.590	Community-Based Child Abuse Prevention Grants	1,297
93.597	Grants to States for Access and Visitation Programs	352
93.599	Chafee Education and Training Vouchers Program (ETV)	1,671
93.600	Head Start	225
93.602	Assets for Independence Demonstration Program	357
93.617	Voting Access for Individuals with Disabilities - Gov Grants	744
93.630	Developmental Disabilities Basic Support and Advocacy Grants	3,691
93.645	Child Welfare Services - State Grants	11,544
93.658	Foster Care Title IV-E	146,325
93.659	Adoption Assistance	49,412
93.667	Social Services Block Grant	99,254
93.669	Child Abuse and Neglect State Grants	645
93.671	Family Violence Prevention and Services	3,000
93.674	Chafee Foster Care Independence Program	5,633
93.767	Children's Health Insurance Program	252,432
93.768	Medicaid Infrastructure Grants to Support Competitive Employ	595
93.779	CMS Research, Demonstrations and Evaluations	3,685
93.793	Medicaid Transformation Grants	3,506
93.889	National Bioterrorism Hospital Preparedness Program	19,764
93.917	HIV Care Formula Grants	37,111
93.938	Coop Agreements to Support School Health Programs	429
93.940	HIV Prevention Activities - Health Department Based	4,612
93.943	Epidemiologic Research Studies of AIDS and HIV	(3)
93.944	HIV/AIDS Surveillance	732
93.946	Coop Agreements to Support Safe Motherhood and Infant Health	180
93.958	Block Grants for Community Mental Health Services	15,377
93.959	Block Grants for Prevention and Treatment of Substance Abuse	62,475

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2009

CFDA #	CFDA Program Name	Federal Expenditures (000's)
93.977	Preventive Health Serv Sexually Trans Diseases Control Grant	2,251
93.988	Coop Agreements for State-Based Diabetes Control Programs	551
93.991	Preventive Health and Health Services Block Grant	4,962
93.994	Maternal and Child Health Services Block Grant to the States	19,980
Total - U.S. Department of Health and Human Services		\$13,140,515
94.003	State Commissions	278
94.004	Learn and Serve America - School & Community Based Programs	849
94.006	AmeriCorps	7,883
94.007	Planning and Program Development Grants	44
94.009	Training and Technical Assistance	108
Total - Corporation for National and Community Service		\$9,162
96.001	Social Security - Disability Insurance	84,816
Total - Social Security Administration		\$84,816
16.007	State Domestic Preparedness Equipment Support Program	34
97.004	State Domestic Preparedness Equipment Support Program	1,048
97.067	Homeland Security Grant Program	50,819
	Total Homeland Security Cluster	51,901
97.001	Pilot Demonstration or Earmarked Projects	35
97.008	Urban Areas Security Initiative	950
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	120
97.023	Community Assistance Program State Support Services Element	226
97.029	Flood Mitigation Assistance	285
97.036	Disaster Grants - Public Assist (Presidentially Declared)	26,074
97.039	Hazard Mitigation Grant	2,348
97.041	National Dam Safety Program	56
97.042	Emergency Management Performance Grants	6,797
97.043	State Fire Training Systems Grants	6

- See Notes to Schedule of Expenditures of Federal Awards -

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2009

CFDA #	CFDA Program Name	Federal Expenditures (000's)
97.044	Assistance to Firefighters Grant	7
97.045	Cooperating Technical Partners	257
97.075	Rail and Transit Security Grant Program	4,883
97.078	Buffer Zone Protection Program (BZPP)	1,545
97.091	Homeland Security Biowatch Program	320
97.092	Repetitive Flood Claims	412
97.110	Severe Loss Repetitive Program	804
Total - U.S. Department of Homeland Security		\$97,026
99.UNKNOWN	Federal Grant # S010A070038 TYD - ESEA - Improving Basic Programs	74
99.UNKNOWN	Federal Grant # H027A070093 TYD - IDEA - Part B	4
Total Unknown		\$78
GRAND TOTAL		\$25,795,345

COMMONWEALTH OF PENNSYLVANIA

Notes to the Schedule of Expenditures of Federal Awards - June 30, 2009

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, 2009 because its federal expenditures are below the requirement threshold. In addition, the Judicial Department of Pennsylvania, which is included in the Primary Government, elected to have its own single audit performed. Their federal expenditures are also excluded from the Commonwealth's SEFA.

Note B: Basis of Accounting

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

Expenditures reported under CFDA #10.551, Supplemental Nutrition Assistance Program (SNAP), represent amounts the Electronic Benefits Transfer (EBT) contractor paid to retail outlets for participants' purchases under the program during the fiscal year ended June 30, 2009.

The reported expenditures for benefits under SNAP (CFDA #10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The mechanism used by USDA to make these funds available to States does not enable a State to validly disaggregate the regular and Recovery Act components of this figure. At the national aggregate level, however, Recovery Act funds account for approximately 15 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2009.

Expenditures reported under CFDA #10.555, National School Lunch Program, CFDA #10.558, Child and Adult Care Food Program, CFDA #10.559, Summer Food Service Program, CFDA #10.565, Commodity Supplemental Food Program, and CFDA #10.569, Emergency Food Assistance Program, include the value of food commodity distributions calculated using the U.S. Department of Agriculture, Food and Nutrition Service commodity price list in effect as of November 15, 2007.

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

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

Expenditures for CFDA #20.205, Highway Planning and Construction, CFDA #20.219, Recreational Trails 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 item indicates costs reported under CFDA #93.778, Medical Assistance Program, which were disallowed by DHHS, Centers for Medicare & Medicaid Services (CMS):

COMMONWEALTH OF PENNSYLVANIA

Notes to the Schedule of Expenditures of Federal Awards - June 30, 2009

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, 2009 SEFA have been reduced by \$42,485,369 in disallowed costs.

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

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

Note C: Categorization of Expenditures

The schedule of expenditures of federal awards reflects federal expenditures for all individual grants that were active during the fiscal year ended June 30, 2009. 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 \$238,000 under CFDA #93.568, Low-Income Home Energy Assistance, and \$150,000 under CFDA #81.XXX, Unknown.

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, 2009, the Commonwealth had unexpended oil overcharge funds including interest of approximately \$5,000.

Note E: Unemployment Insurance

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

State Regular UC Benefits	\$4,161,131
Federal UC Benefits	1,873,698
Federal Admin.	185,468
Total Expenditures	<u>\$6,220,297</u>

Note F: Subsequent Event

In July of 2009, an award was received from the federal Department of Health and Human Services for American Recovery and Reinvestment Act (ARRA) funding for CFDA #93.714, ARRA - Emergency Contingency Fund for TANF State Programs. Since this occurred after the end of the current fiscal year, an adjustment of \$24,222,869 was made to move expenditures in the 2009-10 fiscal year from CFDA #93.558, TANF to CFDA #93.714, TANF – ARRA. These expenditures will be reflected on the Commonwealth's SEFA next year.

THIS PAGE INTENTIONALLY LEFT BLANK

Schedule of Findings and Questioned Costs



Commonwealth of Pennsylvania

COMMONWEALTH OF PENNSYLVANIA

Summary of Auditors' Results - June 30, 2009

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

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

Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? X yes no

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

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

Qualified for noncompliance in the following major programs:

SNAP Cluster (CFDA #10.551 and #10.561)
Child Nutrition Cluster (CFDA #10.553, #10.555, #10.556, and #10.559)
Special Supplemental Nutrition Program for WIC (CFDA #10.557)
Child and Adult Care Food Program (CFDA #10.558)
National Guard Military Operations and Maintenance Projects (CFDA #12.401)
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA #14.228)
Homeland Security Cluster (CFDA #16.007, #97.004, and #97.067)
WIA Cluster (CFDA #17.258, #17.259, and #17.260)
Highway Planning and Construction Cluster (CFDA #20.205, #20.219 and #23.003)
Capitalization Grants for Clean Water State Revolving Funds (CFDA #66.458)
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)
Vocational Rehabilitation Cluster (CFDA #84.126 and #84.390)
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)
CCDF Cluster (CFDA #93.575 and #93.596)
Foster Care Title IV-E (CFDA #93.658)
Adoption Assistance (CFDA #93.659)

COMMONWEALTH OF PENNSYLVANIA

Summary of Auditors' Results - June 30, 2009

Social Services Block Grant (CFDA #93.667)
 Children's Health Insurance Program (CFDA #93.767)
 Medicaid Cluster (CFDA #93.775, #93.777, and #93.778)
 Block Grants for the Prevention and Treatment of Substance Abuse (CFDA #93.959)
 Social Security – Disability Insurance (CFDA #96.001)

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)
10.551 and 10.561	SNAP Cluster	\$ 1,858,123
10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster	377,445
10.557	Special Supplemental Nutrition Program for WIC	179,186
10.558	Child and Adult Care Food Program	79,236
12.400	Military Construction, National Guard	45,415
12.401	National Guard Military Operations and Maintenance Projects	55,264
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	49,276
16.007, 97.004 and 97.067	Homeland Security Cluster	51,901
17.207, 17.801, and 17.804	Employment Service Cluster	41,963
17.225	Unemployment Insurance	6,220,297
17.258, 17.259 and 17.260	WIA Cluster	101,780
20.205, 20.219 and 23.003	Highway Planning and Construction Cluster	1,517,354
66.458	Capitalization Grants for Clean Water State Revolving Funds	44,765
84.010	Title I Grants to Local Educational Agencies	580,216
84.027 and 84.173	Special Education Cluster (IDEA)	396,086
84.048	Career and Technical Education – Basic Grants to States	43,179

COMMONWEALTH OF PENNSYLVANIA

Summary of Auditors' Results - June 30, 2009

84.126 and 84.390	Vocational Rehabilitation Cluster	117,153
84.367	Improving Teacher Quality State Grants	118,782
93.044, 93.045 and 93.053	Aging Cluster	54,210
93.558	Temporary Assistance for Needy Families	510,866
93.563	Child Support Enforcement	140,673
93.568	Low-Income Home Energy Assistance	335,879
93.575 and 93.596	CCDF Cluster	331,037
93.658	Foster Care Title IV-E	146,325
93.659	Adoption Assistance	49,412
93.667	Social Services Block Grant	99,254
93.767	Children's Health Insurance Program	252,432
93.775, 93.777 and 93.778	Medicaid Cluster	10,900,167
93.959	Block Grants for Prevention and Treatment of Substance Abuse	62,475
96.001	Social Security – Disability Insurance	84,816
	Total Federal Expenditures – Major Programs	<u>\$24,844,967</u>

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

\$38,693,017

Auditee qualified as low-risk auditee?

 yes

 X no

COMMONWEALTH OF PENNSYLVANIA

Index to Basic Financial Statement Findings - June 30, 2009

Finding No.	Finding Title	Impacted State Agency	Finding Page	CAP Page
09-1**	Internal Control Weaknesses Over Financial Reporting for the Lottery Fund (A Similar Condition Was Noted in Prior Year Finding #08-11)	OB/OCO	47	345
09-2**	Internal Control Deficiencies Over Lottery Fund Shared Ride Program (A Similar Condition Was Noted in Prior Year Finding #08-10)	PennDOT	48	345
09-3*	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 #08-6)	OB/OCO PennDOT	50	345
09-4**	Weaknesses in BFS Reporting of Motor License Fund Liabilities and Encumbrances	OB/OCO PennDOT	52	346
09-5**	Weakness in BFS Reporting of Motor License Fund Inter-State License and Fee Revenues	OB/OCO PennDOT	55	346
09-6**	Control Deficiency Over Financial Reporting in the Unemployment Compensation Fund (A Similar Condition Was Noted in Prior Year Finding #08-1)	OB/OCO L&I	58	346
09-7**	Control Deficiency Over Financial Reporting of SWIF Premium Revenue	L&I	60	347
09-8**	Noncompliance With Statutory Limits for Equity Investments (A Similar Condition Was Noted in Prior Year Finding #08-12)	L&I	61	347
09-9**	Tax Accruals in the BFS Are Not Properly Reviewed For Accuracy (A Similar Condition Was Noted in Prior Year Finding #08-05)	OB/OCO	63	347
09-10**	Internal Control Deficiencies Over Accounting and Financial Reporting for Merchandise Inventory Accounts in the State Stores Fund	LCB	65	347
09-11**	Internal Control Weaknesses in Investment Disclosure Reporting (A Similar Condition Was Noted in Prior Year Finding #08-14)	OB/OCO TREAS	68	348
09-12**	Internal Control Deficiency Over Litigation Accruals (A Similar Condition Was Noted in Prior Year Finding #08-09)	OB/OCO	71	349
09-13**	Lack of Documentation to Support Contracting and Procurement (A Similar Condition Was Noted in Prior Year Finding #08-02)	OB OA	73	349

* - Significant Deficiency

** - Material Weakness

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Index to Basic Financial Statement Findings - June 30, 2009

Finding No.	Finding Title	Impacted State Agency	Finding Page	CAP Page
09-14**	Internal Control Weaknesses Over Financial Reporting in the Department of Public Welfare GAAP Template (A Similar Condition Was Noted in Prior Year Finding #08-18)	OB/OCO	77	349
09-15**	Statewide Weaknesses Within the SAP Accounting System Related to Monitoring of Potential Segregation of Duties Conflicts (A Similar Condition Was Noted in Prior Year Finding #08-21)	OB OA	79	350
09-16*	General Computer Controls in Various Commonwealth Agencies Need Improvement (A Similar Condition Was Noted in Prior Year Finding #08-19)	OB OA	81	350
09-17**	Internal Control Deficiencies Over Financial Reporting of Capital Assets in the State Stores Fund	LCB	90	350
09-18*	Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System and Inappropriate Role Assignments	OB/OCO	92	350
09-19**	Material Weaknesses Exist in the Contracting and Procurement Process that Need Improvement	LCB	94	350
09-20*	Internal Control Weaknesses in the Allocation of Property Tax Relief Payments	PDE	97	350

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

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 1:

Office of Comptroller Operations

Internal Control Weaknesses Over Financial Reporting for the Lottery Fund (A Similar Condition Was Noted in Prior Year Finding #08-11)

Condition: For the twelfth year in a row, the Comptroller Office prepared the Lottery Fund's GAAP template with misstatements as a result of errors made during the GAAP template preparation process, resulting in auditor adjustments to the BFS. These errors occurred on the spreadsheet used to calculate the unpaid prize liability for online games and on the spreadsheet used to calculate the accrued revenue. The errors were undetected in the GAAP template review process causing an overstatement of liabilities and expenditures by \$4.1 million and an understatement of accounts receivable and revenues by \$5.8 million, thereby causing an understatement of Net Assets of \$9.9 million in total.

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 errors in the preparation of the spreadsheets used to calculate the unpaid prize liability and accrued revenue in the Lottery Fund GAAP template. Based on the fact that auditors have detected Lottery template errors for each of the past twelve years, 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 causes increased costs to the Commonwealth. Increased auditor hours and increased Comptroller staff hours are necessary to investigate and resolve these errors.

Recommendation: The OCO should implement adequate procedures in the Lottery Fund GAAP template preparation and review process to ensure amounts in the financial statements are clerically accurate and correct.

Agency Response: OCO disagrees that this finding is similar to previous findings noted in the previous eleven years and that OCO continues to improve the procedures for preparing and reviewing the template to detect and correct errors. It should be noted that the cause, as detailed within the audit finding, is not solely linked to errors detected in the spreadsheets utilized to calculate the accruals. The main cause can be linked to OCO's interpretation of reports generated from the new Department of Lottery system and changes to the reports provided to OCO for use in calculating the accrued payables, accrued receipts and unearned revenues at year end. The new system went live in June 2009 and is utilized to track and account for the department's operations, income and distributions. OCO plans to use the errors, obstacles and misinterpretations identified with the newly presented system data (as it relates to the 2008-09 GAAP preparations) to provide strict direction to the Department of Lottery to provide more clear and visible discernment of the data and the aforementioned accrual components moving forward. In addition, OCO will implement, where necessary, more control totals to validate the calculation formulas and accrual results and provide for a more thorough and detailed secondary level review.

Auditors' Conclusion: As indicated by OCO in their response, an internal control deficiency exists since OCO does not adequately evaluate accounting data used to prepare the Lottery Fund GAAP template. Furthermore, this is the twelfth year in a row in which we identified significant errors and control deficiencies in the preparation of the Lottery Fund GAAP Template. All accounting information, especially data and reports from new systems, must be evaluated, and properly interpreted and reviewed to ensure correct amounts are presented in the BFS. Based on OCO's response, the finding, with the above clarifications, remains as previously stated.

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

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 2:

Department of Transportation

Internal Control Deficiencies Over Lottery Fund Shared Ride Program (A Similar Condition Was Noted in Prior Year Finding #08-10)

Condition: For the third 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 performing any procedures to confirm the accuracy of ridership data or adequately verify the accuracy of the submitted invoices. Total Shared Ride program expenditures for the current fiscal year were \$63 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 and properly verifying the accuracy of the invoices submitted by the authorities.

Cause: According to Department management, the Department of Transportation has contracted with a consulting firm to conduct field reviews to verify invoiced ridership data. However, no reviews were completed during our audit period. In addition, the Department of Transportation has recently hired additional staff to assist in reviewing submitted invoices.

Effect: Without proper verification of Shared Ride program ridership data and accuracy of 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. In addition, the Department of Transportation should more thoroughly review submitted invoices for accuracy.

Agency Response: The Bureau of Public Transportation (BPT) in the Department of Transportation in July 2009 began an evaluation and audit of the Shared-Ride Programs administered by Southeastern Pennsylvania Transportation Authority (SEPTA) and the Port Authority of Allegheny County (PAAC). Consistent with past communication between our offices, BPT retained a consultant to evaluate the two largest recipients of Lottery Fund monies in Pennsylvania, SEPTA and PAAC. Grants to these two agencies represent 41 percent of the total \$72.5 million in Lottery funding awarded statewide in FY 2008-09 for the reduced-fare Shared-Ride Program for Older Adults. The SEPTA review is almost complete and work at PAAC has begun.

The Department agrees that periodic on-site monitoring is critical to ensuring fiscal reliability and program compliance. Procedures have always existed for the Shared-Ride Program to verify the information used to calculate grants. Recordkeeping and reporting requirements with regard to individual trips are the responsibility of the transit systems and those detailed records are maintained at the transit system offices. The annual application process requires participating transit systems to describe, document, and provide examples of their audit trails which must trace trips from reservation, to scheduling, to provision of the trip and billing. Review of each system's audit trail and consistency with the application are standard elements of Shared-Ride Program field reviews. During a field review, a minimum of 40 trips are randomly selected for testing of the audit trail and subsequent billing to the Department. There have been few cases of inaccurate billings of any consequence. When inaccuracies have been identified through field reviews, BPT requests that the Bureau of Audits in Comptroller Operations conduct an audit. BPT then uses that documentation to reconcile payments. During calendar year 2009 there were seven Shared-Ride field reviews conducted.

Based upon the retainage of a consultant currently working with both SEPTA and PAAC and a program in place to perform field reviews on transit systems we believe this finding has been resolved and can be closed out.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 2: (continued)

Auditors' Conclusion: All of the corrective action described in the above agency response occurred after the June 30, 2009 end of our current audit period, so it is beyond the scope of our current audit. Therefore, the finding and recommendation remain as previously stated for our current year. We will review this corrective action in the subsequent audit.

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

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 3:

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 Basic Financial Statements (A Similar Condition Was Noted in Prior Year Finding #08-6)

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 third year in a row that there were no established agency-wide procedures at PennDOT 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 Basic Financial Statements (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) PennDOT 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. PennDOT Finance and OB-BFM are in the process of developing a policy to identify replacement activity, however, no policy was implemented during our audit period.

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 PennDOT to ensure the proper reporting of infrastructure assets in the BFS.

BFM Response: Based on information provided to the Bureau of Financial Management (BFM) by PennDOT engineers during implementation of GASB 34, BFM maintains that instances of both removing and replacing portions of financially reported highway/bridge infrastructure are uncommon. After requesting information from the auditors in order to analyze and evaluate the basis for the statement of “Effect” in this finding and not receiving any substantive information, BFM asserts that the “Effect” is unsubstantiated and there is no mechanism for quantifying a dollar amount, nor any basis for contending that a future misstatement will occur.

PennDOT Response: PennDOT Finance has been working with Highway Administration gathering historical data that will be used to develop statistics regarding annual aggregate consumption of asphalt tonnage. This statistical information will be used to identify the estimated volumes of asphalt tonnage consumed in each of the 3 types of highway asphalt construction: base, binder and wearing. Understanding the percentage of annual consumption related to each asphalt mix type will allow the creation of a financial formula to be used to estimate highway infrastructure retirements associated with highway infrastructure replacements. This adjustment formula can then be applied, if material, to retire reported highway infrastructure balances in the BFS. It is estimated that this methodology will be ready for implementation in FY 2010.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 3: (continued)

PennDOT intends to gather historical information for bridges that will be used to develop statistics regarding annual bridge construction and maintenance spending. If data can be generated that identifies average bridge spending by component, i.e., preservation, rehabilitation, or replacement, a formula can then be developed that will allow, if material, the retirement of reported bridge infrastructure asset balances in the BFS. PennDOT will evaluate the materiality of the change in bridge assets and make a determination as to whether implementation of such a methodology is both necessary and a proper use of personnel resources. If so, this methodology would be used to address bridge depreciation inconsistencies in FY 2011.

Auditors' Conclusion: PennDOT management has indicated to us that replacement activity does occur for infrastructure, but there is currently no procedure in place for measuring its financial impact on the BFS, so a control weakness is clearly present. It is management's responsibility to substantiate the effect of replacement activity on the BFS, not the auditors'. In addition, we would like to note that there will be a future influx of over \$1 billion in Federal American Recovery and Reinvestment Act (ARRA) funds for the Commonwealth's infrastructure over the next several years. This additional construction adds to the risk of future misstatement of infrastructure amounts in the BFS from replacement activity. Our finding and recommendation, with the above clarifications, remain as previously stated. We will review any corrective action in the subsequent audit.

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

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 4:

Office of the Budget – Office of Comptroller Operations Pennsylvania Department of Transportation

Weaknesses in the Basic Financial Statements Reporting of Motor License Fund Liabilities and Encumbrances

Condition: During our audit of the June 30, 2009, Basic Financial Statements (BFS), we found that the Office of Comptroller Operations (OCO) understated the Due to Political Subdivisions liability account by \$12.3 million and the OCO and PennDOT overstated the Reserved for Encumbrances account by \$12.2 million because of control weaknesses in: 1) the preparation and review of the Motor License Fund GAAP template, and 2) the review of SAP system encumbrance balances for compliance with Management Directive (MD) 310.3, “Encumbering and Lapsing of Appropriations”.

The original template entry to accrue estimated liabilities was reviewed by OCO via the liability lookback process developed to assess the reasonableness of the estimate. The estimated liability for the Due to Political Subdivisions account was found to be lower than actual as of the date the lookback was performed. However, the OCO did not make an adjusting entry because OCO believed the difference to be immaterial. Subsequently, the auditors performed procedures to evaluate the estimate and found it to be understated by \$12.3 million. An auditor adjustment was posted to correct the BFS.

In addition, the auditors found that the methodology used to calculate the template entry to adjust encumbrances for liability accruals resulted in an overstatement of Reserved for Encumbrances by \$4.9 million. The auditors also found purchase order commitment balances, totaling \$7.3 million, reported as Encumbrances in violation of MD 310.3. The purchase order commitment balances noted remained open as of October 31, 2009 but were not exempt from the lapse requirement, resulting in a \$7.3 million overstatement of the Reserved for Encumbrance balance in the BFS. Therefore, the combined overstatement of the Reserved for Encumbrance balance was \$12.2 million, and auditor adjustments were posted to correct the BFS.

Criteria: Strong internal controls should ensure that the accounting transactions are reported accurately, are appropriately reviewed and approved by management, and are in compliance with Management Directives.

Cause: The OCO failed to properly review and adjust liabilities and encumbrances based on lookbacks performed for the Motor License Fund. Additionally, it is the responsibility of the agency (PennDOT) to lapse all open purchase order commitment balances by October 31 unless they are exempt from the requirements of the Directive. However, PennDOT is not properly reviewing these open commitment balances prior to October 31 to ensure that all Motor License Fund encumbrances at year-end are correct and reported in the BFS in accordance with the Directive.

Effect: As a result of the misstatements, the Motor License Fund balance sheet Due to Political Subdivisions liability account was understated by \$12.3 million and the Reserve for Encumbrances was overstated by \$12.2 million, requiring auditor-proposed adjustments. Without strengthened internal controls and adherence to Management Directive 310.3, liabilities and encumbrances will continue to be misstated in the future.

Recommendation: We recommend that OCO strengthen controls to ensure that GAAP template preparer entries are accurate and the template reviewer ensures that all balances reported in the template are accurate. Additionally, we recommend that PennDOT improve its review procedures to ensure all purchase order commitments that remain open as of October 31 are in compliance with the MD 310.3.

Office of Comptroller Operations Response: The OCO acknowledges that it did not post the net liability lookback amount of \$4.2 million for the Motor License Fund, but it emphatically disagrees that its decision to not post the amount was the result of poor internal controls or, worse, lack of proper review. The lookback analysis was prepared by the Bureau of Commonwealth Accounting ‘as of’ September 30, 2009 and was provided to the Bureau of Financial

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 4: (continued)

Management (BFM) during October 2009. In deciding not to post the amount, BFM used its threshold guidance included in its variance analysis instructions and used its best professional judgment in this matter. BFM calculated that \$4.2 million was only 2.26 percent of the original amount reported for accrued expenditures for the Motor License Fund. All of this information was provided to the auditors through October 2009. BFM sought the auditors' concurrence with its conclusion but never received it.

The Finding content does not provide that 1) auditor testing 'as of' October 31, 2009 gave the auditors the benefit of an additional month of available information; 2) the proposed auditor adjustment (provided December 10, 2009) *included* the effects of OCO's \$4.2 million amount; 3) the proposed auditor adjustment increased liabilities and expenditures to a net amount of less than \$6.9 million (\$2.7 million higher than OCO's amount); and, that the \$12.3 million amount included in the Finding was partially offset by a net liability *overstatement* of almost \$5.4 million.

The OCO continues to believe that a net liability understatement of either \$4.2 million or \$6.9 million is not material to the Motor License Fund and requests that the liabilities portion of this Finding be withdrawn.

Pennsylvania Department of Transportation Response: PennDOT's financial system prior to SAP performed an automatic roll of commitment documents to ensure compliance with MD310.3. A manual effort was not required. With the implementation of SAP, each individual purchase order commitment must be reviewed and corrective action taken. Transferring from an automatic process to a manual review has been an adjustment for the Department; however, progress has been made since the implementation of SAP.

PennDOT also implemented Plant maintenance in July 2007, which increased the number of purchase order commitments requiring this manual review.

The following actions have been taken over the past year to further address outstanding prior year commitments and compliance with MD310.3.

- PennDOT Finance issued SAP Circular 2009-5, Closing Prior Year Commitments in Compliance with Management Directive 310.3 on October 23, 2009. This Circular provided direction on the review of the prior year commitments and included a report of the detailed encumbrance information that required action.
- The responsibility to monitor and ensure compliance with MD 310.3 has been assigned to PennDOT District Fiscal Officers through their position description.
- PennDOT Bureau of Fiscal Management staff also periodically reviewed and notified appropriate staff of the outstanding commitments and the need to move them to the current fiscal year or close the commitment.

However, to continue to strengthen controls to ensure these balances are addressed, additional reporting will be implemented to follow-up on the outstanding prior year balances on a monthly basis.

Auditors' Conclusion: The \$4.2 million mentioned in OCO's response only considers the overall *net* liability, which includes errors in multiple liability accounts. This finding addresses the Due to Political Subdivisions liability account which is recorded as a separate line item on the balance sheet. Because MLF is a major fund, the understatement of \$12.3 million in this account was considered material to the MLF, and an auditor adjustment was booked. There is no change to our auditor conclusion that a control deficiency exists which caused the error. OCO's lookback and OCO's methodology and procedures used in estimating and evaluating the Due to Political Subdivisions accrual should be re-evaluated to ensure estimates and lookbacks are closer to actual amounts reported in the future.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 4: (continued)

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

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

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 5:

Office of the Budget – Office of Comptroller Operations Department of Transportation

Weakness in the Basic Financial Statements Reporting of Motor License Fund Inter-State License and Fee Revenues

Condition: We found that the Office of Comptroller Operations (OCO) misstated Motor License Fund revenues in the June 30, 2009 BFS by \$30.1 million due to a control weakness related to license and fee revenue recognition in accordance with GAAP. PennDOT proposed a \$30.1 million GAAP adjustment to increase Motor License Fund revenue, which OCO approved and posted in the current 08-09 fiscal year. However, this \$30.1 million auditee adjustment was actually based on prior 06-07 and 07-08 fiscal years' revenue collections that were never reported as GAAP revenue in those prior fiscal years, but should have been. As a result, auditor-proposed adjustments were posted to reduce current-year revenue reported in the BFS and increase prior year fund balance to correct the cumulative understatement of revenue from prior fiscal years.

Criteria: Strong internal controls should ensure that revenue transactions are reported accurately, timely, and in accordance with GAAP for each fiscal year. GAAP basis accounting requires revenues to be recognized when they are realized and when they are earned to ensure reporting in the proper accounting period.

Cause: In the 06-07 fiscal year, the Commonwealth acting through PennDOT, entered into an agreement with the International Registration Plan, Inc. (IRP) a web-based Clearinghouse System to streamline the processing and reporting of multi-state-apportioned vehicle registration fees. The Department was authorized to join IRP with other states and avail itself of the services of IRP's Clearinghouse, under the Intermodal Surface Transportation Efficiency Act of 1991 and the PA Vehicle Code. The IRP is a registration reciprocity agreement among states of the United States and provinces of Canada providing for payment of license fees on the basis of total distance operated in all jurisdictions. Each jurisdiction participating in the IRP Clearinghouse is responsible for reporting funds collected to pay the other participating jurisdictions (i.e., states and provinces of Canada). The Clearinghouse streamlines the jurisdictional exchange of fee information by enabling jurisdictions to electronically exchange motor carrier and fee information between jurisdictions. It also establishes an electronic remittance netting function with Electronic Funds Transfer (EFT) through a central IRP bank. The system tracks all amounts due to/from a base jurisdiction, from/to all foreign jurisdictions and provides reports on the information.

Since its inception in 2007, the netting process by the Clearinghouse resulted in the inaccurate posting of license and fee revenue on the SAP system in prior years. The inaccurate accounting from this process was not monitored and identified until the 08-09 fiscal year, at which time the auditee's \$30.1 million GAAP adjustment was posted in an attempt to correct the error and to report the revenues in the BFS.

Effect: The auditee's \$30.1 million revenue adjustment for 08-09 was for prior fiscal years revenue collections, not 08-09 fiscal year revenue collections, and this resulted in an overstatement of 08-09 fiscal year revenues, requiring an auditor adjustment. Additionally, since revenues were not reported in the prior year's BFS when earned, a restatement to increase and correct the previously reported Motor License Fund balance was required.

Recommendation: We recommend that OCO strengthen internal controls to ensure that IRP Clearinghouse revenue is reported in the BFS in the proper accounting period and in accordance with GAAP. Additionally, we recommend that PennDOT improve its procedures for regularly monitoring and recording this revenue on SAP.

Department of Transportation Response: We agree with the finding. Through cooperation with Comptroller Operations, PennDOT's Safety Administration, and PennDOT'S Bureau of Fiscal Management, a new process was developed that corrects the issue stated in the finding. Currently, there are jurisdictions that are not participating in the newly formed IRP Clearinghouse. As a result, we have created a hybrid process consisting of the old IRP payment

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 5: (continued)

procedures and the newly developed Clearinghouse procedures. Due to the new monthly IRP Clearinghouse netting process, excess funds still build up in the restricted account. However, now there is a process in place to make monthly transfers from the restricted account to the non-restricted account (taking care of the excess funds in the restricted account that resulted in this finding). We believe that this new hybrid process corrects the situation on our end and makes sure that funds are deposited monthly into the correct accounts.

The following is the newly developed hybrid methodology: The non-restricted account still receives the IRP revenue that comes from the IRP Clearinghouse jurisdictions and the other jurisdictions that do not participate in the Clearinghouse. Since some jurisdictions are not in the Clearinghouse, the old IRP payment process is necessary so Pennsylvania can make payments to those jurisdictions. The restricted account is still the account that we use to make these payments.

Since the Clearinghouse does a netting process, they send us monthly statements of what we are owed or what we need to pay other jurisdictions. In the event that Pennsylvania owes money for a month, Pennsylvania makes a payment to the Clearinghouse that they distribute on our behalf to all participating jurisdictions. For the remaining non-participating jurisdictions that Pennsylvania may owe money, Pennsylvania makes a payment from the restricted account (4710061). Due to the new IRP Clearinghouse netting process, excess money is still being deposited in the restricted account.

To correct this problem, a monthly email from Safety Administration indicates how much excess funds are in the restricted account (4710061) and need to be moved to the non-restricted account (441193). These small monthly transfers make sure that the excess funds do not build up in the restricted account. Safety Administration initiates these monthly transfers of funds from the restricted account to the non-restricted account. At the same time, they send email notification to the Comptroller Operations to post these transfers.

The Bureau of Financial Management is copied on all of these emails to make sure that the new monthly hybrid process is followed correctly and to avoid the problem that caused this finding.

We believe with this new process in place the finding has been resolved and can be considered closed out.

Office of Comptroller Operations Response: Office of Comptroller Operations (OCO) proposes eliminating this matter as a Finding, as the amount at question, \$30.1M in revenues was identified and adjusted appropriately by OCO staff. OCO contends that internal controls were sufficient and that the appropriate action to correct 07-08 fiscal year revenues was to post the adjustment in the 08-09 fiscal year. Also, the resulting MLF fund balance at June 30, 2009 is the same whether the \$30.1M had been reported as an adjustment to the beginning fund balance or reported as current year revenues.

The time to become acclimated to the process played a role in the December 2008 revenue reclassification from a restricted receipt account (liability) to a non-restricted revenue account. The licenses/fees collection/apportionment IRP Clearinghouse process was implemented in April 2007 by the Commonwealth, both OCO and PennDOT worked together to confirm the revenue prior to posting the initial adjustment.

Since the December 2008 adjustment, PennDOT has implemented additional controls to review the restricted receipt account and uses a monthly report to identify excess funds in the restricted receipt account. Based on this report PennDOT proposes an adjustment to transfer the amount from the restricted receipt account to a non-restricted receipt account. OCO then reviews the documentation and posts the adjustment accordingly.

Auditors' Conclusion: As noted above, the \$30.1 million adjustment was for revenue collected and earned in prior years that should have been reported in those prior years. Since OCO's adjustment recognized this revenue in the current period, revenue was not recognized in the proper period and, therefore, not reported in accordance with GAAP.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 5: (continued)

Because of the internal control deficiency noted, 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

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 6:

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

Control Deficiency Over Financial Reporting in the Unemployment Compensation Fund (A Similar Condition Was Noted in Prior Year Finding #08-1)

Condition: For the fifth year in a row, the Commonwealth's Basic Financial Statements (BFS) contained significant misstatements in the Unemployment Compensation (UC) Fund that required adjusting entries proposed by the auditors. Our testing of the UC Fund GAAP Template for FYE June 30, 2009 resulted in an \$8.6 million adjusting entry to reduce the Due From Other Governments receivable due to inaccurate estimates, a \$3.2 million adjusting entry to increase Accounts Payable for refunds owed to employers due to a voucher transmittal missed in the calculation, \$7.5 million and \$19.5 million adjusting entries to correct Accounts Payable and Due From Federal Government due to unnecessary entries in the GAAP template and a \$28.2 million adjusting entry to reduce the Unemployment Assessment Receivable due to deteriorated economic conditions 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: L&I and Office of Comptroller Operations internal review procedures in its UC GAAP template preparation process were not thorough enough to detect and correct the errors noted above by the auditors.

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

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

Office of Comptroller Operations Response: Office of Comptroller Operations (OCO) concurs there were a number of necessary adjustments in the Unemployment Compensation Combination GAAP package for the year ending June 30, 2009. As noted in the recommendation, improvements have been made regarding methodologies and internal review procedures. OCO will continue to review and refine the methodologies and internal review procedures to ensure accurate accruals.

Currently OCO compares each liability estimates to actual liabilities to verify that the estimation methodology is accurate. However, OCO did not have the same methodology in place for receivables. Estimates for receivables were based on prior quarter receivables. In the past, OCO has not performed a comparison of estimates to actual receivables. This lack of comparison and limited information available caused the adjustment of \$8.6 million to reduce the Due From Other Governments. OCO has noted this weakness in our internal controls and has incorporated this control into the preparation of the GAAP package in the future.

OCO has added an additional control that compares the Accounts Payable to a monthly reconciliation to eliminate future adjustments such as the \$3.2 million to the Accounts Payable as it relates to refunds.

In fiscal year 2008-2009 OCO developed a new methodology for calculating the Unemployment Compensation Benefit Payable. OCO will continue to review and refine our methodology to eliminate adjustments such as the \$19.5 to Due From Federal Government million and \$7.5 million to Accounts Payable.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 6: (continued)

Department of Labor and Industry Response: L&I concurs with the findings and with the OCO response. L&I does provide to the OCO the Unemployment Assessment Receivable amount. It should be noted that as the date of the audit gets moved up for completion, this action often requires estimates on the receivables. Providing estimates will continue to require adjustments which may result in findings being issued by the auditors. This issue should be noted since this type of activity impacts on more than one agency and will continue to generate findings. We recommend discussing this with the auditors in an attempt to eliminate these types of findings.

Auditors' Conclusion: Based on the agency response, the finding and recommendation remain as previously stated. We will review and discuss 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, 2009

Finding 09 – 7:

Department of Labor and Industry State Workers' Insurance Fund

Control Deficiency Over Financial Reporting of State Workers' Insurance Fund Premium Revenue

Condition: The Commonwealth's Basic Financial Statements (BFS) contained a significant misstatement in the State Workers' Insurance Fund (SWIF) which required an adjusting entry by the auditors. Our testing of SWIF required a significant adjusting entry in the amount of \$5.764 million to increase understated premium revenue for the year ended December 31, 2008.

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: Comptroller Operations personnel stated that the logic of the query used to extract the premium revenue data was incorrect, and the inaccuracy of the query, combined with inadequate review procedures, caused the SWIF premium revenue amount reported in the BFS to be incorrect. Comptroller Operations personnel stated that the underlying premium revenue data in the PowerComp system was accurate. Comptroller Operations personnel also stated that the query had been developed by a third party vendor whose contract had been terminated. The query logic failed to produce accurate results because it had not been maintained properly to report new combinations of policy conditions. After discussion with the auditors, SWIF revised the query logic to extract the correct amount of premium revenue.

Effect: SWIF premium revenue reported in the government-wide and fund financial statements was understated and required an auditor adjustment. In addition, the control deficiency in internal review procedures and accounting systems could continue to result in additional misstatements in the future.

Recommendation: SWIF should improve its control procedures to prepare and review the accuracy of its financial reporting of premium revenue.

Agency Response: SWIF engaged in a thorough and lengthy financial review project to ensure that all PowerComp financial transactions are properly mapped to General Ledger accounts. Exhaustive test protocols have been developed to confirm the accuracy of all Written Premium activity for the 2008 calendar year. The revised query logic successfully produced the results expected by the test protocol. The test protocol and expected results were updated for the 2009 calendar year. The query logic successfully produced the results expected. The Written Premium test protocol will be updated each year to ensure that the query logic continues to produce the expected results documented in the protocol. This will create a level of review and control that had not previously existed.

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, 2009

Finding 09 – 8:

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 #08-12)

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 \$180,138,783 as of December 31, 2008. As of December 31, 2008, SWIF's book value of its assets was \$1,724,904,112 and the statutory surplus totaled negative \$31,439,648. Using the lesser of these limitations noted, which was the negative surplus of \$31,439,648, SWIF was statutorily limited to \$0 in equity securities at year end. However, as of December 31, 2008, SWIF held a total of \$180,138,783 in equity securities at cost. Therefore, SWIF's equity investments exceeded the legal limit by \$180,138,783 at December 31, 2008. This noncompliance is being reported for the third year in a row.

In addition, during the audit period ended December 31, 2008, 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 noncompliance with these requirements is corrected in a timely manner.

Cause: SWIF personnel indicated that they were aware of the limitation on equity investments. SWIF personnel stated that the State Workers' Insurance Board and SWIF's investment advisor are monitoring SWIF's compliance with the equity limitations in Act 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, 2008 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

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 8: (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, 2008 noted above.

Agency Response: In response to the issue cited regarding SWIF’s equity investments as of December 31, 2008, the SWIF Board continues to rebalance its portfolio in a financially responsible manner, with the advice of its investment advisor. Additionally, it should be noted that SWIF’s authority to invest in equities was amended by Act 50 of 2009. SWIF’s current investment in equities complies with this amended investment authority and therefore it is unlikely that SWIF will not be in compliance with the applicable investment limitations in the future.

Auditors’ Conclusion: Based on the agency response, Act 50 of 2009 was enacted after the audit period. Therefore, the finding and recommendation remain as previously stated. We will review any corrective action and the amended law in the subsequent audit.

Furthermore, it should be noted that SWIF’s Statutory Basis Statement of Operations and Changes in Surplus reported a \$73,019,000 change in net unrealized capital loss in the current year ended December 31, 2008, from equity investments. SWIF’s statutory basis statement also reported a \$23,120,689 net realized capital loss from equity investments in December 31, 2008, that reduced net realized capital gains down to \$930,000, representing a \$28,410,000 reduction to capital gain investment income compared to the prior year ended December 31, 2007. These December 31, 2008, statutory basis financial statement capital losses from equities (unrealized and realized) amounted to over \$106 million in total, contributed significantly to the fund’s deficit at December 31, 2008, and demonstrate that SWIF management’s violation of Act 41 of 2005 inappropriately put large amounts of Commonwealth funds at risk.

The 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, 2009

Finding 09 – 9:

Office of the Budget – Office of Comptroller Operations

Tax Accruals in the Basic Financial Statements Are Not Properly Reviewed For Accuracy (A Similar Condition Was Noted in Prior Year Finding #08-5)

Condition: The Office of Comptroller Operations (OCO) records taxes receivable and payable accruals in the BFS using estimated amounts. Subsequently, a lookback procedure is performed to adjust these estimated amounts closer to actual. In the lookback procedure, OCO obtains data from the Department of Revenue (DOR) for testing. Based on their testing results, OCO decides whether or not an adjustment to the original estimated accruals is necessary.

During our audit, we noted numerous errors made by the OCO in both the estimated amounts and in their determination of actual amounts for taxes receivable and payable. The errors included the following:

- In our review of specific OCO lookback test items, we noted instances in which OCO made incorrect determinations as to the validity of the test item. For example, in our review of OCO taxes receivable test items, we noted that OCO incorrectly determined four corporation tax receivables to be invalid when they were actually valid receivables. Also, in our review of OCO payable test items, we noted that the OCO incorrectly determined a sales tax item as invalid when it was actually valid. Finally, we found that the OCO failed to detect that the personal income tax carry-over-credit data contained duplicates. When we brought these exceptions to the OCO's attention, they agreed that their original determinations were incorrect and inaccurate.
- The OCO includes an average auditor adjustment calculation in their payable methodology. This is added to OCO's taxes payable accrual and is supposed to consist of a three year average of our prior year auditor adjustments. In our review, we found that the OCO calculated this average but it was incorrect since it was not supported by our prior year adjustment amounts.
- The OCO failed to maintain supporting documentation used in recording the estimates for inheritance tax receivable accruals. The amounts included in OCO's supporting schedules did not match the amounts reported in the BFS.
- The OCO uses numerous complex schedules to determine the accruals. Each schedule contains detail amounts that feed into other schedules. An incorrect amount in one schedule creates a domino effect on subsequent schedules and accrual determinations. During our tests, we noted numerous errors including; a) OCO's original full accrual schedules provided to us contained so many posting and mathematical errors that the OCO recalled them and later provided revised schedules. These revised schedules also contained errors, including OCO-calculated error rates and revised amounts that were not correctly posted to other related schedules, b) amounts in OCO summary schedules did not agree with OCO supporting schedules, and c) a receivable summary schedule contained an error that identified the amount as positive when it had a negative value.

As a result of these numerous errors noted above, we expanded our audit procedures to ensure that all tax accruals were materially correct as reported in the BFS. Although the errors we found did not turn out to be material to the current-year BFS, we learned that a control deficiency existed since OCO personnel did not conduct adequate supervisory review and oversight of the schedules used to support and calculate the tax accruals.

Criteria: An effective system of internal controls over financial reporting should contain a process whereby BFS accrual determination schedules are accurately completed and subject to proper supervisory oversight and review.

Cause: In April 2009, agency specific comptrollers were combined into a statewide Office of Comptroller Operations (OCO) as part of OB's Finance Transformation Project. Although the physical and personnel change was made in April 2009, the assignment of duties related to calculating tax accruals within OCO was not determined until well after fiscal year end. In prior years, assignments and duties related to the accrual tests were timely planned so that when DOR data became available, testing could begin promptly. In the current year, the OCO got a late start on the tax accrual process.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 9: (continued)

In addition, as a result of OB's Finance Transformation, OCO had new personnel involved in all levels of the tax accrual process, including testing and supervision. The new personnel were unfamiliar with the complexities of the process. All of these factors contributed to the errors noted above.

Effect: The inaccurate determination of accrual amounts, the failure to maintain complete and accurate supporting documentation, and a lack of adequate supervisory review of accrual schedules demonstrate that adequate internal control over tax accruals does not exist; the client's current-year tax accruals in the BFS were not correct and the potential exists for inaccurate client tax accruals in the BFS in the future.

Also, the delay in providing accurate schedules, as was the case with the receivable schedules which had to be revised, caused a delay in the audit process for these accounts.

Recommendation: OCO should take the necessary steps to adequately and timely plan the tax accrual determinations, ensure the accuracy of their test results, ensure the accuracy of the various test schedules, reevaluate the methodology of tax accrual determination, and implement and document procedures to review and ensure the accuracy of taxes receivable and payable accruals as posted to the BFS.

Agency Response: Office of Comptroller Operations (OCO) does agree that an effective system of internal controls should be implemented to ensure that the BFS accrual determination schedules are accurately completed and subject to proper supervisory oversight and review. A number of issues contributed to the errors noted by Auditor General (AG). This includes:

- Delay in identifying and defining roles and responsibilities due to the recent Finance Transformation
- New participants with little or no experience in the tax accrual process
- Limited training related to tax system testing
- Lack of understanding DOR tax systems
- Limited amount of time to review detail related to prior year

OCO plans to implement the following steps to ensure that the accrual determination schedules are accurately presented:

- Develop a project plan by end of third quarter of fiscal year, with defined roles and responsibilities
- Collaborate with DOR to gain knowledge of DOR tax systems and transactions
- Assess training needs and seek appropriate training
- Develop better documentation on the tax accrual process with detailed instructions related to the preparation of tax accruals schedules
- Reevaluate the methodology of tax accrual determination
- Increase supervisory review of tax accrual schedules

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, 2009

Finding 09 – 10:

Pennsylvania Liquor Control Board Pennsylvania Liquor Control Board Comptroller

Internal Control Deficiencies Over Accounting and Financial Reporting for Merchandise Inventory Accounts in the State Stores Fund

Condition: During the fiscal year ended June 30, 2009, PLCB implemented a new Enterprise Resource Planning (ERP) accounting system to track and account for all State Stores Fund financial activity as reported in the Basic Financial Statements (BFS) under audit.

With the implementation of Wave II of this new ERP system in March 2009, the PLCB converted all warehouse inventory quantities and cost values from its old system to the new Oracle system and implemented a new method of valuing merchandise inventory, changing from actual (or normal) cost to weighted average cost (or WAC). Effective March 1, 2009, the PLCB changed its accounting for expenses incurred for product warehousing and transportation (or up-charges) for product delivery to all retail stores. These costs were formerly charged to operating expenses as incurred and merchandise inventories were formerly reported based on actual product costs, including transportation costs to the three warehouses. With the current-year change for inventory to WAC, product warehousing and handling as well as store transportation costs are now reported as part of merchandise inventories and are charged to cost of goods sold as the product is sold.

In addition, with the implementation of PLCB's new ERP system in March 2009, stock ledger integration between EBS (Enterprise Business Suite – where the new general ledger is maintained) and RMS (Retail Management System – stock ledger) became essential to ensuring proper financial reporting of inventory activity. All transactions that are stock inventory related begin in the stores' Point of Sale system (POS) and in the warehouses' Robocom Inventory Management System (RIMS) and then flow through RMS and ultimately post to EBS via interface. This process requires that all inventory transactions from the POS and RIMS feeder systems be mapped to an RMS transaction. These RMS transactions are then mapped to EBS accounts in the General Ledger and the General Ledger is used to produce PLCB's year-end financial statements.

Inventory Control Analysts and Inventory Control Clerks should be reconciling RIMS and POS inventory to RMS inventory on an ongoing basis. As part of our current year audit, we performed tests to verify that PLCB was properly reconciling these inventory systems to ensure that all store and warehouse transactions are being properly recorded in RMS and ultimately the general ledger (EBS). Our audit, however, disclosed the following deficiencies in internal controls:

- Although PLCB adequately reconciled inventory between RIMS and RMS, PLCB did not adequately perform reconciliations for activity at the stores between POS and RMS. Reconciliations were not performed regularly, were only completed after PLCB was beginning preparation of Wave III of ERP implementation in June of 2009, and were completed at this time for only a small number of stores. (Subsequent to June, PLCB store activity in POS was reconciled to RMS from March to June for selected stores by auditors in the Auditor General's Bureau of Liquor Audits.)
- The PLCB and the Comptroller's Office did not perform reconciliations between EBS and RMS. We found no evidence that reconciliations between EBS and RMS were performed at all during FYE June 30, 2009. As a result of our auditor inquiries from our own attempts to reconcile these systems, year-end reconciliations were performed for the first time in August of 2009 by PLCB's consultant, with little or no involvement or review and approval by the PLCB or Comptroller staff.

Based on the above, inadequate internal controls existed during FYE June 30, 2009 to ensure that inventory activity in POS and RMS was properly recorded and reported in EBS, the general ledger. As a result, it became necessary for the

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 10: (continued)

auditors to attempt to perform independent monthly reconciliations of RMS to EBS and, after major variances were noted, to make inquiries with Comptroller, PLCB, and outside consultant staff to ensure inventory accounts were accurately reported. During this drawn-out process, we noted an additional control deficiency since PLCB staff extracted inventory data from RMS that erroneously included duplicates and was not properly reviewed and verified for propriety, completeness, or accuracy with control totals and record counts, to support a valid audit trail.

Our audit also disclosed a \$2.6 million understatement of the year-end inventory balance resulting from an undisclosed error in the PLCB's new ERP system in which up-charges (shipping, handling, etc.) mentioned above were not being properly captured, reconciled, and posted to the system as part of inventory. An auditor-proposed adjustment was posted to correct the YE balance.

Criteria: Good internal control dictates that agency and comptroller personnel ensure that the merchandise inventory accounts are properly reported in the BFS. This includes ensuring that reconciliation of inventory systems and review of amounts reported should be performed to detect incorrect amounts and errors in the financial statements.

Cause: Monthly reconciliations were not regularly performed by PLCB or Comptroller staff because of changes in personnel and overall time constraints related to implementing their new ERP system. In addition, numerous auditor inquiries about the new system could not be answered or resolved by LCB or the Comptroller staff and had to be referred to the outside consultant. PLCB stated that the missed up-charges noted above were the result of an uncorrected ERP system error.

Further, LCB has not developed sufficient reports from the new system that would allow them to perform the reconciliations listed above or complete other control functions needed to ensure proper internal controls over the new system. On July 28, 2009, the auditors learned that only 60 of the 300 reports identified in the system design documents had been delivered by the outside consultants. Also, LCB employees had not received sufficient training specified in the contract to allow them to develop the reports themselves in a timely manner.

Effect: The State Stores Fund inventory accounts were misstated in the BFS. An auditor-proposed adjustment was posted to correct the inventory accounts. Without strengthened internal controls over system reconciliations, inventory accounts could be misstated in the future. Additionally, significant audit delays and increases in auditor and auditee time occurred.

Recommendation: We recommend that the PLCB and the Comptroller Office together implement stronger internal control procedures to ensure that all inventory transactions and costs are being properly captured and posted in the new ERP system. We recommend that the PLCB/Comptroller timely perform and fully document monthly reconciliations between POS, RMS, and EBS, and ensure they support a valid audit trail. Any documentation used in the reconciliation process, including support for supervisory review and verification, should be retained in PLCB files.

Further, we recommend that LCB revisit the system design documentation and consider developing any required reports that have not yet been implemented. LCB should also ensure that the outside consultant has adequately trained LCB employees in report generation and other control functions as required by the contract.

Agency Response: With respect to POS to RMS system reconciliation, all system issues that resulted in reconciling sale items were corrected by September 30th retroactive to June 1, 2009. Daily transaction reconciliation is consistently performed and a monitoring system is in place to ensure that daily transmissions from POS are complete and accurately recorded. Additionally, Inventory Reconciliation Report # 108 is now being generated to allow reconciliation of RIMS to RMS and this reconciliation is being completed in Supply Chain on a weekly basis.

Initial reconciliations between EBS and RMS were performed by PLCB's consultant and the data was validated and approved by the LCB Comptroller staff. Reconciliation data is not available on the front-end of the system, so reports

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 10: (continued)

must be developed for that purpose. In November 2009 a BI Publisher report was developed to reconcile the interface data flowing from RETEK/RMS to EBS; routine daily reconciliations began in January 2010. System fixes were implemented in January 2010 to correct the missed and incorrectly calculated up-charges that occurred; correcting journal entries were made in February and March 2010. Procedures and reports are being developed to reconcile RMS to EBS data on a weekly basis beginning in April 2010.

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, 2009

Finding 09 – 11:

**Bureau of Financial Management
Treasury Comptroller Office
Bureau of Commonwealth Accounting**

Internal Control Weaknesses in Investment Disclosure Reporting (A Similar Condition Was Noted in Prior Year Finding #08-14)

Condition: The Bureau of Financial Management (BFM) is responsible for preparing the Investment Note Disclosure which is included in the Commonwealth's basic financial statements based on information provided by Treasury Comptroller's Office, the Bureau of Commonwealth Accounting and other funds/component units. In comparing information in the detail files used by BFM to prepare the disclosures required under GASB 40 with the information reported in Note D, 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). The information provided by the Bureau of Commonwealth Accounting for the Statutory Liquidator Fund to BFM is based on data received from staff at the companies in liquidation. While reviewing the classification of investments, the auditors noted three instances where the classifications were not correct.

- \$41.7 million of time deposits classified as certificates of deposits should have been classified as cash and cash equivalents by Treasury
- \$213 million of United States Treasury notes reported by Statutory Liquidator Fund were incorrectly classified as US Government Agency Backed by the Bureau of Commonwealth Accounting
- \$73 million of Statutory Liquidator Fund investments held in various Treasury pools were incorrectly included in the investments by type schedule as corporate obligations. Investments held in Treasury pools are disclosed by Treasury and should not be included in individual fund disclosures.

In addition, the Bureau of Commonwealth Accounting did not classify investments of the Statutory Liquidator Fund in conformity with Treasury Comptroller Office classifications which had been agreed to by BFM.

Concentration of Credit Risk:

BFM and Treasury Comptroller Office omitted material investments from one issuer in disclosing concentration risk.

- \$29.6 million in Bank of America investments were omitted from the disclosure

In addition, all of Pool 98 securities were omitted from the concentration of credit risk disclosure.

Interest Rate Risk and Credit Quality Disclosures

Treasury incorrectly calculated option adjusted duration for US Government Agency Sponsored investments. In the first draft of the Statutory Liquidator Fund disclosure information, the Bureau of Commonwealth Accounting incorrectly reported credit quality for the investments; auditors were unable to determine the basis used by Bureau of Commonwealth Accounting to report credit quality. A second draft of Statutory Liquidator credit quality disclosures was also incorrect.

- \$169.8 million in securities with negative duration held by INVEST were incorrectly included in the total investments with duration and used in the option adjusted duration calculation

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 11: (continued)

- In the second draft of Statutory Liquidator Fund disclosure of credit quality, the best rating was disclosed, rather than the worst rating as required by GASB 40.

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

Cause: Internal review procedures at the BFM, Treasury Comptroller's Office and Bureau of Commonwealth Accounting were not thorough enough to detect and correct the errors noted above by the auditors. In addition, BFM did not communicate Treasury's investment classification categories to the individual responsible for preparing the Statutory Liquidator fund disclosures.

Effect: Amounts reported in Note D of the Commonwealth's financial statements 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.

Recommendation: BFM, Treasury Comptroller Office, and staff in the Bureau of Commonwealth Accounting should review and enhance the internal review procedures in place to ensure amounts disclosed in the Commonwealth's financial statements are accurately reported. In addition, BFM should ensure that those preparing the Statutory Liquidator fund disclosures are informed of overall guidelines established for the disclosure.

BFM and BCA Response: BFM, Treasury and the Auditors met in August 2009 to establish uniform investment asset class reporting categories that would be disclosed in Note D of the CAFR. These categories established a blueprint for the preparation of the GASB 40 requirement and were also intended to eliminate confusion and questions. BFM acknowledges an oversight in not providing the investment asset class reporting categories to the Bureau of Commonwealth Accounting (BCA) to assist with their preparation of GASB 40 disclosures for the Statutory Liquidator. In future reporting periods, BCA will be included in distribution of the investment asset class reporting categories.

Treasury provided BFM with individual GASB 40 disclosure files for 11 different investment portfolios. BFM compiled the 11 different files from Treasury plus the GASB 40 disclosure file from Statutory Liquidator. This manual compilation was reviewed in BFM as well as by Treasury, but mistakes were still encountered. In future reporting periods, Treasury will be combining most of the investment portfolios and BFM will conduct a review of the combined portfolio files. BFM will enhance the review process in order to minimize reporting inaccuracies.

BCA has added an additional level of management review of the Statutory Liquidator Fund investment disclosure schedules that are provided to BFM. In addition, BCA will ensure that coordination occurs between BCA and BFM to use the same investment classifications used by Treasury.

Treasury Response: The Treasury Department recognizes the importance of proper classification of investments. The Treasury Department Comptroller's Office previously established regular meetings with the Investment Center to identify and properly classify new investments. Time deposits are classified at BNY Mellon as Cash and Cash Equivalents and will not be reclassified based on the sector description. Time deposits will be added to the BFM/Treasury Department asset classification crosswalk.

The Treasury Department Comptroller's Office is working with BNY Mellon to create consolidated GASB 40 reports to ensure securities are correctly calculated for concentration risk. A consolidated report will mitigate the risk that security issuers reported by individual affiliates will fail to be included at the government wide level.

Securities with negative duration will be omitted from the interest rate risk disclosure. Consolidated reports will reduce the number of combinations, thereby reducing the risk of error.

Finally, The Treasury Department Comptroller's Office will develop a reviewer checklist for GASB 40 to be used in conjunction with the disclosures provided for review by BFM.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 11: (continued)

Auditors' Conclusion: Based on the responses above, 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, 2009

Finding 09 – 12:

Office of the Budget – Bureau of Financial Management

Internal Control Deficiency Over Litigation Accruals (A Similar Condition Was Noted in Prior Year Finding #08-9)

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 that 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 litigations, claims and assessments of that agency. During our review of legal responses in the prior year, we noted a case reported by the Pennsylvania State Police that settled in November of 2008 for \$12.5 million. Of the total settlement, only \$6.5 million had been paid as of June 30, 2009, with the remaining \$6 million paid in August of 2009. Upon review and inquiry of Commonwealth personnel, it was noted that there was no accrual booked for this case as of June 30, 2009. In addition, a liability was not booked for this case in the prior year until an adjustment was proposed by the auditors. This prior-year entry reversed during the fiscal year ended June 30, 2009, but no additional liability was recorded at current year end.

During our review of legal responses, we also noted on the Department of Revenue response that a tentative settlement agreement had been reached and was being processed in a case related to the Public Utility Realty Tax Act (PURTA). Despite this, there was no accrual recorded in the financial statements. Although it had not yet been paid out, the net cost to the Commonwealth was estimated to be approximately \$14 million.

Criteria: Because the event of condition that culminated in the lawsuit occurred prior to the date of the financial statements and the progress of the case prior to issuing those financial statements noted that a settlement had been reached and partially disbursed, or it was probable that an unfavorable outcome would result, recording a liability and related expenditure for the undisbursed portion in the financial statements was necessary.

Cause: The BFS errors occurred because of an internal control deficiency 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.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 12: (continued)

Effect: Because accruals were 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 deficiency 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.

Agency Response: The Bureau of Financial Management (BFM) agrees that a standard process should be implemented to capture, and record in the accounting system, legal settlements that result in Commonwealth liabilities. BFM, in conjunction with the Office of General Counsel (OGC), will annually circulate a preliminary letter of audit inquiry (LAI) in early September. Using the information provided by legal staff via the preliminary LAI process, BFM will apply criteria for determining whether a liability should be recorded and post adjusting accounting entries as necessary.

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, 2009

Finding 09 – 13:

Office of the Budget

Office of Administration

Lack of Documentation to Support Contracting and Procurement (A Similar Condition Was Noted in Prior Year Finding #08-2)

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, 2008, (for nine fiscal years in a row), we reported that management refused to provide us with key procurement documentation to enable us to audit the awarding of these contracts and to verify compliance with Commonwealth procurement regulations. We also disclosed deficiencies in the Commonwealth's internal controls over documentation supporting procurement of these contracts in those prior years. It should be noted that these prior-year findings also included contract awards, other than for statewide technology, which involved specific agencies and funds.

Our current year follow up for the fiscal year ended June 30, 2009, disclosed that, as in the prior years, management continues its policy of refusing to retain and 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 various contract awards consisted of the following:

- List of proposal evaluation committee members.
- Copies of losing vendor proposals.
- Original detailed scoring sheets used by evaluation committee members for each proposal submitted for review. (Note: In some limited cases, overall summaries of the scoring process were provided to us but no detailed scoring documents were given to us as support.)
- Original contract documentation to audit the overall scoring and selection process including maximum point values assigned to each major evaluation criterion and the evaluation committee members recommendations for vendor selection.
- Original contract documentation to support that evaluation committee members verified that prospective vendor cost proposals were reasonable.

Criteria: The Commonwealth established procurement policy and procedures in the "Field Procurement Handbook" (M215.3 as Amended). Commonwealth agencies are required to adhere to this handbook when awarding contracts. Part 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).*

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 13: (continued)

Cause: In responding to our prior-year findings on this issue, management has recognized and acknowledged the need for the auditors to verify the propriety of its contracting procedures. As part of the recent implementation of the Right-to-Know Law (RTKL), losing vendors' proposals are to be made available to those who request them for a period of six months after the contract is awarded. According to management, during this period the auditors are supposed to have access to this information for audit purposes. After the six-month period is over, losing vendor proposals are no longer available to the auditors.

Regarding the other bulleted items above to which the auditors have requested access, management has developed a document that summarizes and attests 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. Management believes this document satisfies the auditor's needs relative to testing our compliance with federal procurement regulations and Commonwealth policy.

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 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 bulleted items above, this is again a clear violation of the Commonwealth Procurement Code quoted above, and the scope limitations described above on our audit continue to exist.

In prior audits, management also 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" resolved 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 resolved since in many cases management continues its refusal to provide any documentation, summary or otherwise, related to the specific procurement items noted in the condition above. Our comment, therefore, does not change in this regard.

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

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

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 13: (continued)

Without the necessary documentation, we could not verify that management adhered to Commonwealth procurement standards and laws, or exercised due diligence in awarding the contracts 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 as quoted above. (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: With respect to this finding and prior audit findings regarding the Auditor General's review or performance audit of contract documents to determine whether the executive agency in question followed the proper statutory and internal processes and policies, the Auditor General has continually stated as follows:

"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."

Despite our responses reflecting both legal and audit standards issues involved in the delivery of such documents, the Auditor General has continually characterized our refusal to provide such documents as based upon a "confidentiality" argument. Notwithstanding the error of such a statement, we have again reviewed the finding in light of the recent enactment of a new "Right to Know Law" and recent changes in the processes used by the Department of General Services for procurements. As a result of that review and in order to further the spirit of cooperation between the Auditor General and the executive branch, we will provide the following:

- Copies of losing vendor proposals (these proposals will generally be retained for 4 years in accordance with published document retention schedules).
- Detailed scoring sheets showing the scores of each committee member by category with committee member names redacted.
- Summary information regarding the procurement as contained in the memorandum required to be completed by each committee (a copy of the memorandum template is attached with submission of the response to this finding). Contained in this memorandum will be information regarding the reasonableness of cost and minority participation.

We will not automatically provide the names of individual committee members. We have asserted before that we believe this information is not necessary in your review of whether the committee and the agency acted in accordance with procurement laws and practices and that its disclosure as a general matter will have a chilling effect upon employee participation on procurement committees. This does not mean, however, that we will prohibit the Auditor General from

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 13: (continued)

obtaining that information in all cases. If the Auditor General makes a request to interview an individual committee member or members and provides a compelling reason for such an interview in light of the audit we will review each such request separately and determine if we agree that such reasons are compelling and that such an interview is necessary. If we agree, interview access will be provided.

We hope that this new approach will satisfy your concerns regarding the sufficiency of information available to the auditors and resolve this finding. We will make ourselves available to discuss any questions or comments you may have at your convenience.

Auditors' Conclusion: The auditors will evaluate the adequacy of management's procurement documentation provided in future audits to allow us to verify that Commonwealth procurement is performed in accordance with procurement laws and regulations and that procurements occur in a strong control environment. Based on the agency's response, the finding and recommendation for our current audit period remain as previously stated.

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

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 14:

Office of the Budget – Office of Comptroller Operations

Internal Control Weaknesses Over Financial Reporting in the Department of Public Welfare GAAP Template (A Similar Condition Was Noted in Prior Year Finding #08-18)

Condition: Comptroller Operations 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 errors and internal control weaknesses in the GAAP template preparation process.

The accounts receivable amount is comprised of several estimates. One of the estimates relates to the nursing home assessment. The Commonwealth received \$49 million in assessment payments from various nursing homes prior to the end of the fiscal year. These funds were in a separate bank account from which transfers are periodically made to the Commonwealth's main accounts. Typically, when a transfer is made, the cash is recorded in the accounting system. When the receivable for the template was calculated the balance in the cash account was included in the account receivable instead of in cash. This misclassification was not corrected during the template review process.

Additional relevant factors were not considered when calculating the receivable. For example, Comptroller Operations personnel did not consider whether an allowance for uncollectible accounts should be established.

Also, estimates were not calculated for the entire population of nursing homes. There were several nursing homes that subsequent to year end submitted data that is used in the calculation of the assessment. This available information was not included in the estimate. Additionally, facilities that did not submit data for all quarters in the fiscal year were not fully considered in the assessment calculation. Complete estimates were not prepared for these facilities.

Auditor adjustments were necessary to correct reported 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 knowledgeable management personnel.

Cause: The above noted misstatements were caused by oversights and errors in preparation and review procedures for the DPW GAAP template. Comptroller personnel did not recheck the preparer's work at a level that would detect the above-noted errors.

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 the DPW template preparers work with agency personnel to ensure all aspects of the program are considered when preparing accruals, with all appropriate supporting documentation made available to the individual responsible for the calculation of Nursing Home Assessment related accounts. We further recommend that quality control procedures be established and followed whereby a timely review of these calculations be made by a supervisor with sufficient knowledge of the Nursing Home Assessment program.

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

General Accounting does not concur with establishing an allowance for uncollectible accounts for Nursing Facilities currently in litigation. The agency is anticipating receiving these revenues and has established processes to ensure collection, including suspension of Nursing Home Licenses and placing liens on facilities.

General Accounting has modified its GAAP template preparation and review process to ensure that reported Nursing Home Assessment amounts are properly classified and estimated in the GAAP templates, by including Nursing Home Assessment estimates for homes who have not submitted, and who have submitted late.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 14: (continued)

Auditors' Conclusion: Based on the agency response, the finding and recommendation remain as previously stated. While Comptroller Operations General Accounting states that they do not concur with establishing an allowance account, they provided no documentation or justification that this was considered or analyzed in the GAAP template preparation process. Therefore, an internal control weakness exists in this process that needs correction to better ensure accurate BFS amounts in the future.

We will review any corrective action, including GAAP template documentation to support the subsequent collection of nursing home assessments, 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, 2009

Finding 09 – 15:

Office of Administration – Integrated Enterprise System Office of the Budget

Statewide Weaknesses Within the SAP Accounting System Related to Monitoring of Potential Segregation of Duties Conflicts (A Similar Condition Was Noted in Prior Year Finding #08-21)

Condition: We noted that 21 users have the ability to both develop and promote changes into the SAP production environment. Our limited detail testing noted no instances where production program changes made by these users were not properly approved; however, we found there is no effective monitoring control to prevent or detect, on a timely basis, unauthorized program changes by users who have the ability to both develop and promote changes into the production environment.

Management Directive 205.37 “Role Assignment, Security, and Internal Control Maintenance” dated June 13, 2005 recognizes that business purposes may exist to require SAP role conflicts. The Directive also clearly recognizes that appropriate documentation must be maintained justifying the need for the conflicting role assignments, and requires certain levels of approval. This documentation must include safeguards developed to deter and detect errors or inappropriate transactions. This Directive contains a critical monitoring component which was not performed during the period under audit as the Comptroller Operations portion of the Office of the Budget responsibilities were modified as part of the financial transformation project.

In addition, the Agency Response to the prior year Finding #08-21 included a plan that the Commonwealth would take necessary action to address 83 potential segregation of duties conflicts, resulting from individuals being assigned both GR/IR roles and Accounts Payable roles in SAP, by incorporating those potential conflicts into their review and update of the SAP security review process. This plan was not implemented in the current year.

Criteria: Proper segregation of duties in the SAP System, and effective monitoring where management determines business purposes require roles being assigned which compromise segregation of duties standards is critical in minimizing and mitigating the risks of inappropriate transactions occurring. Where segregation of duties conflicts are determined to be necessary, compensating controls and adequate documentation should be maintained in accordance with MD 205.37 to demonstrate proper review as well as justify user conflicts as appropriate in the circumstances.

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

The lack of the Commonwealth to execute the action necessary as detailed in the Agency Response to Prior Year Finding 08-21 appears to be caused by configuration issues with role conflict software purchased to help in identifying and remediating role conflict issues.

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

Recommendation: We recommend that:

1. Monitoring procedures be fully implemented to detect unauthorized program migration into the production environment.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 15: (continued)

2. Roles which allow both program change and migration functions be minimized to the extent possible, and periodically reviewed to determine if efficient alternatives exist.
3. The monitoring portion of MD 205.37 be updated and implemented as soon as reasonably possible in consideration of the reorganization of the Comptroller Operations portion of the Office of the Budget.
4. Where monitoring detects the lack of compensating controls when role conflicts are deemed necessary, appropriate corrective action should be implemented.
5. 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.
6. SAP roles in expenditure posting should be closely monitored and potential segregation of duties conflicts in SAP should be appropriately justified in writing on an as needed basis.
7. 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 the Commonwealth revisit the requirements and assignments surrounding SAP security as outlined by SAP Security Procedures Document Section 2.2.4 "Audit Services" and by Management Directive 205.37 to determine if modification is needed to fulfill the overall objective of an effective control environment.

Agency Response: The Bureau of Financial Management was unable to confirm whether the 21 users were still in conflict prior to issuance of the finding. The detailed information identifying the 21 users was provided to BFM as a result of the finding. We agree that this situation needs to be addressed and will follow through with IES to review and modify roles for the 21 users where appropriate.

BFM also agrees that the security of SAP roles and functions should be monitored in accordance with Management Directive 205.37. The Directive is currently being revised and upon issuance, BFM will communicate with the Bureaus responsible for monitoring to ensure the appropriate monitoring plan is implemented.

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

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

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 16:

Office of the Budget Office of Administration

General Computer Controls in Various Commonwealth Agencies Need Improvement (A Similar Condition Was Noted in Prior Year Finding #08-19)

Condition: Our review of general computer controls at numerous Commonwealth agencies during the fiscal year ended June 30, 2009 disclosed the following internal control deficiencies that need to be addressed by Commonwealth management:

Pennsylvania Lottery

1. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.
2. Password complexity rules within the Back Office application have not been established.
3. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented

Department of Labor and Industry

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented.
2. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.

State Workers' Insurance Fund

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented.
2. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.

Department of Transportation

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented.
2. Adequate password complexity and logical access rules within the dotGrant application have not been established.

Office of Administration – Office for Information Technology

Bureau of Services and Solutions

1. A formal problem management policy has not been implemented. Incidents are handled through informal face to face discussions or through email correspondence, which is not retained.
2. One of the 10 User Security Authorization Request forms does not specify the Comptroller group for the user (the level of access being requested). Access to Comptroller groups is granted based on the individual granting access knowing which authorizers belong to each Comptroller group and the job function of the employee.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 16: (continued)

Bureau of Infrastructure and Operations

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. Privileged IT access is not reviewed because of the limited number of individuals with privileged IT access and low turnover.
2. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process for the Cash Drawdown System and the Loan Accounting System.

Bureau of Integrated Enterprise System

1. Objects in production SAP instances do not have a protection level configured indicating overwriting is permissible. Leading industry practices recommend protection against the overwriting in production.
2. Two users have inappropriate access to the SE11, SE16, and SE37 development transaction codes.
3. One user has inappropriate access to privileged SAP user profiles.
4. One user has inappropriate access to execute programs.
5. 12 of the 25 changes selected for testing did not include the proper approvals because approval records were deleted as a result of PC1 during the final import for the ERP upgrade.

Department of Public Welfare

1. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.
2. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. While an informal review is performed periodically, no documentation is created or maintained to evidence the review.
3. No fire suppression system is in place in the generator area. This is due to a lack of funding, and steps are being taken to remediate this issue as soon as possible. Also, there are no water sensors in the generator area.
4. Supervisor approval for requesting access to PROMISE was not provided for 11 of 25 sampled users.

Department of Health

1. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.
2. One account with privileged IT access to the database was created for a contractor who has since been terminated. The account was not removed upon termination.
3. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented.
4. Through inspection of a listing of developers and referencing it to a list of administrators (individuals able to promote changes), it was noted that five individuals were both developers and administrators.

Department of Education

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented.

Department of Revenue

1. A lack of segregation of duties exists because programmers can promote changes to production in both the client server and mainframe environments.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 16: (continued)

Liquor Control Board

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented in the mainframe, point of sale and warehouse management systems.
2. Monitoring of user activity for access violations in the mainframe, point of sale and warehouse management systems is not conducted.
3. Programmers can promote changes to production in the point of sale system resulting in a lack of segregation of duties.
4. Physical access controls are lacking over the point of sale and the warehouse management systems.
5. Individuals accessing Oracle Retail Management System and Business Intelligence applications cannot change their own passwords.
6. Adequate password complexity and logical access rules within the mainframe, point of sale, and warehouse management applications have not been established.
7. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process in the warehouse management system.
8. A standard systems development methodology was not followed for implementation of Oracle Wave II and Wave III. Critical test defects were not resolved prior to “go live”.
9. Proper segregation of duties do not exist with respect to the procurement and store operations personnel.

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

Cause: Management has not addressed the general computer control deficiencies because of various reasons, but many of the deficiencies are a result of limited staffing and budgets. Some of the deficiencies also are a result of software limitations. Commonwealth management believes that, although strong general computer controls are clearly important in agency operations, there are manual compensating internal controls within agency operations that mitigate the impact of the general computer control 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. Management’s contention that some of the computer control deficiencies are mitigated by manual compensating internal controls has been relevant to date; however, reliance on manual compensating internal controls becomes increasingly problematic as the Commonwealth experiences personnel changes and/or procedural changes that reduce the effectiveness or eliminate the manual controls. Also, the Commonwealth has demonstrated its intention to rely more on computer controls and less on manual controls as evidenced by the Finance Transformation initiative, which in part, automated the invoice approval process. Further, Commonwealth management has communicated its intentions to rely more on the capabilities and stability of the SAP Enterprise Resource Planning implementation. Finally, these computer control deficiencies preclude us from conducting the audit with reliance on computer controls and ultimately creating audit efficiencies.

We consider all the above exceptions collectively 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. 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.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 16: (continued)

Lottery Response:

1. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process. Acceptable as written. 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 within the Back Office application have not been established. Acceptable as written. We concur with this finding. We will develop password complexity rules and request an enhancement from the software vendor to develop password complexity rules on the back office application.
3. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. Acceptable as written. We concur with this finding. The Lottery will develop a procedure to periodically perform a privileged access review in the production environment. We will develop a procedure for the audit of privileged access.

Labor and Industry Response:

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. Acceptable as written. While a process to remove global user access via their CWOPA credentials is in place, a periodic business area review of access has not been established to date.
2. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process. Acceptable as written. While manual processes (as noted in the finding) are in place, there is currently no automated means of detecting these changes. This could provide a short coming in the overall process of tracking these events.

State Workers' Insurance Fund Response:

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. Acceptable as written. While a process to remove global user access via their CWOPA credentials is in place, a periodic business area review of access has not been established to date.
2. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process. Acceptable as written. While manual processes (as noted in the finding) are in place, there is currently no automated means of detecting these changes. This could provide a short coming in the overall process of tracking these events.

Department of Transportation Response:

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. Acceptable as written.

PennDOT review and evaluation:

A process to review the appropriateness of ECMS users with privileged access has been implemented. Biannual reviews of ECMS user accounts are to occur in January and July of each year (January review was completed). ECMS Privilege Requests are received centrally by the ECMS support desk and filed. This process started in January, 2010.

A process to review the appropriateness of dotGrants users with privileged access must be developed. The process will include annual reviews of dotGrant user accounts and privileged access.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 16: (continued)

A process to review the appropriateness of users with privileged access has been implemented. An audit of these users was conducted on October 23, 2009 and will be conducted annually. In addition a daily process has been implemented to review CWOPA/RACF users. This process is conducted daily using the SAP PA40 report.

2. Adequate password complexity and logical access rules within the dotGrant application have not been established. Acceptable as written.

PennDOT review and evaluation:

The dotGrant application is a Commercial Off-The-Shelf product (COTS) with AGATE as the proprietary owner. The password complexity and logical rules that are provided within the dotGrant COTS do not meet current IT standards. A process to strengthen the password complexity and logical rules must be established to align with current OA/PennDOT IT standards.

Office of Administration – S&S Response:

1. A formal problem management policy has not been implemented. Incidents are handled through informal face to face discussions or through email correspondence, which is not retained. Unacceptable. The agency does not accept this finding. The OA utilizes Remedy software to document system issues and to assist with the prioritization of the business process owner initiatives. Associated email correspondence is retained to document ongoing communication on open issues and to provide historical reference on the method(s) of resolution. Face-to-face discussions are conducted as needed, but are only one of the options utilized in the resolution process.
2. One of the 10 User Security Authorization Request forms does not specify the Comptroller group for the user (the level of access being requested). Access to Comptroller groups is granted based on the individual granting access knowing which authorizers belong to each Comptroller group and the job function of the employee. Acceptable as written. The agency accepts this finding. The OA will review existing policy and develop or enhance that policy, implement controls and reporting as needed.

Office of Administration – BIO Response:

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. Privileged IT access is not reviewed because of the limited number of individuals with privileged IT access and low turnover. Acceptable as written. The ITIM solution from IBM is in the process of being implemented in the OA and DPW environment by the end of May. This will put us in the position to meet the above requirements. When all agencies are licensed for the ITIM product, this will give us an automated way of dealing with access to the environment by all employees immediately. This would include those that leave the commonwealth, those that transfer, new employees, etc.

We update Active directory now, but it is a manual process on a nightly basis with a feed into IES/SAP and it points out what does not match between HR and our AD. It requires a script to make changes from that data. We have also moved our stale account clean up to quarterly from yearly to keep AD clean and accurate.

2. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process for the Cash Drawdown System and the Loan Accounting System. Acceptable as written. The agency accepts this finding. The OA will review existing policy and develop or enhance that policy, implement controls and reporting as needed.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 16: (continued)

Office of Administration – IES Response:

1. Objects in production SAP instances do not have a protection level configured indicating overwriting is permissible. Leading industry practices recommend protection against the overwriting in production. Acceptable as written. IES concurs with this finding. The protection level has been set to prevent overwriting. Client settings will be checked as part of routine system checks.
2. Two users have inappropriate access to the SE11, SE16, and SE37 development transaction. Acceptable as written. IES concurs with this finding. Inappropriate access to the listed transactions has been removed from the subject users. Pending implementation of an automated tool, the appropriateness of role, profile, and transaction access will be checked manually.
3. One user has inappropriate access to privileged SAP user profiles. Acceptable as written. IES concurs with this finding. Inappropriate access to privileged SAP user profiles has been removed from the subject user. Pending implementation of an automated tool, the appropriateness of role, profile, and transaction access will be checked manually.
4. One user has inappropriate access to execute programs. Acceptable as written. IES concurs with this finding. The subject user is no longer part of IES's complement. Pending implementation of an automated tool, the appropriateness of role, profile, and transaction access will be checked manually.
5. 12 of the 25 changes selected for testing did not include the proper approvals because approval records were deleted as a result of PC1 during the final import for the ERP upgrade. Acceptable as written. IES concurs with this finding. The STMS_QA logs for these transports no longer exist as a consequence of the changes made to the transport buffers/domains during the course of the ERP 6.0 upgrade project. IES Standard Operating Procedure 202, Transport Policy, establishes the overall transport policy for IES. The IES QA team will keep a separate record of approvals when they cannot be made or retained within the SAP system.

Department of Public Welfare Response:

1. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process. Acceptable as written. The process is all open systems (server applications) changes follow the Application Implementation Request (AIR) and Emergency AIR processes and all mainframe application system changes follow the Element Transfer Request (ETR) and Emergency ETR process through the Change Management Board.

Open Systems applications are moved into production by DTE-EAU. Mainframe applications are moved to production by DIMO-Operations Scheduling. DTE Database controls modifications to Production databases. DTE Security Architecture governs policies and procedures and access management concerning authorization to production environments.

2. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. While an informal review is performed periodically, no documentation is created or maintained to evidence the review. Acceptable as written.

DPW does periodic access reviews to verify the access that the end users have into our applications. This process has been an ad-hoc process and was never formally documented. DPW's Security Architecture Section is working on formalizing this process so that periodic reviews are done in a timely manner and that the same process is followed by all program areas within DPW. This process will fall in line with DPW's User Provisioning project which is currently underway. As part of the User Provisioning project, DPW will have a formalized process which will be fully documented to handle review of users access into DPW's applications. The process for the review of users access will be documented by June 30th 2010 to align with the User Provisioning project.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 16: (continued)

3. No fire suppression system is in place in the generator area. This is due to a lack of funding, and steps are being taken to remediate this issue as soon as possible. Also, there are no water sensors in the generator area. Acceptable as written.

A GAAP Audit Finding pointed to the need for fire suppression equipment in the Willow Oak Data Powerhouse, generator room. A major fire in this space could take out a portion, or potentially all, of the data center's normal and emergency electrical power. The purpose of the suppression system would be to limit damage so that at least part of the electrical supply system could survive a fire. Other priorities and funding issues prevent this work from taking place until 2011. During the remainder of 2010 various alternatives will be investigated to identify the most feasible solution to this shortcoming. A funding request will be prepared and submitted in early 2011 with construction to take place as soon thereafter as practicable. As planned, this work should be completed by end September 2011. Water detection has also been specified and will be installed as part of this project, or sooner if existing alarm equipment will support its installation.

4. Supervisor approval for requesting access to PROMISE was not provided for 11 of 25 sampled users. Acceptable as written. The 11 users that don't have Supervisor approve for PROMISE access were identified as OIM users. There was an agreement in place between OMAP and OIM that all OIM users get read-only access into PROMISE. Since these were OIM users, there was no documented supervisor approval. This follows DPW RBAC/Provisioning model where application access is granted by job classification. There is now a formal letter in place between OMAP and OIM that documents this agreement.

Department of Health Response:

1. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process. Acceptable as written. The agency agrees with the finding. Procedures are in place and security rights have been established to restrict the number of staff who can make production changes. The Division of Application Development staff no longer have write access to the WIC Production regions. Changes are documented through ClearQuest requests and promoted to the Production region by Division of Operations and Support staff.
2. One account with privileged IT access to the database was created for a contractor who has since been terminated. The account was not removed upon termination. Acceptable as written. The agency agrees with the finding. This account was reviewed at the time of the audit field work and the account was deleted. The account had not been accessed since the contractor's departure.
3. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. Acceptable as written. The agency agrees with the finding. Procedures will be developed in the Corrective Action Plan to establish a periodic (quarterly) execution of the example scripts provided by the auditors during the review. Staff will execute the scripts and review the listed access rights against prior lists and for appropriateness.
4. Through inspection of a listing of developers and referencing it to a list of administrators (individuals able to promote changes), it was noted that five individuals were both developers and administrators. Acceptable as written. The agency agrees with the finding. Procedures are in place and security rights have been restricted to correct this condition.

Department of Education Response:

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. Acceptable as written. No response provided.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 16: (continued)

Department of Revenue Response:

1. A lack of segregation of duties exists because programmers can promote changes to production in both the client server and mainframe environments. Acceptable as written. We concur with this finding. The Department is in the procurement process for the Integrated Tax System (ITS) and should begin work this FY. As each taxing system is phased into the ITS, the issue with role-based authorizations will be resolved. We have implemented an interim solution where management is required to approve production changes prior to cutover.

PA Liquor Control Board Response:

1. Periodic access reviews to determine the appropriateness of users with privileged access have not been implemented in the mainframe, point of sale and warehouse management systems. Unacceptable.

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. The privileged user access is also reviewed on a quarterly basis.

POS system support access (admin) is reviewed and controlled by Second Level Support via Storegazer software. New users or personnel leaving the PLCB are added/deleted based on new hires for Help Desk, 2nd level support, or tech. support.

In POS, we basically do this every time we force everyone that has privileged access to change their passwords.

While the LCB did have a Mainframe at the time of the GAAP Audit, it has been decommissioned as of 1/31/2010. Therefore future GAAP Audits will not include the Mainframe.

2. Monitoring of user activity for access violations in the mainframe, point of sale and warehouse management systems is not conducted. Acceptable as written. 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. POS system monitors user activity via Storegazer and logs all pertinent messages related to PCI compliance. While the LCB did have a Mainframe at the time of the GAAP Audit, it has been decommissioned as of 1/31/2010. Therefore future GAAP Audits will not include the Mainframe.

3. Programmers can promote changes to production in the point of sale system resulting in a lack of segregation of duties. Acceptable as written. 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. While the Agency recognizes the need for separation of duties, lack of funding has limited the expansion of staff for complete separation of duties. PLCB is in the process of implementing change control and a quality assurance team. This particular finding should not be an issue once these two processes are firmly established
4. Physical access controls are lacking over the point of sale and the warehouse management systems. Acceptable as written. The POS upgrade project has taken into consideration the need for lockable storage units for IT related equipment. Project implementation is planned for 2010.
5. Individuals accessing Oracle Retail Management System and Business Intelligence applications cannot change their own passwords. Acceptable as written. Both the Oracle Retail Management System (ORMS) and the Business Intelligence applications do not provide the ability for users to change their own passwords. Password

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 16: (continued)

resets/administration is completed by the MIS IT Security staff for all 90 day password updates as a manual process. Business Intelligence does provide a lock out after 90 day capability, however, after that 90 day expiration users are locked out, not prompted to change their passwords. ORMS doesn't provide 90 day expiration or the ability for users to change their own passwords.

6. Adequate password complexity and logical access rules within the mainframe, point of sale, and warehouse management applications have not been established. Unacceptable. POS software uses all password rules related to PCI compliance. There are documented rules (given to you in previous sessions) that show parameters in RIMS that control length and mix of password along with duration before renewing. RIMS is in compliance with all Office of the Administration standards.

While the LCB did have a Mainframe at the time of the GAAP Audit, it has been decommissioned as of January 31, 2010. Therefore future GAAP Audits will not include the Mainframe.

7. A monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process in the warehouse management system. Acceptable as written. We are addressing this finding in future audits.
8. A standard systems development methodology was not followed for implementation of Oracle Wave II and Wave III. Critical test defects were not resolved prior to "go live". Acceptable as written. At the time of the Wave II go-live readiness assessment there was one critical issue open and fifteen high defects in open status. The agency choose to go-live with Wave II knowing that there was one critical issue open which was expected to be closed shortly before or after go-live. The high defects were reviewed by the project team and a determination was made that each could be corrected at a future date due to low business impact or an acceptable work around.

At the time of the Wave III go-live readiness assessment review one high defect was still open with regard to the store scanner time out. The agency decided to go forward with the implementation because there was a work around to the issue.

9. Proper segregation of duties do not exist with respect to the procurement and store operations personnel. Acceptable as written. Due to staffing limitations, there are several persons who have known role conflicts. As a compensating control, their supervisors are to monitor the employees work to mitigate the risk for fraud. Specifically, in the procurement area there are several persons who have both a purchase order creator and a purchase order approver role. The general rule is that if these individuals create a purchase order they have another person approve the purchase order. However, there may be emergency procurements where this does not occur.

Auditors' Conclusion: Based on the agency responses above, the Commonwealth has addressed or begun to address many of the noted deficiencies. Our findings and recommendations remain as stated above. We will review any additional information and clarifications provided in the agency responses, along with all proposed corrective actions, as soon as possible, 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, 2009

Finding 09 – 17:

Pennsylvania Liquor Control Board

Pennsylvania Liquor Control Board Comptroller Office

Internal Control Deficiencies Over Financial Reporting of Capital Assets in the State Stores Fund

Condition: During the fiscal year ended June 30, 2009, PLCB implemented a new Enterprise Resource Planning (ERP) accounting system to track and account for all State Stores Fund financial activity as reported in the Basic Financial Statements (BFS) under audit.

With the implementation of this new ERP system in 2009, the PLCB converted capital assets from its decommissioned legacy systems to a new capital assets ledger in the ERP. In doing this, PLCB implemented a change in policy at the beginning of the current fiscal year which raised its threshold for capitalization from \$1,000 to \$5,000 per item. In addition, the PLCB performed a complete physical inventory to facilitate an accurate conversion of capital asset data to the new system. This physical inventory and change in capitalization threshold resulted in PLCB removing capital assets from the books and reducing net assets by a combined \$12.5 million write-off (\$41.3 million in machinery and equipment less \$28.8 million in related accumulated depreciation) as of the beginning of the current fiscal year. Our testing of this write-off disclosed that it was not properly reported in the BFS and necessitated a proposed auditor adjustment as follows:

We noted that \$8.8 million out of the \$12.5 million write-off was due to the change in capitalization threshold and was reported by the PLCB Comptroller Office incorrectly. These assets were still in use by the PLCB and therefore should not have been written off at the beginning of the fiscal year. Retroactively accounting for a change in capitalization threshold is a violation of GAAP if it results in a material change to capital asset balances. Although current-year amounts turned out to be immaterial, the PLCB Comptroller's original accounting for these capital assets in the BFS was incorrect. Therefore, an auditor adjustment was proposed to increase beginning net assets by \$8.8 million (\$14.7 million in machinery and equipment less \$5.9 million in related accumulated depreciation) and report a loss on retirements in the current-year Operating Statement. The auditor adjustment was not posted due to immateriality to the current-year BFS.

We also noted that the remaining \$3.7 million out of the \$12.5 million write-off of net assets was due to the results of the physical inventory in which capital assets recorded on the books could not actually be located. This net amount consisted of \$26.6 million in machinery and equipment less \$22.9 million in related accumulated depreciation. This was the result of inadequate monitoring and oversight of significant equipment and depreciation balances recorded on the accounting system by PLCB and the Comptroller Office.

The write-off in net assets was not properly reported in the accounting records and the BFS by the PLCB Comptroller Office in accordance with GAAP, and necessitated the above auditor-proposed adjustment. In addition, PLCB and Comptroller Office monitoring and oversight of capital assets reported in the State Stores Fund is insufficient.

Criteria: Effective internal controls are necessary to ensure that amounts reported in the Commonwealth's financial statements are accurate. Good internal controls dictate that agency personnel possess the appropriate knowledge, expertise and information so that the agency's capital asset data can be properly reported on the BFS.

Cause: Internal review procedures in PLCB and the Comptroller Office were not adequate enough to detect and correct the errors made in the recording and reporting of capital assets.

Effect: The capital assets and beginning net asset balances were misstated in the State Stores Fund. Auditor adjustments were proposed to correct these balances but were not posted to the current-year BFS since they turned out to be immaterial. Inadequate controls and misapplication of GAAP could result in future misstatements of capital assets in the BFS.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 17: (continued)

Recommendation: We recommend that procedures be developed that provide proper instructions for agency and Comptroller personnel, and adequate oversight to ensure the proper accounting and reporting of capital assets in the State Stores Fund.

Agency Response: Core procedures have been developed and are contained in the process document that was prepared as part of the ERP Implementation. Detailed procedures will be developed and incorporated into the PLCB's policy and procedures manual (Employee Steps Towards Excellence).

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, 2009

Finding 09 – 18:

Office of the Budget – Bureau of Payable Services

Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System and Inappropriate Role Assignments

Condition: Our testwork of SAP invoice processing during the fiscal year ended June 30, 2009 disclosed the following internal control deficiencies over one-time vendor accounts that need to be addressed by Commonwealth management:

1. Some Comptrollers' Offices are using "Refund per" as the person's name or department or program for the explanation on a number of vendor refunds, which does not explain or justify why a refund is being made. The transactions could not always be traced to the original documents because the descriptions were inadequate and did not reference original documents. The refunds should reference the original document number so that the documents can be traced through the system to demonstrate proper recording.
2. Only one of the Comptrollers' Offices reviews or audits the one-time vendor invoices included in the interface packages.
3. The one-time vendor analysis is not being run periodically. If a name shows up more than six times, research should be done to see if the payee should be set up as a vendor in the master file.
4. Vendors are listed in different ways because of inconsistencies in naming the vendor, and multiple payments were noted in each situation reviewed.
5. The term "Various" is overused in the text/description fields for payments. A meaningful description/reference should be used in these fields for tracking purposes.
6. Commonwealth employees are being paid from the one-time vendor accounts and are being paid more than once.
7. Two former employees of the Vendor Data Master Unit still have the access role to add a vendor to the master file, although their current job responsibilities do not require it since the Finance Transformation initiative.
8. SAP systematically creates records of changes to the Vendor Master File; however, there is no monitoring or review of these changes.
9. Some employees inappropriately have the BFM Reviewer - Commonwealth-wide Reporting access role.
10. There are no Management Directives or policies/procedures for SAP G/L Master Account Code maintenance.

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

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

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

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 18: (continued)

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

Agency Response: With the implementation of Finance Transformation many of the conditions were identified by management. We are taking proactive steps to make meaningful improvements.

All refunds, while not processed in the Bureau of Payable Services require the supporting documentation to be attached and referenced. A post-review of payments, including one-time vendor payments, was initiated in May and continues to be modified / made more robust. A one-time vendor analyses applicable to the frequency of usage is ongoing. Vendor master records are being cleansed. Invoice processor's have been trained on how a one-time vendor name and address should be entered and each Bureau is currently reviewing SAP access roles for all of their employees.

Auditors' Conclusion: Based on the agency response above, 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, 2009

Finding 09 – 19:

Pennsylvania Liquor Control Board

Material Weaknesses Exist in the Contracting and Procurement Process that Need Improvement

Condition: The Department of General Services, who acts as a statewide purchasing agency for many services procured by various Commonwealth agencies, has largely decentralized the procurement of information technology (IT) services by delegating procurement authority to the respective Commonwealth agencies, including the Pennsylvania Liquor Control Board (PLCB). In August, 2007, the PLCB awarded a \$25.8 million technology contract to an outside consultant for a new Enterprise Resource Planning (ERP) accounting system, which was implemented in our current year ended June 30, 2009. In addition, as of the June 30, 2009 end of our current audit period, the consultant negotiated about \$34.8 million in subsequent change orders to the contract, increasing the total contract award to about \$60.6 million, or about 135 percent more than the original contract amount.

Commonwealth procurement policy, contained in the *Field Procurement Handbook*, requires that most services be procured through a competitive sealed bidding method, which includes evaluation committees and a scoring process, such as a Request for Proposal, or RFP. A separate special performance audit conducted by the Department of the Auditor General and issued in October, 2009 disclosed multiple internal control weaknesses in the RFP process used for PLCB's ERP contract as follows:

- PLCB had no formal methodology for selecting the evaluation committee members, including documenting each member's qualifications.
- Scoring sheets were inadequate in documenting pertinent scoring information. Scoring sheets were missing signatures of the evaluators and scoring sheets were not retained.
- PLCB evaluation committee meetings were not formally documented within the contract procurement file.
- PLCB did not have written policies and procedures for the RFP review and approval process. Additionally, the RFP approvals were not formally documented within the contract procurement file.
- PLCB management failed to conduct a pre-proposal conference for their ERP contract, with no documentation retained to support the reason for not doing this.

The PLCB reported about \$30.6 million in current-year ERP contract payments in the June 30, 2009 basic financial statements (BFS) under audit. Cumulative contract payments as of June 30, 2009 amounted to about \$46.2 million in total.

Criteria: The Commonwealth established statewide procurement policies 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".

The purpose of the proposal evaluation committee is to systematically select and recommend a vendor that will best achieve the intended need at the lowest price. According to the Field Procurement Handbook, Part I, Chapter 6, Section B.3.a., "the evaluation committee should be composed of a minimum of three Commonwealth employees who possess technical and managerial expertise in the appropriate field."

The technical detailed scoring sheets serve as integral documentation of the basis for vendor selection within the procurement process. These sheets need to be complete and all scores and score changes need to be documented. The evaluators need to sign the sheets to attest that the scores are accurate and unbiased. Additionally, all meetings involving significant discussions and decision making should be documented and retained to maintain complete and accurate procurement files.

Furthermore, agency management must ensure and demonstrate that adequate controls, including multi-level RFP review and approval process, are in place to ensure the quality and accuracy of the RFP before being issued to the public.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 19: (continued)

According to the Field Procurement Handbook, Part I, Chapter 6, Section B.7.a., choosing to conduct a pre-proposal conference provides the issuing office a reasonable opportunity to “explain the background of the RFP to offerors who intend to submit a proposal ; emphasize portions of the RFP considered especially important; answer any written questions previously submitted by the potential offerors; and provide potential offerors with an opportunity to ask additional questions, in writing, on forms provided during the pre-proposal conference.”

Good internal controls require management to maintain sufficient documentation to demonstrate that proper purchasing procedures are reasonably followed and contracts are properly awarded.

Cause: PLCB management stated that evaluation committee members were subject matter experts, representing the different areas of expertise related to the contract. However, PLCB management stated they do not have a written methodology for selecting evaluation committee members and justification for choosing each member is not documented within the procurement file.

With regard to the inadequately documented scoring sheets, no written instructions were provided to the PLCB evaluation committee members on how to complete the technical detailed scoring sheets. PLCB management stated that the evaluation committee members were provided verbal instructions on how to complete the technical scoring sheets; however, no written instructions were provided to the members. The other auditors were unable to reasonably verify the extent of the verbal instructions provided.

With regard to documentation of evaluation committee meetings, PLCB management stated that the individuals attending the evaluation committee meetings take informal notes; however, no formal minutes are documented.

With regard to the RFP review and approval not being documented, PLCB management stated that the approvals were in e-mail format, but were not retained within the procurement file.

With regard to a lack of a pre-proposal conference, PLCB management stated that, prior to issuing the RFP for this contract, vendors, including those who subsequently submitted proposals, had conducted previous demonstrations for PLCB on the functionality of the ERP systems and, therefore, the pre-proposal conference was not necessary. However, this decision and related supporting documentation was not formally included within the procurement file.

Effect: The lack of documentation regarding the selection of each evaluation committee member, including their past experiences and expertise, creates the potential for improprieties in awarding the contract. Within the procurement file, no written evidence exists that the evaluation committee members possessed adequate technical and managerial expertise in the appropriate fields. In addition, without documented and consistent instructions to each of the evaluation committee members, there is no documented assurance that the evaluation committee members understood the scoring process and scored the proposals in a consistent and unbiased manner.

Without ensuring that proper RFP review and approval controls are in place, the RFP could contain inadequate or inaccurate information that could be released to the public, resulting in vendors misunderstanding the needs of the agency. In turn, proposals may not adequately address the agency’s needs or could include unnecessary costs.

The pre-proposal conference offers potential vendors additional key information related to the RFP, including background information and an emphasis on the important issues. It also provides an open forum for vendors to ask additional questions. Without this opportunity for potential vendors to come together, communicate with PLCB officials, and receive clarification of the RFP, the vendors could potentially misunderstand what is needed by and from the agency. Such misunderstandings could result in future conflicts or changes in the contract and related costs.

Without adequate documentation, the other auditors and other external parties cannot verify that management adhered to Commonwealth procurement standards and laws, or exercised due diligence in awarding the contract disclosed above. As a result, material internal control weaknesses exist over ERP contract payments reported in the June 30, 2009 BFS under audit.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 19: (continued)

These material internal control weaknesses are factors that could have had a major impact on subsequent contract amendments which, as noted above, increased original contract costs by about 135 percent. Furthermore, these same control weaknesses may have played a major role in our current-year audit, in which significant audit delays and increases in auditor and auditee time occurred, partly because the contractor failed to develop standard reports from the new ERP system that were identified in the system design documents, and additionally because LCB employees had not received sufficient training specified in the contract.

Recommendation: We recommend that PLCB develop written policies and procedures to document a comprehensive RFP preparation, review, and approval methodology, including the approval of all reviewers of the RFP within the contract procurement file and to document a formal methodology for selecting evaluation committee members. PLCB should provide written instructions for completing the detailed scoring sheets to the evaluation committee members, including requirements such as signing the score sheets, writing comments, and documenting score adjustments. PLCB should formally document all evaluation committee meetings within the contract procurement file and ensure a pre-proposal conference is conducted for every RFP issued, or formally document clear and valid justifications as to why a pre-proposal conference is not necessary. PLCB needs to ensure key procurement documents within the procurement file are retained for the appropriate retention period.

Agency Response: Since the Special Performance Audit in October 2009, the PLCB has been aggressively working to ensure agency protocols and documentation are compliant with audit recommendations and has created a specific unit within its Bureau of Purchasing and Contracting to be responsible for the (1) development and issuance of written policies and procedures for the RFP process and (2) compliance with established policies and procedures during the RFP process.

As it relates to the specific findings reiterated from the Special Performance Audit of Deloitte contracts, the PLCB utilized the DGS Procurement Handbook policies in principle, although it is acknowledged that the documentation of said actions were not always complete. However, Evaluation Committee members were selected from within the Agency and other Commonwealth agencies based upon their experience in the RFP process and expertise in the various components related to the selection of an ERP software package and integrator. Additionally, although the DGS Handbook recommends a pre-proposal conference be conducted, it is not a required action. In this instance, the agency elected not to do so as prior to issuance of an RFP, multiple EDP vendor-provided demonstrations had occurred and all RFP generated questions from interested bidders were answered and posted on the Agency's website for all parties to review.

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, 2009

Finding 09 – 20:

Department of Education

Internal Control Weaknesses in the Allocation of Property Tax Relief Payments

Condition: The Special Session Act 1 of 2006 (Act), known as the Taxpayer Relief Act, created the Property Tax Relief Fund as a method to use gaming revenue to reduce property taxes for homeowners. During fiscal year ended June 30, 2009, \$612.5 million of Gaming tax receipts were paid to Pennsylvania school districts for property tax relief. This was the first year property tax relief payments were sent to school districts. The Act specifies that the Department of Education (PDE) is responsible for calculating and determining the school district allocation amount using a complex formula.

This allocation formula requires PDE to use information gathered from school districts and other Pennsylvania Departments, Boards, and Commissions. These data elements include education funding amounts, personal taxes, home market values, realty taxes and income taxes.

Although our review of the allocation process disclosed no significant errors, we noted the following internal control weaknesses in the PDE allocation determination process:

- PDE had no written procedures regarding the allocation determination process and related internal controls.
- PDE had no documented independent verifications of the various data elements used in the allocation process.
- PDE had no documented evidence of proper reviews and approvals of allocation amounts prior to payment.

Criteria: Good business practice and an effective internal control system dictates that an allocation process as complex as the one specified in the Act should be adequately documented and communicated with written procedures. Data elements provided by other PDE bureaus or from outside entities, departments, boards or commissions should be documented as independently verified or certified as correct and accurate before they are used in the allocations. Management should review and approve the allocation determination prior to payment to the school districts and evidence of the reviews and approvals should be maintained.

Cause: Fiscal year ended June 30, 2009 was the first year property tax relief payments were sent to the school districts. Further, the Act specifies a tight time schedule for the allocation to be determined. For instance, funds to be distributed are certified by April 15 and PDE must notify school districts of their allocation amount by May 1. These factors contributed to the lack of written procedures.

The lack of documented validation of the data elements could also have been a result of the timing of the distributions. Further, the accuracy of various data elements may not have been reviewed by PDE since they came from other state entities. In cases where PDE does not independently verify the data elements, they do not obtain any certifications from the appropriate supplying agency officials.

PDE management indicated to us that their allocation calculations were actually reviewed and verified prior to payment. However, their review and approval was not documented.

Effect: Payments to school districts for property tax relief could be inaccurate in the future if properly documented controls over the allocation process are not implemented.

Recommendation: PDE should prepare the necessary documents to demonstrate and ensure that the allocation process is adequately documented and communicated, data elements are properly verified, and allocation amounts are reviewed and approved prior to payment to school districts. Evidence of these verifications, reviews, and approvals should be documented and maintained by PDE on file.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings - June 30, 2009

Finding 09 – 20: (continued)

Agency Response: The Pennsylvania Department of Education, Bureau of Budget and Fiscal Management disagrees with the finding. Data elements used in the formula were previously used in other subsidy calculations and, therefore, do not require any additional verification procedures. Procedures used to determine and review the allocation were discussed with the auditor at the time of audit review. Written procedures have been developed for use in payable year 2010-2011.

Auditors' Conclusion: Adequate documentation should be maintained for all data elements used in all subsidy allocations to demonstrate and ensure that validations were performed by PDE. Since no documentation has been provided by PDE to support this, our finding and recommendations 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, 2009

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
09-21*	10.551	Supplemental Nutrition Assistance Program (including ARRA)	Internal Control Deficiencies at DPW Related to Returned EBT Cards (Prior Year Finding #08-22)		DPW	113	351
	93.558	Temporary Assistance for Needy Families					
	93.575	Child Care and Development Block Grant					
	93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund					
	93.714	ARRA – Emergency Contingency Fund for TANF State Programs					
09-22**	10.551	Supplemental Nutrition Assistance Program (including ARRA)	Internal Control Deficiencies at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #08-23)		DPW	115	351
	93.558	Temporary Assistance for Needy Families					
	93.575	Child Care and Development Block Grant					
	93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund					
	93.713	ARRA-Child Care and Development Block Grant					
	93.714	ARRA-Emergency Contingency Fund for TANF State Programs					
	93.778	Medical Assistance Program (including ARRA)					
09-23*	10.553	School Breakfast Program	Deficiencies in Information Technology Controls Over the Department of Education’s Child Nutrition Program Electronic Application and Reimbursement System (CN-PEARS)		PDE	125	352
	10.555	National School Lunch Program					
	10.556	Special Milk Program for Children					
	10.558	Child and Adult Care Food Program					
	84.027	Special Education – Grants to States					
	84.391	ARRA – Special Education Grants to States					
09-24*	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	Weaknesses in Department of Health Monitoring of WIC Local Agencies		DOH	127	353

* - Significant Deficiency

** - Material Weakness

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2009

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
09-25**	10.557	Special Supplemental Nutrition Program For Women, Infants, and Children	Noncompliance and Internal Control Weaknesses Related to Voided Food Instruments and Vendor Overcharges Result in Known Questioned Costs of \$70.00 (Prior Year Finding #08-25)	\$70.00	DOH	129	353
09-26**	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs (Prior Year Finding #08-26)	Unknown	DPW	132	353
	93.558	Temporary Assistance for Needy Families					
09-27**	12.400	Military Construction, National Guard	Noncompliance and Deficiencies in Internal Control Over Charging of Project Costs Results in Questioned Costs of \$14,004	\$14,004	DMVA OB/OCO	142	355
09-28**	12.401	National Guard Military Operations and Maintenance Projects (including ARRA)	Noncompliance and Deficiencies in Internal Control Over Charging of Personnel Costs (Prior Year Finding #08-27)		DMVA	145	355
09-29**	14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #08-29)		DCED	149	355
	14.255	ARRA – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii					
09-30**	14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Noncompliance and Internal Control Deficiencies in DCED's Section 3 Summary Report		DCED	152	355
	14.255	ARRA – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii					
09-31**	16.007	State Domestic Preparedness Equipment Support Program	Internal Control Deficiency Over Expenditure Information Reported on the Financial Status Reports by Comptroller Operations (Prior Year Finding #08-30)		OB/OCO	156	355
	97.004	State Domestic Preparedness Equipment Support Program					

* - Significant Deficiency

** - Material Weakness

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2009

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
	97.067	Homeland Security Grant Program					
09-32**	16.007	State Domestic Preparedness Equipment Support Program	Noncompliance and Internal Control Deficiency Over Period of Availability Requirements Results in Questioned Costs of \$26,613 (Prior Year Finding #08-32)	\$26,613	PEMA	158	356
	97.004	State Domestic Preparedness Equipment Support Program					
	97.067	Homeland Security Grant Program					
09-33**	16.007	State Domestic Preparedness Equipment Support Program	Unallowable Equipment Purchases and Unallowable Cash Payments Result in Questioned Costs of \$37,150 and Internal Control Deficiencies and Noncompliance in PEMA's Subrecipient Monitoring (Prior Year Finding #08-31)	\$37,150	PEMA	160	356
	97.004	State Domestic Preparedness Equipment Support Program					
	97.067	Homeland Security Grant Program					
09-34**	17.225	Unemployment Insurance	Internal Control Deficiency Over Expenditure Information Reported on the SEFA by L&I and Comptroller Operations Personnel		L&I OB/OCO	167	356
09-35*	17.225	Unemployment Insurance (including ARRA)	Deficiencies in Information Technology Controls at the Department of Labor & Industry (Prior Year Finding #08-72)		L&I	169	356
	17.258	Workforce Investment Act Cluster					
	17.259	(including ARRA)					
	17.260						
	84.126	Vocational Rehabilitation Cluster					
	84.390	(including ARRA)					
09-36*	20.205	Highway Planning and Construction (Including ARRA)	Internal Control Deficiency Over Expenditure Information Reported on the SEFA		OB/OCO	172	356
	20.219	Recreational Trails Program					
	23.003	Appalachian Development Highway System					
09-37**	66.458	Capitalization Grants for Clean Water State Revolving Funds	Internal Control Deficiencies Cause Errors in the CWSRF Annual Report Submitted to EPA		Pennvest	174	357

* - Significant Deficiency

** - Material Weakness

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2009

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
09-38*	66.458	Capitalization Grants for Clean Water State Revolving Funds (including ARRA)	Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority		Pennvest	177	357
09-39**	81.042	Weatherization Assistance for Low-Income Persons (including ARRA)	Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of Weatherization Subrecipients (Prior Year Finding #08-51)		DCED	179	357
	93.568	Low-Income Home Energy Assistance Program					
09-40**	84.010	Title I Grants to Local Educational Agencies	Internal Control Deficiencies in PDE Monitoring of Subrecipient Cash Management (Prior Year Finding #08-37)		PDE	184	357
	84.027	Special Education - Grants to States					
	84.048	Career and Technical Education – Basic Grants to States					
	84.173	Special Education – Preschool Grants					
	84.367	Title II Improving Teacher Quality State Grants					
	84.389	ARRA – Title I Grants to Local Education Agencies					
	84.391	ARRA – Special Education – Grants to States					
	84.392	ARRA – Special Education – Preschool Grants					
09-41**	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 #08-38)		PDE	187	357
	84.389	ARRA – Title I Grants to Local Educational Agencies					
09-42**	84.010	Title I Grants to Local Educational Agencies	Internal Control Deficiencies in PDE During-the-Award Monitoring of Title I and Title II Subrecipients (Prior Year Finding #08-35)		PDE	191	358
	84.367	Title II Improving Teacher Quality State Grants					
	84.389	ARRA – Title I Grants to Local Education Agencies					

* - Significant Deficiency

** - Material Weakness

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2009

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
09-43**	84.027 84.173 84.391 84.392	Special Education – Grants to States Special Education – Preschool Grants ARRA – Special Education – Grants to States ARRA – Special Education – Preschool Grants	Noncompliance and Internal Control Deficiencies in PDE Monitoring of IDEA-B Subrecipients		PDE	195	358
09-44*	84.048	Career & Technical Education – Basic Grants to States	Inadequate Controls at PDE Over Exceeding Maximum Earmarking Requirements in the CTE Program		PDE	198	359
09-45*	84.126 84.390	Vocational Rehabilitation Cluster	A Control Deficiency Exists Over the Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA (Prior Year Finding #08-40)		L&I	200	360
09-46**	84.126 84.390	Vocational Rehabilitation Cluster	A Control Deficiency Exists in L&I’s Procurement System Related to Debarment and Suspension (Prior Year Finding #08-41)		L&I	202	360
09-47**	84.126 84.390	Vocational Rehabilitation Cluster	A Control Deficiency Exists in L&I’s Procedures for Performing Eligibility Determinations		L&I	204	360
09-48**	84.126 84.390	Vocational Rehabilitation Cluster (including ARRA)	Control Deficiencies Exist in L&I’s Procedures for Awarding ARRA Funding and Subgrants Resulting in Questioned Costs of \$405,675	\$405,675	L&I	206	360
09-49**	93.044 93.045 93.053 93.705 93.707	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers Special Programs for the Aging – Title III, Part C – Nutrition Services The Nutrition Services Incentive Program ARRA – Aging Home – Delivered Nutrition Services for States ARRA – Aging Congregate Nutrition Services for States	PDA Monitoring of AAA Subrecipients Needs Improvement		Aging	210	360

103

* - Significant Deficiency

** - Material Weakness

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2009

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
09-50**	93.558 93.563 93.575 93.596 93.658 93.659 93.667 93.713 93.714 93.778 93.959	Temporary Assistance for Needy Families Child Support Enforcement (including ARRA) Child Care and Development Block Grant Child Care Mandatory & Matching Funds Foster Care – Title IV-E (including ARRA) Adoption Assistance (including ARRA) Social Services Block Grant ARRA – Child Care and Development Block Grant ARRA – Emergency Contingency Fund for TANF State Programs Medical Assistance Program (including ARRA) Block Grants for Prevention and Treatment of Substance Abuse	DPW Did Not Always Specify CFDA Number and Other Required Award Information in Subrecipient Award Documents, Resulting in Noncompliance With OMB Circular A-133 (Prior Year Finding #08-45)		DPW	212	360
09-51**	93.558 93.658 93.659	Temporary Assistance for Needy Families Foster Care – Title IV-E (including ARRA) Adoption Assistance (including ARRA)	Internal Control Weaknesses Over Reviewing, Approving and Reporting Regular, ARRA, and Supplemental Payments to Subrecipients (Prior Year Finding #08-57)		DPW OB/OCO	215	361
09-52**	93.558 93.575 93.596 93.667 93.713	Temporary Assistance for Needy Families Child Care and Development Block Grant Child Care Mandatory & Matching Funds Social Services Block Grant ARRA – Child Care and Development Fund	Weaknesses Exist in DPW’s Contracting and Program Monitoring of Child Care Subgrantees (Prior Year Finding #08-48)		DPW	219	361
09-53**	93.558 93.658 93.659	Temporary Assistance for Needy Families Foster Care – Title IV-E (including ARRA) Adoption Assistance (including ARRA)	Weaknesses in DPW Office of Children, Youth and Families Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients (Prior Year Finding #08-58)		DPW	223	361

104

* - Significant Deficiency

** - Material Weakness

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2009

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
09-54**	93.558 93.568 93.714	Temporary Assistance for Needy Families Low-Income Home Energy Assistance Program ARRA – Emergency Contingency Fund for TANF State Programs	DPW Failed to Adequately Monitor the Processing of LIHEAP Cash and Crisis Applications (Prior Year Finding #08-53)		DPW	226	362
09-55**	93.558	Temporary Assistance for Needy Families	DPW Did Not Perform Adequate During-The-Award Monitoring of TANF Subrecipients (Prior Year Finding #08-46)		DPW	231	362
09-56**	93.558 93.568 93.714	Temporary Assistance for Needy Families Low-Income Home Energy Assistance Program ARRA – Emergency Contingency Fund for TANF State Programs	Internal Control Deficiencies in DPW’s Administration of LIHEAP Cash and Crisis Benefits (Prior Year Finding #08-52)		DPW	234	362
09-57**	93.558 93.568 93.714	Temporary Assistance for Needy Families Low-Income Home Energy Assistance Program ARRA – Emergency Contingency Fund for TANF State Programs	Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$1,704 in LIHEAP (Prior Year Finding #08-54)	\$1,704	DPW	239	363
09-58**	93.558 93.714	Temporary Assistance for Needy Families ARRA – Emergency Contingency Fund for TANF State Programs	DPW Failed to Adequately Support and Account For a Transfer of LIHEAP Funds Charged to TANF and Failed to Qualify for a \$28,507,184 TANF Emergency Fund Grant Award Under ARRA, Resulting in SEFA and ACF-196 Quarterly Reporting Errors and \$26,134,000 in Questioned Costs	\$26,134,000	DPW OB/OCO	245	364
09-59**	93.558	Temporary Assistance for Needy Families	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #08-47)		DPW	251	364
09-60*	93.563	Child Support Enforcement	Internal Control Deficiencies Over PACSES Contractor Costs Result in Questioned Costs of \$67,021 (Prior Year Finding #08-50)	\$67,021	DPW	255	364

105

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

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2009

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
09-61**	93.569 93.710	Community Services Block Grant ARRA – Community Services Block Grant	Noncompliance and Internal Control Weaknesses Over Subgrantee Payments at DCED (Prior Year Finding #08-55)		DCED	259	364
09-62*	93.575 93.596 93.713	Child Care and Development Block Grant Child Care Mandatory & Matching Funds of the Child Care and Development Fund ARRA – Child Care and Development Block Grant	DPW’s Expenditures For Costs Not Approved in The CCDF State Plan Result in Noncompliance and Known Questioned Costs of at Least \$2,624,449 (Prior Year Finding #08-56)	\$2,624,449	DPW OB/OCO	261	364
09-63*	93.659	Adoption Assistance Program	Unallowable Costs Charged from the DPW Cost Allocation Plan Result in Questioned Costs of \$1,538,422 (Prior Year Finding #08-59)	\$1,538,422	DPW	263	364
09-64**	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 #08-61)		DPW	266	364
09-65**	93.713	ARRA – Child Care and Development Block Grant	DPW Did Not Utilize Available ARRA Grant Award Funds While Significant Waiting Lists Existed For Child Care Assistance For Low-Income Families		DPW	269	365
09-66**	93.767	Children’s Health Insurance Program	Inadequate Controls Over Subrecipient Monitoring (Prior Year Finding #08-62)		PID	271	365
09-67*	93.778	Medical Assistance Program (including ARRA)	DPW Failed to Obtain an Outside Service Auditor’s Report for a Third Party Drug Rebate Processor		DPW	274	366
09-68**	93.778	Medical Assistance Program (including ARRA)	Material Noncompliance and Weaknesses in Internal Controls Over Medical Assistance Provider Audits		DPW	275	366

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

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2009

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
09-69	93.917	HIV Formula Care Grants	Weaknesses in Internal Controls Over Eligibility Determinations and Administration of Third Party Contractor Result in Likely Questioned Costs Over \$10,000 Up To \$27,388,425 (Prior Year Finding #08-63)	Unknown	DPW	277	366
09-70**	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Inadequate Program Monitoring of Department of Health SAPT Subrecipients		DOH	283	366
09-71	93.994	Maternal and Child Health Services Block Grant to the States	Noncompliance and Internal Control Weaknesses Result in \$139,469 in Questioned Personnel Costs (Prior Year Finding #08-65)	\$139,469	DOH	286	367
09-72**	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (Prior Year Finding #08-67)		DPW	289	367
	93.563	Child Support Enforcement (including ARRA)					
	93.568	Low-Income Home Energy Assistance					
	93.658	Foster Care – Title IV-E (including ARRA)					
	93.659	Adoption Assistance (including ARRA)					
	93.667	Social Services Block Grant					
	93.778	Medical Assistance Program (including ARRA)					
	93.575	Child Care Development Fund Cluster (including ARRA)					
	93.596						
	93.713						
	93.558	Temporary Assistance for Needy Families Cluster (including ARRA)					
	93.714						
	93.716						
	93.959	Block Grants for Prevention and Treatment of Substance Abuse					
09-73**	10.557	Special Supplemental Nutrition Program for WIC	Noncompliance and Control Deficiencies Exist in the Commonwealth’s Subrecipient Audit Resolution Process (Prior Year Finding #08-68)		OB/OCO L&I	292	367
	10.558	Child and Adult Care Food Program			DOH		

* - Significant Deficiency

** - Material Weakness

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2009

<u>Finding No.</u>	<u>CFDA No.</u>	<u>CFDA Name</u>	<u>Finding Title</u>	<u>Questioned Costs</u>	<u>Impacted State Agency</u>	<u>Finding Page</u>	<u>CAP Page</u>
	66.458	Capitalization Grants for Clean Water State Revolving Funds (including ARRA)			PID		
	84.048	Career and Technical Education (CTE) – Basic Grants to States			PennDOT		
	84.367	Improving Teacher Quality State Grants			DPW		
	93.563	Child Support Enforcement (including ARRA)			PDE		
	93.568	Low-Income Home Energy Assistance			DCED		
	93.658	Foster Care – Title IV-E (including ARRA)			PEMA		
	93.659	Adoption Assistance (including ARRA)					
	93.667	Social Service Block Grant					
	93.767	Children’s Health Insurance Program					
	93.959	Block Grants for Prevention and Treatment of Substance Abuse					
	10.553	Child Nutrition Cluster					
	10.555						
	10.556						
	10.559						
	14.228	CDBG – State-Administered Small Cities					
	14.255	Program Cluster (including ARRA)					
	16.007	Homeland Security Cluster					
	97.004						
	97.067						
	17.258	WIA Cluster (including ARRA)					
	17.259						
	17.260						
	20.205	Highway Planning and Construction					
	20.219	Cluster (including ARRA)					
	23.003						
	84.010	Title I, Part A Cluster (including ARRA)					
	84.389						
	84.027	Special Education (IDEA) Cluster					
	84.173	(including ARRA)					
	84.391						
	84.392						
	93.044	Aging Cluster (including ARRA)					

* - Significant Deficiency

** - Material Weakness

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2009

<u>Finding No.</u>	<u>CFDA No.</u>	<u>CFDA Name</u>	<u>Finding Title</u>	<u>Questioned Costs</u>	<u>Impacted State Agency</u>	<u>Finding Page</u>	<u>CAP Page</u>
	93.045						
	93.053						
	93.705						
	93.707						
	93.558	Temporary Assistance for Needy Families					
	93.714	Cluster (including ARRA)					
	93.716						
	93.575	Child Care Development Fund Cluster					
	93.596	(including ARRA)					
	93.713						
	93.775	Medicaid Cluster (including ARRA)					
	93.776						
	93.777						
	93.778						
09-74**	10.557	Special Supplemental Nutrition Program for WIC	Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements (Prior Year Finding #08-69)		OB/OCO	299	369
	10.558	Child and Adult Care Food Program					
	66.458	Capitalization Grants for Clean Water State Revolving Funds					
	84.048	Career and Technical Education (CTE) – Basic Grants to States					
	84.367	Improving Teacher Quality State Grants					
	93.563	Child Support Enforcement (including ARRA)					
	93.568	Low-Income Home Energy Assistance					
	93.658	Foster Care – Title IV-E (including ARRA)					
	93.659	Adoption Assistance (including ARRA)					
	93.667	Social Service Block Grant					
	93.767	Children’s Health Insurance Program					
	93.959	Block Grants for Prevention and Treatment of Substance Abuse					
	10.553	Child Nutrition Cluster					
	10.555						
	10.556						
	10.559						

* - Significant Deficiency

** - Material Weakness

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2009

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
	14.228	CDBG – State-Administered Small Cities					
	14.255	Program Cluster (including ARRA)					
	16.007	Homeland Security Cluster					
	97.004						
	97.067						
	17.258	WIA Cluster (including ARRA)					
	17.259						
	17.260						
	20.205	Highway Planning and Construction					
	20.219	Cluster (including ARRA)					
	23.003						
	84.010	Title I, Part A Cluster (including ARRA)					
	84.389						
	84.027	Special Education (IDEA) Cluster					
	84.173	(including ARRA)					
	84.391						
	84.392						
	93.044	Aging Cluster (including ARRA)					
	93.045						
	93.053						
	93.705						
	93.707						
	93.558	Temporary Assistance for Needy Families					
	93.714	Cluster (including ARRA)					
	93.716						
	93.575	Child Care Development Fund Cluster					
	93.596	(including ARRA)					
	93.713						
	93.775	Medicaid Cluster (including ARRA)					
	93.776						
	93.777						
	93.778						
09-75	12.401	National Guard Military Operations and	Unallowable Payments for Unused Employee Leave	\$1,854,993	DMVA	304	369
		Maintenance Projects	Result in \$1,854,993 in Questioned Costs (Prior Year		OAG		
	10.551	SNAP Cluster	Finding #08-70)		L&I		
	10.561				PSP		

* - Significant Deficiency

** - Material Weakness

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2009

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
	16.574	Byrne Evaluation Partnership Program			PDE		
	16.610	Regional Information Sharing System			DPW		
	17.002	Labor Force Statistics					
	17.225	Unemployment Insurance					
	20.218	National Motor Carrier Safety					
	84.002	Adult Education – Basic Grants to States					
	84.027	Special Education Cluster					
	84.173						
	93.558	Temporary Assistance for Needy Families					
	93.563	Child Support Enforcement					
	93.658	Foster Care Title IV-E					
	93.667	Social Services Block Grant					
	93.778	Medical Assistance					
09-76**	10.551	Supplemental Nutrition Assistance Program (including ARRA)	Deficiencies in Information Technology Controls at DPW (Prior Year Finding #08-71)		DPW	307	369
	93.558	Temporary Assistance for Needy Families					
	93.563	Child Support Enforcement (including ARRA)					
	93.568	Low-Income Home Energy Assistance Program					
	93.575	Child Care and Development Block Grant					
	93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund					
	93.658	Foster Care – Title IV-E (including ARRA)					
	93.659	Adoption Assistance (including ARRA)					
	93.667	Social Services Block Grant					
	93.713	ARRA-Child Care and Development Block Grant					
	93.714	ARRA-Emergency Contingency Fund for TANF State Programs					
	93.778	Medical Assistance Program (including ARRA)					

ii

* - Significant Deficiency

** - Material Weakness

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2009

Finding No.	CFDA No.	CFDA Name	Finding Title	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
09-77**	10.555	National School Lunch Program for Children	Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$3.4		OB/OCO	310	370
	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Million Known Understatement of the CMIA Interest Liability (Prior Year Finding #08-73)				
	10.558	Child and Adult Care Food Program					
	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program					
	20.205	Highway Planning and Construction					
	23.003	Appalachian Development Highway System					
	66.458	Capitalization Grants for Clean Water State Revolving Funds					
	84.010	Title I Grants to Local Educational Agencies					
	84.027	Special Education – Grants to States					
	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States					
	84.367	Improving Teacher Quality State Grants					
	93.558	Temporary Assistance for Needy Families					
	93.563	Child Support Enforcement (including ARRA)					
	93.568	Low-Income Home Energy Assistance					
	93.575	Child Care and Development Block Grant					
	93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund					
	93.658	Foster Care – Title IV-E (including ARRA)					
	93.659	Adoption Assistance (including ARRA)					
	93.667	Social Services Block Grant					
	93.767	Children’s Health Insurance Program					
	93.778	Medical Assistance Program (including ARRA)					
	93.959	Block Grants for Prevention and Treatment of Substance Abuse					
	96.001	Social Security – Disability Insurance					
				Total Questioned Costs			<u>\$32,843,570</u>

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 21:

- CFDA #10.551 – Supplemental Nutrition Assistance Program (including ARRA)**
- 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 #93.714 – ARRA – Emergency Contingency Fund for TANF State Programs**

Internal Control Deficiencies at DPW Related to Returned EBT Cards (A Similar Condition Was Noted in Prior Year Finding #08-22)

Federal Grant Numbers: 0902PATANF, 0802PATANF, 0901PACCDF, 0801PACCDF, and 0901PATAN2

Condition: As part of our audit of the SNAP, we evaluate DPW's procedures for EBT cards that are returned as undeliverable by the US Postal Service. Effective October 2006, returned EBT cards are no longer sent to the outside EBT contractor, but are returned directly to DPW's central office in Harrisburg, PA. During our audit for fiscal year 2007, 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.

In connection with our prior year audit, we were also informed by DPW that revisions were made 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 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.

Our follow-up for the current year revealed that DPW did not make any changes in their procedure for these returned EBT cards. Therefore, for the third year in a row, control deficiencies in DPW's procedures over returned EBT cards, including the formal documentation of their revised procedures for handling returned EBT cards, having more than one employee present for the processing of returned cards and documenting the disposition of returns in the log, continued through our current audit period. Additionally, we also noted that the log used by DPW to document the returned EBT cards for the year under audit did not include the returned card activity for the month of June 2009.

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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 21: (continued)

Cause: Although DPW indicated in their prior year corrective action plan that the central processing of undeliverable EBT cards had been formally documented, we were not provided with any support to evidence the implementation of this corrective action. Additionally, DPW has stated that it is not economically feasible to have more than one employee present for the retrieving, opening, logging and destroying of the EBT cards. With respect to the missing activity in the DPW Returned Card Log for the year under audit, DPW indicated that the June 2009 activity was not recorded until July 2009 due to the retirement of a DPW employee.

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.

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 central processing of undeliverable and returned EBT cards has been formally documented in a Policy and Procedure 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.

The DPW feels that a single centralized staff member is able to both open and destroy the EBT cards, as returned cards are inactive and can only be activated by the intended recipient upon providing specific detailed personal information. This personal information is unknown to the staff member receiving and processing the returned cards. However, the DPW policy now requires a supervisor to witness both the opening and destruction of the cards by the clerical staff.

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, and there would be an issue with the DPW still receiving both lost and stolen cards directly via the USPS.

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, 2009

Finding 09 – 22:

- CFDA #10.551 – Supplemental Nutrition Assistance Program (including ARRA)**
- CFDA #93.558 – Temporary Assistance for Needy Families**
- CFDA #93.575 – Child Care and Development Block Grant**
- CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund**
- CFDA #93.713 – ARRA-Child Care and Development Block Grant**
- CFDA #93.714 – ARRA-Emergency Contingency Fund for TANF State Programs**
- CFDA #93.778 – Medical Assistance Program (including ARRA)**

Internal Control Deficiencies at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (A Similar Condition Was Noted in Prior Year Finding #08-23)

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

Condition: In connection with our audit of the TANF, MA and SNAP (formerly Food Stamps) Programs for SFYE June 30, 2009, we reviewed reports issued by other auditors during our audit period in order to determine if the reports had any impact on the programs. Based on our review, we noted that another bureau within the Pennsylvania Department of the Auditor General performed separate audits of certain DPW County Assistance Offices (CAOs) in order to determine if public assistance payments for MA were made only to eligible recipients. (In the prior year, these other auditors issued reports covering public assistance payments for TANF and SNAP as further discussed below). Based on our review of these individual CAO audit reports issued during our audit period (which covered various audit periods up through 6/30/09), we noted for the third year in a row for MA audits, that the other auditors identified significant internal control deficiencies which are systemic in nature and impact our current year under audit when evaluated on a statewide basis.

Our review of these other auditor's reports and discussions with the other auditors indicated that CAO personnel failed to make the proper eligibility determinations for recipients of Medicaid which resulted in improper payments being made to both managed care organizations (MCOs) and individual providers on behalf of these recipients. These improper eligibility determinations for Medicaid recipients were a result of the following control deficiencies cited by the other auditors:

- As required by federal regulations, the State has an Income Eligibility and Verification System (IEVS), which is used for coordinating data exchanges with other federally assisted benefit programs. Certain information is required to be reviewed and compared with information in the case file when making eligibility determinations and re-determinations. However, the CAO management is not monitoring to ensure that the CAOs are properly reconciling the information in IEVS to the income information in the case file. Also, the CAO management is not monitoring to ensure that wage information from a new or additional employer provided by IEVS alerts is timely and/or properly reconciled to reported income. Further, DPW's policy does not require a review by the CAO of all changes in income, including income from ongoing employment, when the information becomes available on IEVS. The policy only requires that this information be reviewed during a recipient's annual renewal or semi-annual review.
- The CAO management did not monitor to ensure that recipients met the age limitation requirements, were disabled and/or that they met the family relationship requirement which are all criteria for the various Medicaid categories of assistance.
- The CAO management did not monitor to ensure that citizenship and identity of the recipients were verified during the application process and renewal process.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 22: (continued)

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

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

In addition to the improper eligibility determinations for recipients of Medicaid, the other auditors also noted that CAOs are not obtaining and/or properly recording all third party liability (TPL) insurance information in CIS. Specifically, the 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 information 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 the prior year audit, the other auditors mentioned above also issued CAO audit reports on public assistance payments for the TANF and SNAP programs. Our review of the findings in these audit reports and discussions with the other auditors in the prior year, identified internal control deficiencies with respect to the eligibility determinations made by the CAOs for TANF and SNAP recipients. Our current year follow up indicated that DPW has not fully implemented the necessary corrective action to resolve the deficiencies cited in the findings. Therefore, for the eighth year in a row, these control deficiencies existed during our audit period as follows:

- 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). 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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 22: (continued)

- 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.
- Because of poor monitoring and follow up by TANF and SNAP caseworkers, DPW has internal control deficiencies which fail to ensure recipients’ participation and enrollment in employment and training programs, as required.
- The CAOs are not adjusting the Support Pass-Through (SPT) income to the recipients SNAP 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 SNAP 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 SNAP 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. We also 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.

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 6 or 8 percent, in two CAOs were not completed as follows:

CAO	Month Selected	Number of CSRs or TSRs Not Completed
Clarion	September 2008	3
Columbia	September 2008	3

Additionally, we noted in our conversations with DPW personnel, that the DPW requirement for performance of the CSR/TSRs was suspended for the month of September 2008 to enable a system upgrade to the database used in this process. As a result, no CSRS/TSRs were conducted at any of the CAOs for the month of September 2008.

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 22: (continued)

by CAO management staff resolved the issues related to Welfare-to-Work individuals employed by DPW; however, neither the Operations Memorandum, nor the Security Process Overview self-assessment tool address IT security issues related to Welfare-to-Work employees. As of June 30, 2009 DPW has not implemented adequate corrective action for this deficiency.

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

1. *Explain that every question on the PA 600 must be answered.*

4. *Determine what information needs to be verified and explain what is needed to verify the information.*

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

5. *Initiate or update the budget group information based on the completed PA 600 and the facts presented during the interview:*

6. *Ensure that each applicant has a social security number (SSN).*

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

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

Sources of verification include:

Written evidence;

Public records;

Collateral contracts;

Automated sources; and

Other means which will establish the truth of the client’s statement.

DPW regulations and Act 1996-35 state:

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

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

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

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:

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 22: (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 22: (continued)

- *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. .

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

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

Cause: The CAOs are not following established DPW policies and procedures for 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 monitored 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 were caused by system logic deficiencies and that software updates were implemented to correct the existing cases as well as closed cases.

With respect to the CSRs and TSRs that were not completed for the two CAOs above, we were informed, as noted in the condition, that the requirement to perform the CSR/TSRs was suspended by DPW for the month of September 2008 due to a system upgrade to the database (Rushmore Case Review Database) used in this process. During the month of September 2008, DPW required all CAO supervisors and managers to undergo training on the use of this updated database. As a result, no CSRs/TSRs were performed at any of the CAOs for the month of September 2008.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 22: (continued)

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 properly followed up by DPW, including referrals to OIG for collection. Also, errors are occurring in eligibility determinations for MA, TANF and SNAP 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, if there are any inconsistencies between the family relationship information on the MEDA action and inquiry screens, this could further affect the CAO's ability to make the proper eligibility determinations.

Recommendation: We recommend that DPW ensure the CAOs continue to receive additional training and are more thoroughly supervised to follow established DPW policies and procedures regarding eligibility determinations and re-determinations. 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.

With respect to the inconsistencies in family relationship information between the action screens and inquiry screens in MEDA, we understand from our discussions with other auditors that this deficiency was followed up on by DPW through the software updates described above. We recommend continued monitoring and manual oversight by DPW caseworkers to ensure that MEDA controls over eligibility determinations remain effective.

Finally, we recommend that DPW stop payment of Medicaid benefits immediately upon identification of ineligible recipients and follow up with the Office of Inspector General to see if Medicaid overpayments made on behalf of ineligible recipients can be recouped.

Agency Response: There are nine recommendations given by the auditors in this year's findings, of which eight 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 eight repeated recommendations since the prior year and a response to the new recommendation (number 9):

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

DPW Response:

DPW has ensured that the caseworkers have and continue to receive additional training by utilizing e-learning modules offered through the Staff Development Program. 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 ongoing Effective Management Program established in calendar year 2008. Management continuously reinforces to staff the importance of following established DPW policies and procedures regarding eligibility determinations and re-determinations. As a further corrective action, supervisors continue to complete TSRs and are now completing Rushmore reviews. The Rushmore Case Review Database is a 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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 22: (continued)

2. **Revise policy to require a review of all changes to income, including ongoing employment, when it becomes available.**

DPW Response:

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.

3. **Revise policy to require that CAO caseworkers 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.**

DPW Response:

DPW has determined as of May 24, 2007 that it is 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. The trauma diagnoses process reveals many more trauma situations for investigation than just auto accidents, and DPW investigates all potential Third Party Resources. Caseworkers continue to complete PA 176K/176KM and 173S forms. These documents capture all pertinent accident information, as well as anticipated compensation through sources other than Medical Assistance anticipated by the recipient. This process makes the separate documentation of auto insurance unnecessary.

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

DPW Response:

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

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

DPW Response:

Participants in the Welfare-to-Work programs, if employed at the CAO, are not granted access to CIS. 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.

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 22: (continued)

DPW Response:

DPW uses the Income Eligibility Verification System (IEVS) which allows for the exchange of information with local courts and other authorities. IEVS Exchange 10 screens have been revised, which has made it easier for the caseworker to interpret the information on the screens. Policy clarifications and a desk guide have also been issued to staff to strengthen compliance in this area. 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.

- 7. Comply with the Requirement mandating that all CAOs perform CSRs or TSRs on a monthly basis and to implement corrective action to address the deficiencies.**

DPW Response:

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

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

- 8. Continue monitoring and manual oversight by DPW caseworkers to ensure that MEDA controls over eligibility determinations remain effective.**

DPW Response:

DPW identified the system logic deficiencies and have implemented software updates to correct existing cases as well as closed cases effective March 4, 2008. In addition to the software updates, caseworkers still review for accuracy. Additionally, we have several levels of internal review via our quality control efforts as well as supervisory reviews.

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

DPW Response:

DPW discontinues Medicaid benefits for ineligible recipients in accordance with the recipient's legal right to due process. Each recipient has the right to ask for a hearing to appeal a decision or failure to act which affects the recipient's Medicaid benefits. Based on promulgated regulations, clients must be given 13 days advance notice of intent to terminate Medicaid benefits, with the right to appeal. Benefits are terminated as of the end-date listed on the 13 day notice, unless the client appeals in a timely manner. If the client appeals in a timely manner, the benefits continue through the appeal resolution. After the process is completed and a determination made to uphold DPW position, benefits will be discontinued with the appropriate notice.

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

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, 2009 demonstrate that error rates

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 22: (continued)

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, 2009, which covered 5346 cases. The number of cases that contained eligibility errors was 1142 (or 21 percent). This error rate is clearly excessive, and DPW's internal controls need to be strengthened in order to reduce this error rate 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.

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, 2009

Finding 09 – 23:

CFDA #10.553 – School Breakfast Program

CFDA #10.555 – National School Lunch Program

CFDA #10.556 – Special Milk Program for Children

CFDA #10.558 – Child and Adult Care Food Program

CFDA #84.027 – Special Education – Grants to States

CFDA #84.391 – ARRA – Special Education Grants to States

Deficiencies in Information Technology Controls Over the Department of Education’s Child Nutrition Program Electronic Application and Reimbursement System (CN-PEARS)

Federal Grant Numbers: 1PA300305, H027A080093, H391A090093

Condition: CN-PEARS is custom child nutrition program software developed as a joint effort by an outside contractor and the Pennsylvania Department of Education (PDE). As part of our audit of the PDE’s major programs for the year ended June 30, 2009, 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:

A lack of segregation of duties exists because the only outside contractor employee listed with the ability to promote programs to production also is listed with the ability to develop and maintain programs. Also, a monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard change management process. This deficiency is more concerning because of the lack of segregation of duties related to the programmer with the ability to develop programs and move the programs into production. Further, system parameter settings do not comply with the Commonwealth’s standards for user IDs and passwords.

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

Cause: The CN PEARS system was developed as part of an agreement between the Division of Food and Nutrition and the outside contractor. The Division of Food and Nutrition is currently working with the Center for Data Quality and Information Technology to improve controls over the system and bring system security in-line with Commonwealth standards. Management indicated the current system does not have the capability to comply with the Commonwealth standards for passwords. The Division of Food and Nutrition is currently in the process of seeking approval to have CN-PEARS upgraded. As part of that upgrade, they plan to implement login/security features that will comply with the IT Bulletin for minimum standards for user IDs and passwords.

Effect: The deficiencies noted above in IT general controls could result in inappropriate system access, unauthorized changes to the applications, and noncompliance with federal regulations.

Recommendation: We recommend that PDE management require the contractor to restrict the programmer(s) developing and changing programs from moving programs into the production environment. Also, management should implement an automated or manual control to monitor the production environment to detect any unauthorized program

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 23: (continued)

changes that did not follow the standard change management process. Further, PDE management should continue their plans to upgrade the CN-PEARS application and to implement login/security features that will comply with the IT Bulletin for minimum standards for user IDs and passwords.

Agency Response: The Pennsylvania Department of Education, Division of Food and Nutrition (DFN) is continuing to seek approval for a contract to upgrade CN PEARS, which will include a redesign of the security features. Upon approval of the contract, the DFN will work with the contractor to align the security features in CN PEARS with those identified in the Finding Criteria. The DFN is presently addressing the issue of segregation of duties.

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, 2009

Finding 09 – 24:

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

Weaknesses in Department of Health Monitoring of WIC Local Agencies

Federal Grant Numbers: 2009IW100341, 2009IW100641, 2008IW100341, 2008IW100641, 2008IW500341, 2008IW551041, 2008CW500341

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

Additionally, we found that DOH's documentation of supervisory review of its fiscal monitoring of local agencies was inadequate. DOH performed fiscal reviews for 13 local agencies during federal fiscal year 2009, or approximately 50 percent. We reviewed a sample of four of these fiscal reviews and found that DOH's supervisory review of its monitor's work and results was not documented in the review files. DOH management stated that the supervisory review was completed as a group and an informal note was made to the WIC monitor that the fiscal reviews could be filed. However, after reviewing the supervisor's note, we could not determine which fiscal review files the approval note applied to and whether the four fiscal review files that we sampled were reviewed by the supervisor.

Local agencies' expenditures were \$40.7 million or 22.7 percent of total WIC expenditures of \$179.2 million during SFYE June 30, 2009.

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

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

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

A pass-through entity is responsible for:

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

Cause: DOH management stated that as part of its program review procedures, WIC local agencies are asked to provide a typed list of all staff, levels of security assigned in DOH's QuickWIC computer system, and names of the local agency security administrator and backup security administrator. However, DOH does not review this list to ensure that all

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 24: (continued)

registered users are authorized and have appropriate security levels. Additionally, our testing of the program review files of local agencies revealed that the monitoring checklist used by the DOH reviewers did not include steps to perform review of any other IT controls at the local agencies.

The inadequate documentation of DOH's supervisory review of the local agency fiscal review files was caused by the fact the files were reviewed together as a group rather than individually. The approval was made on an informal note with no mention of which local agency fiscal review files were actually reviewed and approved.

Effect: Without proper monitoring of IT controls at the WIC local agencies, DOH's QuickWIC computer system could be inappropriately accessed at the local agencies which could allow unauthorized approval of eligibility of WIC participants, approval of WIC benefits, printing of WIC checks, etc. without DOH's knowledge or oversight. Additionally, without adequate documented supervisory review and approval of fiscal monitoring files for local agencies, inappropriate conclusions could be reached, noncompliance with federal regulations could be overlooked, and necessary corrective action may not be followed-up.

Recommendation: DOH should ensure during its on-site program reviews of WIC local agencies that IT controls of the local agencies are being monitored to ensure the risk of any unauthorized or inappropriate access to DOH's QuickWIC computer system is minimized. Also, DOH should ensure that supervisory review of the fiscal review file for each local agency is formally documented.

Agency Response: The DOH WIC program has many IT controls currently in place that affect local agency operations. There is an equipment password that the clinic staff use to sign into any WIC equipment. This password is computer generated and reset every 90 days. Also, local agencies must comply with policies and procedures specific to user ids and passwords. QuickWIC passwords are reset every 60 days and the system inactivates these passwords after 30 days of non-use. User IDs are created by each local agency security officer based upon a standard policy. The system will inactivate these user IDs after 120 days of non-use. According to WIC policy, security officers are to inactivate user IDs and passwords no later than 48 hours after staff have terminated their employment.

The DOH WIC program also monitors Competent Professional Authority (CPA) access in the QuickWIC system. Local agencies have the authority to hire their own staff, but CPA status can only be granted at the State Agency level and records are maintained in a database separate from the QuickWIC system. At the time of employment, each local agency submits the name and credentials of any individuals they would like to designate as CPAs to the State Agency. Resumes, transcripts, degree certificates, and/or a certification from the American Dietetic Association are the only forms of approved credentials. On a quarterly basis, those staff who are listed as CPA's in the QuickWIC system are cross-referenced against this database of individuals who have submitted their credentials and are approved to work as CPAs.

In order to insure the local agency security officers inactivate user IDs according to policy, the DOH will, as part of the WIC local agency program reviews, compare the list of current clinic employees with active QuickWIC users and take necessary action on any discrepancies.

In regards to the issue of the auditors' inability to ascertain if all fiscal reviews were reviewed by a supervisor, the DOH assures that the appropriate supervisory review did occur in each case. In order to better document such reviews in the future, the index of work papers will be designed to include an area for the preparer and approver to initial and date. All financial reviews will be initialed and dated by the preparer and approver.

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, 2009

Finding 09 – 25:

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

Noncompliance and Internal Control Weaknesses Related to Voided Food Instruments and Vendor Overcharges Result in Known Questioned Costs of \$70.00 (A Similar Condition Was Noted in Prior Year Finding #08-25)

Federal Grant Numbers: 2009IW100641, 2008IW100641

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

As part of our review of erroneous or questionable FIs, we obtained DOH’s report called the “10 Percent Random Sample of Voided FI’s with Void Code Other than ‘R’ Monthly Reports” and DOH’s report called the “Redeemed/Voided, Lost or Stolen FI Monthly Reports” for the three sampled months of December 2008, April 2009, and May 2009. These reports included a total of 159 redeemed FIs with void codes other than ‘R’ totaling \$5,402 for the three months reviewed. Our review of these 159 FIs sampled by DOH revealed that for 28 of these FIs totaling \$1,016, or 18 percent, we could not determine the date of DOH’s follow-up to ensure that it occurred within the required 120-day timeframe. For 19 of these 28 FIs, we found dates on faxes of the review sheets and/or dates on other supporting documentation which occurred after the auditors requested the documentation, or well after the 120-day timeframe. For the other 9 FIs, we found no dates at all on DOH’s follow-up review sheets, and therefore, could not determine when DOH’s review occurred.

Additionally, we determined that there were six FIs from the three months reviewed in which an employee of one local agency/clinic voided an FI issued by a different local agency/clinic. This issue was previously noted in our prior year finding 08-25. DOH stated that a computer edit control which prevents the occurrence of this situation was put into place on May 9, 2008; however, due to a computer system change in September 2008, the edit was disabled in error. This edit was again put back into place on March 2, 2009; however, for six months of our current audit period, an employee of one local agency/clinic could inappropriately void FIs issued by another local agency/clinic. We consider this a significant deficiency during our audit period.

Furthermore, we tested a sample of 51 FI checks totaling \$1,735 to determine whether the amount entered on the FI check was less than the maximum amount allowable for the respective food items. We found that for one of the 51 sampled FI checks, the amount on the check exceeded the maximum amount allowable by \$1.95, thus representing a vendor overcharge. Through inquiry of DOH management, we determined that the respective vendor accumulated overcharges totaling \$70.00 for the quarter ending September 30, 2008. However, the vendor never paid the overcharge amount back to DOH because DOH never established a claim against the vendor by sending the vendor a letter notifying it of the overcharges. Therefore, these unreturned overcharges result in questioned costs of \$70.00, and estimated likely questioned costs over \$10,000.

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.*

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 25: (continued)

Regarding program costs, 7CFR 246.14(b)(2) states that:

For costs to be allowable, the State agency must ensure that food costs do not exceed the customary sales price charged by the vendor, home food delivery contractor, or supplier in a direct distribution food delivery system. In addition, food costs may not exceed the price limitations applicable to the vendor.

In addition, in regard to vendor price adjustments, the Pennsylvania Code Section 1105.2 states:

- (a) Determination of overpayment. In each calendar quarter, the Department will compare the maximum amount for which a WIC authorized store could have redeemed a WIC check, based upon the maximum allowable prices applicable to the store's peer group for foods authorized for purchase on the check, against the actual amount for which the WIC check was redeemed, to determine whether there was an overpayment.*
- (b) Pursuit of reimbursement. The Department will seek reimbursements from a WIC authorized store when the price comparison reveals overpayments to the store in excess of \$10 in a calendar quarter.*
- (c) Reimbursement of overpayments. A WIC authorized store shall reimburse the Department for overpayments within 20-calendar days of the date on the Department's notice of the overpayment, unless the WIC authorized store disputes the determination of overpayment.*

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 DOH's follow-up of erroneous and questionable FIs not occurring within the required 120-day timeframe, DOH was not documenting the date of review and follow-up on the review sheets and, in many cases, we found dates on faxes of the review sheets and supporting documentation to be after the date the auditors initially requested the documentation. These dates were significantly after the required 120-day timeframe for review and follow-up of questionable FIs.

In regard to the FIs voided by another local agency/clinic, DOH stated that there was an edit check in the system which was put into place on May 9, 2008; however, after a system change in September 2008, it was disabled in error. The computer edit was again put into place on March 2, 2009, and DOH claims it has been functioning since that time. The FIs in question were issued during the time period when the computer edit was not properly in place.

In regard to the vendor overcharges, DOH stated that it never sent a letter to the vendor notifying it of the overcharges and to establish a claim for the overcharges. DOH could not explain why a letter was never generated by its QuickWIC computer system. DOH is having its computer system contractor look into this situation.

Effect: Without adequate controls related to the WIC system and DOH review, investigation and follow-up on voided food instruments and vendor overcharges, DOH is not in compliance with WIC regulations and inappropriate redemption could occur without the DOH's knowledge which could lead to unallowable costs being charged to the federal WIC grants in the future.

Additionally, since DOH never established a claim for the vendor overcharges and the vendor never returned the amount overcharged, the vendor overcharges of \$70.00 result in unallowable costs. Based on our testwork of FI redemptions, estimated likely question costs are over \$10,000.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 25: (continued)

Recommendation: DOH should pursue appropriate settlement of the known and estimated likely questioned costs with FNS, and review its WIC system for additional questioned costs due to the discrepancies noted above. DOH should determine why the letter for overcharges was never sent to the vendor and ensure this problem is rectified. 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. Moreover, DOH should ensure this process is adequately documented, including the date of the review and follow-up.

Agency Response: In regards to the difficulty encountered by the auditors in determining the dates that actions were taken on the “10 Percent Random Sample of Voided FI’s with Void Code Other than ‘R’ Monthly Reports” DOH assures that appropriate actions were taken in a timely manner in all cases. In order to avoid difficulty in documenting dates of actions regarding this report, DOH staff reviewing this report will, effective immediately, begin initialing and dating any actions taken on the report.

In regards to the six month period in which an employee of one local agency/clinic could inappropriately void FIs issued by another local agency/clinic the problem with the programming error was detected by DOH staff and corrected within the audit period. The problem that caused the condition has been rectified.

In regards to the failure to bill a vendor for overpayments in the quarter ending September 30, 2008 the audit found that although this store had an overpayment of \$70.08, no Price Adjustment System (PAS) billing was generated or sent to the Vendor for the quarter. DOH staff is currently going through the PAS log for the quarter ending September 30, 2008 to determine if there were any other vendors who were not issued PAS/Overcharge letters for the quarter ending September 30, 2008. DOH’s Bureau of Information Technology (BIT) is currently reviewing the programming and circumstances regarding the issuance of WIC PAS reports and billing letters for this quarter to attempt to determine why this vendor was not billed.

In order to avoid this circumstance from occurring in the future, a request was made to DOH BIT that a dollar total is captured at the end of the *Quarterly Listing of Redemptions over Maximum Allowable Price* report. This dollar total will then be compared to the PAS/Overcharge log so that any discrepancies can be addressed. This will ensure that all stores will receive appropriate PAS/Overcharge letters.

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, 2009

Finding 09 – 26:

CFDA #10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance 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 #08-26)

Federal Grant Numbers: 0902PATANF and 0802PATANF

Condition: Within the TANF and Supplemental Nutrition Assistance Program (SNAP) Admin programs, DPW pays participants special allowances for clothing, books/supplies, emergency shelter, transportation, equipment, automobile related expenses, child care, etc. to assist the participant in their employment and training activities. Also, since DPW transitioned the payment of most child care allowances to 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 \$41.3 million in total federal and state-funded special allowances posted to the statewide SAP System by DPW for SFYE June 30, 2009, which consisted of the following amounts (in millions):

<u>Special Allowance</u>	<u>TANF</u>	<u>SNAP Admin</u>	<u>Total</u>
Federal	\$12.8	\$10.5	\$23.3
State	7.5	10.5	18.0
Total	<u>\$20.3</u>	<u>\$21.0</u>	<u>\$41.3</u>

It should be noted that the state-funded totals above represent special allowances paid to meet federal TANF Maintenance of Effort (MOE) requirements, and state matching requirements for SNAP. Special allowance payments recorded on SAP post via interface from DPW's agency-operated CIS system, where each individual special allowance payment is originally recorded.

Authorization and approval of special allowance payments is maintained on DPW standard Form PW-764, Authorization/Instruction Sheet, which is approved and signed by CAO personnel or approved on-line. Documentation such as sales receipts, verification of housing assistance, etc. should be maintained with the PW-764 to support the allowability of each special allowance payment. Each special allowance payment, consisting of both the federal and state MOE or match amounts, is posted to DPW's CIS System as one combined total.

As part of our SFYE June 30, 2009 Single Audit, we followed-up on our prior-year finding on TANF and SNAP Admin special allowance payments which was based on a separate 2009 audit report issued by other auditors (from the Department of the Auditor General – Bureau of Departmental Audits) who performed separate compliance and internal control testing which was similar to the federally-required testing in our Single Audit. That separate stand-alone audit and related report, which we reviewed and utilized in our prior year Single Audit, tested TANF and FS Admin (now SNAP Admin) special allowance payments for period July 1, 2006 to December 31, 2007, and included follow-up procedures performed during our current audit period and concluded as of February 12, 2009. We are re-reporting the following four significant findings, as applicable, related to TANF and SNAP Admin special allowance payments in our current year Single Audit since the other auditors concluded that no significant corrective action was implemented through February of 2009:

- 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**

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 26: (continued)

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:

- 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 DPW's 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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 26: (continued)

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

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

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

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.

Our current year testing confirmed that the uncorrected weaknesses described in the four findings above still existed during our current audit period ended June 30, 2009. As an example, we performed a walk-through of a special allowance item that consisted of a \$750 payment to purchase an automobile, with an additional allowance issued for the payment of \$121 in motor vehicle operator fees for a TANF recipient in March of 2009. (Note: We only performed a walk-through in our current-year Single Audit since, as indicated elsewhere in this finding, other internal and external auditors have tested special allowances in our current year, and DPW has shifted the responsibility for the largest portions of its special allowances – for child care and employment/training - down to the subrecipient level.) Our review of documentation supporting this walk-through disclosed that the \$750 automobile purchase allowance was issued even though the household already owned an operational automobile, which is in violation of the corrective action noted in the prior year whereby DPW issued a policy clarification stating a special allowance cannot be issued for a second vehicle in the household. Further, we noted that both the husband and wife in this five person family had employment from the beginning of February 2009 earning an annual income of over \$40,000 per year, and the insurance policy statement provided in support of the automobile purchase indicate that both the automobile owned by the family, and the automobile purchased with TANF funds, were for pleasure use not work use. Given all of these facts, the \$750 payment to purchase an automobile and the \$121 payment for motor vehicle operator fees are unallowable.

Also, we noted that the QC Division of DPW (an internal audit function) did not start reviewing special allowances for eligibility and accuracy until May of 2009; however, a special allowance is only reviewed if a new one was issued in the month, and not if a continuing allowance. As part of our testing of the QC function, we noted that only three special allowances were tested in May 2009, which we consider insufficient. Further, QC does not sample or test any special allowances issued by subrecipients to determine the eligibility, accuracy, and reasonableness of special allowances issued to clients, including verifying that duplicate special allowances are not issued by the CAO and the subrecipient.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 26: (continued)

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 totals of these payments in our current year were \$28.6 million in federal and \$256.9 million in state funds, or \$285.5 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, 2009, DPW's monitoring controls over these CCIS subrecipients are considered materially weak and the same internal control and compliance exceptions mentioned in some of the findings above likely 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 SNAP participants by employment and training (E&T) entities under contract with the 23 Local Workforce Investment Act (LWIA) subrecipients that DPW funds through another state agency, the Pennsylvania Department of Labor and Industry (L&I). The 23 LWIA subrecipients were paid \$157.7 million (\$106.8 Federal and \$50.9 non-Federal) and \$3.8 million (\$1.9 Federal and \$1.9 non-Federal) in total TANF and SNAP Admin funding, respectively, through L&I during SFYE June 30, 2009; however, the Commonwealth (DPW and L&I) did not break out and record on SAP or CIS how much of the \$157.7 and \$3.8 million totals was for special allowance payments to TANF and SNAP participants. Like the child care payments mentioned above, we noted in another Single Audit finding for SFYE June 30, 2009 that Commonwealth monitoring controls over these payments to LWIAs are materially weak and again, the same internal control and compliance exceptions mentioned above likely 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. . .

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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 26: (continued)

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: As noted in the prior year audit, management's emphasis is in getting the special allowances processed timely rather than clearly determining whether the payment should be made in the first place. 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.

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. Management indicated this problem will be resolved with the implementation of a new eCIS system during 2009-10.

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 26: (continued)

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

Failing to properly control and secure EBT cards and impose proper segregation of duties increases the risk that EBT cards could be stolen, and potentially fraudulent special allowance payments or other fraudulent card activity may exist. In fact, DPW has acknowledged that potentially fraudulent employee activity has been detected in Philadelphia related to circumventing and taking advantage of weak EBT and special allowance controls. 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 SNAP Admin from our current year under audit, including the \$871 in unallowable costs related to the two special allowances we identified above. In addition, DPW should establish a system of strengthened internal controls over their case file documentation to support allowability and establish effective record retention procedures to ensure that adequate documentation is obtained and maintained on file to support TANF and SNAP 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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 26: (continued)

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

Revised special allowance regulations are expected to be promulgated in January 2011 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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 26: (continued)

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. An Operations Memorandum was issued on May 13, 2010 to the County Assistance Offices (CAOs) by OIM's Bureau of Operations to provide guidance and direction regarding EBT Security to include system access, card inventory and card issuance. This directive sets forth standard operating procedures for the accountability, distribution and destruction of EBT cards. Detailed guidance is provided around maintaining inventory records, performing weekly physical inventories, securing cards in a locked location, and prohibiting the printing of cards without the client present in the office.

The Bureau of Program Evaluation will conduct announced or unannounced on-site reviews to comply with the EBT security procedures. The Division of Quality Control (QC) will conduct pre-arranged on-site EBT reviews in conjunction with the monthly Quality Control random sample SNAP eligibility client interviews completed by QC in the CAO offices. The Division of Corrective Action will make random unannounced visits as part of other on-site reviews. The review will be conducted by office observation and staff interview.

If any deficiencies are noted in the EBT review, the CAO will receive an EBT Review Findings Memo. Findings will be discussed and finalized at the Error Review Committee Meetings and CAOs will be requested to provide a corrective action response to the Area Manager with a copy of the plan to the Division of Corrective Action (DCA) for all final findings. DCA and DQC staff will be responsible for the monitoring of the CAO implementation of the corrective action plan. Bureau of Program Evaluation will assign and track the reviews to ensure all CAOs are visited for an EBT review once every year.

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

Procedures were implemented in August 2009 to ensure program integrity, such as:

- A full review of the current special allowance policy was conducted in every CAO with all IMCW staff.
- Emphasis of the client's responsibility to demonstrate the requirement for the SPAL was re-emphasized throughout the organization.
- In order to document the requirement of the special allowance, a Self-Reliance Check List has been developed for completion by the IMCW with the client.

To further strengthen the verification process, the following requirements have been established:

- Individuals requesting special allowances for supportive services must verify that the item or service is required by the employer or training provider in order for the individual to participate.
- A receipt verifying that the special allowance was used for its intended purpose must be provided by the individual within 14 days of receiving the benefit.

OIM's Bureau of Program Evaluation, Division of Corrective Action (DCA) is conducting SPAL reviews. If any deficiency is noted in the review, the CAO receives a SPAL Review Finding Memo. Findings are discussed and finalized at the Error Review Committee meetings held weekly. CAOs are required to provide a Corrective Action response to DCA.

The CAO is the primary source for special allowances, while contractor supportive services are used to supplement rather than duplicate CAO special allowances. This policy limits the opportunity for duplicate issuances and fraud. Also, the Master Guidelines direct contractors to meet regularly with CAO staff to discuss special allowances and other client program needs.

In order to reduce duplicative issuances, recent special allowance policy refinements direct CAOs to verify the type of contractor supportive services that have been issued to clients prior to approving special allowances.

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 26: (continued)

The Bureau of Program Evaluation (BPE) is responsible for monitoring payment accuracy for benefit programs which provide Commonwealth residents with approximately \$15.7 billion in benefits. This includes approximately \$156 million in special allowances.

Staff in 3 BPE areas are responsible to complete Special Allowance Reviews as part of their regularly assigned work. The following 11 factors are part of each SPAL review completed by BPE staff:

- Determine if accurate data entry and coding of SPAL authorizations were entered into CIS.
- Determine if appropriate and adequate documentation of expenses were obtained prior to SPAL authorizations.
- Determine if the need and requirement for SPALs are being adequately verified.
- Determine if all required supervisory or management approvals were obtained for SPAL authorizations.
- Determine if the amount of the SPAL issuances were reasonable, accurate, and within allowable limits and timeframes.
- Determine if all required authorization forms were completed and notifications issued regarding SPAL authorizations.
- Determine if there is adequate recording of SPAL authorizations in the case record narratives.
- Determine if work participation activity is occurring during the period of the SPAL authorizations.
- Determine if the SPAL authorizations were spent for their intended purpose and if the actual expenditures equaled the amounts of the SPAL authorizations.
- Determine if the SPALS were returned or overpayments filed when it is discovered that the SPALS were not used for their intended purpose and when expenditures were not verified.
- Determine if duplicate SPALs (i.e. SPALs for supportive services) were being issued by E&T contractors for the same purpose as the CAO SPAL authorizations.

The Division of Quality Control (DQC) began a SPAL review in May 2009. The review encompasses special allowances paid to recipients of TANF and SNAP benefits and the reviews are conducted in accordance with State and Federal policies, procedures and deadlines. QC reviews all SPALs contained in cases selected in the TANF and SNAP eligibility random samples. A questionable SPAL payment is considered a payment error and a findings memo is issued to the County Assistance Office (CAO) and the appropriate Area Manager.

Since July 2009 the Division of Corrective Action (DCA) began a monthly targeted review of SPAL payments in individual counties/districts. Each month, at least 50 SNAP and 50 TANF cases with a SPAL payment are selected for review; 413 TANF and 507 SNAP cases have been sampled with over 1,000 payments reviewed. SPAL Findings are reported to the CAO and appropriate Area Manager.

Additionally, the Management Evaluation (ME) in DCA review team has added a SPAL review to the mandated SNAP reviews. To date, the unit has evaluated over 300 SNAP cases. SPAL Findings are included as part of the CAO ME Findings with copies to the appropriate Area Manager.

The findings discovered during the QC and DCA reviews are discussed at the Special Allowance Review Committee (SPARC). SPARC meetings are led by BPE and is held at least 3 times each month. The purpose of SPARC is to increase communication with all internal stakeholders. The group discusses SPAL error findings with Headquarters Operations Staff including Staff Development, CAO Executive Directors and management staff via conference phone, Bureau of Policy, Bureau of Program Support's Division of Automated Planning and Support, and Bureau of Employment and Training. If, after discussion, a SPAL error remains in a case, the CAO is required to develop and submit an Error Prevention Plan (EPP) to DCA. DCA monitors compliance with the EPP at 30 days to determine if any required overpayments have been processed as well as at 6 and 12 months to determine if changes are needed to the EPP to improve SPAL accuracy. Appropriate SPARC members address training, policy and procedure, and systems issues.

A compilation of all SPARC findings will be put into an easily readable format and included with reports currently posted for ease of analysis by CAOs and Headquarters Bureaus and units.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 26: (continued)

In December 2009, the Deputy Secretary of the Office of Income Maintenance asked the Bureau of Financial Operations (BFO) to initiate a SPAL eligibility review. BFO instituted a SPAL eligibility pilot review in Lancaster County on 1/25/10. The review tested 172 SPALs (117 TANF and 55 SNAP). A draft report of the findings has been provided to the Lancaster CAO, Area Manager and the Bureau of Operations Director. When the response is received from the CAO, an exit conference will be conducted and a final report issued.

Subsequently, a statistically valid random sample of approximately 135 SPALs was selected from each of the 6 Office of Income Maintenance Operational Areas. A SPAL eligibility review will be completed by Area. Final reports will be issued to the Deputy Secretary of Income Maintenance, Director of Operations, and Area Manager for each regional review. An overpayment must be issued for all uncontested variances and BFO will require OIM to look back to insure the overpayment has been completed.

A listing of all contractors was obtained from the Bureau of Employment and Training. From the list, BFO developed a contractor review targeting contractors issuing high risk SPALs, that is, vehicles and other. BFO selected 5 contractors in each of the 4 BFO statewide regions and sampled 20 SPALs per contractor. A final report will be issued and any contractor issues will be addressed by the Bureau of Employment and Training.

OIM believes that the multi-faceted review strategy and Error Prevention Action activities outlined above will result in improved SPAL accuracy.

Auditors' Conclusion: Based on the agency response, the corrective actions responsive to our current year finding are to be implemented after our current audit period ended June 30, 2009. Therefore, our finding and recommendation remain as previously stated. We will review these corrective actions 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, 2009

Finding 09 – 27:

CFDA# 12.400 – Military Construction, National Guard

Noncompliance and Deficiencies in Internal Control Over Charging of Project Costs Results in Questioned Costs of \$14,004

Federal Grant Numbers: W912KC-06-2-2009, W912KC-05-2-2001, DAHA 36-01-2-2003, W912KC-06-2-2010, W912KC-06-2-2015, W912KC-06-2-2021, W912KC-06-2-2001, W912KC-06-2-2007, W912KC-07-2-2001, W912KC-06-2-2006, W912KC-06-2-2005, W912KC-06-2-2003, W912KC-06-2-2012, W912KC-06-2-2008, W912KC-06-2-2016, W912KC-06-2-2019, W912KC-04-2-2006, W912KC-04-2-2004, W912KC-06-2-2004, W912KC-06-2-2002

Condition: DMVA has federal awards (MCCAs) under the MCNG program to construct Readiness Centers and Field Maintenance Shops for the state’s Army National Guard. The project costs (primarily design and construction costs) for these facilities are initially paid by DGS with state funds and recorded by DGS in SAP. DMVA subsequently prepares “Supporting Worksheets” to request the transfer of the project costs in SAP for these facilities from DGS to DMVA. DGS then uses these DMVA “Supporting Worksheets” to prepare a General Invoice for Cost Allocation (Pre-Note) which is forwarded to the Cost Allocation Unit within OB’s Comptroller Operations. The Comptroller Operations Unit records the interagency transfer of these project costs in SAP and prepares a Request for Federal Reimbursement (Form SF 270) for the applicable federal share of each project.

In order to test the allowability of the project costs charged to the MCNG program for the year ended June 30, 2009, we haphazardly selected a sample of 50 construction payments from the DMVA Supporting Worksheets that were billed on the SF 270 reports during the year under audit and reported on the SEFA. Our testing disclosed the following unallowable payments:

- Two of the 50 payments included in our sample were not supported by construction invoices from vendors since they were not construction costs, but actually represented credit change orders to the vendor contracts which reduced the amounts of the contracts. These change order amounts were incorrectly treated as expenditures by DMVA, so they appeared on the DMVA Supporting Worksheets as such and a total of \$14,004 for these two change orders (DMVA calculated federal share) was inappropriately included as federal expenditures on the SF 270 reports and the SEFA for the year under audit. As a result, a total of \$14,004 charged as construction payments is unallowable and is questioned.
- In addition to the unallowable payments cited above, we also noted the following deficiencies with respect to DMVA’s and Comptroller Operations procedures for accumulating, recording and reporting of project costs for the MCNG program:
 - The project invoices on the DMVA Supporting Worksheets are downloaded from SAP into an excel spreadsheet. However, DMVA had no procedures in place during the year under to audit to ensure the accuracy of the invoice information on these Supporting Worksheets and to ensure that all invoices that were paid by DGS were properly included on these Worksheets and submitted for federal reimbursement.
 - The federal share and state share (where applicable) for each category of costs for a project is included in a “Project Construction Budget” in each MCCA. DMVA uses these dollar amounts from the MCCAs to develop percentages to use in allocating each project invoice among the state and federal share on the Supporting Worksheets. However, there is a control deficiency since DMVA did not have any procedures in place during the year under audit to review the calculations on the Supporting Worksheets to ensure they were consistent with the information in the MCCAs. Our testing revealed that for 13 of the 33 construction invoices in our sample that were not 100 percent federally funded, the percentages developed by DMVA and used on these Supporting Worksheets were not consistent or in agreement with the information in the applicable MCCA. (Note: Some federal charges were higher and others were lower than the MCCA percent.) Since the total amount charged to the applicable federal grant for each of the projects tested did not exceed the federal share in the MCCA, no federal costs are questioned for these 13 invoices.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 27: (continued)

- For 40 of the 48 vendor invoices included in our sample (50 less the 2 questioned items above), we noted that there were significant time lags between the date the invoices were posted in SAP by DGS and the date the DMVA Supporting Worksheets were submitted to DGS for preparation of the Pre-Note and related federal reimbursement. These time lags ranged from two months to 11 months. As a result, DMVA did not have adequate procedures in place to ensure that these project invoices were submitted for federal reimbursement on a routine monthly basis as specified in the MCCAs.
- The SF 270 Report is prepared by an individual in OB's Comptroller Operations. However, we noted that 11 of the 14 reports in our sample did not include evidence of review and approval prior to submission to the federal government.

The total construction expenditures in our sample of 50 were \$35,365,681. During the year ended June 30, 2009, a total of \$42,495,605 in construction expenditures was reported on the SEFA for the MCNG program. The total program expenditures on the SEFA for the MCNG program for the year under audit were \$45,415,348.

Criteria: OMB 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, Article V contained in each of the MCCAs states:

Section 501. Payments by the Reimbursement Method.

- a. *Each month (at a minimum, if costs have been incurred) the State shall provide to the USPFO (i.e., federal officials) a certified statement itemizing costs incurred during the preceding month and the corresponding accounting classification to be charged....*

In addition, good internal controls over the allowability of project costs would include adequate procedures to ensure that project invoices paid with state funds are being accumulated in a timely and accurate manner and submitted for federal reimbursement in accordance with program procedures. Further, adequate internal controls over report preparation would include a segregation of duties between the preparation and the review and approval of the report.

Cause: The DMVA Supporting Worksheets were prepared by one individual in DMVA who was furloughed from DVMA subsequent to year end. DMVA could not provide any support or evidence that the information on these Worksheets was subject to any review or approval during our audit period. Further, DMVA could not explain why the two credit change orders were incorrectly included on the Supporting Worksheets and the request for federal reimbursement. Additionally, DMVA could not explain why there were significant time lags in submitting these Supporting Worksheets to DGS to transfer the project costs to DMVA and to request reimbursement for the federal share of the project costs.

The lack of adequate review and approval of the SF 270 Reports submitted during our audit period was the result of the reorganization of the Comptroller Operations and staffing retirements prior to the reorganization.

Effect: Construction expenditures totaling \$14,004 are questioned and therefore unallowable. Additionally, DMVA did not have adequate procedures in place during the year under audit to ensure that MCNG project costs that were paid from state funds were being properly accumulated on the Supporting Worksheets, including the allocation of the federal and state share, and were being submitted for federal reimbursement in a timely manner as specified in the MCCAs. Further, the Comptroller Operations did not have adequate procedures in place during the year under audit to ensure the accuracy of the amounts reported on the SF 270 Reports.

Recommendation: We recommend that DMVA implement procedures to ensure that project invoices paid from state funds are accumulated on a monthly basis and submitted for federal reimbursement as specified in the MCCAs. Further,

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 27: (continued)

we recommend that DMVA ensure that the Supporting Worksheets are reviewed for accuracy and completeness and that this review is adequately documented. Additionally, we recommend that Comptroller Operations ensure that each SF 270 Report is reviewed and approved prior to submission to the federal government.

DMVA Response: Agency is in agreement. A corrective action plan will be developed and implemented by December 31, 2010.

OCO Response: As part of the PA Finance Transformation Comptroller Operations consolidation in April 2009, a new manager was assigned to review the SF-270s. Since the consolidation, the reports have been reviewed, initialed and dated by the manager prior to submission. This review process will continue going forward.

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, 2009

Finding 09 – 28:

CFDA# 12.401 – National Guard Military Operations and Maintenance Projects (including ARRA)

Noncompliance and Deficiencies in Internal Control Over Charging of Personnel Costs (A Similar Condition Was Noted in Prior Year Finding #08-27)

Federal Grant Numbers: DAHA360421001, DAHA360421002, DAHA360421003, DAHA360421004, DAHA360421005, DAHA360421007, DAHA360421021, DAHA360421023, DAHA360421024, DAHA360421041, DAHA30525001, W912DY-08-2-0006, W912KC0523054, W912KC0621001, W912KC0721004 and W912KC0929025

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, 2009, we selected a sample of 14 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, 2009, DMVA incurred personnel costs of \$16,867,671 consisting of \$10,815,105 in salaries and wages and \$6,052,566 in fringe benefits. While our current year testing showed that the personnel costs were necessary and reasonable, for the fourth year in a row we noted the following control deficiencies with respect to DMVA's charging of personnel costs:

- We noted that for one of the two employees in our sample whose personnel costs were charged 100 percent to the NGMO program, DMVA did not obtain the semi-annual certification as required by OMB Circular A-87 (This employee resigned prior to April 1, 2009). For the other employee, DMVA obtained a semi-annual certification that covered the period April 1, 2009 through September 30, 2009 or only three months during our audit period. 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.
- For state employees hired specifically for a federally funded position under the NGMO program, the federal government determines the maximum number and types of employees required under each grant. Each employee position is authorized by a federal program manager through the completion of a "Request Approval to Create and Announce a Federally Funded State Employee Position" DMVA-AS-MCA Form 1. For 1 of the 14 employees in our sample that were hired for these federally funded positions, DMVA was unable to locate the required form or provide written confirmation from the federal program manager that the employee's position was authorized. Through a review of the job description, we were able to determine that the type of work being performed by the employee appeared to be authorized under the applicable appendix.
- In addition to the deficiencies noted above, for the fourth 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:

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 28: (continued)

- 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 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 six 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 to five 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. Additionally, we noted that DMVA did not have adequate procedures in place to ensure that all WO adjustments for the year under audit were posted to SAP as of year-end. Specifically, we noted that the WO adjustments for the months of March 2009 through June 2009 were posted to SAP after year end. However, we determined the net effect on the current year SEFA as a result of the current year time lag in posting (four months) and the prior year time lag (one month) was an understatement in reported expenditures of \$80,598 which is not material to the NGMO program.
- Several deficiencies in the information technology controls were also noted in connection with this WO system. Through our walkthrough of DMVA's information technology processes, application change management and user administration, we noted 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 \$554,693 during the year ended June 30, 2009.

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

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 28: (continued)

In addition, good internal controls over personnel costs would include adequate procedures to ensure adequate documentation is maintained in each personnel file to support the authorization of the employee's federally funded position, that adjustments are posted in a timely manner to SAP and that sound general computer controls are established and functioning as designed.

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 did work with the Department of Defense to resolve this deficiency during the year under audit. However, the initial certifications were obtained by DMVA starting with the six-month period ending September 30, 2009 and therefore the required certifications were not effective for nine months during our audit period.

Regarding the forms authorizing the federally funded positions created for state employees, DMVA indicated that these forms were not consistently placed in an employee's personnel file upon hiring until September 2007 when formal procedures were implemented by DMVA in response to a prior year finding. Also, since these forms are authorizations to create or fill a certain position, the forms are difficult to locate for a particular individual once the individual has been hired.

With respect to the WO system, DMVA 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 the timeliness of posting adjustments to SAP. However, these procedures were not consistently followed during the entire year under audit. 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 missing semi-annual certifications for 100 percent charged employees and the lack of the forms authorizing the federally funded state employee positions, represent significant deficiencies in the required documentation to demonstrate the allowability of costs under OMB A-87. Further, without strengthened internal controls over this supporting documentation and over the reallocation of employee costs, 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 and unauthorized program changes with respect to these reallocations.

Recommendation: Regarding the semi-annual certification for all employees being charged 100 percent to the NGMO Program, we recommend that DMVA continue to follow the procedures established during our audit period in response to the resolution of this matter with the Department of Defense. We also recommend that DMVA consider developing a list on an annual basis of employees whose personnel costs are being charged to the NGMO program by appendix and circulate this list to the applicable federal program manager for formal written approval of each employee's federally funded position.

With respect to the work order system deficiencies, we understand that the work order system was taken offline and integrated into SAP (Plant Maintenance Module) effective July 2009. Accordingly, we recommend that DMVA ensure that adequate internal controls are in place over personnel costs that are redistributed through the Plant Maintenance Module in SAP

Agency Response: The agency is in agreement with the audit recommendations.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 28: (continued)

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

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 29:

CFDA #14.228 – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii

CFDA #14.255 – ARRA – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii

DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (A Similar Condition Was Noted in Prior Year Finding #08-29)

Federal Grant Numbers: B-02-DC-42-0001, B-03-DC-42-0001, B-04-DC-42-0001, B-05-DC-42-0001, B-06-DC-42-0001, B-07-DC-42-0001, B-08-DC-42-0001, B-09-DC-42-0001 & B-09-DY-42-0001

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 Monitoring Schedule, we noted that a total of 101 CDBG subrecipients were scheduled for on-site visits. However, our testing and inquiry revealed that on-site visits were completed for only ten CDBG subrecipients. Accordingly, as of our testing date, DCED only completed ten percent of the on-site visits scheduled for the CDBG Program. Additionally, we noted that for one of the five CDBG subrecipients selected from the Monitoring Schedule to test DCED’s on-site monitoring procedures, the monitor did not complete the entire checklist. Further, there was an inconsistency between the information contained in the monitoring report sent to the subrecipient and the information in the attached cover letter regarding the grant year that was tested by the monitor. Also, for three of the five subrecipients tested, we noted significant time lags (one to two years) between the date the monitoring visit was completed and the date that the monitoring results were formally communicated to the subrecipients. Therefore, as noted in our six 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, 2009, DCED reported subrecipient expenditures for the CDBG Program of \$48,522,481, which represented approximately 98 percent of the total program expenditures. There were a total of 311 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, 2008, and would not have been required to submit an A-133 Single Audit to the Commonwealth during SFYE June 30, 2009. 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 87 and 61 CDBG subrecipient projects during SFYE June 30, 2009 and 2008, respectively, compared to 138 projects closed out during prior SFYE June 30, 2007.

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, 2009

Finding 09 – 29: (continued)

Cause: DCED indicated that the DCED staff workload increased significantly in 2009 as a result of grant awards that DCED received under new federal stimulus programs, including ARRA. These federal awards greatly expanded the number of subrecipient applications that the DCED staff needed to review and required additional training of applicants by DCED in order for these applicants to understand the new programs' requirements. As a result, there was little to no time left for DCED staff to conduct monitoring of the regular program activities during 2009 including the closeout of projects.

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. Also, subsequent to our audit period, DCED subgranted awards under the new federal stimulus programs, including ARRA. 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, including the new ARRA 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 ensure the results of all monitoring visits are communicated to the subrecipients in a timely manner to ensure appropriate corrective action is implemented by the subrecipients. Further, we recommend that DCED ensure their monitoring checklists are updated for any new program requirements under the federal stimulus programs, including the SEFA reporting requirements under ARRA.

Agency Response: DCED acknowledges that staff did not perform an adequate number of on-site visits during the past year. In calendar year 2009, DCED received funding under the Housing and Economic Recovery Act (HERA) as well as the American Recovery and Reinvestment Act (ARRA). These new programs totaled a little more than \$95 million and more than 280 additional applications that would be reviewed by staff. At the time, DCED was utilizing its existing complement of staff to undertake the reviews. Each of the three new programs, Neighborhood Stabilization, Community Development Block Grant – R and Homelessness Prevention and Rapid Re-housing, has very specific timeframes for contracting as well as obligating the funds. Staff needed time to review the new requirements, attend HUD sponsored training, and prepare training for potential grantees.

Once these new program applications were reviewed, staff prepared training for grantees. During this time, the annual programs continued and staff reviewed Emergency Shelter Grant Program (ESG) applications as well as the Community Development Block Grant (CDBG) applications. The influx of new programs and requirements and the receipt of the annual program applications left little time for staff to conduct on-site visits.

Corrective Action Plan: In November 2009, the Center for Community Financing was able to hire an additional Grant Manager and several additional staff to help with compliance. Two new Associate Grant Manager positions were also authorized and these new staff members have and will be attending training on the programs. A second Grant Manager position was announced and interviews will be set up within the next month. DCED believes that with the addition of new staff on-site monitoring visits will be conducted this year and that a significant number of monitoring visits and letters will be completed. Staff is aware that letters should be sent within 60 days of the on-site visit and will strive to meet this deadline with each visit. With the additional staff, over 100 closeouts have been completed between January 2010 and April 2010.

The Division Chief will also review the monitoring checklist and if necessary, amend them to be compliant with the new HERA and ARRA requirements. Staff will be conducting on-site visits of grantees that will include the stimulus programs when applicable.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 29: (continued)

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

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 –30:

CFDA #14.228 – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii

CFDA #14.255 – ARRA – Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii

Noncompliance and Internal Control Deficiencies in DCED’s Section 3 Summary Report

Federal Grant Numbers: B-02-DC-42-0001, B-03-DC-42-0001, B-04-DC-42-0001, B-05-DC-42-0001, B-06-DC-42-0001, B-07-DC-42-0001, B-08-DC-42-0001, B-09-DC-42-0001 & B-09-DY-42-0001

Condition: DCED is required to submit a performance report titled “HUD 60002, Section 3 Summary Report, Economic Opportunities for Low and Very Low-Income Persons” (Section 3 Summary Report) to HUD for all open CDBG grants. This report must be submitted with DCED’s Annual Performance/Evaluation Report for the period January 1 through December 31. DCED prepares this report based primarily on information provided by the CDBG subrecipients who submit Section 3 Summary Reports to DCED. Subrecipients are required to submit the Section 3 Report to DCED if they have a grant award in excess of \$200,000 for Section 3 covered activities (housing rehabilitation, housing construction, and other public construction projects).

During the current year under audit, DCED submitted a Section 3 Summary Report for the 2008 Grant that covered the year ended December 31, 2008. HUD subsequently confirmed that DCED should be submitting a report for each open grant year but that DCED was not required to submit any additional reports for these other open grants during calendar year 2008 since this was the initial year of submission of this report and the reporting instructions from HUD were not clear. Accordingly, we tested this Section 3 Summary Report submitted during our audit period. Our testing of this report revealed the following discrepancies in the financial and statistical data reported by DCED:

- The “Amount of All Contracts Awarded” on Line 3 was reported as \$11,689,794. However, our review of the detail provided by the subrecipients and summarized by DCED indicated that the amount reported should have been \$11,989,794, resulting in a variance of \$300,000.
- The total reported by DCED in Part I, Employment and Training, Column C “Number of New Hires that are Section 3 Residents” was 14. Our review of the detail provided by the subrecipients indicated that the total reported should have been 58, resulting in a variance of 44. Additionally, DCED did not have any detail to support the amount reported of 14.
- The amount reported in Part II, Contracts Awarded, Line 1A “Total Dollar Amount of All Construction Contracts Awarded on the Project” was \$11,124,464. Based on our review of the detail provided by the subrecipients and summarized by DCED, the amount reported should have been \$11,989,794, resulting in a variance of \$865,330.
- DCED reported zero in Part II, Contracts Awarded, Line 1D “Total Number of Section 3 Businesses Receiving Construction Contracts”. Our review of the detail provided by the subrecipients indicated that the amount reported should have been 4, resulting in a variance of 4.
- The amount reported in Part II, Contracts Awarded, Line 2A “Total Dollar Amount of All Non-Construction Contracts Awarded on the Project” was \$565,330 but our review of the detail provided by the subrecipients and summarized by DCED indicated the amount to be reported should have been \$719,988, a variance of \$154,658.
- DCED reported zero in Part II, Contracts Awarded, Line 2D “Total Number of Section 3 Businesses Receiving Non-Construction Contracts”. However, our review of the detail provided by the subrecipients indicated that the total reported should have been 5, resulting in a variance of 5.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 30: (continued)

In addition to the above discrepancies, we also noted that DCED does not have adequate procedures in place to ensure that subrecipients meeting the Section 3 reporting threshold are submitting the required Section 3 reports to DCED. Further, we also noted that DCED does not have any formal supervisory review and approval procedures in place to ensure the report is accurate and complete and includes all supporting documentation.

Criteria: The requirements for the Section 3 Summary Report are included in 24 CFR 135.3 and 135.90 and state in part:

135.3 Applicability

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

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

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

(3) *Thresholds-*

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

135.90 Reporting

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

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 ensure all supporting documentation is included, detect errors in the report preparation and ensure that any errors detected are corrected in a timely manner.

Cause: DCED had no previous experience in preparing the Section 3 Summary Report since the report submitted during our audit period was the initial submission to HUD by DCED. The majority of the errors in reported amounts as cited in the condition were due to clerical errors that were not detected by DCED due to the absence of formal review and approval procedures during our audit period.

Effect: Based on the number of errors cited in the condition on the Section 3 Summary Report submitted to HUD during our audit period, DCED did not comply with federal reporting requirements. Further, DCED's procedures provide limited assurance that the information submitted to HUD on the Section 3 Summary Report is complete and accurate.

Recommendation: We recommend that DCED contact HUD regarding the discrepancies noted in the condition to determine if a revised Section 3 Summary Report should be submitted to HUD. We also recommend that DCED establish formal procedures for the supervisory review and approval of the Section 3 Summary Report to ensure amounts reported are complete and accurate and to ensure that detail for each reported data field is prepared and retained by

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 30: (continued)

DCED. We further recommend that DCED improve their procedures for identifying and tracking subrecipients subject to the Section 3 reporting requirements including the modification of existing on-site monitoring tools to specifically address the Section 3 reporting requirements, including the accuracy of the data submitted by the subrecipients.

Agency Response: The conditions are not fully described in the auditors' report. Most importantly, the discrepancies resulted from clarifications received from HUD during the audit testing period that affected the financial and statistical data in the report. DCED misinterpreted instructions for the electronic annual Section 3 reporting tool – which varied tremendously from the instructions in the paper report utilized in previous years.

Correspondence and dialogue between Lauren Atwell, DCED staff, and Rafiq Munir, HUD's FHEO Specialist, between January and mid February 2010 acknowledged the confusion in these instructions and resulted in HUD's acceptance of DCED's submission of a corrected 2008 report on March 1, 2010. The auditor was aware of HUD's acknowledgement and informed of the report resubmission. HUD has reviewed and accepted the Commonwealth's 2008 Section 3 Activity Report.

While disagreeing that this issue should rise to the level of a material weakness or finding, DCED staff developed a corrective action plan to assure that reporting requirements are properly and correctly completed for the Section 3.

Corrective Action Plan: DCED will implement the following as part of its review process of Section 3 compliance review process:

1. DCED Compliance Officer will pull reports each year of all open contracts in the Electronic Single Application system for the following programs to determine which grants may meet the Section 3 threshold for reporting: CDBG, HOME, ESG, NSP and CDBG-R
2. Upon review of the project budgets of targeted subrecipients (to determine if planned activities are applicable to Section 3), the DCED Compliance Officer will send out an email to these subrecipients along with:
 - Suggestions on Section 3 Outreach efforts,
 - Suggested language for Bid Packages
 - Quarterly reporting templates for subcontractors to demonstrate Section 3 compliance efforts in contracting
 - Federal Labor Standards Enforcement Reporting form and instructions
 - Contracting and Subcontracting Activity Reporting form and instructions
 - Section 3 reporting form and instructions
 - Reporting Schedule
3. DCED Compliance Officer will review the Section 3 reports submitted by subrecipients and notify those whose reports are incomplete or inaccurate to offer technical assistance.
4. The DCED Technical Support and Program Development Division Chief –and Christine Howe will review the semi-annual Federal Labor Standards Reports and annual Contracting and Subcontracting Reports submitted by subrecipients to monitor contracting activities of subrecipients and determine which subcontracts meet the Section 3 threshold and are related to housing construction, housing rehabilitation or public construction
5. DCED Compliance Officer will prepare a Section 3 Activity Summary Report for review and approval by the Division Chief.
6. Division Chief and the DCED Director of the Center for Community Financing will certify to the information in all reports to be included in the Consolidated Annual Performance and Evaluation Report (CAPER) and execute a CAPER/PER certification prior to submission to HUD each year.

Auditors' Conclusion: The discrepancies cited in the condition are not the result of any misinterpretations made by DCED with respect to the written instructions or on-site training provided by HUD for the preparation and submission of

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 30: (continued)

the Section 3 Report. We understand and agree that HUD did accept the assumptions made by DCED in preparing this report and did not require the initial report to be resubmitted to correct any discrepancies resulting from DCED's misinterpretations of HUD guidance. The specific discrepancies that we included in the condition are the result of differences we identified between the DCED reported amounts and the supporting documentation provided by DCED, including the information provided by the CDBG subrecipients. Further, these errors in reported amounts were not detected by DCED since DCED had no formal procedures in place for the supervisory review and approval of the Section 3 Summary Report. Any other discrepancies noted during our testing of this report that were a direct result of DCED's misinterpretations of HUD guidance were not cited in the condition based on correspondence received directly from HUD.

With respect to the resubmitted report on March 1, 2010, we were aware of the resubmission even though not required by HUD. However, the discrepancies cited in the condition were identified as a result of our testing of the initial report submitted by DCED as described above and were communicated to DCED. Since these errors were not identified by DCED, we did not perform any testing of the resubmitted report to determine if these errors were corrected.

Based on the agency response, with the above clarifications, 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, 2009

Finding 09 – 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

Internal Control Deficiency Over Expenditure Information Reported on the Financial Status Reports by Comptroller Operations (A Similar Condition Was Noted in Prior Year Finding #08-30)

Federal Grant Number: -2003-MU-T3-0037, 2004-GE-T4-0001, 2005-GE-T5-0017, 2006-GE-T6-0050, 2007-GE-T7-0044 and 2008-GE-T8-0050

Condition: In connection with our prior year audit, we noted that PEMA improperly reported a \$2 million contribution that was received from a local government in June 2008 as a reduction in federal expenditures on the 6/30/08 SEFA. This contribution was to be applied towards the costs of a standby generator project for one of the local task forces (subrecipients). Additionally, we noted that PEMA improperly reported the related project expenditures incurred in the prior year of \$425,842 as federal expenditures on the 6/30/08 SEFA and on the prior year Financial Status Reports (FSRs). As a result, an adjustment was required in the prior year to correct the 2008 SEFA. During the current year under audit and in response to our prior year finding, an adjustment was made by Comptroller Operations to properly exclude the current year expenditures for this generator project of \$976,229 from the 6/30/09 SEFA.

As part of our current year audit, we performed a reconciliation of the HS Cluster federal expenditures reported on the SEFA to the federal expenditures reported on the FSRs and noted a difference of \$1,023,771 for one of the HS Cluster grants (2007 grant). The difference related to the \$2 million contribution discussed above which was improperly reported by the Comptroller Operations as a reduction of federal expenditures for the 2007 HS Cluster grant on the FSR for the quarter ended 9/30/08. Additionally, the expenditures incurred for this generator project during the year under audit of \$976,229 were reported as federal expenditures on the FSRs, which was also improper since these expenditures were reimbursed with non-federal funds and, as discussed above, were properly eliminated from the SEFA. As a result of these two errors, the federal expenditures on the current year FSRs for the 2007 grant were understated by \$1,023,771.

Criteria: 44 CFR Section 13.20, Standards for Financial Management, 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.

Further, an adequate internal control system would ensure that the review and approval process detects errors in the report preparation and that such errors are corrected.

Cause: Regarding the \$2 million local government contribution, the Comptroller Operations anticipated that PEMA would request an adjustment at the end of 6/30/08 to remove the \$2 million from the federal ledger in the SAP accounting system. As a result, the Comptroller Operations did not report the \$2 million as a reduction of federal expenditures on the June 30, 2008 FSR. However, no adjustment was ever made to SAP so the Comptroller Operations reported the contribution as a reduction of federal expenditures on the 9/30/08 FSR. With respect to the expenditures incurred for the generator project during the year under audit that were improperly included on the FSRs, these expenditures were posted as federal expenditures in SAP which is the source for the FSRs.

Effect: The federal expenditures reported by PEMA on the FSRs for the 2007 HS Cluster grant for the year under audit were understated by a net amount of \$1,023,771. Further, the Comptroller Operations did not have adequate procedures in place to ensure the expenditures for this generator project being funded by a non-federal contribution were reported properly in SAP and on the FSRs.

Recommendation: We recommend that the Comptroller Operations report all project expenditures being funded by the \$2 million contribution as non-federal expenditures in SAP to ensure that only expenditures in excess of the contribution amount are reported as federal expenditures on the FSRs. We further recommend that an adjustment be recorded in SAP

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 31: (continued)

to properly account for the \$2 million contribution received from the local government in June 2008. Additionally, the Comptroller Operations should work with PEMA to ensure that existing procedures are adequate to properly account for similar contributions in the future.

Agency Response: The FSR for the 2007 HS Cluster grant reports federal expenditures on a cumulative basis. The cumulative expenditures that were reported on the FSR through June 30, 2009 were net of the \$2M local government contribution. At June 30, 2009, the cumulative net effect understated the FSR reported federal expenditures by \$596K and by February 28, 2010 the cumulative net effect of the \$2M local contribution on the 2007 HS Cluster federal grant expenditures was \$0. Since the cumulative net effect on federal expenditures reached \$0 during February 2010, the federal expenditures reported on the FSR for the period ending March 31, 2010 reported expenditures in excess of the \$2M contribution. Additionally, the auditors have indicated that Comptroller Operations properly posted adjustments to correct the SEFA for FYs ending June 30, 2008 and June 30, 2009.

Comptroller Operations does not think an adjustment to the accounting records are appropriate, as of March 31, 2010 the expenditures reported on the FSR are accurate. Any adjustment posted in the accounting system would have to be posted to the current period, which would have a net-zero affect to the FSR. In the future Comptroller Operations will properly account for similar contributions by coding them to non-federal accounts.

Auditors Conclusion: We agree that the cumulative expenditures on the FSR for the 2007 HS Cluster grant were understated by the \$596K as of June 30, 2009. However, the FSR also reports federal expenditures for the current period so the current period expenditures for the FSRs submitted during the year under audit for this grant were understated by the \$1,023,771 and did not agree to the federal expenditures reported on the SEFA as stated in the condition. While we agree that an adjustment to SAP may not be necessary for the fiscal year 2010 since the Comptroller has indicated in their response that project expenditures are currently in excess of the \$2 million contribution, the contribution and related expenditures were improperly accounted for in SAP and the FSRs during the year under audit. Therefore, a significant control deficiency existed during our audit period which we are required to report under OMB Circular A-133.

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

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 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 \$26,613 (A Similar Condition Was Noted in Prior Year Finding #08-32)

Federal Grant #s-2003-MU-T3-0037, 2004-GE-T4-0001, 2005-GE-T5-0017, 2006-GE-T6-0050, 2007-GE-T7-0044 and 2008-GE-T8-0050

Condition: During the year ending June 30, 2009, a total of \$5,334,459 in expenditures were charged to the SAP accounting system subsequent to the end of the grant period for three HS Cluster grants that closed prior to the end of our audit period (SHSGP 2003 II, HSGP 2004 and HSGP 2005). 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 50 expenditures totaling \$631,091 charged to these grants subsequent to the grants' ending dates. Our testing revealed that two of the 50 expenditures in our sample totaling \$2,520 (charged to the HSGP 2005 grant) were obligated within the period of availability for the closed grants, but were not liquidated within the 90-day liquidation period. Additionally, we noted that the payment for one of our 2 sample items also included \$24,093 in expenditures charged to the HSGP 2005 grant that were not liquidated within the 90-day liquidation period. The above transactions and related dates are as follows:

<u>Amount</u>	<u>SAP Posting Date</u>	<u>Required Liquidation Date (90 Days)</u>	<u>Actual Liquidation Date</u>
\$ 366	6/8/09	6/29/09	7/3/09
2,154	6/5/09	6/29/09	7/3/09
24,093	6/5/09	6/29/09	7/3/09

As a result and for the third year in a row, expenditures totaling \$26,613 were not liquidated within the proper time period and are questioned.

Criteria: Regarding period of availability, 44 CFR, Section 13.23 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 (SF-269). The Federal Agency may extend this deadline at the request of the grantee.*

Cause: PEMA indicated that they consider the invoice posting date in SAP as the official date that the expenditure is liquidated under the grant and do not agree that the aforementioned expenditures were liquidated after the 90-day liquidation period for the HSGP 2005 Grant.

Effect: Costs of \$26,613 claimed under the HSGP 2005 Grant (Award #2005-GE-T5-0017) 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 aforementioned grants may also be unallowable. Additionally, PEMA did not have adequate procedures in place during the year under audit to ensure that obligations are liquidated within the required 90-day time period.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 32: (continued)

Recommendation: We recommend that PEMA repay the \$26,613 in questioned costs or pursue appropriate settlement with DHS. Additionally, we recommend that PEMA review the remaining costs charged after the end of the grant period for the aforementioned 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 obligations are liquidated within the required 90 days after the grant ending date.

Agency Response: The activity noted after the liquidation period on the 2005 Homeland Security Grant Program (HSGP) was related to Purchase Orders that were **procured prior to the grant expiration date**. The invoices were posted, the drawdowns were completed and final FSR was filed within the liquidation period. PEMA will request that DHS retroactively extend the liquidation period to July 3, 2009 for the 2005 HSGP grant.

PEMA established closeout procedures for all federal grants. The grant closeout timeline was incorporated into the Federal Grants Program Administrative Manual that was published on February 24, 2009 and distributed to all subgrantees. Additionally, procedures will be updated to put expedited pay dates on documents posted in the liquidation period and invoices will be posted prior to the last 15 days of the liquidation 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, 2009

Finding 09 – 33:

CFDA #16.007 – State Domestic Preparedness Equipment Support Program

CFDA #97.004 – State Domestic Preparedness Equipment Support Program

CFDA #97.067 – Homeland Security Grant Program

Unallowable Equipment Purchases and Unallowable Cash Payments Result in Questioned Costs of \$37,150 and Internal Control Deficiencies and Noncompliance in PEMA’s Subrecipient Monitoring (A Similar Condition Was Noted in Prior Year Finding #08-31)

Federal Grant Numbers: 2003-MU-T3-0037, 2004-GE-T4-0001, 2005-GE-T5-0017, 2006-GE-T6-0050, 2007-GE-T7-0044 and 2008-GE-T8-0050

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 48 payments for purchases by PEMA (primarily equipment and related items), consisting of 44 payments for nine local task forces and 4 payments for other state agencies during the year ended June 30, 2009. Additionally, we randomly selected a sample of 12 cash payments to the local task forces and other subrecipients during the year ended June 30, 2009. Our testing disclosed the following unallowable payments:

- Our testing of the allowability of the purchases by PEMA revealed that four of the 48 payments for purchases of equipment and related items were not on the DHS Authorized Equipment List (AEL) and were not authorized under the applicable DHS grant agreement. Therefore, these purchases are not an allowable use of HS Cluster funds resulting in questioned costs of \$16,209. Additionally, we also noted that certain other items included on the same purchase orders for two of these four sample items were also considered to be unauthorized and unallowable, resulting in additional questioned costs of \$16,415. The 48 sampled purchases totaled \$404,238 out of \$40,732,688 in total purchases made by PEMA during the year under audit.
- Our testing of the allowability of the cash payments to subrecipients revealed that three of the twelve cash payments in our sample totaling \$4,526 were not supported by adequate documentation or were not allowable under the applicable DHS grant agreement. Accordingly, these payments of \$4,526 are unallowable and questioned. The twelve sampled cash payments totaled \$300,426 out of \$8,986,378 in total cash payments to subrecipients made by PEMA for the year under audit.

In addition to the unallowable payments disclosed in our testing of purchases by PEMA, we also noted that for 12 of the 48 purchases tested or 25 percent, there was no evidence that PEMA ensured the vendors for these purchases were not suspended or debarred as required under federal regulations. We were able to subsequently review the Federal Excluded Parties List System (EPLS) and determine that these vendors were not debarred or suspended at the time of our audit

Our prior four 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:

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 33: (continued)

- 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. (Our current year testing also revealed that PEMA did not have adequate procedures in place to review the equipment and related purchases made by PEMA on behalf of other state agencies). Further, our testing of equipment purchases by PEMA revealed that for five of the 44 purchases (or 11 percent) in our sample which 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. Since PEMA was able to subsequently obtain supporting documentation and confirm the receipt of the equipment by the task forces for these sampled items as a result of our audit, no costs are questioned.
- PEMA did not have any procedures in place during the year under audit to conduct 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 only one of the nine local task forces submitted both reports for the year under audit. The other eight task forces only submitted the report for the six-month period ended 6/30/09. 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 for all grants prior to the 2008 HSGP grant, PEMA did not communicate award information such as CFDA name and CFDA number for non-cash assistance to these subrecipients as required by federal regulations. Additionally, we determined that for four of the nine subrecipients included in our cash payments testing, PEMA did not communicate the award information to the subrecipients. 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 cash and 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 one of the task forces (Bucks County) did not report the value of equipment or cash payments received from the Commonwealth on their SEFA for the year ended 12/31/07 (latest audit report available for this task force). A total of \$18,791,483, \$15,770,937 and \$14,844,238 in purchases were made by PEMA on behalf of this task force during the years ended June 30, 2009, June 30, 2008 and June 30, 2007, respectively. Additionally, a total of \$1,265,437, \$963,485 and \$1,289,938 in cash payments were made to this task force by PEMA during the years ended June 30, 2009, June 30, 2008 and June 30, 2007, respectively. Therefore, a material amount of equipment purchased by PEMA on behalf of this task force as well as cash payments were not audited at the subrecipient level as required by Circular A-133.

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 a 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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 33: (continued)

During the year under audit, the expenditures for these task forces reported on the SEFA totaled \$43,062,275 or 83 percent of the total HS Cluster expenditures of \$51,901,365. A total of \$37,081,536 of the \$43,062,275 in expenditures to the task forces was in the form of non-cash assistance. Therefore, we consider the control deficiencies and noncompliance to be material.

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

1. Activities Allowed-General

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

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

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

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

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

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

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

A pass through entity is responsible for:

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

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

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

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

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

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 33: (continued)

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

The Uniform Administrative Requirements contained in 44 CFR, Part 13 state:

13.35 Subawards to debarred and suspended parties.

Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, “

Cause: DGS, which handles the purchasing function for all Homeland Security equipment and related items, indicated that they perform a review of all equipment being requested by the subrecipients and other state agencies for allowability. However, this review was not consistently documented and did not detect unallowable equipment requests by the task forces and other state agencies. 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, it appears that PEMA has delegated this responsibility to DGS and has no procedures in place to perform such a review unless specifically requested by DGS. Regarding the missing or incomplete receiving reports, PEMA indicated 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 for the first six months 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 cash and non-cash assistance was not part of the standard contract with the task force for contracts prior to the 2008 HSGP Grant. With respect to the cash assistance, PEMA indicated that communication of the award information is made to the task force through other forms of written communication, such as letters accompanying the cash payments. However, we noted this communication was not consistently made to these task forces for cash payments made by PEMA during the year under audit. 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 cash and non-cash assistance are contributing to this cash and non-cash assistance not being properly reported on subrecipient SEFAs and properly audited in A-133 audit reports.

Regarding the procedures for debarment and suspension of vendors, PEMA indicated that the purchase orders for HS Cluster purchases should include a reference to the Standard Terms and Conditions contained in the Commonwealth’s Management Directive 215.9 on the Contractor Responsibility Program, which include the certification that the vendor is not under debarment or suspension. However, this reference was not included on the purchase orders for 12 of the 48 purchases we tested and neither PEMA nor DGS checked the EPLS to verify that the related vendors were not debarred or suspended prior to executing the purchase order.

Effect: Equipment purchases and cash payments totaling \$37,150 are unallowable and are therefore questioned. Additionally, PEMA did not have adequate procedures in place during the year under audit to perform during-the-award monitoring of the subrecipients to ensure compliance with federal regulations. Further, PEMA did not have adequate procedures in place during the year under audit to communicate the federal award information to the subrecipients for cash and non-cash assistance under grants prior to the 2008 HSGP Grant. Accordingly, there is limited assurance that this cash and 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.

Also, since PEMA is not ensuring, on a consistent 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 HS Cluster funds are not paid to vendors who have been excluded or disqualified from participating in federal programs.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 33: (continued)

Recommendation: We recommend that PEMA pursue appropriate settlement with DHS regarding the \$37,150 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. Further, we recommend that PEMA require subrecipients to submit sufficient documentation or develop other means to enable PEMA to determine the allowability of all expenditures included on the subrecipients' requests for reimbursement. Additionally, we recommend that PEMA establish a system to perform on-site visits of the areas served by the task forces to ensure that the equipment is at the proper location and is being used for its intended purpose.

With respect to reporting of this cash and 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 cash and non-cash assistance is proper. We further recommend that PEMA ensure that federal award information is adequately communicated to subrecipients for cash and non-cash assistance under awards prior to the 2008 HSGP Grant. Further, we recommend that PEMA monitor and appropriately follow up on all situations where cash and/or non-cash assistance are not being subject to audit at the subrecipient level in accordance with OMB Circular A-133.

We also 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.

Finally, we recommend that PEMA work with DGS to ensure all purchase orders contain the Standard Terms and Conditions cited above or review the EPLS prior to authorizing a purchase to ensure that HS Cluster funds are not paid to vendors who have been debarred or suspended from participating in federal programs.

Agency Response: Of the questioned equipment costs of \$32,624, PEMA has resolved \$1,831 through adjustments. PEMA will work with the subgrantees on the resolution of the remaining questioned costs of \$30,793.

Of the questioned costs under cash payments, \$2,895 has been resolved through adjustments with the subgrantees. PEMA will work with the subgrantees on the resolution of the remaining questioned costs of \$1,631.

PEMA 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. The guidelines within the manual were effective July 1, 2009. 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 are linked to investment justifications in accordance with the Homeland Security strategy. The three Area Office Homeland Security Planners and one headquarters office Homeland Security Planner will work exclusively with the task forces on their equipment lists. These PEMA Area Office and program staff will review equipment purchase requests before they are submitted to the DGS/PEMA 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 Office of National Incident Management System (NIMS) staff. Staff attend all 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. Formal procedures for both desk and site visit monitoring have been implemented, with the first desk monitoring visit scheduled for July 7, 2010. A schedule of monitoring visits has been developed for the 2010-2011 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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 33: (continued)

- Procedures for submitting the Categorical Assistance Progress Report (CAPR). A form was developed in 2009 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. The CAPRs are reviewed by the Section Chief of the Homeland Security Program in the Division of Grants Management, who in turn submits the reports to DHS by the required due dates. Follow-up is made to those subgrantees that do not submit the CAPRs by the required due dates of January 2 and July 2. These CAPRs are also used in PEMA's monitoring visits with the Department of Homeland Security to evaluate the status of regional preparedness. Based on our clarification to the auditor's statement, PEMA requests that all references to the submission and review of the performance reports be stricken from the funding.

PEMA incorporated the CFDA name and CFDA number into all grant agreements and associated cover transmittal letters beginning in June 2008. PEMA has had a procedure in place for two years that incorporated CFDA information and was in effect for the "year under audit." However, because of the open grant years being tested, these grants were issued prior to our incorporation of the CFDA information. 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, 2010 and will be used for all equipment purchases. Cash and non-cash expenditures are reported on the lead county SEFA. Staff from the Division of Grants Management review county Single Audits on a regular basis. If our records do not match the records of the county, the discrepancies are brought to their attention and resolved. Therefore, PEMA disagrees with the comment addressing this agency not fulfilling our responsibilities of auditing these subrecipient audit reports.

The Pennsylvania Counterterrorism Planning, Preparedness and Response Act (Act 227), 35 P.S. §§ 2140.101-2140.303, provides for the formation of regional counterterrorism task forces (RCTFs) throughout the Commonwealth. Act 227 further provides that RCTFs may receive federal grant funds to engage in planning, training and exercise activities. The formation of the RCTFs, in accordance with Act 227, is accomplished through a mutual aid and intergovernmental cooperation agreement (MAICA) signed by and between the participating counties of each RCTF. The MAICA provides for the fiscal, administrative, planning, operational, and training aspects of the RCTF on behalf of the participating counties. With the aforementioned clarification, PEMA is requesting the statement be stricken questioning the proper pass-through awards of cash and non-cash assistance.

DGS/PEMA commodity specialists have been adding the Standard Contract Terms and Condition language on Purchase Orders since October 15, 2008 and will continue to do so. Additionally, procurement staff was just informed of the Excluded Parties List System (EPLS) requirement on March 30, 2010 and now check it with each purchase that is made.

Auditors' Conclusion: With respect to the semi-annual interim performance reports (CAPRs), we agree that these reports were submitted to PEMA by all task forces for the six-month period ended 6/30/09. However, as stated in the condition, only one of the nine local task forces submitted this report for the six-month period ending 12/31/08 which is part of the year under audit. Further, PEMA also stated in their response that these reports are used in PEMA's monitoring visits. However, there was no evidence provided to the auditors to support the performance of any monitoring visits by PEMA during the year under audit.

Regarding the communication of the award information to the task forces, we also agree that PEMA did implement procedures to communicate the award information to the task forces effective with the 2008 HSGP grant as stated in the condition of the finding. However, there was no communication of award information to the task forces for non-cash assistance under grants prior to the 2008 HSGP grant and the communication of award information to the task forces for cash assistance prior to the 2008 HSGP grant was not consistently made during the year under audit. As acknowledged by PEMA in their response, our testing during the year under audit covered expenditures reported on the SEFA under various grant years prior to the 2008 HSGP grant.

PEMA indicated in their response that the cash and non-cash expenditures are reported on the lead county SEFA. However, as stated in the condition, we noted that one of the task forces who recently submitted an audit report, did not report any cash or non-cash assistance received from PEMA under the HS Cluster on their SEFA. Therefore, the HS Cluster expenditures were not properly reported by this lead county.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 33: (continued)

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

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 –34:

CFDA #17.225 – Unemployment Insurance

Internal Control Deficiency Over Expenditure Information Reported on the SEFA by L&I and Comptroller Operations Personnel

Federal Grant Number: UI-18043-09-55-A-42

Condition: As part of our audit planning process, we review the OMB Circular A-133 Compliance Supplement for any significant changes. In our review of the June 2009 version, we noted numerous additions related to Trade Benefits (TRA) and Alternative Trade Adjustment Assistance (ATAA) Benefits under the compliance supplement for CFDA #17.225, Unemployment Insurance. Our inquiry of L&I and Office of Comptroller Operations (OCO) personnel revealed that they had no knowledge of any changes related to the TRA/ATAA benefits with respect to the UI program. However, upon review of the grant “Notice of Obligation”, it was discovered that the CFDA number for TRA and ATAA benefits had in fact changed from #17.245 (a Type B program not being audited as major) to #17.225. This change was also confirmed via correspondence with USDOL personnel.

The exclusion of the TRA/ATAA benefits resulted in an understatement of expenditures reported on the SEFA for CFDA #17.225 totaling \$6,975,589. The SEFA was corrected as a result of our audit.

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

- (b) *The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statements. At a minimum, the schedule shall:*
- (3) *Provide total federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.*

In addition OMB Circular A-133, Section 105 regarding internal control states in part that:

“Internal control over Federal programs means a process—effected by an entity’s management and other personnel—designed to provide reasonable assurance regarding the achievement of the following objectives for federal programs:

- (1) *Transactions are properly recorded and accounted for to:*
 - (i) *Permit the preparation of reliable financial statements and Federal reports;*
 - (ii) *Maintain accountability over assets; and*
 - (iii) *Demonstrate compliance with laws, regulations, and other compliance requirements*

Cause: L&I and OCO personnel stated that they were never informed about the change in CFDA numbers by USDOL personnel. However, the grant awards (i.e. Notice of Obligation) clearly stated the CFDA number for TRA and ATAA benefits as #17.225.

Effect: The amounts reported by L&I on the SEFA under CFDA #17.225 for the year under audit were understated by \$6,975,589. In addition, CFDA #17.245 was overstated by the same amount. As a result, adjustments to the SEFA were necessary for the SFYE June 30, 2009. Also, without adequate internal controls in place, the SEFA may continue to be misstated in the future.

Recommendation: We recommend that L&I and OCO personnel improve internal controls to more closely monitor grant award notices in the future. This would help to ensure that proper CFDA numbers are used to report expenditures on the Commonwealth’s SEFA.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 34: (continued)

Office of Comptroller Operations' Response: OCO acknowledges that the Trade and ATAA expenditures were originally reported under the incorrect CFDA number on the SEFA. OCO has implemented additional controls by including the review and verification of CFDA numbers on the Notice of Obligations to those reported in SAP every time a change to the account code structure occurs or when the SEFA is prepared.

Department Labor and Industry Response: The Department of Labor and Industry (DLI) concurs with the response provided by OCO. DLI has no additional comment.

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, 2009

Finding 09 – 35:

CFDA #17.225 – Unemployment Insurance (including ARRA)

CFDA #17.258, # 17.259 and #17.260 – Workforce Investment Act Cluster (including ARRA)

CFDA #84.126 and #84.390 – Vocational Rehabilitation Cluster (including ARRA)

Deficiencies in Information Technology Controls at the Department of Labor & Industry (A Similar Condition Was Noted in Prior Year Finding #08-72)

Federal Grant Numbers: Various grant numbers per each CFDA listed above.

Condition: As part of our audit of the L&I major programs for the year ended June 30, 2009, 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:

- **Commonwealth Workforce Development System (CWDS)** – Two persons who work on the WIA Cluster and two persons who work on the Vocational Rehabilitation Cluster have the ability to approve user access and set up user access resulting in a lack of segregation of duties. Monitoring of user activity for access violations is not conducted, and periodic access reviews to determine the appropriateness of users with privileged access have not been implemented. Monitoring is not performed to detect changes moved into the production environment that did not follow the standard process. Documentation was not provided to demonstrate timely removal of one WIA terminated employee and one non-Commonwealth staff user selected for walkthrough procedures. Also, through auditor inquiries, we learned there are inconsistent procedures for removing separated non-Commonwealth staff users' access. In addition, the current year audit disclosed that documentation of OVR client eligibility determinations transitioned from a manual process to a computer dependent process on CWDS. Since a control deficiency exists for CWDS general controls, eligibility determinations may not be reliable.
- **Unemployment Compensation (UC)** – Four out of 25 new users selected for testing were granted access to the system without approval signatures on the required form. Four outside contractors out of 12 users selected for testing with application development/maintenance responsibilities also have the ability to change the computer operations job schedule resulting in a lack of segregation of duties. Also, we noted in the prior audit that access for four of 19 separated users was not removed. In the current audit, three of those four users' access still had not been removed.
- **Financial Management System (FMS)** – The current and prior audits of FMS (used for WIA) disclosed numerous weaknesses in general computer controls. L&I's corrective action plan for the weaknesses noted in the prior audit was to decommission the FMS system and replace its functionality with CWDS in July 2010. Therefore, the general controls weaknesses are not being cited individually.

Criteria: A well-designed system of internal controls dictates that sound general computer controls be established and functioning to best ensure that federal programs are administered in accordance with management's intent.

Cause: Management indicated the main cause for the deficiencies noted above is limited staffing/budgets. Also, management indicated they were unable to locate documentation for the CWDS terminated users' access being removed because it is kept in remote locations.

Effect: The deficiencies noted above in IT general controls could result in inappropriate system access, unauthorized changes to the applications, and noncompliance with federal regulations (including ARRA).

Recommendation: We recommend that L&I management review and resolve the IT control weaknesses noted above to ensure that: 1) appropriate segregation of duties exists between persons with the ability to approve user access and set up user access, 2) user activity is monitored for access violations, 3) only properly documented, authorized, and appropriate individuals are granted access to the systems noted above, and users with privileged access are periodically

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 35: (continued)

reviewed for appropriateness, 4) separated users' access is removed from the system timely, and documentation is maintained to evidence that terminated employees', non-Commonwealth staff users', and outside contractors' access to the system is removed timely, 5) appropriate segregation of duties exists between application development and computer operations functions, and 6) the production environment is monitored for unauthorized changes. Finally, the three terminated UC users' access identified in the prior audit should be removed.

Agency Response:

Provided by Office of Information Technology (OIT):

CWDS Findings:

Findings from the annual GAAP audit noted the lack of periodic access reviews for application access. The Security Division in OIT has already initiated reviews with the UC & SWIF program areas based on that finding and as defined in our remediation plan to OA. We will expand that process to incorporate OVR access to the CWDS application.

Terminated Commonwealth employees fall within the HR 40 process that the Security Administration team completes via the Remedy ticketing system for access removal. Once departing employees CWOPA credentials are removed, or transferred to another Bureau or Department, their access to CWDS would in turn be disabled based on security controls in how the Identity and Access Management system is configured.

UC Findings:

The users who were granted access to the system without signatures on the forms were part of a group who were added at the height of the nation's unemployment spike. A dramatic increase in hiring as well as providing limited access for CareerLink employees to assist claimants directly was approved in writing by the Directors of the involved program areas. This does not alleviate the issue of the missing signatures since all forms were to be thoroughly completed even with this overarching approval, but the approval was given nonetheless.

The four outside contractors with the ability to change the operations job schedule (who also complete development/maintenance duties) has been agreed upon as an issue. Due to lack of personnel due to the ongoing efforts to modernize the UC system.

Users whose access had not been removed is typically mitigated by removal of their CWOPA access. However, these roles in the RACF should be removed nonetheless.

Provided by Office of Vocational Rehabilitation (OVR):

The two persons identified for both WIA and OVR have been altered to remove the Local Administration role that conflicted with the Central office Administration role. As described before three of the identified users are IT employees that by design are to have all roles available to them to troubleshoot problems identified from system users, also the Central Administration role over rides the Local Administration role. The Local role, which in this situation had no functionality, was removed on 6/16. Bi-annual reviews of access will be done by Workforce and OVR to determine appropriateness of roles assigned. Privileged IT access changes as job duties change and access to items identified in the documentation are used on a daily basis. Please provide a recommendation of how a periodic review is to be conducted, currently IT does not check for access before performing a job function. All changes placed into the production environment must go through an approval process of the Enterprise Control board, the only exception is daily data changes. Documentation was produced for all changes that were requested; please elaborate on the finding of monitoring being needed for changes into production that does not follow the standard process. Documentation was not able to be retrieved for two employees requested and in response BWDP will be creating a reminder to staff administrators to ensure that documentation is easily retrievable and create a spot check process to ensure it is done. Please remember that documentation is not sent to central office BWDP staff and is to be maintained at the local level, requests for such documentation can take time to retrieve. In addition please provide what the auditor general considers

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 35: (continued)

to be a timely removal so that project staff can set a standard with a measurable goal. Regarding OVR eligibility determinations OVR staff are all CWOPA staff and their CWOPA userid is immediately removed upon resignation or retirement removing access to all Commonwealth resources which includes CWDS. As a result, their ability to log into the CWDS system to perform actions ex. eligibility determinations is removed. As a further point of clarification IT contractor staffs are removed from all resources as soon as notification is received by project management staff and access is revoked.

Per the recommendations listed in the finding: #1 is already done; #2 a procedure is being put into place for the BWDP and OVR program areas to review access; #3 please provide a recommendation on how to do review for privileged IT access; #4 please provide a quantifiable attribute to define a timely removal and in addition BWDP will reiterate their document retention policy; #5 We are unaware of what documentation provided or issue found led to this recommendation, please elaborate on this item and provide a recommendation; #6 please provide a recommendation for implementation.

Auditors' Conclusion: Regarding the request to provide a recommendation on how a periodic review of users with privileged access is to be conducted, the objective of such a review is to provide management with added assurance that existing policies and procedures are functioning to ensure a limited number of authorized users have privileged access. This type of review enables management to periodically validate these privileged users and ensure that persons who may have changed job responsibilities do not continue to have privileged access rights when they are no longer needed to perform their job responsibilities.

Regarding recommendation #5, fundamental segregation of duties restricts application developers from access to the computer operations job schedule. During our test of appropriateness of individuals with the ability to change the computer operations schedule, we found four outside contractors with application development responsibilities on the UC application that could also change the computer operations job schedule.

Regarding the recommendation to monitor the production environment for changes to production that did not follow the standard process, this is a control that provides management with added assurance of detecting any changes implemented to production that may have circumvented the normal change control process.

Regarding timely removal of separated users, best practice dictates that separated users' access should be removed as soon as administratively possible, especially for users with privileged access and for non-Commonwealth staff users. Follow-up after the preliminary finding was issued revealed varying degrees of understanding of the specific procedures for removing non-Commonwealth staff users' access. An e-mail may have been sent to the local office administrators informing them to complete a form for removing these users' access, but no formal written procedures exist for removing non-Commonwealth staff users' access. L&I management should seek direction and guidance from the Office of Information Technology about specifics for "timely removal". Also, a formal written policy should be developed and distributed to all local offices to ensure consistent application of policy.

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, 2009

Finding 09 – 36:

CFDA #20.205 – Highway Planning and Construction

CFDA #20.205 – ARRA – Highway Planning and Construction

CFDA #20.219 – Recreational Trails Program

CFDA #23.003 – Appalachian Development Highway System

Internal Control Deficiency Over Expenditure Information Reported on the SEFA

Federal Grant Numbers: Funding granted on an on-going basis by FHWA individual project number

Condition: The Office of Comptroller Operations (OCO), Bureau of Commonwealth Accounting, Special Accounting Division administers the weekly federal billing process, as well as Highway Planning Construction (HPC) Cluster SEFA reporting. HPC reported federal expenditures based on an IES program that is run monthly to identify SAP transactions by applicable document type and Work Breakdown Structure Element (WBSE) participation code. The federally participating transactions are applied against federal project master data to calculate the federal expenditure amount, determine the associated CFDA, and populate a custom data table in SAP. The data table information is reported on the SEFA after it is reviewed for irregularities, duplications, and omissions. The OCO also performs periodic reconciliations of subrecipient expenditure data in SAP to this federal program expenditure data table.

Our testing of HPC program expenditures noted that SAP document type ZE (travel documents) totaling \$2,824,049 (\$2,710,425 under CFDA 20.205 and \$45,450 under CFDA 20.205 ARRA and \$68,174 under CFDA 23.003) were not reported on the 6/30/09 SEFA but were billed for, resulting in an understatement of the SEFA that required adjustment. Our testing also noted that CFDA 20.205 was understated due to oversight when preparing a manual entry to eliminate duplication of expenditures which result from the IES interface of subrecipient federal expenditures. This required a SEFA adjustment in the amount of \$372,066. We further noted an internal control deficiency in that OCO does not perform an adequate supervisory review and reconciliation to ensure the HPC Cluster is correctly reported on the SEFA each year. The SEFA was corrected as a result of our audit.

Criteria: 49 CFR 18.20 provided the following standards for financial management:

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

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

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

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

Cause: IES program logic did not contain document type ZE which OCO erroneously did not recognize in their review of billing and data table information prior to posting to the SEFA. Additionally, an internal control weakness exists due to the inadequate supervisory review and reconciliation of SAP data to the federal program expenditure data table used to prepare the SEFA.

Effect: The HPC SEFA balance was understated by \$3,196,115 due to OCO oversight and was corrected by an auditor-proposed adjustment. In order to correct the program logic OCO had to submit a remedy ticket to IES. Without adequate SEFA review and reconciliation controls in place, the SEFA may continue to be misstated in the future.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 36: (continued)

Recommendation: We recommend that OCO implement procedures to ensure that adequate review and reconciliation of the HPC billings, the data table, and the underlining IES program logic occur prior to SEFA postings and preparation.

Agency Response: OCO concurs with this finding. The SEFA for PennDOT is derived from a custom data table. Document type ZE for travel expenditures was omitted from the detailed functional specifications (DFS) used to write the program that extracts transactional data from SAP and creates the custom data table. Working with IES, the document type has been included in the DFS and program logic. It has been verified that transactions using this document type are being identified and placed on the custom data table. To ensure that future instances such as this do not occur, OCO has incorporated procedures into their review and reconciliation of the custom data table that includes a review of existing document types in SAP for identification and inclusion in the DFS and program logic.

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, 2009

Finding 09 – 37:

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

Internal Control Deficiencies Cause Errors in the CWSRF Annual Report Submitted to EPA

Federal Grant Numbers: CS-42-0001-06, CS-42-0001-07, CS-42-0001-08

Condition: On an annual basis, PENNVEST is required to submit an Annual Report to EPA for CWSRF. The Annual Report details many aspects of the PENNVEST program including a chart to list all CWSRF loans, a chart to show that PA met its required state match obligation, a chart to show that PENNVEST adhered to the binding commitment requirements, etc. PENNVEST submitted the FYE 6/30/09 Annual Report as required. However, during the auditor’s review of the Annual Report, numerous errors were identified. PENNVEST’s internal controls designed to ensure the accuracy of the annual report did not prevent and detect the errors prior to submission. The auditors found the following errors:

- Chart 1 lists all the loans awarded by PENNVEST in the CWSRF program since inception of the program. We found the loan amounts reported on Chart 1 exceeded the loan amounts in the Commonwealth’s Loan Accounting System for two loans as follows:

Loan No.	Chart 1	Loan Accounting System	Difference
71350	\$6,048,629	\$2,742,690	\$3,305,939
71354	6,385,468	3,967,060	2,418,408

- Chart 1 listed one loan as a “Non-equivalent” loan that should have been reported as an “Equivalent” loan. Recipients of Equivalent loans are required to provide a Single Audit, Non-equivalent loans are not required to provide a Single Audit.
- Chart 2 under-reported Cumulative Binding Commitments by \$3,967,060. The auditors found an error in the spreadsheet formula used to report Binding Commitments.
- The last section of the Annual Report is called the Addendum, which basically summarizes much of the report information in the other sections. We found two instances in which data in the addendum did not agree to other parts of the report as follows:

- Totals on Chart 1 did not agree to the Annual Report Addendum as follows:

Item	Chart 1	Addendum	Difference
Closed Construction Projects	\$1,791,088,231.36	\$1,807,375,332.36	\$(16,287,101.00)
Number of Projects	664.00	663.00	1.00
Outstanding Loan Balance	1,108,196,262.79	1,106,257,262.94	1,938,999.85

- Chart 2 is used to report compliance with Cumulative Binding Commitments. Chart 2 did not agree to the Report Addendum as follows:

Chart 2	Addendum	Difference
\$1,835,511,790.88	\$1,838,124,592.88	\$(2,612,802.00)

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 37: (continued)

Criteria: Federal TITLE 40 Chapter I, Part 35, Section 35.3165 (a) and (b) mandate that PENNVEST must submit an Annual Report as follows:

(a) *Annual report. The State must provide an Annual Report to the RA beginning the first fiscal year after it receives payments under title VI. The State should submit this report to the RA according to the schedule established in the grant agreement.*

(b) *Matters to establish in the annual report. In addition to the requirements in section 606(d) of the Act, in its annual report the State must establish that it has:*

- (1) Reviewed all SRF funded section 212 projects in accordance with the approved environmental review procedures;*
- (2) Deposited its match on or before the date on which each quarterly grant payment was made;*
- (3) Assured compliance with the requirements of Sec. 35.3135(f);*
- (4) Made binding commitments to provide assistance equal to 120 percent of the amount of each grant payment within one year after receiving the grant payment pursuant to Sec. 35.3135(c);*
- (5) Expended all funds in an expeditious and timely manner pursuant to Sec. 35.3135(d); and*
- (6) First used all funds as a result of capitalization grants to assure maintenance of progress toward compliance with the enforceable requirements of the Act pursuant to Sec. 35.3135(e).*

Good internal controls dictate that review and approval procedures for the Annual Report should be adequate to prevent and detect errors, and ensure errors are corrected before the report is submitted.

Cause: According to PENNVEST management, PENNVEST was extremely busy with ARRA related issues at the time the Annual Report was being prepared. Therefore, PENNVEST did not devote adequate resources to properly review the Annual Report prior to submission.

Effect: When information reported in the required Annual Report contains errors, PENNVEST is not in compliance with federal regulations and EPA cannot rely upon the information to make informed decisions about future program administration.

Recommendation: We recommend that PENNVEST strengthen its internal controls over the review and approval of the Annual Report. Proper review procedures must ensure a more diligent review of the Annual report to ensure its accuracy prior to submission to EPA. We also recommend that PENNVEST submit a revised Annual Report for 6/30/09 to EPA to correct the errors noted in the finding.

Agency Response: PENNVEST is in partial agreement that controls were not in place that cause errors in the CWSRF Annual Report FYE June 30, 2009 submitted to EPA. Several internal controls that were in place were not followed to reconcile Chart 1. The transmission of loan document information was not done. Loan encumbrance reconciliation was not done for Annual Report. All the internal controls have been reviewed and will be followed to properly reconcile PENNVEST portfolios and transmission of data will be documentation of the action. The EPA Annual Report was noted for the action.

PENNVEST management is in disagreement with the conclusion with the Chart 1 equivalent verses non-equivalent issue. The subject loan is listed as equivalent by the Comptroller Office and will be tracked and reported as such in the federal reports including Single Audit requirements. Management is in agreement that the one loan was misreported on the Chart 1 as being non-equivalent and the loan is equivalent. Efforts will be made to correctly identify the status of the equivalent and non-equivalent listings in Chart 1 of the EPA Annual Report.

PENNVEST management is in agreement with need to reconcile Chart 1 with the Addendum section of the EPA Annual Report. Data Information should be the same number for identified data. Timing of transactions and reduced time to get information from other sources led to misreporting and non-reconciled sections of the EPA Report. Corrections have been identified and will be updated.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 37: (continued)

PENNVEST management is in agreement with the conclusion that internal controls and diligent review of information in the Annual Report must be strengthened. However PENNVEST will not be revising the June 30, 2009 Report but will update the information for the June 30, 2010 report as the report is cumulative in reporting. PENNVEST will share the finding with EPA Region III officials to make them aware of the misinformation reported in the Annual Report.

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, 2009

Finding 09 – 38:

CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds (including ARRA)

Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority

Federal Grant Numbers: CS-42-0001-06, CS-42-0001-07, CS-42-0001-08, 2W-42000209-2

Condition: As part of our audit of the PENNVEST major program (CWSRF) for the year ended June 30, 2009, we performed an information technology (IT) general controls review over the significant applications (Online Funding Request [OFR] System and Funds Disbursement [FD] System) identified for this major program, and noted the following significant deficiencies that need to be addressed by Commonwealth management:

A lack of segregation of duties exists because personnel with the ability to develop and maintain programs also have the capability to promote programs to production. Those same individuals also have the ability to program, implement, and monitor changes to the job schedules in the FD application. Further, these same individuals are responsible for FD application backups and for monitoring that the backups were completed successfully.

Also, a monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard change management process. This deficiency is more significant because of the lack of segregation of duties related to personnel with the ability to develop programs and move the programs into production.

Criteria: A well-designed system of internal controls dictates that sound general computer controls be established and functioning to best ensure that federal programs are administered in accordance with management's intent.

Cause: Management indicated the main cause for the deficiencies noted above is limited staffing/budgets.

Effect: The deficiencies noted above in IT general controls could result in unauthorized changes to computer applications and noncompliance with federal regulations, including any future funds paid out by PENNVEST from EPA grants awarded under ARRA (CFDA #66.458).

Recommendation: We recommend that PENNVEST management address the segregation of duties issues noted above by limiting staff with incompatible duties. In IT environments with limited staffing when segregating duties is difficult, the IT Director should, at a minimum, review the actions of personnel performing the incompatible functions and avoid performing the incompatible duties except when absolutely necessary. Also, management should implement an automated or manual control to monitor the production environment to detect any unauthorized program changes that did not follow the standard change management process. All new reviews and implemented internal controls should be adequately documented.

Agency Response: PENNVEST is in partial agreement that there is a lack of segregation of duties that exists with IT personnel. PENNVEST does understand that for internal controls to be effective, there needs to be an adequate division of responsibilities among those who perform activities and those who review the activities. PENNVEST does have a separation of related activities of work of one individual that is independent of, or serves to check on, the work of another. Some examples of implemented controls are:

- only those with DBA responsibilities can promote database and promote code changes to Funds Disbursement production;
- only Commonwealth Technology Center personnel can promote code changes to the Online Funding Request production system; and
- the network administrator is responsible for all backups and has control of tape backups and restores.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 38: (continued)

Where the controls begin to become weak are in positions where there is only a single position that performs a set of duties. It is essential to operations that permissions are given to more than one individual in the event the primary individual is not available to perform their job responsibilities (i.e. vacation leave) and as a planning safeguard with disaster recovery and pandemic incident. As a small organization, PENNVEST IT personnel must share some responsibilities to ensure adequate coverage and depth of knowledge. It is implied and enforced that alternate personnel do not perform duties when the primarily individual is in a normal working schedule. Some additional control comes from the PENNVEST IT personnel have almost no separate physical division and most everyone's daily work activities are closely coordinated, reviewed and observed by others. In the case where individuals have cross-responsibilities, is very tightly controlled to only a few selected individuals that are in trusted management positions and these individuals have proper formal training and/or certifications to perform the duties.

Unlike larger IT organizations where specific job classifications perform a narrow set of job duties and responsibilities, PENNVEST does not have personnel compliment to implement this structure as part of its controls. With limited personnel, it is necessary to balance vulnerability with efficiency to meet the agency's needs and support its mission.

PENNVEST management is in agreement with the need for monitoring its IT production environments for non-authorized changes. PENNVEST does not perform this function as a regular operational activity and only performs such an activity when there has been evidence of an issue. Recent infrastructure moves now allow PENNVEST to the opportunity to obtain additional for fee services from the Commonwealth Technology Center Enterprise Server Farm to implement better controls. PENNVEST will investigate the options that are available for production monitoring services.

PENNVEST management is in agreement with the conclusion that IT controls for tighter segregation of duties and production monitoring should be strengthened. PENNVEST will analyze the areas of most concern and identify opportunities to better manage the controls needed.

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, 2009

Finding 09 – 39:

CFDA #81.042 – Weatherization Assistance for Low-Income Persons (including ARRA) CFDA #93.568 – Low-Income Home Energy Assistance Program

Noncompliance and Internal Control Deficiencies in DCED’s Program Monitoring of Weatherization Subrecipients (A Similar Condition Was Noted in Prior Year Finding #08-51)

Federal Grant Numbers: 08B1PALIEA, 09B1PALIEA, 0901PALIE2, DE-EE0000135

Condition: The prior three Single Audits of the Weatherization Assistance Portion (WAP) of the LIHEAP program administered by DCED disclosed numerous instances of noncompliance with federal regulations, potential unallowable costs, and material internal control deficiencies at both the state and subrecipient levels. These prior-year findings were based initially on a separate June 2007 report issued by other auditors (in the Department of the Auditor General – Bureau of Departmental Audits) who performed compliance testing of Weatherization expenditures at both the state and subrecipient levels and issued a stand-alone audit report which we utilized in our Single Audit of LIHEAP.

Our current year Single Audit follow-up for the fiscal year ended June 30, 2009 disclosed that DCED implemented a number of corrective actions and the resolution process is ongoing. As a result, several of the prior year deficiencies were resolved during the current audit period, but several deficiencies continue to exist as of the end of the audit period, June 30, 2009. We noted that DCED implemented a new monitoring program, along with a new system to prioritize clients based on needs, and several other procedures which contributed to resolution of a number of prior year deficiencies. In addition, DCED indicated that corrective measures are ongoing in the implementation of a new weatherization system, known as the Hancock Energy System (or HES), to enhance the future management and oversight of the WAP program. The new HES system was piloted by DCED, but not fully implemented as of June 30, 2009. Further, we noted computer control weaknesses over HES consisting of a lack of documentation of change controls and weaknesses in system security over information technology (IT).

Based on our review of supporting documents provided by DCED in response to our follow-up on the prior year findings and the results of our current year testwork, the following internal control deficiencies were not sufficiently addressed and continued to exist during the current audit period:

- There were inconsistent state guidelines in calculating client income to determine individual eligibility for weatherization assistance. Clients receiving 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 90 days of actual income. This situation led to inconsistent eligibility determinations in the Weatherization program, and the potential for client abuse. Although DPW strengthened their eligibility requirements during our audit period by requiring a minimum of 90 days of income instead of only 30 days, DPW and DCED methods to determine eligibility remain inconsistent.
- 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 indicated that renters and owners are eligible to receive weatherization services but provided no evidence that corrective measures were taken.
- A lack of written policies and procedures considered by DCED to be necessary for subrecipients to effectively administer their weatherization programs. DCED reissued program directives to subrecipients to reinforce the policy and address the deficiency. This corrective action is not sufficient since the deficiencies found during the audit were a result of the varying interpretations and inconsistent application of these policy memos by different subrecipients.
- 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. We did note that DCED strengthened

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 39: (continued)

controls by having the on-site monitoring visit include a review of payment request supporting documents. However, DCED did not review any supporting documentation as part of the payment process prior to approving the payments. We examined 14 payments as part of our testwork and found that DCED was not reviewing any supporting documents in conjunction with subrecipient requests to approve payments.

- In the current year DCED improved the on-site monitoring process to include written policies and procedures and established documentation requirements, and also indicated that additional improvements are ongoing beyond the current audit period. Based on our review of the changes made during the current audit period, we noted that some deficiencies were still not addressed with the new monitoring process. DCED on-site monitoring activity did not include a review of internal control processes and procedures at the subrecipients and a consistent sampling methodology was not applied to ensure that an adequate sample of client case files is reviewed. DCED monitoring procedures also failed to include monitoring of the promotional/outreach activities of its subrecipients to ensure the most needy residents were made aware of the Weatherization program.

As in the prior year, our sampling of 14 LIHEAP Weatherization subrecipient invoices in our current-year audit for the year ended June 30, 2009 also disclosed violations of federal cash management regulations due to the drawdown of excess cash. DCED indicated that its Office of Chief Counsel determined that given the processing time and immediate cash needs of the subgrantees for the Crisis program, subgrantee cash advances of up to 100 percent are acceptable. DCED provided no documentation from the federal government to support its authority to advance this LIHEAP cash to its subrecipients. The three instances noted were as follows:

- **Scranton-Lackawanna Human** had total expenditures of \$292,108 yet received total payments from DCED of \$615,988. DCED payments to the applicable subgrantee exceeded expenditures to date by \$323,880; therefore, subrecipient cash was not limited to immediate needs.
- **Berks Community Action Program** had total expenditures of \$225,507 yet received total DCED payments of \$370,877. The payments to the applicable subgrantee exceeded expenditures to date by \$145,370.00; therefore, subrecipient cash was not limited to immediate needs.
- **Action Housing Inc.** had no expenditures yet received total payments of \$1,000,000 from DCED; therefore, subrecipient cash was not limited to immediate needs.

We also reviewed DCED's computer controls over the new HES Weatherization (or Wx) application for reasonableness, and we noted several deficiencies in these controls as follows:

- DCED's Information Technology Center (DCED-IT) did not use the same policies and procedures to manage changes to the Wx application as are used to control other DCED applications. Instead, DCED-IT met with HES weekly to approve planned changes to the system. DCED-IT did not maintain a comprehensive list of all changes made to the application during the audit period. They relied on purchase orders to document the major changes made to the system and did not maintain a list of other changes that were made without a purchase order. Further, a monitoring process has not been implemented over the production environment to detect changes moved into production that did not follow the standard process.
- Password settings in the Wx application did not meet minimum standards published by the Office of Administration/Office for Information Technology. Specifically, the Wx application does not lock out a user account after a number of failed log-in attempts and the system does not force users to change their passwords every sixty days. Further, there is no logging of user access violations or security events.

Total Weatherization program payments made by DCED to its 42 subrecipients during the fiscal year ended June 30, 2009 were \$34.4 million (or 10.2 percent) out of total federal LIHEAP expenditures of \$335.9 million reported on the June 30, 2009 SEFA under audit. In addition, these same control deficiencies noted above also impact the U.S.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 39: (continued)

Department of Energy's (USDOE's) Weatherization Assistance for Low Income Persons Program (CFDA #81.042), and all future ARRA awards for Weatherization Assistance (total of \$253 million) to be expended by DCED after the June 30, 2009 end of our current audit period.

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

Section 96.30 Fiscal and administrative requirements.

(a) *Fiscal control and accounting procedures. Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.*

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

A. *Activities Allowed or Unallowed*

2. *LIHEAP funds may be used to intervene in energy-related crisis situations, as defined by the grantee (42 USC 8623(c) and 8624(b)(1)).*
3. *LIHEAP funds may be used to conduct outreach activities (42 USC 8624(b)(1)).*
6. *LIHEAP funds may be used to provide low-cost residential weatherization and other cost-effective energy-related home repair (42 USC 8624(b)(1)).*
7. *LIHEAP grantees may use some or all of the rules applicable to the Department of Energy's Weatherization Assistance for Low-Income Persons program (CFDA 81.042) for their LIHEAP funds spent on weatherization (42 USC 8624(c)(1)(D)).*
8. *LIHEAP funds may be used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance, including needs assessments, counseling, and assistance with energy vendors (42 USC 8624(b)(16)).*

The OMB Circular A-133 Compliance Supplement, Part 3, Section C. related to Cash Management, states in part:

Pass-through entities must monitor cash drawdowns by their subrecipients to ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.

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

1. *Eligibility for Individuals*

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 39: (continued)

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,

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

A pass-through entity is responsible for:

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

Cause: The state guidelines in calculating client income to determine individual eligibility for weatherization assistance remained inconsistent between LIHEAP and Weatherization. While DCED policy required the use of actual income for 12 months out of the year to determine client eligibility, DPW policy, although strengthened, allowed for a pro-rated calculation of client income based on 90 days of actual income; previously DPW’s minimum requirement was 30 days of income.

Federal law requires that DCED will treat owners and renters equitably under the program. In response to our follow-up, DCED indicated that both renters and owners are eligible to receive weatherization services and benefits accrue to both, and provided no indication that any corrective measures were taken to address this deficiency. We disagree, the prior audit found that DCEDs subrecipients were interpreting the requirements differently for renters and owners and as a result, treating renters and owners inconsistently amongst the various subrecipient locations.

The prior audit found that subrecipients lacked written policies and procedures necessary for subrecipients to effectively administer their weatherization programs. DCED indicated that they reissued policy directives to subrecipients to reinforce policy and address the deficiency. This corrective action is not sufficient; the prior audit found that errors and internal control weaknesses found during the audit were a result of the subrecipients’ inconsistent application of these policy memos. Adequate written procedures at the subrecipient level would improve the internal controls and would allow DCED to verify adequate internal controls are in place.

For subrecipient billings DCED provided inadequate policy and procedures to subrecipients addressing how operations should be functioning. DCED indicated that they revised the invoice form to incorporate more detail and the implementation of the HES system will allow for better review of billings. However, the HES system was not fully implemented as of June 30, 2009. Although the billing form was improved, we believe DCED should review subrecipient source documents prior to approving the payments.

For monitoring, as noted above DCED has implemented the new monitoring procedures and this process is ongoing. DCED needs to continue to improve this process.

For payment of excess cash, DCED indicated that the Office of Chief Counsel determined that given the processing time and immediate cash needs of the subgrantees for the crisis payments that cash advances of up to 100 percent are acceptable. We disagree, DCED should limit cash advances to subgrantee needs, DCED procedures fail to assess and limit the drawdowns to immediate cash needs.

Finally, DCED management stated that the HES weatherization system will improve DCED management’s ability to monitor, evaluate and assess subrecipients production, cost data, etc and the related controls in HES did not take effect because the system was not sufficiently implemented as of June 30, 2009 as it was originally intended.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 39: (continued)

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

Recommendation: We recommend that DCED management continue to review and strengthen its internal controls in its LIHEAP and USDOE Weatherization (including ARRA) programs in order to correct the significant deficiencies noted above.

Agency Response: DCED recognizes the urgency to implement and strengthen internal controls in the weatherization program in order to address the noted deficiencies. Although DCED established new monitoring protocols in July 2008 and introduced the new Hancock Energy Software (HES) system at the same time, there was inadequate management of the new endeavors. With the advent of ARRA and the large influx of weatherization funds (\$252 million), DCED has reorganized the former Weatherization Assistance Program into a larger Office of Energy Conservation and Weatherization; has increased staff; and has more appropriately defined staff responsibilities. The new functional responsibilities include: 1.increased on-site monitoring and communication, 2.enhanced attention to the weatherization monitoring procedures in order to improve upon the protocols, 3.enlarged role of the state headquarters office for the compliance and fiscal oversight of the agencies and, 4. improved management of the HES to fulfill reporting and evaluation functions for the program. The reorganization of the Office of Energy Conservation and Weatherization was approved by the Office of Administration in December 2009. DCED continues to fill needed staff positions and meet the demands of not only reorganizing and reordering work but also to reach the weatherization production goals and demands of ARRA.

CORRECTIVE ACTION PLAN: DCED has required full use of the HES system by the agencies so that the information that is input can provide the needed framework for DCED to analyze their weatherization process, consider costs and operations and also review expenditures for consideration of approval of invoices. DCED will continue to conduct HES training and technical assistance as needed so that all agencies are at required full use of the system. DCED staff will create and run reports from HES that advise management staff of the trends, fiscal expenditures and actual outcomes of the weatherization work conducted by the agencies. DCED's IT office has agreed to utilize the Department's IT Project Request Form to document and track any future changes made to the HES system.

DCED will continue to revise the monitoring procedures and process. The first phase included correction of the guidelines for site inspections, file reviews and inventory control checks. Federal monitoring has advised this process as well and more changes for improvement are suggested. DCED will continue on with the second phase of improved monitoring by establishing guidelines for the agency realization of required Directives, consistent implementation of priority measures, use of HES and execution of requirements for procurement, training and certification, client eligibility, EPA lead safety, Davis-Bacon wages, cash needs/expenditure processes and invoicing.

Auditor's Conclusion: DCED indicated that the HES system was first introduced in 2008, and was not fully operational, but with the advent of ARRA in the 2009-10 state fiscal year, DCED has reorganized the former weatherization assistance office into a new, larger office to address the agencies growing needs and strengthen controls. During our 08-09 FY audit, we determined that these endeavors were not fully implemented and did not correct the material issues noted during our current audit period. Based on the agency response, our finding and recommendations remain as previously stated for our current audit period, and we will further review and audit DCED's FY 09-10 corrective actions 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, 2009

Finding 09 – 40:

CFDA #84.010 – Title I Grants to Local Education Agencies
CFDA #84.027 – Special Education - Grants to States
CFDA #84.048 – Career and Technical Education – Basic Grants to States
CFDA #84.173 – Special Education – Preschool Grants
CFDA #84.367 – Title II Improving Teacher Quality State Grants
CFDA #84.389 – ARRA – Title I Grants to Local Education Agencies
CFDA #84.391 – ARRA – Special Education – Grants to States
CFDA #84.392 – ARRA – Special Education – Preschool Grants

Internal Control Deficiencies in PDE Monitoring of Subrecipient Cash Management (A Similar Condition Was Noted in Prior Year Finding #08-37)

Federal Grant Numbers: S010A080038A, H027A080093, V048A080038A, H173A080090, S367A080051A, S389A090038A, H391A090093, and H392A090090

Condition: During our current-year Single Audit of the Title I, Title II, IDEA-B, and CTE major programs administered by PDE, we reviewed other auditors' reports to ascertain any impact on our state-level Single Audit for these four major programs. Our review disclosed that USDE OIG issued a report in March of 2010 (Report #ED-OIG/A03J00010) that disclosed major deficiencies in PDE's Comptroller Office internal controls for monitoring subrecipient cash management of Federal ARRA funds to ensure these funds were limited to immediate cash needs. In particular, USDE OIG auditors noted that the PDE Comptroller Office did not have adequate controls in place to prevent and detect whether LEAs within the above major programs were: 1) expending all the Federal cash advanced to them on a monthly basis (prior to receiving their next month's advance); 2) maintaining excess Federal cash balances; 3) earning quarterly interest in excess of \$100 on Federal funds; and 4) returning interest earned on these funds to USDE in accordance with the regulations.

For the major programs listed above, the Comptroller's Office issues monthly advance payments to each LEA based on the yearly allocation amount divided by the length in months of each subgrant. On a quarterly basis, each LEA is required to report to the Comptroller's Office total project expenditures through a "Reconciliation of Cash-on-Hand Report", which is certified by a responsible LEA official to be true and accurate. Future payments to each LEA are then adjusted by the Comptroller (up or down), as necessary each quarter. OIG noted that LEA's are only required to report expenditures in aggregate amounts, with no detailed expenditure information or documentation as support. Also, because the reconciliations do not occur on a more regular basis such as monthly, these Comptroller Office monitoring procedures are not adequate to minimize excess cash at the LEA level.

We also reviewed the most recent subrecipient OMB Circular A-133 Single Audit Report issued by Philadelphia School District, the largest LEA in Pennsylvania, for potential impact on our state-level Single Audit. As in prior years, we noted that Philadelphia SD continues to earn and improperly retain interest on excess Federal cash balances at the LEA level due to the deficiencies in internal controls at the state level noted above. We noted in the FYE June 30, 2008 subrecipient audit report that Philadelphia SD earned and improperly retained \$126,981 in interest on excess cash in the Title I program (along with \$94,213 in interest in the Reading First Program, which is a nonmajor program in our current-year state-level Single Audit) in violation of Federal cash management regulations.

Overall, the results of our current-year testwork demonstrate that PDE's internal controls over monitoring of LEA cash management in the above federal programs are deficient and need to be strengthened.

Criteria: 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:

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 40: (continued)

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.

34 CFR 80.37, Subgrants, states:

(a) *States. States shall follow state law and procedures when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local . . . governments. States shall:*

(4) *Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies.*

According to 34 CFR Section 76.702, *a State should use fiscal control and fund accounting procedures that ensure proper disbursement of and accounting for Federal funds. In addition, States are responsible for managing the day-to-day operations of grant and subgrant supported activities. States must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements (34 CFR Section 80.40(a)).* The Comptroller’s Office processes do not ensure that these requirements were being met.

According to 34 CFR Section 80.21(c), *“Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.”* Methods and procedures for payment should also minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR Part 205 (34 CFR Section 80.21(b)). If PDE or LEAs earn interest on advances that exceed \$100 in one year, they should promptly, but at least quarterly, remit this interest to the Department. LEAs may keep interest amounts up to \$100 per year for administrative expenses. These requirements are identified at 34 CFR Section 80.21(i), interest earned on advances.

Cause: PDE and Comptroller personnel believed their current LEA payment and cash management monitoring procedures were adequate and limited LEA cash to immediate needs; in addition, LEA cash is reviewed during OMB A-133 Single Audits of LEAs and during PDE close-out reviews after each grant ends.

Effect: PDE Comptroller’s internal controls over ensuring LEA compliance with federal cash management regulations are deficient, and provide little timely assurance that cash at the LEA level is being limited to immediate needs as required. In addition, interest earned is being improperly retained by LEAs in violation of federal regulations.

Recommendation: We recommend that PDE and the Comptroller Office:

- Develop and implement procedures to review LEA expenditures charged to ARRA and non-ARRA funds to determine whether the funds advanced were actually expended and whether the expenditures are reasonable, allowable, and properly supported prior to reimbursement.
- Develop and implement procedures to proactively monitor cash balances at LEAs on a more regular basis and minimize the time lapsing between the transfer of funds advanced to its LEAs and the disbursement of those funds by the LEAs.
- Issue fiscal guidance to LEAs on the excess cash and interest remittance requirements. This guidance should instruct LEAs on how to accurately calculate and timely remit interest.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 40: (continued)

- Develop and implement monitoring procedures to ensure that LEAs properly calculate and remit interest earned on all Federal cash advances.

Agency Response: The Pennsylvania Department of Education (PDE) and the Office of Comptroller Operations, Bureau of Commonwealth Accounting disagrees with this finding and believes that PDE is in compliance with all current policies. In March, the U.S. Department of Education (USDE), Office of Inspector General (OIG) issued the report entitled *Commonwealth of Pennsylvania Recovery Act Audit of Internal Controls over Selected Funds*. In this report, the OIG does not reveal material deficiencies or errors in PDE’s reporting or oversight, or violations of established controls, but rather includes recommendations directed to the USDE to improve reporting and oversight. The PDE has contacted USDE requesting a determination on the recommendations in the OIG Audit Report.

The PDE has developed a system which allows for both the prompt, fair and reasonable distribution of funds along with the monitoring of funds to ensure authorized purposes and minimize the accumulation of excess cash and interest. Prior to receiving funding, Local Educational Agencies (LEAs) are required to apply for project funding. An LEA’s project application identifies the types of activities to be performed, the expected length of the project, the amount of financial resources needed and a project budget for those resources. As a result, PDE has knowledge of the types of expenditures that will be incurred over the life of the project. Once PDE’s project review is fully complete, PDE approves the project and assigns an applicable funding source code. The projects funding is limited to one funding source. For example, if the project is ARRA related it will be funded solely by ARRA funds.

After a project has been approved by PDE, it is sent to Comptroller Operations for review and approval. Comptroller Operations reviews the project to ensure compliance with the applicable grant requirements. After Comptroller approval, the project is entered into PDE’s payment system and payments are disbursed monthly. LEAs are required to submit quarterly reports of cash-on-hand, which identifies accumulation of excess cash. Failure to submit these reports or accumulation of excess cash will stop future payments until the report has been submitted or the excess cash has been spent.

In addition to reviewing and approving applications and quarterly cash-on-hand reports, Comptroller Operations also reviews Subrecipient Single Audit Reports. The Comptroller has recently accelerated the timeliness of Subrecipient Single Audit reviews.

PDE is currently developing fiscal guidance that will be distributed to LEAs to instruct them on how to report and remit interest earned on excess cash.

The combination of the aforementioned procedures demonstrates PDE’s commitment to the objectives of the American Recovery and Reinvestment Act by allowing PDE to disburse funds in a prompt, fair, and reasonable manner while also ensuring funds are used for authorized purposes.

Auditors’ Conclusion: The statement in the Agency Response that “the OIG does not reveal material deficiencies or errors in PDE’s reporting or oversight or violations of established controls...” is not correct. The USDE OIG audit report referred to above specifically reported that the PDE Comptroller’s Office “*did not have adequate controls in place to prevent and detect...*” subrecipient cash management violations. The audit report also included **specific recommendations made by the USDE OIG** to PDE and its Comptroller’s Office to develop, strengthen, and implement new cash monitoring controls to better ensure LEA compliance. 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, 2009

Finding 09 – 41:

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

CFDA #84.389 – ARRA – Title I Grants to Local Educational Agencies

Noncompliance and Inadequate Controls Over PDE’s Consolidated State Performance Report and the Annual State Report Card (A Similar Condition Was Noted in Prior Year Finding #08-38)

Federal Grant Numbers: S010A080038A, S389A090038A

Condition: Title I federal education grant monies are enacted under the Elementary and Secondary Education Act (ESEA) as amended and by the No Child Left Behind (NCLB) federal legislation of 2002 as amended. Under ESEA and NCLB, Title I services are to be linked to state-determined performance standards that are expected of all children. To that end, assessment exams are given to students in an effort to identify and assist schools that do not make adequate yearly progress (AYP) towards meeting the standards.

PDE ensures that Local Education Agencies (LEAs) annually review the progress of each Title I school to determine whether the schools are making AYP. Under NCLB, the general rule is that LEAs and schools that do not make AYP for two consecutive years are identified for improvement, and are classified under a status called 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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 41: (continued)

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:

While reviewing the CSPR Overall, we noted 10 data fields in which PDE did not report required information. In place of the information PDE inserted the following comments; “Pennsylvania does not have this information...” “PDE did not collect this data...” “PA is experiencing significant data quality issues...” We conclude that the PDE is in noncompliance since the CSPR is incomplete.

For our testing of the 15 selected data fields on the CSPR, we noted the following two exceptions:

- PDE submitted incorrect data for item 1.9.2.5.2 Mathematics Assessments. Grade 5 # Homeless Children / Youths Served by McKinney – Vento Taking Mathematics Assessment Tests was reported as 272 while the actual number was 227.
- PDE could not determine how the information was determined for items 1.4.2 – Title I School Accountability, 1.4.4.1, List of Title I Schools Identified for Improvement, and 1.4.5.1, List of Districts That Received Title I Funds and Were Identified for Improvement. Further, PDE had difficulty determining who in the agency was responsible for these items. Therefore we could not determine the accuracy of these items as reported.

When reviewing the SRC for information required by the NCLB legislation, we noted that Section 2 “Professional Qualifications of Teachers” was excluded from the SRC. PDE said that they did not have the information at the time the report information was being collected so they submitted the report without that section. We conclude that PDE is in noncompliance since the SRC was incomplete.

Of the 15 fields we sampled and tested on the SRC, PDE provided some documentation to support the test items. However, even for the tested items in the CSPR and SRC that had supporting documentation, we call into question the accuracy of the data.

PDE indicated that it performs various automated data validation checks (i.e., record counts and control totals) and comparisons of year-to-year on test score data received from its outside contractor. PDE appears to have taken steps to better document these procedures. However, when asked to provide evidence of the checklist procedures, PDE could not produce anything but the signed checklist. No evidence of any of the procedures was maintained. The checklist contained no evidence that it was used or any other notations. Without documented evidence as to what type of review procedures were done, what comparisons of data were completed, what variances were investigated, and what the results were determined, we do not have reasonable documented evidence that any procedures were completed and therefore we question the validity of the data as provided from the vendor.

Based on the results above we reached the following conclusions:

- PDE has filed an incomplete CSPR with the USDE because sections of the report were left blank and not answered, and has filed an incomplete SRC because of missing 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, the CSPR was inaccurate for two of our 15 selected items.
- There is a lack of accountability within PDE as to who is responsible for the reports and the accuracy of the data submitted.

This is the sixth year in a row in which a similar finding has been issued regarding the CSPR and SRC reports under Title I.

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 41: (continued)

(h) Reports.

(1) Annual State Report Card.

(A) *In General.* Not later than the beginning of the 2002-2003 school year, unless the State has received a 1-year extension pursuant to subsection (c)(1), a State that receives assistance under this part shall prepare and disseminate an annual State report card.

(C) *Required Information.* The State shall include in its annual State report card—

(i) information, in the aggregate, on student achievement at each proficiency level on the State academic assessments described in subsection (b)(3) (disaggregated by race, ethnicity, gender, disability status, migrant status, English proficiency, and status as economically disadvantaged, . . .

(v) aggregate information on any other indicators used by the State to determine the adequate yearly progress of students in achieving State academic achievement standards;

(vii) information on the performance of local educational agencies in the State regarding making adequate yearly progress, including the number and names of each school identified for school improvement under section 1116; and

(4) *Annual State Report to the Secretary.* Each State educational agency receiving assistance under this part shall report annually to the Secretary, and make widely available within the State—

(A) beginning with school year 2002-2003, information on the State's progress in developing and implementing the academic assessments described in subsection (b)(3);

(E) the number and names of each school identified for school improvement under section 1116(c), the reason why each school was so identified, and the measures taken to address the achievement problems of such schools;

Cause: PDE depends heavily upon the outside vendors for the determination of schools making AYP and identifying schools in the improvement classification. 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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 41: (continued)

PDE management has instituted an Accountability Checklist and a Quality Control approval document. However, reasonable documented evidence of completing the checklist procedures must be maintained in file. In addition, PDE needs to strengthen and better document internal controls over the collecting, compiling, verifying accuracy, and reporting of data. Included in this effort should be the development of comprehensive written procedures to document the process. Procedures should include independent verification, supervisory review, and documented sign-offs. Audit trails should be documented that show individual and school data rolling-up into the summary data presented on the CSPR and SRC. Procedures, audit trails, data summaries, and reviews and approvals should be retained on file by PDE.

Agency Response: The Pennsylvania Department of Education (PDE) had initially addressed this finding in the Commonwealth Single Audit for year ending June 30, 2008. At that time, a Corrective Action Plan was instituted to address issues with the CSPR procedures and processes used by PDE. The following changes have occurred:

1. The Director of the Bureau of Teaching and Learning Support was named the Agency-Lead for the CSPR process.
2. The Agency Lead and a lead-person in the Division of Federal Programs met with PDE staff responsible for CSPR data submission in the fall of 2009 to discuss CSPR requirements and data quality.
3. Each individual responsible for data submission signed and submitted a state of quality assurance affirming that data submitted had been verified and was accurate to the best of their knowledge.
4. The Agency Lead has been notified on an on-going basis of data submission during the collection process and the CSPR was submitted as required by regulation.
5. The Division of Federal Programs lead-person maintains all source documents and the contact information for the data submitter.

The CSPR procedures and processes will be in compliance during the Commonwealth Single Audit for year ending June 30, 2010. The PDE Bureau of Assessment and Accountability will develop additional procedures for the State Report Card (SRC) and the PSSA data.

As a consequence of the PDE Bureau of Teacher Certification instituting a new system to collect Highly Qualified Teacher (HQT) data, the Bureau of Assessment and Accountability did not receive the HQT data until January of the following year and therefore could not include it in the SRC. This has been corrected and the 2009 HQT data is on the Report Cards.

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, 2009

Finding 09 – 42:

CFDA #84.010 – Title I Grants to Local Education Agencies

CFDA #84.367 – Title II Improving Teacher Quality State Grants

CFDA #84.389 – ARRA – Title I Grants to Local Education Agencies

Internal Control Deficiencies in PDE During-the-Award Monitoring of Title I and Title II Subrecipients (A Similar Condition Was Noted in Prior Year Finding #08-35)

Federal Grant Numbers: S010A080038A, S367A080051A, S389A090038A

Condition: During our current year Single Audit of the Title I and Title II major programs administered by PDE, we noted an internal control deficiency in which PDE, because of inadequate review and oversight, did not properly ensure that all Title I and Title II subrecipients were included in the three-year monitoring schedule covering fiscal years 07-08 through 09-10. We noted that 30 LEAs, consisting of 29 IUs and 1 charter school were not scheduled for a monitoring visit. Also, due to the timing and the completion of this audit, we know that these 30 LEAs were not monitored during the review cycle.

Additionally, we reviewed a separate USDE OIG ARRA report issued in March 2010 on PDE's administration of Title I ARRA funds. (Report #ED-OIG/A03J00010). That report disclosed major deficiencies in PDE's on-site fiscal monitoring controls over LEAs in the Title I program. In particular, USDE-OIG found that PDE did not implement adequate ARRA monitoring requirements in the monitoring instrument for the Title I program. The report noted that the monitoring instrument focused mainly on programmatic issues and lacked an adequate fiscal review of each subrecipient's use of Federal ARRA funds.

As noted above, PDE on-site monitors all LEAs on a three-year cycle per the approved state plan, and has made no changes to this monitoring cycle in response to the influx of ARRA funds from USDE. At this three-year monitoring rate, there will be numerous LEAs who will not receive an on-site monitoring visit until approximately three years after the end of the ARRA grant period. Effectively, PDE will not be monitoring material ARRA activity at the subrecipient level in a reasonably timely manner.

Finally, we reviewed a separate USDE OIG audit report "Philadelphia School District's Controls Over Federal Reporting" issued in January 2010. That report disclosed that the Philadelphia School District (PSD), which is by far the largest Title I and Title II subrecipient in the Commonwealth, did not have adequate fiscal controls in place to account for the Federal grant funds that were expended during the audit period of July 1, 2005 through June 30, 2006 which resulted in material expenditures in Title I and Title II grant funds that were either unallowable or inadequately supported. The audit disclosed that:

- 1) PSD needed stronger internal controls to better support millions in personnel expenditures routinely charged to Federal grants;
- 2) PSD inappropriately supplanted state and local funding with nearly \$7 million in Federal funds;
- 3) PSD did not have adequate controls in place to ensure that millions in non-payroll expenditures were allowable in accordance with Title I and Title II regulations and were adequately supported;
- 4) PSD's policies and procedures were not adequate and/or properly enforced for transaction processing, travel costs, imprest fund reimbursements, inventory tracking, and contracts.

PSD also did not have written policies and procedures for various fiscal processes including: monitoring of budgets, using Nonpublic Title II, Part A grant funds, purchasing from the office supplies vendor, charging of transportation costs, allocating single audit costs, and charging of indirect costs.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 42: (continued)

These numerous subrecipient audit findings further demonstrate that instances of material noncompliance are occurring with inadequate controls existing at the subrecipient level, and PDE's during-the-award Title I and Title II monitoring procedures are not adequate enough to prevent, detect, and correct them.

Criteria: The OMB circular A-133 Compliance Supplement Part 3 M. Subrecipient Monitoring states:

A pass-through entity is responsible for:

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

The Code of Federal Regulations (CFR) Parts 76 and 80 address the SEA's role in monitoring subrecipients. According to 34 CFR Section 76.702, "A State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds."

According to 34 CFR Section 80.40(a),

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

An effective internal control procedure should ensure that every LEA participating in Title I and Title II is scheduled and tracked for monitoring during the three-year cycle.

Cause: PDE maintains separate yearly monitoring schedules for Title I and Title II. They do not combine and review the schedules into one list of all LEAs to be monitored over the three-year cycle. By using separate schedules and failing to properly review them, PDE does not ensure that all LEAs are scheduled for monitoring.

PDE did amend the monitoring instrument to include ARRA for the Title I program; however, it focused mainly on programmatic issues. PDE's monitoring instrument did not include adequate procedures for the review of fiscal requirements. PDE believed the mandate that an LEA has a financial accounting and record keeping system which is subject to post-audit was adequate to ensure compliance with fiscal requirements. Regarding the other deficiencies noted above, PDE felt that its existing subrecipient monitoring procedures were adequate.

PDE management indicated that their on-site monitoring of PSD did not disclose the noncompliance noted in the USDE OIG Audit Report. Further, PDE management stated that OIG's audit of PSD occurred over a two year period and auditors tested a large number of transactions. PDE officials stated they do not have the time or manpower to perform such an extensive review at PSD.

Effect: Due to PDE's inadequate review and oversight, LEAs are not being properly scheduled to receive on-site visits to verify and ensure compliance with Title I and Title II regulations. In addition, the scheduling deficiencies led to 30 LEAs not being reviewed at least once during the review cycle. Consistent and regular on-site monitoring is critical to ensure LEA compliance with the various complex and detailed federal regulations.

Additionally, if the monitoring instrument does not include adequate fiscal components related to ARRA funding, PDE cannot be assured the LEAs are properly reporting complete and accurate information or spending funds in accordance with ARRA requirements. In addition, PDE is not monitoring ARRA funding in a timely manner.

For PSD, the largest subrecipient, noncompliance is occurring which is material to the Statewide Title I and Title II grants as a whole and inadequate fiscal controls exist at the subrecipient level which is not being prevented, detected, or corrected by PDE's during-the-award monitoring procedures.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 42: (continued)

Recommendation: 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 monitored on-site within the three-year cycle. In addition, PDE should develop and implement monitoring procedures that address all applicable ARRA requirements and perform more frequent on-site monitoring to ensure timely during-the-award monitoring of ARRA funding. We also recommend that PDE work closely with USDE program officials and make enhancements to its during-the-award monitoring procedures, especially at PSD – PDE’s largest subrecipient in Title I and Title II, which will better ensure timely prevention, detection, and corrective action on major issues noted in program monitoring.

Agency Response: The Pennsylvania Department of Education (PDE) disagrees with this finding and believes that PDE is in compliance with all current policies. In March, the U.S. Department of Education (USDE), Office of Inspector General (OIG) issued the report entitled *Commonwealth of Pennsylvania Recovery Act Audit of Internal Controls over Selected Funds*. In this report, the OIG does not reveal material deficiencies or errors in PDE’s reporting or oversight, or violations of established controls, but rather includes recommendations directed to the USDE to improve reporting and oversight. The PDE has contacted USDE requesting a determination on the recommendations in the OIG Audit Report.

OIG did not reveal any material deficiencies in existing procedures or errors in their report. OIG did not demonstrate that PDE, in any way, failed to meet OMB M-09-10 requirements, that PDE failed to follow USDE guidance, or that USDE guidance and oversight was insufficient.

The finding indicates that thirty (30) LEAs, consisting of twenty-nine (29) Intermediate Units (IUs) and one (1) Charter School (CS) were not scheduled for a monitoring visit. The CS was monitored during the 2009-2010 Fiscal Year and the 29 IUs will be monitored in September 2010. The PDE, Division of Federal Programs (DFP) has implemented additional controls to ensure monitoring compliance. The DFP works in conjunction with the Bureau of Community Services to obtain a list of the newly approved CSs and include them to the three (3) year monitoring cycle. A member of the Monitoring Team has been assigned to specifically oversee updates to the Monitoring Cycle List such as the newly approved CSs.

The PDE added three (3) additional requirements to the existing Title I, Part A, Review Instrument to address ARRA requirements. This information was added to the 2009-2010 Title I Review Instrument and included with the monitoring during this latest cycle. Additionally, Computer Aid Incorporated (CAI) was hired (due to PDE’s lack of capacity) as a consultant to create and carry out additional ARRA oversight. The CAI performs desk checks and onsite visits of all ARRA Subrecipients. As a result, when the Title I ARRA Grant concludes, all Subrecipients will have received monitoring of the program and fiscal requirement. LEAs identified as high risk will be monitored first, with visits taking place during the summer of 2010. The DFP staff has been working with the PDE’s Executive Stimulus Coordinator overseeing CAI.

The DFP has been providing assistance to the School District of Philadelphia (SDP) on implementing fiscal controls, procedures and oversight. A Corrective Action Plan, approved by USDE, has been prepared to begin the summer of 2010. The DFP will be working with SDP very closely to establish protocols to ensure budgets are monitored, expenditures are allowable and procedures are followed in accordance with regulations. The DFP will review expenditures before Quarterly Reports are submitted to the Office of Budget/Comptroller Operations and the Final Expenditure Reports are submitted to the DFP. The DFP will visit SDP on a monthly basis to review various compliance items that include awarding contracts, time and effort logs, expenditure lists and staff salaries. There will also be monthly conference calls to discuss updates or issues with DFP.

The monitoring of SDP will take place more than one time per year as a result of SDP’s audit findings. The annual programmatic review will still be performed along with an additional fiscal review. This will be ongoing through the year beginning with 2010-2011 Fiscal Year. This will ensure fiscal and program issues can be detected and remedied throughout the grant period.

Auditors’ Conclusion: PDE’s response states that the CS was monitored in the last year of the three year cycle (09-10), however, when asked by the auditors for the monitoring instrument, PDE stated that the response above was not accurate

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 42: (continued)

because the CS was not monitored in the three-year cycle. Also, the 29 IUs are scheduled to be monitored in September 2010, however, the monitoring cycle ended on June 30, 2010, therefore, they were not monitored in the required three-year cycle. No change to our finding/recommendation in this regard.

In addition, regarding the March 2010 USDE OIG audit report referred to above, PDE's statement in their agency response that "...the OIG does not reveal material deficiencies or errors in PDE's reporting or oversight..." is not accurate. The USDE OIG audit report specifically states that "...*the monitoring instruments used by PDE are not adequate...*"; the report details a list of specific weaknesses in PDE's subrecipient program monitoring procedures and provides recommendations to PDE for changes that need to be implemented.

For the other issues covered in our finding and in the agency response above, PDE's planned corrective actions are being implemented in the 2009-10 FY and are beyond the scope of our current FY 2008-09 audit, so our finding and recommendations do not change for our current year.

Based on the agency response, with the above clarifications, the finding and recommendations remain as previously stated. We will review PDE's corrective actions 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, 2009

Finding 09 – 43:

CFDA #84.027 – Special Education – Grants to States

CFDA #84.173 – Special Education – Preschool Grants

CFDA #84.391 – ARRA – Special Education – Grants to States

CFDA #84.392 – ARRA – Special Education – Preschool Grants

Noncompliance and Internal Control Deficiencies in PDE Monitoring of IDEA-B Subrecipients

Federal Grant Numbers: H027A080093, H173A080090, H391A090093, H392A090090

Condition: During our current year Single Audit of the IDEA-B and IDEA preschool major programs administered by PDE, we found an internal control deficiency in PDE’s monitoring of school district and charter school sub-recipients in that PDE did not require corrective action by its subrecipients on a timely basis. PDE performs on-site monitoring of sub-recipients on a six-year cycle to ensure compliance with program regulations. Standardized monitoring reports are completed for each on-site visit. During FYE June 30, 2009, PDE performed 124 on-site monitoring visits and we sampled 13 of the 124 on-site monitoring reports. Two of the 13 on-site monitoring reports disclosed that the LEA received IDEA-B grant funds for ineligible students. However, one LEA was allowed ten months to provide documentation to resolve the finding of ineligible students. During the ten month period, the LEA did not provide any mitigating documentation, and at the end of the ten-month period, PDE requested the LEA to remit reimbursement for the ineligible students. The other LEA with ineligible students was sent a letter on May 26, 2009 requesting overpayments be returned to PDE. The LEA remitted the overpayment back to PDE on January 22, 2010, nearly eight months later. The corrective action in both of these sampled cases was not reasonably timely.

We also found that PDE does not track refund amounts due back from LEAs in the IDEA-B programs as a result of on-site monitoring findings. Without a tracking system in place, PDE does not demonstrate proper oversight of the on-site monitoring corrective action resolution process to ensure LEAs properly and timely resolve all outstanding issues.

Additionally, we reviewed a separate USDE OIG ARRA report issued in March 2010 on PDE’s administration of IDEA-B ARRA funds. (Report #ED-OIG/A03J00010). That report disclosed major deficiencies in PDE’s on-site fiscal monitoring controls over LEAs in the IDEA-B program. In particular, USDE-OIG found that PDE did not implement ARRA monitoring requirements in the monitoring instrument for the IDEA-B program. The report noted that the monitoring instrument focused mainly on programmatic issues, excluding a fiscal review of each subrecipient’s use of Federal ARRA funds.

As noted above, PDE on-site monitors LEAs on a six-year cycle per the approved state plan, and has made no changes to this monitoring cycle in response to the influx of ARRA funds from USDE. At this monitoring rate, there will be LEAs who do not receive an on-site monitoring visit until approximately three years after the end of the ARRA grant period. Effectively, PDE would not be monitoring material ARRA activity at the subrecipient level in a reasonably timely manner.

Lastly, PDE did not include the federal award number in the IDEA-B contract riders to properly communicate such information to its subrecipients.

Criteria: The OMB circular A-133 Compliance Supplement Part 3 M. Subrecipient Monitoring states:

A pass-through entity is responsible for:

- Award Identification – At the time of the award, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 43: (continued)

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

The Code of Federal Regulations (CFR) Parts 76 and 80 address the SEA’s role in monitoring subrecipients. According to 34 CFR Section 76.702, “A State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds.”

According to 34 CFR Section 80.40(a),

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

Cause: According to PDE management, LEAs are given one year to implement corrective action. Also, LEAs are also given one year to return overpayments made for ineligible students.

PDE did not amend the monitoring instrument to include ARRA and fiscal monitoring because PDE believed the mandate that an LEA has a financial accounting and record keeping system was adequate to ensure compliance with fiscal requirements. Regarding the other deficiencies noted above, PDE felt that its existing subrecipient monitoring procedures were adequate.

Effect: If LEAs are permitted to retain funding for ineligible students for excessive periods of time, there is untimely enforcement of IDEA-B regulations, federal funds are at risk, and PDE is not collecting refunds back timely. Additionally, if LEAs are permitted to retain ineligible funding for up to one year, there could be an interest penalty associated with the questioned costs. Also, without an LEA on-site monitoring tracking system in place, PDE cannot assure all required corrective action is implemented and IDEA-B funds are properly collected back. PDE’s failure to include the federal award number in the IDEA-B contract riders could create confusion with subgrantees and their auditors when they are identifying the federal compliance requirements they must follow.

Additionally, if the monitoring instrument does not include a fiscal component, PDE cannot be assured the LEAs are complying with the fiscal requirements of the IDEA-B program. Also, PDE is not monitoring ARRA funding in a timely manner.

Recommendation: We recommend that PDE implement a tracking system to document and ensure that all required corrective action at the LEA level, including program refunds, is implemented in a timely manner. Additionally, we recommend that PDE require LEAs to demonstrate eligibility or immediately return funding for ineligible students. In addition, PDE should document and implement an ARRA and a fiscal component to the on-site monitoring document and perform more frequent on-site monitoring to ensure timely during-the-award monitoring of ARRA funding. Finally, we recommend PDE include the federal award number in all IDEA-B contract riders.

Agency Response: The Pennsylvania Department of Education (PDE), Bureau of Special Education (BSE) disagrees with this finding and believes that PDE is in compliance with all current policies. In March, the U.S. Department of Education (USDE), Office of Inspector General (OIG) issued the report entitled *Commonwealth of Pennsylvania Recovery Act Audit of Internal Controls over Selected Funds*. In this report, the OIG does not reveal material deficiencies or errors in PDE’s reporting or oversight, or violations of established controls, but rather includes recommendations directed to the USDE to improve reporting and oversight. The PDE has contacted USDE requesting a determination on the recommendations in the OIG Audit Report.

The BSE has implemented a special education monitoring system that has been approved by the USDE, Office of Special Education Programs (OSEP). To date, there are no federal or state special education regulations that specifically direct a timeline for corrective action for non-compliance cited as part of special education monitoring. The OSEP has

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 43: (continued)

issued guidance (OSEP Memorandum 09-02, Attached) that requires all citations of noncompliance, including monitoring citations, must be corrected within one year of the date of the identification of the noncompliance to be viewed as timely correction. The BSE has implemented the OSEP timeline regarding timely correction. Implementing a shorter corrective action timeline would provide districts a valid basis to challenge other than what is currently required by OSEP.

The statement included in the finding that "...PDE does not track refund amounts due back from LEAs in the IDEA-B programs as a result of the on-site monitoring corrective action resolution process to ensure LEAs properly and timely resolve all outstanding issues" is **inaccurate**. As documented by the first paragraph of the finding, the BSE has submitted documentation of all requested reimbursements cited in noncompliance in the LEAs monitoring reports. The BSE acknowledges that this tracking system is a paper tracking system and is not a database. The BSE will therefore accept and act on the recommendation to implement a database system of tracking program refunds for the 2010/2011 school year.

Lastly, the 2009/2010 IDEA-B Contract Riders were approved and finalized prior to the March 2009 guidance to include the federal award number. However the award number will be included in the 2010/2011 Riders.

Auditors' Conclusion: PDE believes our finding to be inaccurate regarding a lack of tracking requested reimbursements. However, during the course of our audit, we requested a listing of refund amounts due back from IDEA-B subgrantees. According to management, the refund amounts due back were unknown and a review of all files had to first be performed by PDE to summarize amounts due back. Therefore, we reasonably concluded that refunds are not being adequately tracked and monitored by PDE.

Additionally, we believe that all potential monetary disallowances should be investigated and followed up on right away, and then reimbursed as soon as possible, without allowing subgrantees to retain ineligible funds for up to 12 months. This practice appears unreasonable.

Finally, regarding the March 2010 USDE OIG audit report referred to above, PDE's statement in their agency response that "...the OIG does not reveal material deficiencies or errors in PDE's reporting or oversight..." is not accurate. The USDE OIG audit report specifically states that "...*the monitoring instruments used by PDE are not adequate...*"; the report details a list of specific weaknesses in PDE's subrecipient program monitoring procedures and provides recommendations to PDE for changes that need to be implemented.

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

The 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, 2009

Finding 09 – 44:

CFDA #84.048 – Career & Technical Education – Basic Grants to States

Inadequate Controls at PDE Over Exceeding Maximum Earmarking Requirements in the CTE Program

Federal Grant Number: V048A060038A

Condition: Our testing of earmarking requirements in the CTE program found that PDE exceeded a maximum earmarking requirement by \$9,504. One of the earmark requirements in CTE program grant #V048A060038A, which ended on September 30, 2008, limits expenditures for the Institutionalized Portion of State Leadership Activities to 1 percent of the total grant award, or \$455,763. PDE expended \$465,267 for the Institutionalized Portion of State Leadership, or \$9,504 more than allowed.

Criteria: 20 USC Sec. 2322. Within State allocation states:

(a) In general

From the amount allotted to each State under section 2321 of this title for a fiscal year, the eligible agency shall make available--

(2) not more than 10 percent to carry out State leadership activities described in section 2344 of this title, of which--

(A) an amount equal to not more than 1 percent of the amount allotted to the State under section 2321 of this title for the fiscal year shall be made available to serve individuals in State institutions, such as State correctional institutions and institutions that serve individuals with disabilities

Cause: The earmark maximum requirement was exceeded because PDE did not ensure a budget was properly input into SAP which would have limited expenditures to the specific CTE earmark for that SAP fund.

Effect: Without ensuring the budget is properly input into SAP to comply with earmarking requirements, PDE over spent CTE grant funds for the Institutionalized Portion of State Leadership Activities by \$9,504. Additionally, PDE could exceed other CTE program maximum earmarks in the future if budgets are not properly monitored and input into SAP. (For the current year, we do not question costs since known and likely questioned costs are less than \$10,000.)

Recommendation: We recommend that PDE properly monitor and ensure that budgets are properly input into SAP in accordance with CTE grant earmarking requirements. Also, PDE should periodically monitor CTE grant expenditures versus earmarking limitations to ensure compliance with grant requirements when grants end.

Agency Response: The Pennsylvania Department of Education (PDE), Bureau of Career and Technical Education has implemented monitoring procedures that ensure the Career and Technical Education funds will not be exceeded in a given category.

The auditors did not discover this oversight during the review of the Commonwealth Single Audit for year ended June 30, 2007 or June 30, 2008 even through the error occurred during the 2006-2007 Fiscal Year. The PDE's Division of Fiscal Management discovered this error and ensured that the 1 percent requirement was met in subsequent years. Funds have not been exceeded since the 2006-2007 Fiscal Year. The PDE internal controls are effective.

The Bureau of Career and Technical Education will continue to work with the Office of Budget/Comptroller Operations and the Bureau of Budget and Fiscal Management to ensure fund amounts are entered into SAP in accordance with Perkins Grant earmarking requirements.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 44: (continued)

Auditors' Conclusion: We disagree with PDE's response stating the auditors did not discover this error in prior audits and that PDE discovered this error. The auditors cannot verify compliance with earmarks until a grant has closed. The auditors reviewed the closed grant expenditure levels versus allowable earmarks for the grant that closed during the current audit period, FYE June 30, 2009. The auditors discovered this error and brought it to the attention of PDE during the course of the audit. Had PDE discovered this error in a prior year, PDE should have made appropriate adjustments to move expenditures to state ledgers to eliminate the earmark violation, or reported the error to USDE and to the auditors for timely resolution. We believe the error was made and not detected or corrected by PDE due to the significant control weakness reported in the finding, so our 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, 2009

Finding 09 – 45:

CFDA #84.126 and #84.390 – Vocational Rehabilitation Cluster

A Control Deficiency Exists Over the Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA (A Similar Condition Was Noted in Prior Year Finding #08-40)

Federal Grant Numbers: H126A090056, H126A080056, H126A070056, and H390A90056 (ARRA)

Condition: As part of rehabilitating Social Security beneficiaries, OVR is permitted to request reimbursement from SSA for the costs incurred while serving eligible vocational rehabilitation clients in the VR Cluster. These SSA reimbursements are considered program income to the VR Cluster and deducted from expenditures reported on the SEFA. OVR received approximately \$1.5 million in program income from SSA during the state fiscal year ended June 30, 2009, 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, 2009, we selected five clients' reimbursement requests, which totaled \$256,738 in VR Cluster program income for the year. These five claims were part of the largest Refund of Expenditure Document (No. RE94050244 totaling \$589,185) posted to the SAP System as VR program income during the current year (under Federal grant number H126A080056 on July 23, 2008). However, for the fourth year in a row, OVR could not provide complete documentation supporting the VR Provider Claim forms for our review. In particular, our testwork disclosed that for two clients out of the five clients sampled, OVR did not retain and provide the OVR-208 Forms which were required to support \$9,722 of direct costs claimed for the two clients in question.

Criteria: 34 CFR 80.20 provides the following standard for financial management:

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

34 CFR 80.42 regarding record retention states:

(b) *Length of retention period. (1) ...records must be retained for three years...*

(c)(3) *Records for income transactions after grant or subgrant support. In some cases grantees must report income after the period of grant support. Where there is such a requirement, the retention period for the records pertaining to the earning of the income starts from the end of the grantee's fiscal year in which the income is earned.*

Cause: OVR personnel stated that in response to the prior year finding, they began to implement procedures to retain copies of the claim documentation at the OVR Central Office and copies of the OVR-208 Forms in the respective clients' case files at the district offices to ensure that the documentation is retained and available for audit purposes. However, at the time the claims in question were prepared, these procedures were not yet in place.

Effect: Since complete documentation was not retained to substantiate the proper determination of the SSA claims for program income recorded for the VR Cluster in violation of federal regulations, OVR provides limited assurance that the SSA income received by L&I in the VR Cluster for these items was correct and legally earned in the current year. In addition, without adequate procedures for properly documenting the VR Claim Forms submitted to SSA, there is limited assurance that future claims (including any future VR program income claims that are made after June 30, 2009 involving Pennsylvania's ARRA award under CFDA #84.390) will be adequately supported.

Recommendation: OVR should implement procedures to ensure that all VR Provider Claim forms and supporting documents which substantiate the proper determination of the claim for reimbursement are retained for the time period required by the Federal government.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 45: (continued)

Agency Response: The case files in question cover multiple years where adequate procedures were not yet in place to retain copies of SSA claim documentation. As indicated in prior findings OVR began to implement procedures to retain copies of claim documentation at the OVR central office and copies of the OVR-208 forms in the client files at the district offices. Also SSA did not dispute or reject any of the questioned claims and found the supporting documentation to be sufficient to pay these claims. These forms are now kept electronically in CWDS.

Auditors' Conclusion: Since OVR could not provide complete documentation to support the VR Provider Claim forms which we selected for testing in the current audit period, the finding and recommendation remain as stated. OVR's statement that SSA did not reject the questioned claims is not relevant to our finding since SSA does not perform an on-site audit of submitted claims and does not review the completed supporting documentation that is part of our Single Audit. We will review any corrective action in the subsequent audit.

The 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, 2009

Finding 09 – 46:

CFDA #84.126 and #84.390 – Vocational Rehabilitation Cluster

A Control Deficiency Exists in L&I's Procurement System Related to Debarment and Suspension (A Similar Condition Was Noted in Prior Year Finding #08-41)

Federal Grant Numbers: H126A070056, H126A080056, H126A090056, and H390A090056 (ARRA)

Condition: As a result of federal resolution of multiple prior Single Audit findings on debarment and suspension requirements, which have been reissued annually since SFYE June 30, 1992, OVR is required to check all vendors receiving \$25,000 or more of VR Cluster funding during the fiscal year for suspension/debarment. As part of our current year testing in this area, we determined that OVR's procedures are to only check new vendors or vendors which required a change in contact information (for example, address or phone number) against the Federal Excluded Parties List System (EPLS) website to ensure they are not suspended or debarred. OVR performs this check when the vendor is first input into L&I's Commonwealth Workforce Development System (CWDS) or when vendor contact information is updated in CWDS, but does not have procedures to re-verify the status of these vendors or other existing vendors on an on-going basis. We consider this to be inadequate. In addition, OVR did not have procedures in place to identify those vendors who receive VR Cluster funds of \$25,000 or more (the federal contract threshold) which requires OVR to then check the EPLS website to ensure that such vendors are not debarred or suspended.

We tested a sample of 23 vendors receiving VR Cluster payments under federal grant numbers H126A080056 and H126A090056 in SFYE June 30, 2009, to verify whether OVR checked the respective vendor against the debarment list prior to making payments to that vendor. For all 23 items tested, OVR provided us with a screen from the CWDS system which indicated that the vendors were verified against the EPLS system, supposedly (according to OVR's established procedures) only when they were new or when there was a change in contact information which, as stated above, we consider inadequate. Furthermore, for 15 out of 23 items, the "Debarment List Verify Date", as indicated in OVR's CWDS system, was after the date of the payment being tested. OVR personnel stated that these 15 vendors were not new, but had contact information that was updated in CWDS, so the EPLS was re-checked by OVR. However, there was no other documentation supporting that debarment/suspension was checked at any earlier date (e.g., when each vendor was new) before payments, which we also consider inadequate.

Criteria: USDE Regulation 34 CFR 85 regarding government-wide debarment and suspension, states in part:

Section 85.220 Are any procurement contracts included as covered transactions?

(a) Covered transactions under this part –

(1) Do not include any procurement contracts awarded directly by a Federal agency, but

(2) Do include some procurement contracts awarded by non-Federal participants in nonprocurement covered transactions (see appendix to this part).

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

(1) The contractor is awarded by a participant in a nonprocurement transaction that is covered under §85.210, and the amount of the contract is expected to equal or exceed \$25,000.

Section 85.300 What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

(a) Checking the Excluded Parties List System; or

(b) Collecting a certification from that person if allowed by this rule; or

(c) Adding a clause or condition to the covered transaction with that person.

34 CFR 80.35 states the following regarding subawards to debarred and suspended parties:

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 46: (continued)

Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension."

34 CFR 80.36(a) states:

When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Commonwealth Management Directive 215.9, Section 7.a.(2)(B), dated 4-16-99, states:

If the agency makes a written determination of responsibility, the determination shall contain a statement that the contractor was determined to be responsible pursuant to this directive. This statement shall be included in the agency's contract file.

Cause: OVR personnel indicated that they attempted an interface to check the debarment more timely and more frequently for existing vendors, but due to technology limitations, they were not able to implement the feature into CWDS. In addition, OVR personnel indicated they were unaware of the federal requirement to identify and check on vendors who received payments of \$25,000 or more during a contract. Regarding the vendors that were checked after the date of the payment, OVR personnel indicated that contact information was updated in CWDS for these vendors. OVR personnel stated that OVR's policy is to perform an EPLS verification when an informational update occurs.

Effect: Since OVR personnel are not ensuring, on an ongoing basis, that all vendors which receive payments of \$25,000 or more during a contract are not suspended or debarred before entering into a covered transaction, they are not complying with federal regulations and a control deficiency exists. Also, there is limited assurance that VR Cluster funds (including ARRA) are not paid to service providers who have been excluded or disqualified from participating in federal programs.

Recommendation: We recommend that OVR personnel work with RSA, the federal awarding agency, and establish procedures to identify all outside vendors in the VR Cluster which receive, or are expected to receive, payments of \$25,000 or more during a contract and to check the Federal Excluded Parties List System prior to authorizing a payment to these VR Cluster service providers in order to ensure that the service provider is not debarred or suspended. Additionally, OVR should retain documentation of all EPLS verifications so they are available for auditor review.

Agency Response: An interface was established utilizing OVR's CWDS system and the Federal Debarment EPLS web site. This interface never worked because the Federal Debarment EPLS web site provided inaccurate data resulting in the L&I OVR providers showing as inactive.

In a near future CWDS update/release, all contracts and all invoices, will require language whereby the vendor will certify they are not suspended or debarred from participating in any federal programs or receiving any federal funds.

We are also currently working on a feature to generate a report that will reflect all vendors that are potentially debarred. OVR staff will then manually verify these vendors.

Auditors' Conclusion: As we stated in the finding recommendation, OVR should work with RSA to help ensure that any new procedures which OVR implements related to debarment/suspension will be adequate to ensure compliance with federal regulations and RSA guidance. We will evaluate any corrective action during the subsequent audit. The finding and recommendation remain as stated.

The 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, 2009

Finding 09 – 47:

CFDA #84.126 and #84.390 – Vocational Rehabilitation Cluster

A Control Deficiency Exists in L&I's Procedures for Performing Eligibility Determinations

Federal Grant Numbers: H126A070056, H126A080056, H126A090056, and H390A090056 (ARRA)

Condition: As part of the VR Cluster, OVR purchases vocational rehabilitation services from vendors to be provided to OVR clients. During our audit we randomly selected a sample of 31 payments to vendors made for the benefit of OVR clients totaling \$31,447 (federal portion only) of the \$56,272,449 charged to the VR Cluster under federal grant numbers H126A080056 and H126A090056 in SFYE June 30, 2009. Our review of the 31 OVR client case files disclosed that for three clients for whom VR Cluster payments were made in the amount of \$7,839, although the clients appeared to be eligible for participation in the VR Cluster, OVR personnel did not make eligibility determinations within 60 days after the VR Cluster application date or by the agreed upon extension date as required by federal regulations. Eligibility determinations for the three clients in question occurred 31, 70, and 76 days, respectively, after the 60 day eligibility determination period or agreed upon extension period expired, which was in violation of federal regulations.

Criteria: USDE Regulation 34 CFR 361 regarding the State Vocational Rehabilitation Services Program states in part:

Section 361.41 Processing referrals and applications.

(a) Referrals. The designated State unit must establish and implement standards for the prompt and equitable handling of referrals of individuals for vocational rehabilitation services, including referrals of individuals made through the One-Stop service delivery systems established under section 121 of the Workforce Investment Act of 1998. The standards must include timelines for making good faith efforts to inform these individuals of application requirements and to gather information necessary to initiate an assessment for determining eligibility and priority for services.

(b) Applications. (1) Once an individual has submitted an application for vocational rehabilitation services, including applications made through common intake procedures in One-Stop centers established under section 121 of the Workforce Investment Act of 1998, an eligibility determination must be made within 60 days, unless-

(i) Exceptional and unforeseen circumstances beyond the control of the designated State unit preclude making an eligibility determination within 60 days and the designated State unit and the individual agree to a specific extension of time; or

(ii) An exploration of the individual's abilities, capabilities, and capacity to perform in work situations is carried out in accordance with section 361.42(e) or, if appropriate, an extended evaluation is carried out in accordance with section 361.42(f).

Cause: OVR personnel were unable to provide an explanation for the late eligibility determinations.

Effect: Since OVR personnel do not have adequate procedures in place to ensure that client eligibility determinations are made within 60 days of the application date or within the specific time period extension agreed upon by the client, OVR is not in compliance with federal regulations and a control deficiency exists. Also, there is limited assurance that OVR clients are receiving necessary VR Cluster services (including ARRA) on a timely basis.

Recommendation: We recommend that OVR personnel establish procedures to ensure that client eligibility determinations are made within the 60 day period subsequent to the application date or within the specific time period extension agreed upon by the client to ensure compliance with federal regulations.

Agency Response: In response to the audit finding regarding a control deficiency in OVR's procedure to perform eligibility determination for the VR program OVR has the following abilities currently in place to allow staff to monitor the time frames related to eligibility determinations:

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 47: (continued)

1. Within the Commonwealth Workforce Development System (CWDS) staff have the ability to use reminder lists for various mandated case progression time frames including a 45 day reminder for cases currently in Status 02 needing to be moved to Status 10 (Eligible) or in need of an extension.
2. Within the CWDS Ad Hoc reporting System a report (AH1000) has been developed and deployed that allows staff to run a report that will provide them with a list of various case statuses (per case manager or per office) that are approaching case progression time frames. This report works similar to the reminder lists, but provides a variety of statuses instead of having to search per status.
 - a. NOTE: OVR will also have additional capability with this feature after July 10, 2010 when the OVR Time Extension Form fields will be available in the CWDS Ad Hoc Universe. As a result, we will be able to edit the AH1000 report to allow it to account for cases in Status 02 (with or without a time extension) to inform staff that the case progression time frame is approaching.

Moving forward, OVR will send an email by July 1, 2010 with additional instructions on how to use both the Reminder List function and AH1000 Ad Hoc Report within CWDS. OVR will also include a reminder to staff indicating the policy citation regarding timely status progression as it applies to this and other statuses and ask that supervisory staff closely monitor these statuses to help to ensure compliance with RSA regulations.

Auditors' Conclusion: Based on the agency response, it appears that OVR is in agreement with the auditors' finding and recommendation. No information was provided to mitigate or eliminate the condition for the three clients noted above. 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, 2009

Finding 09 – 48:

CFDA #84.126 and #84.390 – Vocational Rehabilitation Cluster (including ARRA)

Control Deficiencies Exist in L&I's Procedures for Awarding ARRA Funding and Subgrants Resulting in Questioned Costs of \$405,675

Federal Grant Numbers: H126A070056, H126A080056, H126A090056, and H390A090056 (ARRA)

Condition: As part of the VR Cluster, OVR subgranted ARRA funding totaling \$218,880 to a private nonprofit association under federal grant number H390A090056 during SFYE June 30, 2009 for the purpose of establishing a two-week summer camp on the grounds of the State-Owned Hiram G. Andrews Center (HGAC) for blind or visually impaired OVR clients in order to assist them in their transition from high school to higher education. This contract totaling \$218,880 comprised the total ARRA expenditures incurred under the VR Cluster for SFYE June 30, 2009. Our review of the subgrant contract and budget disclosed the following:

- OVR did not comply with federal regulations since the contract did not identify the correct ARRA Federal award information such as the CFDA title and number and federal grant award name and number. In fact, the OVR contract erroneously identified the CFDA number of the funding as #84.126 instead of #84.390.
- Our review of the ARRA contract disclosed that OVR was billed a total of \$96,860 for equipment, including laptop computers, computer monitors, software, and related items. Our testing of several large-dollar items for equipment expenditures totaling \$92,010 disclosed that OVR was able to provide supporting invoices in the total amount of only \$54,039, which resulted in an unsupported difference of \$37,971. Therefore, it appears that OVR was overbilled for equipment in the amount of \$37,971.
- Our review of the ARRA contract disclosed that OVR was billed a total of \$45,000 for room and board for 25 clients and 5 staff members for the two week summer camp at HGAC. In comparison, our review of the federally-approved HGAC cost allocation plan for SFYE June 30, 2009 disclosed that HGAC was permitted to bill OVR \$39 per day per OVR client for dormitory and dietary services. When the auditor applied the \$39 daily rate to 25 clients and 5 staff members for 14 days, the total allowable amount for room and board was calculated to be \$16,380. Therefore, it appears that OVR was overbilled for room and board by \$28,620, which was the difference between the \$45,000 billed in the contract and the \$16,380 permitted based on the billing rate in the HGAC cost allocation plan.
- Our review of the ARRA contract disclosed that OVR was billed a total of \$17,500 for program supplies. OVR was able to provide invoices or receipts for only \$5,998, which resulted in an unsupported difference of \$11,502. Therefore, it appeared that OVR was overbilled for supplies by \$11,502. In addition, our review of the invoices and receipts totaling \$5,998 disclosed that some of the purchases appeared to be questionable in nature, such as car wash mitts, board games, water noodles, balloons, greeting cards, and party favors, among other items. These were not supported by any documentation to reasonably demonstrate that they were program-related.
- Our review of the ARRA contract disclosed that the nonprofit subrecipient's role was inadequately documented and extremely unclear. A list of duties and the corresponding responsible parties which was included in the contract indicated that either the OVR Bureau of Blindness and Visual Services (BBVS) or HGAC was partially responsible for every duty listed, in comparison to the subrecipient which was only partially responsible for some of the duties listed. We also noted that the summer camp was held at the state-owned HGAC, and the equipment purchased under the contract still remains at HGAC. Therefore, it appears that the involvement of the nonprofit subrecipient was not necessary to the execution of the contract.

Therefore, based on our detail testing of this subgrant contract, a total of \$78,093 in subgranted costs was determined to be unallowable.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 48: (continued)

In addition, per guidance from USDE-RSA personnel, subgrants are not allowable costs under the Vocational Rehabilitation Cluster. OVR charged the \$218,880 cited above as subgrants to CFDA #84.390 under federal grant number H390A090056 and also charged an additional \$186,795 as subgrants to CFDA #84.126 under federal grant numbers H126A070056, H126A080056, and H126A090056, for a total amount charged of \$405,675 during SFYE June 30, 2009. Total VR Cluster expenditures reported on the SEFA were \$117,152,539 during SFYE June 30, 2009.

Criteria: OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, Attachment A, General Principles for Determining Allowable Costs, states in part:

C. Basic Guidelines.

1. *Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:*
 - a. *Be necessary and reasonable for proper and efficient performance and administration of Federal awards.*
 - j. *Be adequately documented.*

USDE Regulation 34 CFR 76 regarding State-Administered Programs states in part:

Section 76.50 Statutes determine eligibility and whether subgrants are made.

(a) Under a program covered by this part, the Secretary makes a grant:

- (1) To the State agency designated by the authorizing statute for the program; or*
- (2) To the State agency designated by the State in accordance with the authorizing statute.*

(b) The authorizing statute determines the extent to which a State may:

- (1) Use grant funds directly; and*
- (2) Make subgrants to eligible applicants.*

(c) The regulations in part 76 on subgrants apply to a program only if subgrants are authorized under that program.

(d) The authorizing statute determines the eligibility of an applicant for a subgrant.

Per guidance from USDE-RSA personnel, 34 CFR 76.50 permits subgrants in a program only if subgrants are authorized under that program. USDE-RSA personnel stated that the Vocational Rehabilitation Cluster is authorized under Title I of the Rehabilitation Act of 1973, as amended, which does not expressly permit the subgranting of funds. Therefore, subgrants are not allowable under the Vocational Rehabilitation Cluster.

Cause: It appeared that the primary cause of the wrong CFDA number was that the ARRA funding was awarded to the entity via an amendment to an existing state-funded contract with the entity, as opposed to being awarded via a new contract with conditions and terms specific to the ARRA funding. Regarding the supplies in question, OVR personnel stated that the supplies were used for team building, self-esteem, and confidence building exercises for summer camp participants during evening and weekend activities at the camp. Regarding the necessity of the subrecipient's involvement in the summer camp, OVR personnel stated that it was critical for the camp's success to employ resident assistants and one resident director. OVR personnel stated that BBVS cannot hire resident assistants since BBVS does not use that job title, but the subrecipient is a contracted agency specializing in this type of service. Therefore, OVR indicated that the subrecipient's involvement was required in order to hire the resident assistants.

Effect: Since OVR's award of ARRA funding and subgrants was not in compliance with federal regulations, a minimum of \$78,093 in subgranted costs is questioned as unallowable based on our detail testwork. In addition, total subgranted costs of \$405,675 (including the \$78,093) are not authorized within the VR Cluster and further questioned as

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 48: (continued)

unallowable. Furthermore, a control deficiency exists since OVR personnel do not have adequate procedures in place to ensure that ARRA grants are expended in compliance with federal regulations and that VR Cluster grants are not inappropriately used to fund subgrants.

Recommendation: OVR should pursue settlement of the questioned costs of \$78,093 and \$405,675 with USDE. In addition, we recommend that OVR personnel establish procedures to ensure that VR Cluster awards (including ARRA) are expended in accordance with federal regulations.

Agency Response: The summer camp funds were originally going to be paid using regular Basic Support money. OVR later decided to use ARRA funds for the summer camp and paid PAB \$218,879.80 on May 6-2009. In the beginning OVR properly identified the Federal award at the time when we switched from Basic Support to ARRA Basic Support there was no requirement to identify ARRA federal awards by federal grant award name and number. The ARRA rules and regulations were changing on a daily basis. Going forward to the current Summer Camp these requirements and notifications have been followed. OVR asks that this part of the finding be dismissed.

Attachment Project Costs \$65,961.00 ARRA Summer Camp shows that the budgeted amount of \$96,860.00 was reduced to actual costs of \$65,961.00. The attachment also includes all supporting invoice documentation to support the \$65,961.00. OVR was not over billed for equipment and is asking that this part of the finding be dismissed.

Attachment Room and Board \$45,000.00 ARRA Summer Camp shows a budget amendment of \$3,100.00 for room and board for a final expense total of \$48,100.00. The attachment also has a general invoice and a breakdown of the \$48,100.00. OVR was not over billed for room and board and is asking that this part of the finding be dismissed.

Attachment Program Supplies \$6,888.19 shows actual expenditures of \$6,888.19 for program supplies. Also in the attachment is the documentation for the actual expenditures. In response to questionable purchases BBVS employs rehabilitation teachers to assist blind children/adults in learning to live independently. The supplies listed above were utilized for team building, self-esteem and confidence building exercises during evening and weekend activities e.g. water noodles/party favors and balloons were used for specific team building activities where the students working in teams had to utilize analytical skills to devise strategies to accomplish outlined goals such as, constructing the highest freestanding water noodle tower, utilizing the noodles and masking tape. One of the focuses of the program was to encourage literacy skills. Board games purchased were in a braille accessible format designed to stimulate educational, social and academic advancement. Greeting cards were used by the Rehabilitation Teachers to instruct students in properly completing address labels using writing/signature guides for mailing letters. Car wash/oven mitts were used during rehabilitation instruction for removing hot items from ovens for daily living instruction and cleaning activities. These activities are essential skills for students who are blind or visually impaired to master in order to be successful in their transition to college level instruction and preparation for employment. The products used by Rehabilitation Teachers during the Summer Academy program are products used regularly in providing instructional services to BBVS customers. A complete copy of the Instructional Services curriculum is available if required. With this response OVR is asking that this part of the finding be dismissed.

PA Training Technical Assistance Network, part of the PA Department of Education, Bureau of Special Education is a partner in the summer academy. PATTAN's mission is to support the special education needs of students with disabilities. PATTAN shared services providing assistive technology instructors to teach the students how to use screen reading software, large print applications and other assistive technology to prepare students for post secondary education and employment. PATTAN staff working on the project were compensated through PATTAN. It was critical for the success of the program and safety of the students to employ Resident Assistants (RA) and 1 Resident Directors and 1 Assistant Director to manage the students with visual impairments in the evenings and on weekends. Also RA's served as Para professionals helping the participants get from class-to-class and complete assignments. RA's were former OVR customers that have completed a post secondary program, further providing mentoring direct and indirect learning opportunities. BBVS cannot hire RA's for we do not use that job description/title. The Association for the Blind is a contract agency specializing in these types of specialized services for residents of PA who are experiencing vision loss. BBVS could not hire RA's and HGAC was not able to provide staff during the program. With this response OVR is asking that this part of the finding be dismissed.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 48: (continued)

The attachment GL Posting has a spread sheet showing that on December 2, 2009 \$218,880 in expenditures was moved from sub grant expenditures to general operation expenses. OVR is in the process of moving the \$186,795 from subgrants to operational expenses. Until this time and for many years prior, all expenses were recorded as sub grants. The single audits that were conducted for those prior years never found OVR's coding to be in violation of any Federal regulations. OVR is asking that this part of the finding be removed.

Auditors' Conclusion: All the corrective actions and changes in budgeted and actual contract costs noted in the above agency response vs. the amounts in our finding occurred after our current audit period ended June 30, 2009. In fact, we learned that \$63,421 in original contract costs were paid back to OVR by the subrecipient on May 28, 2010, or nearly a year after our audit period, after OVR became aware that we were auditing these costs and potentially questioning their allowability as charges to the VR Cluster.

However, these subsequent adjustments by OVR do not change the audit exceptions noted in our finding that took place during our audit period at the time the contract was awarded and when the costs were incurred and charged to the VR Cluster. In addition, they do not change the internal control weaknesses that existed during the current audit period that led to the exceptions. We conclude that USDE federal resolution officials should review OVR's administration of this ARRA contract, the costs originally charged during our audit period, and any subsequent corrections/refunds to budgets and costs made by OVR after-the-fact. Therefore, there is no change to our recommendation that OVR pursue settlement of the questioned costs with USDE.

Furthermore, while the agency response provides after-the-fact detailed explanations for charging supplies to the contract, OVR needs to include this detailed information in its documentation to support contract costs when they are incurred and charged to the VR Cluster.

Regarding the inadequately documented and unclear role of the subrecipient, we are not referring to PATTAN since PATTAN was not the subrecipient being paid the contract costs. No additional information or documentation was provided by OVR to resolve this part of the finding.

Regarding OVR's subsequent moving of expenditures from their original subgrantee account on the accounting system into a general operational expense account, this will not change the substance of OVR's business relationship with the outside entity which could be that of a subrecipient, as defined by federal officials. Since, however, as disclosed above, the roles and duties of the subrecipient were not adequately documented in the contract file, it is difficult to readily determine this relationship. As a result, like the other questioned costs noted above, we conclude that USDE federal resolution officials should review this contract along with OVR's business relationship, and determine the allowability of the related costs charged to the VR Cluster.

Therefore, based on the agency response, our finding and recommendation, with the above clarifications, remain as previously stated. We will review any corrective action, 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, 2009

Finding 09 – 49:

CFDA #93.044 – Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers

CFDA #93.045 – Special Programs for the Aging – Title III, Part C – Nutrition Services

CFDA #93.053 – The Nutrition Services Incentive Program

CFDA #93.705 – ARRA – Aging Home – Delivered Nutrition Services for States

CFDA #93.707 – ARRA – Aging Congregate Nutrition Services for States

PDA Monitoring of AAA Subrecipients Needs Improvement

Federal Grant Numbers: 09AAPAT3SP, 08AAPAT3SP, 07AAPAT3SP, 09AAPANSIP, 08AAPANSIP, 09AAPAC1RR (ARRA) and 09AAPAC2RR (ARRA)

Condition: PDA is responsible for monitoring subrecipients (AAAs) with respect to the Special Programs for the Aging – Title III, Parts B and C, and the Nutrition Services Incentive Program (NSIP). Over the past several years, the Aging Office of Long Term Living (OLTL) has developed and implemented a statewide automated system and process with its 52 AAAs (known as SAMS) for the assessment and care management of Long Term Living consumers. This process focuses on consumers from the point of a request for assistance to the receipt of services that fall under the various Aging programs. The procedures include the Level of Care Assessment process, the Care Management Review process, the Completion of a Care Plan Worksheet process, and the Service Plan process. Our review of a sample of 5 of the 52 AAAs under this process disclosed that this process was not adequate for meeting compliance related to the applicable federal regulations under the Aging Cluster of Programs. These procedures do not constitute a strong system of on-site documented program monitoring at the AAA level since they do not routinely document or cover areas such as AAA processes, operations, procedures, and internal controls in place over federal funds, federal program income, fiscal policies and procedures, and any new AAA procedures regarding the receipt of ARRA funding to ensure the proper handling of funds, etc. at the AAA level.

In addition to the SAMS Care Plan Process, the Agency performs monitoring procedures in other areas; such as: The Quality Management Efficiency Team (QMET) Monitoring Process; the PDA Financial and Reporting Requirements (FRRs) for AAAs; the AAA Program Income and Program Enrollments; the Protective Services Programs, etc. These monitoring tools are primarily done using the SAMS System whereby PDA's QMET Team is reviewing AAA data for significant/unusual items, trends, indicators, etc. and following up to ensure AAA compliance. Also, when the Office of Quality Management Metrics and Analysis (QMMA) is made aware of any complaints by interested parties at the AAA level, the QMET Team will promptly investigate and remediate the matter. However, during the current period under audit, none of the complaint reports at the AAA level pertained to the federal Aging Cluster, so no monitoring coverage was noted in this area within the Aging Cluster.

Furthermore, during the current state fiscal year, we obtained copies of two audits performed by the Bureau of Audits (BOA)/the Office of Comptroller Operations (OCO) for Dauphin County AAA (PSA 23) and Lehigh County AAA (PSA 33). Numerous weaknesses were cited in these audits in the following areas (1) The federal Program Income and OPTIONS Cost Sharing Fees were not properly budgeted and spent, (2) The Cost Allocations were not properly supported, and (3) The lack of monitoring by the AAA for One-Time Grant Funding provided to Senior Centers, etc. These weaknesses were not detected as part of PDA's system of during-the-award monitoring at the AAA level.

Criteria: 45 CFR 92.40(a) which applies to the Title III programs states the following regarding monitoring by grantees:

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

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 49: (continued)

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

Cause: PDA management indicated that they mainly rely on the OMB Circular A-133 Audits of the AAAs in order to achieve compliance at the AAA level, and they are made aware of any problems through this process. Management also stated that, by using the SAMS processes currently in place, the AAAs are adequately monitored in order to achieve compliance. Further, the current staffing levels preclude PDA from performing additional on-site monitoring at the AAA level in order to attain compliance with the federal monitoring regulations.

Effect: There is limited assurance that PDA is making adequate progress towards meeting the goals of the Aging Cluster of programs and is in compliance with the federal monitoring requirements. Effective monitoring of the AAAs should be performed on a regular basis. However, PDA is placing excessive reliance on the OMB Circular A-133 subrecipient audits, which are only done after-the-fact and on an annual basis.

Recommendation: We recommend that PDA adopt more effective on-site monitoring and documentation procedures to ensure that all AAAs are properly monitored to achieve compliance under the Aging Cluster. The current monitoring processes in place appear to over-rely on the automated SAMS system and appear to only focus on AAA data reviews and complaints after-the-fact, so we recommend they more specifically focus on the major fiscal and administrative operations, procedures, internal controls, etc. of the Aging Cluster of Programs at the AAA level. The Agency should be more proactive in the identification of the types of risks as they relate to the Aging Cluster.

Agency Response: PDA will begin utilizing its Quality Management Evaluation Team (QMET) to review AAA programs. Beginning January 2011 the AAAs will be examined to ensure that they meet their obligations under the Aging waiver and Aging Block Grant programs including OPTIONS Care Managed and Non-Care Managed programs as well as other programs such as Senior Centers, Nutrition, etc. The QMET will also conduct a “look behind” of AAA monitoring by interviewing providers who were monitored to ensure the quality and integrity of the AAA field monitoring. Finally, the AAA will be reviewed for financial accountability as a provider. The QMET will issue the AAA a statement of findings for any standards that are missed.

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, 2009

Finding 09 – 50:

- CFDA #93.558 – Temporary Assistance for Needy Families**
- CFDA #93.563 – Child Support Enforcement (including ARRA)**
- CFDA #93.575 – Child Care and Development Block Grant**
- CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund**
- CFDA #93.658 – Foster Care – Title IV-E (including ARRA)**
- CFDA #93.659 – Adoption Assistance (including ARRA)**
- CFDA #93.667 – Social Services Block Grant**
- CFDA #93.713 – ARRA – Child Care and Development Fund**
- CFDA #93.714 – ARRA – Emergency Contingency Fund for TANF State Programs**
- CFDA #93.778 – Medical Assistance Program (including ARRA)**
- CFDA #93.959 – Substance Abuse Prevention and Treatment Block Grant**

DPW Did Not Always 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 #08-45)

Federal Grant Numbers: 0902PATANF, 0802PATANF, 0904PA4004, 0904PA4002 (ARRA), 0804PA4004, 0901PACCDF, 0801PACCDF, 0901PA1401, 0801PA1401, 0901PA1402, 0901PA1403, 0901PA1407, 0801PA1407, 0901PASOSR, 0801PASOSR, 0905PA5028, 5-0905PAARRA, 0805PA5028, TI010044-09, TI010044-08, 0901PATAN2

Condition: For the major federal programs listed above, DPW does not consistently identify the CFDA title and number, award name and number or name of the federal awarding agency in the award documents and at the time of disbursement of funds 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.

In addition, DPW did not notify its subgrantees that they were receiving ARRA funds. Our review of the Single Audit Reports for Allegheny County for the FYE 12/31/08 and PHFA for the FYE 6/30/09 disclosed that while Allegheny County was awarded or received ARRA funds within the Adoption Assistance, Foster Care, Child Support Enforcement, and Medical Assistance Programs, and PHFA received TANF ARRA funds retroactive to October 1, 2008, no ARRA funds were identified on the SEFA within either Single Audit Report.

The above weaknesses, considered in combination with a separate finding included elsewhere in this report disclosing inadequate controls at DPW over the review and reconciliation of SEFA amounts in Circular A-133 subrecipient Single Audit reports, is material to the major federal programs listed above.

Criteria: The Federal OMB Circular A-133 Compliance Supplement Part 3, Section M., related to Subrecipient Monitoring by pass-through entities, states:

A pass-through entity is responsible for:

Award Identification – At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name and number; if the award is research and development, and name of Federal agency) and applicable compliance requirements.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 50: (continued)

Subrecipient Audits – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year for fiscal years ending after December 31, 2003... have met the audit requirements of OMB Circular A-133...

Pass-Through Entity Impact – Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable Federal regulations.

The Federal OMB Circular A-133 Compliance Supplement Appendix VII, Other OMB Circular A-133 Advisories, states:

Responsibilities for Informing Subrecipients:

Recipients agree to separately identify to each subrecipient, and at the time of subaward and at the time of disbursement of funds, the Federal Award number, CFDA number and amount of ARRA funds. When ARRA funds are subawarded for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental ARRA funds from regular subawards under the existing program.

Cause: According to management, DPW informs county subrecipients of their federal award information using allocation letters and plans, and management has concluded that the award information historically provided was sufficient. DPW management stated they provide subrecipients with the required information regarding CFDA numbers and funding amounts both through allocation letters and payment invoices. Payment invoices include the amount of federal funds being dispensed and the corresponding CFDA number for those funds. Although the United States Department of Health and Human Services (HHS) is not identified on the payment invoices as the original granting agency, the CFDA number provides that information with the two-digit identifier (93).

DPW has reviewed payment procedures with each corresponding program office. In the case of DPW’s Child Care Information Services (CCIS) program, the internet based reporting system, PELICAN 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 Comptroller’s Office is responsible for payments made for Child Support Enforcement, Title IV-E Foster Care, Adoption Assistance, Temporary Assistance for Needy Families and Medical Assistance. Currently, when a subrecipient receives a payment from the Comptroller’s Office, a remittance advice is sent confirming the payment. This remittance identifies the specific program, the service dates, and the amount of payment for each. While this remittance identifies each specific program, the actual corresponding CFDA or award numbers are not identified.

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.

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 and Federal grant award number and ARRA award information in subrecipient award documents and at the time of disbursement of funds causes subrecipients and their auditors to be uninformed or untimely informed about what specific program and other regulations apply to the funds. 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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 50: (continued)

Recommendation: DPW should timely and adequately identify the CFDA title and number, award name and number, and name of the federal funding agency and ARRA award information to all subrecipients on up-front award documents and also identify the same information at the time of disbursement of funds. DPW should also ensure proper follow up with subrecipients in instances where they are not properly aware of and miss-reporting federal award information in their Single Audit reports submitted to the Commonwealth.

Agency Response: The DPW has made changes to eliminate this finding. However, the DPW feels that the auditors are incorrectly citing the remittance advice provided to subrecipients by Comptroller Operations as an “award document”. The remittance advice is a payment invoice that only serves to notify the subrecipient, after the fact, of the amounts paid.

The DPW has worked with the program offices to correct the “award documents” (allocation letters) to include all CFDA numbers. The DPW feels that the allocation letters provide the necessary information to the subrecipients as noted within this finding.

The allocation letters for State Fiscal Year (SFY) 2008-09 did not contain American Recovery and Reinvestment Act (ARRA) funds due to the fact that these funds were not appropriated until the following SFY (SFY 2009-10). Therefore, there are no ARRA funds shown on the allocation letters for the SFY ended June 30, 2009, as they were not appropriated for expenditure and consequently not paid to the subrecipients during that period. A review of the awarding documents for the SFY ended June 30, 2010, would show that the DPW has properly identified ARRA funds with regard to OMB Circular A-133 requirements.

Auditors’ Conclusion: We are not incorrectly citing the remittance advice as an award document. DPW is required to notify each subgrantee at both the time of the award *and at the time of disbursement* of all required Federal award information, as noted in the criteria above. We correctly noted that not all Federal award information was included in DPW award documents (allocation letters) or payment documents. As part of our testing, we found that ARRA funds were awarded to DPW and drawn down by DPW after they were paid to subrecipients during SFYE June 30, 2009 under CFDA #93.778 – ARRA – Medical Assistance Program and CFDA #93.563 – ARRA – Child Support Enforcement that funded subrecipients expenditures retroactive to October 1, 2008. Although state accounting records were appropriately adjusted to account for these ARRA funds, DPW inappropriately failed to notify its subrecipients in these two programs about its use of ARRA funds, so there is no change to our original conclusion in this regard.

Also, both CFDA #93.658 – ARRA – Foster Care-Title IV-E and CFDA #93.659 – ARRA – Adoption Assistance had subrecipient expenditures funded retroactive to October 1, 2008; however, DPW did not make payments to these subrecipients until after June 30, 2009. As noted in our condition above, Allegheny County received ARRA funds under these four programs retroactive to October 1, 2008; however, no ARRA funds were reported on the FYE December 31, 2009 Allegheny County SEFA. As further evidence of the impact of the weaknesses at DPW reported in our above finding, we noted that the FYE 12/31/08 audit of another DPW subrecipient (Diakon) misidentified \$6.6 million in Adoption Assistance expenditures as Foster Care expenditures.

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

The 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, 2009

Finding 09 – 51:

CFDA #93.558 – Temporary Assistance for Needy Families

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

CFDA #93.659 – Adoption Assistance (including ARRA)

Internal Control Weaknesses Over Reviewing, Approving and Reporting Regular, ARRA, and Supplemental Payments to Subrecipients (A Similar Condition Was Noted in Prior Year Finding #08-57)

Condition: During our current year audit we noted the American Reinvestment and Recovery Act (ARRA) of 2009 offered enhanced Federal Financial Participation (FFP) rates retroactive to October 1, 2008 on maintenance assistance payments made under the Foster Care–Title IV-E and Adoption Assistance programs. However, as part of our testing we noted no ARRA enhanced FFP rate payments were made by DPW to county subrecipients as of June 30, 2009, even though the Commonwealth received ARRA Foster Care–Title IV-E and ARRA Adoption Assistance awards on March 16, 2009.

Further, our review of the Foster Care–Title IV-E ACF-IV-E-1 and Adoption Assistance ACF-IV-E-1 expenditures reports submitted to the Federal grantor agency (HHS) for the quarters ended (QE) March 31, 2009 and June 30, 2009 disclosed that Foster Care–Title IV-E and Adoption Assistance maintenance assistance payments (Federal Share) for the prior QE December 31, 2008 were reported using the ARRA enhanced FFP rate, totaling 60.72 percent for Pennsylvania, as follows:

Foster Care – Title IV-E

Federal Report Column Payments:

<u>Federal Reporting Period</u>	<u>(B) Applicable To Fiscal QE</u>	<u>(C) Total Computable</u>	<u>(D) Federal Share</u>
QE 3/31/09	12/31/08	\$ 670,903	\$ 407,372
QE 6/30/09	12/31/08	<u>7,025,161</u>	<u>4,265,678</u>
Total		<u>\$7,696,064</u>	<u>\$4,673,050</u>

Adoption Assistance

Federal Report Column Payments:

<u>Federal Reporting Period</u>	<u>(B) Applicable To Fiscal QE</u>	<u>(C) Total Computable</u>	<u>(D) Federal Share</u>
QE 3/31/09	12/31/08	\$3,556,271	\$2,159,368
QE 6/30/09	12/31/08	<u>2,724,485</u>	<u>1,654,307</u>
Total		<u>\$6,280,756</u>	<u>\$3,813,675</u>

Our discussions with Comptroller Office personnel disclosed that the electronic Federal report template had the ARRA enhanced FFP preprogrammed for the QE December 31, 2008; therefore, the Comptroller Office report preparer had to reduce the amount of the total computable expenses down to make the Federal share agree to the actual payments made at the regular unenhanced FFP rate of 54.52 percent. No notations were made on the Federal reports to inform HHS that no payments disbursed for the QE December 31, 2008 actually contained the ARRA enhanced FFP; thus, HHS was not properly notified that no ARRA funding was disbursed during the QE March 31, 2009 and QE June 30, 2009 periods by the Commonwealth.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 51: (continued)

Further, in our prior year audits for the fiscal years ended June 30, 2004 to June 30, 2008 (for six 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 Comptroller Office compares 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, Adoption Assistance and TANF Child Welfare 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. Also, we noted in the current year that TANF Child Welfare payments to Philadelphia County increased significantly from \$16.1 million during SFYE June 30, 2008 to \$44.5 million during SFYE June 30, 2009 and included over \$3 million in supplemental claims during SFYE June 30, 2009.

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.

Effective for all Foster Care and Adoption Assistance claims submitted for the QE September 30, 2008 DPW implemented a new Automated Title IV-E Validation System; however, very few invoices for claims submitted for the QE September 30, 2008 and subsequent were paid during SFYE June 30, 2009. Also, TANF Child Welfare claims are not required to be processed through the new Validation System.

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. . .

Detail instructions for the ACF-IV-E-1 Foster Care–Title IV-E and Adoption Assistance Financial Reports for line 1 Maintenance Assistance Payments states:

Enter the amount of maintenance assistance payments subject to Federal matching that are allowable under Federal law, regulation and policy for Foster Care (Adoption Assistance).

In addition, good internal controls should include timely procedures to ensure that subgrantee invoices are properly reviewed and costs monitored to ensure that expenditures are not being claimed inappropriately for reimbursement, and that such costs are properly and accurately reported to the Federal grantor agency.

Cause: DPW personnel stated they could not make any ARRA payments under Foster Care–Title IV-E and Adoption Assistance without a separate ARRA appropriation from the legislature; however, we noted that ARRA payments related to the Child Support Enforcement Program and the Medical Assistance Program were made without separate ARRA appropriations.

Regarding the inaccurate reporting of Foster Care–Title IV-E and Adoption Assistance maintenance assistance payments on the respective ACF-IV-E-1 reports, Comptroller personnel indicated they had no choice but to report a smaller than actual total computable amount of expenses since the on-line ACF-IV-E-1 reports were preprogrammed with the ARRA enhanced FFP, and reporting the actual computable amount of expenses would have lead to over reporting the Federal share of expenditures.

As noted within the prior year finding, OCYF and the 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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 51: (continued)

would require the use of a computer program, especially for large counties in which the supporting Summary of Maintenance Forms are over 1,000 pages. As a result, DPW currently relies mainly on OMB A-133 Single Audits of subgrantees to detect any noncompliance related to supplement payments to subgrantees.

Also, OCYF personnel indicated that few invoices were actually paid during SFYE June 30, 2009 due to difficulties with the implementation of the new Automated Title IV-E Validation System and the Comptroller Office financial transformation. Foster Care payments to county subrecipients declined from \$230.9 million during SFYE June 30, 2008 to \$129.7 million during SFYE June 30, 2009, and Adoption Assistance payments to county subrecipients declined from \$62.7 million during SFYE June 30, 2008 to \$39.8 million during SFYE June 30, 2009. Further, OCYF personnel indicated that TANF Child Welfare claims are not required to be processed through the new Validation System because most payments are for in-home services which are not as error prone as Foster Care–Title IV-E and Adoption Assistance.

Effect: OCYF and Comptroller Office officials did not make ARRA Foster Care–Title IV-E and Adoption Assistance payments to county subrecipients timely, and Comptroller Office officials did not accurately report Foster Care–Title IV-E and Adoption Assistance payments on the ACF-IV-E-1 Foster Care–Title IV-E and Adoption Assistance Financial Reports for the QE March 31, 2009 and QE 6 June 30, 2009. Reports filed for those periods were in noncompliance since they reported that all QE December 31, 2008 maintenance assistance payments were made at the ARRA enhanced FFP rate when payments were actually made at the regular FFP rate.

OCYF and Comptroller Office officials do not timely or adequately review Foster Care–Title IV-E, Adoption Assistance and TANF Child Welfare 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 Comptroller Office should notify HHS that the ACF-IV-E-1 Foster Care–Title IV-E and Adoption Assistance Financial Reports for the QE 3/31/09 and QE 6/30/09 contain inaccurate total computable amounts for QE 12/31/08 maintenance assistance payments reported, and consider amending these reports.

OCYF and the Comptroller Office should continue with the implementation of the new Automated Title IV-E Validation System, and strengthen monitoring procedures for invoicing, including supplemental invoices, to ensure that costs are not duplicates, and are allowable, reasonable, necessary, and for eligible participants in accordance with federal regulations. Also, OCYF should consider processing TANF Child Welfare invoices through the Automated Title IV-E Validation System.

Department of Public Welfare Response: The Office of Children, Youth and Families (OCYF) reaffirms that the Federal Title IV-E Validation System addresses the prior internal control weakness findings related to monitoring of supplemental invoices identified by auditors under the above Single Audit Finding. Specifically, the OCYF system will ensure that supplemental invoices will not bill for the same child for the same day(s) of service unless there is a contract rate change to substantiate the billing. Under the OCYF system, when a duplicate claim is identified, the entire invoice is rejected. Additionally, in the future OCYF will identify a feasible methodology to specifically review claims for Temporary Assistance for Needy Families.

Office of Comptroller Operations Response: Every effort is made to have the reports reflect the proper federal share of expenditures for each quarter which in turn would mean that the proper computable is reflected. The Commonwealth does not have control over how the Federal government programs their on-line reporting system. Since the FFP rate for the applicable quarter was hard coded in the federal on-line reporting system the only option available to report the correct amount of federal funds disbursed was to show a lower computable amount. Reporting a higher computable

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 51: (continued)

(reflecting the regular FMAP rate) would have resulted in an incorrect federal share not supported by the Commonwealth's accounting records. As part of the requirement for transparency of ARRA funds, separate grant coding was established to capture the enhanced funding of 6.2 percent in SAP. Staff has been directed to add comments to reports when there are instances that items reported may be construed as something different.

As noted in the Condition, no ARRA enhanced funding was paid by DPW during the quarters involved. Changes to DPW's automated Title IV-E Validation System to accommodate the increase in enhanced funding were necessary. Supplemental invoices were processed after July 1, 2009 for those counties that received reimbursement at the regular FMAP rate during the January through June 2009 time period for costs incurred after October 1, 2008. These costs were then drawn and claimed on the September 2009 quarterly report. These costs will be reflected on the June 30, 2010 SEFA.

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, 2009

Finding 09 – 52:

CFDA #93.558 – Temporary Assistance for Needy Families

CFDA #93.575 – Child Care and Development Block Grant

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

CFDA #93.667 – Social Services Block Grant

CFDA #93.713 – ARRA – Child Care and Development Fund

Weaknesses Exist in DPW’s Contracting and Program Monitoring of Child Care Subgrantees (A Similar Condition Was Noted in Prior Year Finding #08-48)

Federal Grant Numbers: 0901PACCDF, 0801PACCDF, G0901PASOSR, G0801PASOSR, 0902PATANF, 0802PATANF, 0901PACCD7

Condition: During SFYE June 30, 2009 DPW had CCDBG/CCDF (Child Care Cluster) funded subgrantee contracts in place with one statewide agency and six regional agencies called “Keys” for the purpose of improving the quality of child care, community planning and early learning programs, etc. DPW developed a site-visit monitoring instrument for the six regional Key agencies intended to include both a fiscal and programmatic review of operations, and this monitoring instrument was used at each regional key visit. However, our examination of DPW’s procedures for monitoring of the statewide Key revealed that DPW did not adequately perform during-the-award monitoring of this agency in the FYE June 30, 2009. In particular, we noted that no on-site visit was performed by DPW to review program costs billed and supporting documents for propriety and to review the subrecipient’s program operations and administration for compliance, reasonableness, etc. The statewide Key accounted for approximately \$7.6 million or 2.4 percent of Child Care Cluster expenditures for SFYE June 30, 2009.

In addition, during SFYE June 30, 2009 DPW had contracts in place with 59 Child Care Information Services (CCIS) subgrantees that received approximately \$273.1 million (or 83.9 percent) of Child Care Cluster funding, \$31.0 million (or 31.2 percent) of SSBG funding, and \$28.6 million (or 5.6 percent) of TANF funding. These CCIS subgrantees are primarily responsible for determining eligibility of applicants for child care services and for accurately paying child care providers for allowable child care services provided to eligible applicants. All applicant and provider payment data from CCIS’s is maintained and processed on DPW’s statewide PELICAN Child Care Works Information System (PELICAN-CCW).

Our testing of DPW’s contracting and monitoring procedures for CCIS subgrantees disclosed the following control deficiencies:

- During our testing of a sample of 11 out of 59 CCIS subgrant contracts and budgets, three of the 11 CCIS agencies (or 28 percent) were identified as submitting budgets reflecting excessive personnel benefit amounts of greater than 60 percent of salaries and wages. This ratio of benefits to salaries and wages appears excessive; however, no follow-up was performed by DPW to ascertain the reasonableness of the benefits budgeted or charged to the programs.
- Our testing of six of 59 CCIS monitoring documents disclosed that DPW did not specifically document monitoring of TANF costs for compliance with the allowability and reasonableness provisions of the DPW-CCIS contract or Federal OMB Circular A-87.
- Our testing of six of 59 CCIS subgrantee annual revenue and expenditure reports (also known as recap reports), disclosed that all 6 CCIS agencies (or 100 percent) appeared to be generating excess federal cash through advances and were reporting interest earned for the fiscal year, but did not provide, and DPW did not request, a detail breakout of this interest earned by program (i.e. CCDF, TANF and SSBG). Total annual interest ranged from \$3,635 (on \$10.1 million in total annual funding) to \$57,448 (on \$60.5 million in total annual funding) for the six subrecipients with no DPW contact, monitoring, or follow up with any subrecipient reporting interest to

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 52: (continued)

verify CCIS compliance with federal cash management regulations when drawing down federal funds. Coinciding with this, DPW did not require CCIS subgrantees to return TANF interest earned to the federal DHHS as required per 45 CFR 74.22 and 92.21.

While Circular A-133 audits of Keys and CCIS subrecipients are conducted each year, this auditing activity does not compensate for the lack of adequate on-site program monitoring and contracting since the timing, focus, and scope of A-133 auditing activities after year-end are clearly different than compliance monitoring by program officials 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.

The OMB Circular A-133 Compliance Supplement Part 3. C. Cash Management Compliance Requirements, states:

Pass-through entities must monitor cash drawdowns by their subrecipients to ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.

...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.

Cause: DPW management stated that the Statewide Key routinely works closely with state representatives to ensure financial and program compliance with requirements in the subrecipient’s work plan, so on-site monitoring visits are not considered to be necessary. Based on discussions with DPW representatives and their reply to this finding in the prior year, DPW does not appear to be aware of the requirement for local government subgrantees to remit TANF interest earned to DHHS. Regarding personnel benefit amounts, the DPW Family Support Services (FSS) CCIS allocations do not provide specific instructions or limitations on how to populate FSS Rider budgets, and DPW does not limit the amount of personnel benefits claimed by CCIS agencies. Also, DPW’s lack of monitoring procedures regarding allowability of TANF expenditures has been a weakness for several years which has not been addressed.

Effect: DPW provides little documented assurance that the statewide Key and CCIS TANF expenditures are in compliance with federal requirements, especially as they relate to allowability and reasonableness of costs, and cash management of subrecipient drawdowns. Based on our review of personnel benefits budgeted for three sampled CCIS’s with no DPW investigation or follow up, the CCIS benefits appear excessive, unreasonable, and actual costs could be potentially unallowable with no DPW monitoring or follow-up. There may be additional unallowable benefit charges at other CCIS’s as well. Finally, interest earned by subgrantees on TANF funds is not being remitted to DHHS as required.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 52: (continued)

Recommendation: DPW should adequately perform and document on-site during-the-award monitoring procedures for the statewide Key to demonstrate and ensure propriety of costs billed and compliance with program/contract provisions. Also, on-site monitoring of CCIS subgrantees should include documented procedures to verify allowability of TANF charges as well as the timely return of interest earned on excess TANF funds to the DHHS. DPW should also implement stronger review procedures to verify reasonableness of budgeted expenditures, especially personnel benefits, in their review of CCIS budgets submitted as part of their annual contract renewals. Finally, DPW should strengthen controls over its review of CCIS recap reports showing interest earned and adjust payment procedures, as applicable, to minimize advances and excess cash at the subrecipient level in violation of federal regulations.

Agency Response: The first item listed under the finding’s condition, “...our examination of DPW’s procedures for monitoring of the statewide Key revealed that DPW did not adequately perform during-the-award monitoring of this agency in the FY June 30, 2009.”

The DPW maintains that its staff and management routinely met and worked within the PA (statewide) Key throughout the fiscal year to ensure program and financial compliance.

CCIS program, Recommendation – “...[3] of the 11 CCIS agencies [tested] (or 28 percent) were identified as submitting budgets reflecting excessive personnel benefit amounts of greater than 60 percent of salaries and wages. This ratio of benefits to salaries and wages appears excessive; however, no follow-up was performed by DPW to ascertain the reasonableness of the benefits budgeted or charged to the programs.”

In response to the finding issued as part of the June 30, 2008 single audit report, the DPW stated and maintains that the logic used to determine the percentage of personnel benefits in relation to salaries and wages in appropriate. OCDEL would suggest that a more accurate comparison would be to compare the percentage of personnel benefits to total personnel (salaries and wages plus benefits).

CCIS program, Recommendation – “...testing of [6] of 59 CCIS monitoring documents disclosed that DPW did not specifically document monitoring of TANF costs for compliance with the allowability and reasonableness provisions of the DPW-CCIS contract or Federal OMB Circular A-87.”

The DPW randomly selects cases for monitoring as prescribed for the Federal sampling requirements as established for the “Measuring Improper Authorizations for Payment in the Child Care Program.” As each randomly selected case reviewed is evaluated by OCDEL staff. This staff member indicates a response of “yes” or “no” which identifies if the case followed the appropriate criteria for funding. The results of this evaluation are contained in the individual case evaluation/monitoring spreadsheet. The results do not specifically identify funding but, again, TANF was included in the Review.

CCIS program, Recommendation – “Our testing of [6] of 59 CCIS [recap reports] disclosed that all 6 CCIS agencies...appeared to be generating excess federal cash through advances and were reporting interest earned for the fiscal year, but did not provide, and DPW did not request, a detail breakout of this interest by program (i.e. CCDF, TANF and SSBG). Total annual interest ranged from \$3,635 (on \$10.1 million in total funding) to \$57,448 (on \$60.5 million in total annual funding) for the [6] subrecipients with no DPW contact, monitoring, or follow-up with any subrecipient reporting interest to verify CCIS compliance with federal cash management regulations when drawing down federal funds. Coinciding with this, DPW did not require CCIS subgrantees to return TANF interest earned to the federal DHHS as required per 45 CFR 74.22 and 92.21.”

The DPW does advance funds; however, these funds are reimbursements to the CCIS agencies for the projected cost of care and other expenses. In order for the Child Care Program to have a continuity of operations, they must be provided advanced cash distributions. However, OCDEL does require invoices monthly to the services rendered, during which time, unexpended funds are recovered.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 52: (continued)

The interest earned is not a result of cash advances, but rather the result of the funds being appropriately placed in an interest bearing account(s) while payments for provider invoices and CCIS agency expenses are processed. It is the requirements of the program that this interest be offsetting to the program, and this is determined during program settlement. If the CCIS program did not offset the program expenditures, the interest revenue is recovered as a disallowance in expenditures to the program.

Auditors' Conclusion: DPW has a site visit monitoring instrument which documents its monitoring for the six regional Key agencies, but no site visit monitoring documents have been provided for the PA statewide key. We recommend that DPW perform and document site visit monitoring of the PA Key, especially considering the significant amount of funding provided through the PA Key as mentioned in the finding.

DPW's suggestion to compare the percentage of personnel benefits to total personnel (salaries and wages plus benefits) is basically suggesting that the amount of personnel benefits be used in both the numerator and denominator in calculating the benefit percentage. This is not accepted practice for this analysis, especially since it is not consistent with the method used in the Governor's Annual Workforce Report. DPW also failed to address the condition noted in the finding. DPW's suggestion notwithstanding, the exceptions still exist and DPW still needs a procedure in place to follow up to ascertain the reasonableness of benefit changes to the programs.

DPW's monitoring instrument/documents should clearly indicate their procedures performed that are specific to the TANF program in order to show monitoring for compliance with the allowability and reasonableness provisions of the DPW-CCIS contract and Federal OMB Circular A-87.

As for DPW's response relating to CCIS cash management, DPW's response contradicts itself as it states that they advance funds, but then claims these advances are "reimbursements". Funding provided to a subgrantee would be either a cash advance or a cash reimbursement since these are opposite forms of funding. Further, DPW states that interest earned is not a result of cash advances; however, there would be no interest earned on funding provided on a cash reimbursement basis since the cash expenditures would be incurred by the subgrantee prior to funding being provided to them. The DPW response does not clearly address the subgrantee cash management issue, and unexpended funds are not being recovered on a monthly basis as claimed in the agency response above. Finally, DPW does not address the fact that they failed to identify interest earned on TANF funds by subgrantees that would subsequently be required to be returned to the federal DHHS in accordance with OMB Circular A-87.

Based on the agency response, our finding and recommendation, with the above clarifications, remain as previously stated.

The 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, 2009

Finding 09 – 53:

CFDA #93.558 – Temporary Assistance for Needy Families

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

CFDA #93.659 – Adoption Assistance (including ARRA)

Weaknesses in DPW Office of Children, Youth and Families Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients (A Similar Condition Was Noted in Prior Year Finding #08-58)

Federal Grant Numbers: 0902PATANF, 0802PATANF, 0901PA1401, 0901PA1402, 0801PA1401, 0901PA1407, 0901PA1403 and 0801PA1407

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 prior audit period to strengthen its monitoring controls, for the 10 agencies in our sample, DPW could not provide any of the reviews from our audit period for our review.

As a result, for the fifth year in a row, internal control weaknesses exist over DPW monitoring of Foster Care and Adoption Assistance subrecipients.

Also, we noted that DPW did not perform any on-site monitoring of TANF Child Welfare funding received by County Children and Youth Agencies.

Total Foster Care program payments made by DPW to its 67 County Children and Youth Agency subrecipients during the fiscal year ended June 30, 2009 were \$129.8 million (or 88.7 percent) of total Foster Care expenditures of \$146.2 million reported on the June 30, 2009 SEFA. Total Adoption Assistance program payments made by DPW to its 67 County Children and Youth Agency subrecipients during the fiscal year ended June 30, 2009 were \$39.8 million (or 80.5 percent) of total Adoption Assistance expenditures of \$49.4 million reported on the June 30, 2009 SEFA. Total TANF Child Welfare program payments made by DPW to its 67 County Children and Youth Agency subrecipients during the fiscal year ended June 30, 2009 were \$80.6 million (or 15.8 percent) of total TANF expenditures of \$510.9 million reported on the June 30, 2009 SEFA.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 53: (continued)

Criteria: 42 U.S.C., Section 671(a)(7) pertaining to the state agency responsibilities states in part:

... the State agency will monitor and conduct periodic evaluations of activities carried out under this part. ...

42 U.S.C., Section 672 applies to Foster Care Maintenance Payment Program and Section 673 applies to Adoption Assistance Program.

Chapter 3140, Subchapter B relates to Foster Care eligibility requirements and allowable costs. Subchapter C relates to Adoption Assistance eligibility requirements and allowable costs.

Chapter 3170 relates to the overall fiscal management of County Children and Youth Agencies, such as personnel and operating expenditure guidelines.

In addition, PA Code, Title 55 Chapter 20, Section 20.51 states:

A certificate of compliance (License) will be issued to the legal entity by the Department if, after an inspection by an authorized agent of the Department, it is determined that requirements for a certificate of compliance are met.

Cause: As indicated in the prior year response, the Office of Children, Youth and Families (OCYF) acknowledges that checklists and procedures for monitoring programs and facilities can vary from Region to Region, based on local resources and practices. However, all regions follow the same checklist for the 3800 Regulations that cover Residential Facilities. In addition, in our current year and over the past five 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 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. Further, DPW personnel indicated there is no need for on-site monitoring of TANF Child Welfare activities as eligibility and allowability requirements are not complex. DPW personnel could not explain why quality assurance reviews could not be provided for any of the County Agencies we tested.

Effect: Internal controls over DPW's on-site monitoring of Foster Care, Adoption Assistance, and TANF 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. These internal control weaknesses could also impact the future expenditures of ARRA monies under these federal programs.

Recommendation: DPW OCYF should strengthen its controls to ensure more timely and better documented monitoring of Foster Care, Adoption Assistance and TANF Child Welfare agencies occurs, and provide greater and better documented assurance that they are in compliance with federal regulations.

Agency Response: Office of Children, Youth and Families (OCYF) believes that the combination of the licensing done annually and Quality Assurance Reviews done twice a year should remain separate because they are for two separate and completely different purposes; however, there is communication and follow up between the two units. Licensing is for the health and safety of the child and Quality Assurance review is for the eligibility of the child and allowability of the costs using federal Title IV-E funds, including placement maintenance and administrative claims. OCYF welcomes the auditor to review our findings and follow up activities for our Quality Assurance reviews, and the auditors are encouraged to join a review with OCYF staff to make recommendations for additional internal controls.

Auditors' Conclusion: While OCYF asserts that Quality Assurance (QA) reviews are done twice a year and include a review for the eligibility of the child and allowability of the costs using federal Title IV-E funds, including placement maintenance and administrative claims, these assertions are unsupported since no documentation has been provided to support that the QA reviews were performed for the 10 of 67 counties we sampled. Also, OCYF did not address the lack of monitoring of TANF Child Welfare costs.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 53: (continued)

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, 2009

Finding 09 – 54:

CFDA #93.558 – Temporary Assistance for Needy Families

CFDA #93.568 – Low-Income Home Energy Assistance Program

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

DPW Failed to Adequately Monitor the Processing of LIHEAP Cash and Crisis Applications (A Similar Condition Was Noted in Prior Year Finding #08-53)

Federal Grant Numbers: 0902PATANF, 0802PATANF, 08B1PALIEA, 09B1PALIEA, 0901PALIE2, 0901PATAN2

Condition: Our prior three Single Audits of the LIHEAP program administered by DPW reported material internal control weaknesses in DPW's overall monitoring and oversight of its 67 County Assistance Offices (or CAOs) and the nine outside contractors running the crisis portion (on behalf of nine CAOs) that administer LIHEAP. These prior-year deficiencies were initially 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.

To follow-up on these prior year deficiencies in the current year, we requested that DPW provide supporting documentation for corrective actions to the deficiencies noted in the prior-year finding. Based on our review of the support provided, we determined that DPW implemented a number of corrective actions during the audit period to correct these deficiencies, including: 1) contracting with an outside law firm to share in the DPW's overall monitoring duties, 2) establishing a schedule for site visits to ensure that CAO's and crisis contractors are monitored regularly, and 3) incorporating steps into each CAO and crisis contractor review to ensure application information was properly entered into the LIHEAP Information System (or LIS). In addition, implementation of other planned corrective actions was ongoing beyond the end of our audit period.

As mentioned above, during the current audit period ended June 30, 2009, DPW employed a team of department monitors and contracted with an outside law firm to perform its systematic reviews of processing LIHEAP cash and crisis applications at the CAOs and at the nine crisis contractors. DPW indicated that the new CAO/crisis contractor monitoring process now includes standardized reports to document the reviews as well as a process to correct noted deficiencies. For our current audit, DPW provided a list of 29 reviews completed during our audit period, which included all nine crisis contractors and 20 of the 67 CAO offices. We selected a sample of three monitoring reports to review, one performed by DPW monitors at a CAO, one performed by the outside law firm at another CAO, and another performed by the outside law firm at one of the crisis contractors. Based on our review of the three monitoring reports and other related support provided, the documentation was again inadequate to demonstrate that the following deficiencies were corrected during the current year ended June 30, 2009:

- The prior audit disclosed that the monitors informed the CAOs and crisis contractors how many cash and crisis application acceptances and rejections to be retrieved from the case files for review. Each CAO/crisis contractor was then allowed to actually select which applications the monitors reviewed. As a result, the samples examined lacked objectivity/integrity and precluded the monitors from detecting any missing applications.
- The monitors did not assess the adequacy of the CAOs and crisis contractors' controls for processing LIHEAP applications. As noted in other findings for LIHEAP, auditors found major internal control weaknesses in the CAOs and crisis contractors tested. In response to the current year follow up, DPW did not provide any updated procedures requiring the monitors to assess CAOs and contractors' internal controls for processing LIHEAP applications beyond the original procedures provided in the audit released in June 2007, which were inadequate.
- Documentation supporting the monitors' reviews was insufficient to allow an independent review to determine the adequacy of the results.
- The monitors did not make unscheduled visits to CAOs or crisis contractors during the LIHEAP program year for investigative or follow-up purposes. According to DPW, this will begin to occur in the 2009/2010 heating season.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 54: (continued)

Overall, DPW failed to adequately administer LIHEAP cash and crisis benefits, which amounted to \$290,259,530 in SFYE June 30, 2009 out of total LIHEAP expenditures of \$335,879,016 reported on the SEFA for the year. Also, during SFYE June 30, 2009 DPW began claiming LIHEAP crisis benefits paid to TANF recipients under the TANF Block Grant (CFDA #93.558). As a result, \$26,134,000 in LIHEAP crisis benefits paid to TANF recipients were claimed under the TANF Block Grant in SFYE June 30, 2009 out of total TANF Block Grant expenditures of \$510,866,157 reported on the SEFA for the year. Subsequently, \$20,907,200 out of this \$26,134,000 in LIHEAP crisis benefits paid to TANF recipients was transferred to and claimed under the ARRA – Emergency Contingency Fund for TANF State Programs (CFDA #93.714), so ARRA funds are significantly impacted by the material weaknesses reported above.

In addition to the inadequate on-site monitoring noted above, DPW had no other significant statewide or overall LIHEAP controls in place over the CAOs. As a result, DPW failed to establish and ensure that CAOs had standardized written procedures to process LIHEAP applications, failed to establish and verify that controls are adequate at CAOs, failed to assess the adequacy of application processing, written procedures, and controls at crisis contractors, and failed to establish and verify that LIS has sufficient controls and edit checks to minimize the risk of fraud and abuse.

Criteria: Prudent auditing and monitoring practices dictate that standard written procedures should exist to systematically select and monitor sites. These procedures should include: 1) a valid/objective method of selecting case file samples to review, 2) verification that all necessary procedures were performed, 3) assessing the adequacy of controls, 4) ensuring procedures are adequately documented, summarized, followed, and reviewed, and 5) ensuring that all sites are monitored within a standard cycle.

Cause: DPW did not have standard written procedures for conducting, documenting, reviewing and reporting on the monitoring visits during our audit period. Furthermore, corrective actions to the prior-years' control deficiencies were ongoing beyond the end of our audit period, June 30, 2009.

Effect: Without adequate overall monitoring of the processing of LIHEAP applications at the CAOs and crisis contractors, DPW lacks assurance that LIHEAP applications are processed accurately and that internal controls are adequate for preventing, detecting, and reporting noncompliance and any fraud and abuse. Also, the lack of an effective monitoring system presents a greater opportunity for fraud, noncompliance, and abuse to occur at the CAO and crisis contractor levels.

Recommendation: DPW should continue to strengthen the monitoring process by improving each monitor's documentation, developing written procedures for the on-site monitoring process and ensure that all monitors' support is thoroughly reviewed and approved by a supervisor to validate that the procedures performed were adequate and sufficiently documented, and that the conclusions reached were reasonable and properly supported.

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's replies to specific findings are included below:

- **Finding:** the prior audit disclosed that the monitors informed the CAOs and crisis contractors how many cash and crisis application acceptances and rejections to be retrieved from the case files for review. Each CAO/crisis contractor was then allowed to actually select which applications the monitors reviewed. As a result, the samples examined lacked objectivity/integrity and precluded the monitors from detecting any missing applications.

Response: starting in February 2008 with the 2008-2009 LIHEAP season and continuing, applications that are reviewed are selected by Office of Income Maintenance's (OIM) Bureau of Program Evaluation (BPE) which is independent of the CAOs or crisis contractors. BPE provides selected applications to the monitoring teams in advance of their visits to the CAOs or crisis contractors. **The CAOs and Crisis contractors do not select the applications that are to be monitored.** Further, if a CAO or Crisis contractor does not provide a requested application then a finding is noted in the monitor's report. This process is outlined in Attachment 1, page 2, section III "Application Data Sample".

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 54: (continued)

- **Finding:** the monitors did not assess the adequacy of the CAOs and crisis contractors' controls for processing LIHEAP applications. As noted in other findings for LIHEAP, auditors found major internal control weaknesses in the CAOs and crisis contractors tested. In response to the current year follow up, DPW did not provide any updated procedures requiring the monitors to assess CAOs and contractors' internal controls for processing LIHEAP applications beyond the original procedures provided in the audit released in June 2007, which were inadequate.

Response: starting in February 2008 with the 2008-2009 LIHEAP season, BPE developed and continues to apply a written procedure that is based on each LIHEAP season's policy and the state plan. The framework for the monitoring procedures employed by an independent forensic accounting firm and the OIM monitoring team was developed by BPE with input from many interested stakeholders. These written procedures focus on the CAOs and Crisis contractors' controls for processing LIHEAP applications and administration of the LIHEAP program. Scheduled field visits are conducted for selected CAOs and crisis contractors by either an independent forensic accounting firm or the OIM monitoring team. During these formal and in-depth site visits, specific attention is paid to observing and testing the controls for processing LIHEAP applications. Such attention includes interviews with senior members of the CAO or crisis contractor to ensure key protocols and procedures are being followed, and targeted file reviews. Please note the 2008-2009 procedures were provided as part of DPW's response to the 2007-2008 LIHEAP Audit and are provided again as Attachments 1 and 2.

- **Finding:** documentation supporting the monitors' reviews was insufficient to allow an independent review to determine the adequacy of the results.

Response: starting in February 2008 with the 2008-2009 LIHEAP season and continuing in LIHEAP season 2009-2010, BPE provides an electronic monitoring instrument that is used by the monitors to report and document their findings during the course of the current LIHEAP season. Specifically, during the 2008-2009 LIHEAP season, monitors used a detailed Excel spreadsheet to collect data on all files reviewed. The monitors' findings are reviewed by a more experienced member of the monitoring team as well as a senior individual at the location being monitored (for agreement on the factual issues) prior to being finalized in a report which includes a complete listing of only the applications that are identified with an error as well as a listing of the processing issues that were identified by the monitors. This process is outlined in Attachment 1, page 2, section IV 'CAO Monitoring Process' and page 8, section V 'Crisis Contractor Monitoring Process'. Samples of the final reporting template and its attachment listing of the identified applications that have errors were provided to the auditors for the Allegheny and Montour County Assistance Offices and the Philadelphia Crisis Contractor. While it was not requested for this audit, verification documents used by monitors as part of the LIHEAP review can be provided for individual LIHEAP applications.

- **Finding:** the monitors did not make unscheduled visits to CAOs or crisis contractors during the LIHEAP program year for investigative or follow-up purposes. According to DPW, this will begin to occur in the 2009/2010 heating season.

Response: According to the 2008-2009 LIHEAP state plan: 'Unscheduled visits will be used as an investigative measure. If information is received which suggests the possibility of misuse, misrepresentation, or any abuse, the monitor for the area will investigate the allegation'. No such information was received in 2008-2009 for the monitors to react to as required by the state plan.

However, in lieu of the possible benefits of unscheduled visits, DPW believes that the 2008-2009 LIHEAP on-site monitoring process was so much more visible and in-depth than in previous seasons that, absent specific information requiring investigation as described in the preceding paragraph, the benefit to be derived from unscheduled visits was significantly reduced.

DPW is aware of the importance of modifying the monitoring plan in reaction to results and concerns. Using the 2008-2009 LIHEAP monitoring results as a baseline, and considering processing changes at certain CAOs, monitoring visits during the 2009-2010 LIHEAP season were completed in four counties that were not originally contemplated in the "published" monitoring schedule. The changes to the "normal" monitoring schedule included:

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 54: (continued)

- Visiting York CAO out of cycle and twice during the LIHEAP year because they were taking over crisis application processing from a crisis contractor.
- Visiting Lackawanna CAO out of cycle to more closely examine the working relationship between the CAO and their county's crisis contractor and the impact on the CAO's ability to accurately process cash applications.
- Visiting Philadelphia CAO 3 times, at the beginning, middle and end of the LIHEAP season because this CAO is so large, was taking over crisis application processing from a crisis contractor, and was experiencing a significant change in management of the LIHEAP processing team.
- Visiting Susquehanna, Bedford and Northumberland CAOs based on results from the 2008-2009 season's monitoring visit.

DPW continues to implement improvements to the monitoring program as warranted. Monitoring of LIHEAP has continued to improve since the last audit finding that was issued on May 19, 2009 by the following actions:

- Continuing with the 2009-2010 LIHEAP season, an OIM monitoring team was employed and trained to monitor the LIHEAP program.
 - Continuing with the 2009-2010 LIHEAP season, an independent forensic accounting firm reviewed and provided input on the LIHEAP monitoring targets and protocols.
 - Continuing with the 2009-2010 LIHEAP season, an independent forensic accounting firm assisted the OIM monitoring team with the monitoring of the program to identify areas for improvement.
 - To assure consistency of the LIHEAP Monitoring process and program integrity, an independent forensic accounting firm reviewed a sample (15 percent) of the LIHEAP reviews completed by the OIM monitoring team in the 2008-2009 season.
 - Starting in February 2008 with the 2008-2009 LIHEAP season, several other monitoring protocols have continued:
 - Philadelphia and Allegheny CAOs are monitored annually.
 - All Crisis contractors are monitored 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 will monitor CAO LIHEAP applications in years a CAO is not included in the "published" schedule
 - Executive Staff members and the BPE oversee and review the findings of the monitoring team's reports and the corrective actions that are developed and implemented 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.
 - **Finding:** In addition to the inadequate on-site monitoring noted above, DPW had no other significant statewide or overall LIHEAP controls in place over the CAOs. As a result, DPW failed to establish and ensure that CAOs had standardized written procedures to process LIHEAP applications, failed to establish and verify that controls are adequate at CAOs, failed to assess the adequacy of application processing, written procedures, and controls at crisis contractors, and failed to establish and verify that LIS has sufficient controls and edit checks to minimize the risk of fraud and abuse.
- Response:** for the 2008-2009 LIHEAP program year, DPW issued to the CAOs standardized written procedures for processing LIHEAP applications. Procedures were issued both prior to the opening of the program, to allow adequate time for review and preparation, and during the program, to introduce changes and provide instructions for implementing those changes.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 54: (continued)

- On August 20, 2008, DPW issued Operations Memorandum OPS080803, the subject of which is LIHEAP policy, procedures and form changes. This memo details policies and procedures for the program year including income guidelines, benefit amounts, off hour coverage, application processing, and form and systems changes.
- On October 28, 2008, DPW issued Operations Memorandum OPS081002, the subject of which is LIHEAP changes to income limits and benefit amounts. This memo informs the CAOs that changes to the program were being implemented in response to an increase in federal funding. The memo details increases to income limits as well as benefit amounts, and it details procedures for the CAOs including verification procedures for crisis grants for deliverable fuels.
- On January 22, 2009, DPW issued Operations Memorandum OPS090101, the subject of which is processing utility termination notices. The memo informs CAOs that, effective January 30, 2009, they could begin processing crisis payments for customers of regulated utilities that were issued valid termination notices dated February 1, 2009 or later. The memo details data entry instructions for different scenarios for processing the crisis payments.
- For the 2008-2009 LIHEAP program year, several system edits were improved to prevent duplicate Cash payments, and edits and LIS were expanded to allow for verification at the household member level. Additionally, during the 2008/2009 LIHEAP season, OIM staff were preparing for a conversion from LIS to LIHEAP e-CIS for the 2009/10 LIHEAP season. This conversion will increase OIM's ability to identify potential instances of fraud and abuse and improve program integrity.

Thank you for the opportunity to respond to this audit. Based on the DPW response to this audit, DPW has successfully demonstrated that the auditors' conclusions of Significant Deficiency, Material Weakness and Material Noncompliance are not accurate, and respectfully request that the AG revisit these conclusions prior to issuing a final audit report.

Auditors' Conclusion: While DPW has made numerous assertions in its response and has developed and provided written procedures to us to support the CAO and contractor monitoring that is *required* to be performed, DPW has not provided adequate and detailed documentation to us to demonstrate that these monitoring procedures are *actually* being performed during its on-site visits.

We requested on numerous occasions during the audit that DPW provide all monitoring documentation to support their corrective actions on the deficiencies noted in our prior years' findings, including our request for a sample of three current-year monitoring reports and all detailed supporting documents from these three on-site visits. Based on our review of all the supporting documentation provided by DPW, including a word document describing the same various written LIHEAP procedures outlined in, and attached to, their above agency response, we conclude that DPW did not adequately support its resolution of these prior-year deficiencies during its on-site monitoring visits with reasonable detailed documentation to demonstrate appropriate corrective action. DPW provided no documentation, for example, to support who actually selected the current year samples of case files for its monitors to review.

As a result, our findings and recommendations for our current year under audit, 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, 2009

Finding 09 – 55:

CFDA #93.558 – Temporary Assistance for Needy Families

DPW Did Not Perform Adequate During-The-Award Monitoring of TANF Subrecipients (A Similar Condition Was Noted in Prior Year Finding #08-46)

Federal Grant Numbers: 0902PATANF and 0802PATANF

Condition: During the fiscal year ended June 30, 2009 the Pennsylvania Department of Labor and Industry (L&I) paid \$106.8 million in TANF funding to 23 Local Workforce Investment Act (LWIA) subrecipients (or 20.9 percent) out of total federal TANF expenditures of \$510.9 million reported on the June 30, 2009 SEFA. The Department of Public Welfare (DPW) as lead agency for TANF had responsibility for monitoring the LWIA subrecipients' use of TANF funds.

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 for three LWIAs (Carbon County, West Central Job Partnership Inc. and Tri-County Workforce Investment) out of the seven LWIAs selected and tested, DPW did not provide any on-site monitoring documentation applicable to TANF during SFYE June 30, 2009. The on-site monitoring documents provided were applicable to our prior audit period, SFYE June 30, 2008.

In addition, our review of the monitoring documents provided for the remaining four subgrantees, disclosed the following weaknesses:

- Work participation rates were based on estimates as opposed to actual occurrences,
- Participants exceeded the duration time limit for vocational education,
- Participant terminations were not entered within the required timeframes.

Since these issues could affect (i.e., inflate) the participants' participation hours and overall work participation rates, we consider these issues to be material weaknesses.

We also noted that the on-site monitoring performed during SFYE June 30, 2009 was not consistent among the LWIAs. We noted that two of the LWIAs were monitored for Outreach Services and Supported Work Components of Work Ready, one was monitored for EARN Career Development and Work Support Components, and one was a Data Entry Review. Also, none of the reports reviewed included monitoring of the allowability of LWIA payments to outside employment and training contractors or LWIA supportive services/special allowance payments to TANF recipients.

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, 2009

Finding 09 – 55: (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 personnel indicated that for each of the subgrantees tested, they provided us with their on-site monitoring documentation applicable to the latest reports that were finalized and released to the subgrantee at the time of our request. In addition, with regards to the weaknesses cited in the reports and above, DPW requires a corrective action plan, which they review and approve, to address these issues.

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 without adequate 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.

Agency Response: The auditors stated that DPW did not provide any on-site monitoring documentation for FYE June 30, 2009 for three of the seven LWIAs selected for testing, but rather provided documents for the prior FYE June 30, 2008. While BETP did not provide the applicable on-site monitoring documentation in time for testing, this was not due to a failure to conduct monitoring. Monitoring had been completed, but the reports were in the review/approval process. The requestors were advised that the reports would be provided once the finalized version was released. In addition to the reports requested for testing, monitoring occurs throughout the year in the form of:

- Technical assistance provided by BETP program advisors
- Ongoing fiscal monitoring by the Department of Labor & Industry
- Monthly reporting by contractors on the Comprehensive Workforce Development System (CWDS)

Based on the review of the monitoring documents provided for the remaining four LWIAs, the auditors stated that:

- Work participation rates were based on estimates as opposed to actual occurrences
- Participants exceeded the duration time limit for vocational education
- Participant terminations were not entered within the required timeframes.

Based on absence of documentation provided by the auditors, DPW does not have enough information to respond to the first point. But DPW does agree with the other points. The duration of time spent in vocational education is reviewed during time and attendance monitoring, by which time some individuals may have exceeded their durational limit. Providers are given technical assistance once these issues are discovered. Presently, there is insufficient system support to track these durational limits, requiring manual tracking and the potential for errors. BETP has also taken action to make sure terminations are entered within the required timeframes. Effective July 1, 2010, programs will have seven days in which to enter terminations.

The auditors noted that on-site monitoring was not consistent among the LWIAs. Because operations vary between LWIAs, monitoring for each LWIA will vary and include a review of the components for which that LWIA is responsible.

The auditors reported that none of the reports included monitoring of the allowability of LWIA payments to outside employment and training contractors, or LWIA supportive services/special allowance payments to TANF recipients. While the auditors do not provide any definition of the term "allowability" of payments, program guidelines allow for Local Management Committees who administer local EARN programs to use subcontractors for service provision and

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 55: (continued)

use RFP processes to select those service providers. BEPT has been developing protocols to refine supportive services/special allowances in general. These refinements include coordination with the Bureau of Program Evaluation, which has the responsibility for reviewing special allowance issuances at the County Assistance Offices.

In their recommendations, the auditors suggests that DPW/BETP should strengthen their procedures to ensure adequate and timely on-site monitoring of all TANF subrecipients and to ensure that they are in compliance with Federal regulations, including the TANF Work Verification Plan. BETP, in fact, does conduct on-site monitoring and oversight in a manner that is consistent with the timeliness required 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 action plans can be developed immediately upon completion of the on-site visit.

Auditors' Conclusion: Regarding DPW not having enough information to respond to the issue of work participation rates based on estimates as opposed to actual occurrences, this came from DPW's memo dated January 21, 2010 to one of its LWIA's, Philadelphia Workforce Development Corporation (PWDC), to support monitoring of data entry at PWDC during FYE June 30, 2009. Further, regarding the definition of the term "allowability" of payments, DPW should utilize current Federal TANF regulations, and develop and properly document their monitoring procedures to verify whether all subgrantees are using TANF funds to pay for activities that are allowable under these TANF Federal regulations, and report these results accordingly.

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, 2009

Finding 09 – 56:

CFDA #93.558 – Temporary Assistance for Needy Families

CFDA #93.568 – Low-Income Home Energy Assistance Program

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

Internal Control Deficiencies in DPW’s Administration of LIHEAP Cash and Crisis Benefits (A Similar Condition Was Noted in Prior Year Finding #08-52)

Federal Grant Numbers: 0902PATANF, 0802PATANF, 08B1PALIEA, 09B1PALIEA, 0901PALIE2, 0901PATAN2

Condition: Our prior three Single Audits of cash and crisis benefits paid through the LIHEAP program administered by DPW reported numerous instances of noncompliance with federal regulations, questioned costs, and material internal control deficiencies within DPW as a whole. These prior-year findings were initially based on a June, 2007 report 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.

To follow-up on these prior-year deficiencies, we requested that DPW provide supporting documentation for corrective actions that were implemented in the current year to address the deficiencies noted in the prior year findings. Based on our review of this support, we determined that a number of the prior year deficiencies were addressed in LIHEAP training, and related policies were strengthened during the current audit period. Also, DPW indicated that implementation of programmatic changes in its new eCIS system should address a number of these deficiencies; however, eCIS was not implemented until subsequent to our current audit period. Furthermore, the results of our current-year testwork indicate that many prior year deficiencies were not adequately resolved.

Our current audit included a haphazard sample of 60 cash and crisis payments totaling up to \$29,245 out of a total population of \$290,259,530 in LIHEAP cash and crisis payments for the year. Our current year testing of these 60 items disclosed noncompliance, unallowable payments, and questioned costs which we reported in another finding. Moreover, we reviewed the results of DPW’s own on-site monitoring reports of its CAOs and outside crisis contractors and found error rates indicated by DPW’s monitors, to include some of the deficiencies noted below, that ranged from 23 percent to 54 percent of items monitored.

Based on our review of supporting documents provided in response to our follow-up of the prior year finding (#08-52) and the results of our current testwork reported above and in another finding, the following material internal control deficiencies were not sufficiently resolved by DPW and continued to exist during our current audit period ended June 30, 2009:

Cash Benefits:

- Applicant case files lack 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 contain numerous undetected errors in calculating eligibility income for cash benefits in accordance with the LIHEAP State Plan.
- Applications do not contain supervisory approval signatures to demonstrate a proper supervisor review of cash benefits for compliance.
- There are 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 used at the CAOs to ensure accurate data entry into LIS is deficient.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 56: (continued)

- Applications to support cash benefit payments cannot always be located by the CAOs. In addition, CAO procedures for the safeguarding of records are deficient since case files were stored in boxes in unrestricted areas, allowing unlimited access and the potential for unauthorized removal or destruction of client files, which contain confidential information.

Crisis Benefits:

- Vendor receipts to confirm fuel delivery and crisis benefit amounts are missing.
- Certifier and/or crisis worker signatures are missing on crisis applications.
- Crisis applications cannot always be located by the CAOs and crisis contractors.
- Crisis referral forms to DCED's Weatherization Program cannot be located to show that repairs were properly completed as required.
- Ineligible applicants are referred by the CAOs to DCED for Weatherization Assistance.

According to the SAP accounting system, the total cash and crisis benefits paid during SFYE June 30, 2009 was \$290,259,530 out of total LIHEAP expenditures of \$335,879,016 reported on the current year SEFA.

Also, during SFYE June 30, 2009 DPW began claiming LIHEAP crisis benefits paid to TANF recipients under the TANF Block Grant (CFDA #93.558). As a result, \$26,134,000 in LIHEAP crisis benefits paid to TANF recipients were claimed under the TANF Block Grant in SFYE June 30, 2009 out of total TANF Block Grant expenditures of \$510,866,157 reported on the SEFA for the year. Subsequently, \$20,907,200 out of this \$26,134,000 in LIHEAP crisis benefits paid to TANF recipients was transferred to and claimed under the ARRA – Emergency Contingency Fund for TANF State Programs (CFDA #93.714), so ARRA funds are significantly impacted by the material weaknesses reported above.

Criteria: As part of administering LIHEAP, DPW must have adequate controls in place, including proper reviews/approvals, to ensure applicants requesting LIHEAP benefits are eligible and receive the appropriate benefit amounts. 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 the type of fuel used, along with Social Security cards or Medical Assistance cards for all household members. Once eligibility is properly determined, controls need to be established to ensure all application data is accurately 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. The processing of LIHEAP benefits is susceptible to errors due to the large number of applications being processed by limited staff in short periods of time. The LIHEAP Manual and Handbook, used by the CAOs to administer the program, was inadequate in addressing specific LIHEAP application procedures to make them consistent throughout DPW's 67 CAOs. We disagree with DPW. Although the LIHEAP Manual and Handbook were improved in the current year, we do not agree with DPW that they alone adequately suffice as written procedures for day to day operations at all the CAOs.

In addition, DPW referred us to ongoing corrective actions largely involving controls being designed in the new eCIS system, but eCIS was not implemented as of the end of our current audit period ended June 30, 2009. DPW indicated that eCIS would automate a number of processes/controls in order to correct the deficiencies noted above, to include approval of LIHEAP applications, calculating eligibility income, improving LIS access for crisis contractors, and providing an imaging system for applications and other supporting documentation.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 56: (continued)

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 continue to strengthen internal controls and implement planned corrective actions to address the noted deficiencies. This should include continued training of CAO personnel, revisions to the LIHEAP Manual and Handbook, safeguarding of assets and guidance on the control environment, implementation of the eCIS system and verification that the related internal controls in this system are operating effectively. In addition, we recommend that DPW ensure that 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, and ensure crisis contractors develop written policies and procedures to accurately document and process crisis transactions.

Agency Response: The auditors state that this problem is due in large part to the lack of adequate written policies and procedures on how to process, approve and store LIHEAP applicant files, causing an increased risk of misspending and noncompliance with the LIHEAP State Plan and federal regulations. Their recommendations focus on areas such as training, revision/enhancements to the LIHEAP Manual and Handbook, implementation of the e-CIS system, and requiring crisis contractors develop written policies and procedures to accurately document and process crisis transactions.

The current audit contains many of the same findings noted in the prior Single Audit released May 19, 2009. And while many of the deficiencies identified in that audit have already been addressed through training and policy/procedural changes, the AG feels that that some of the prior year deficiencies were not adequately resolved. Many of their current audit findings reflect general statements with no specific case documentation/details provided, such as lack of documentation, eligibility calculation errors, data entry errors, missing applications and receipts, and applications missing worker signatures. As such, we are unable to respond to these findings at this time.

The following comments relate to the audit findings and recommendations:

- **Finding:** applications do not contain supervisory approval signatures to demonstrate a proper supervisory review of cash benefits for compliance.

Response: DPW is continually revising its training curriculum for this program to ensure that supervisors and staff are aware of their responsibilities and that all supervisory and program staff responsibilities are delineated as clearly as possible. DPW has taken steps to reinforce the importance of ensuring completeness of all LIHEAP applications. Beginning in the 2009-10 program year with the implementation of e-CIS, manual approvals will no longer be required.

- **Finding:** applications to support cash benefit payments cannot always be located by the CAOs. In addition, CAO procedures for safeguarding of records are deficient since case files were stored in boxes in unrestricted areas, allowing unlimited access and the potential for unauthorized removal or destruction of client files, which contain confidential information.

Response: DPW continues to improve accessibility to files by developing electronic scanning and filing at the CAOs. For Program Year 2009-10, LIHEAP applications and supporting documentation were electronically scanned and archived. The LIHEAP User Manual was written for the 2009-10 Program Year to provide guidelines and procedures for the CAOs for the handling and processing of applications and documentation. This Manual is available to all staff online. It is reviewed and updated on an ongoing basis.

- **Finding:** ineligible applicants are referred by the CAOs to DCED for Weatherization Assistance.

Response: DPW does not agree that it was in error by referring ineligible applicants to the Department of Community and Economic Developments (DCED) Weatherization program. Ineligibility for the cash and crisis programs administered by DPW does not automatically make a client ineligible for the weatherization benefits.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 56: (continued)

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.

- **Recommendation**: implementation of e-CIS system and verification that the related internal controls in this system are operating effectively.

Response: The LIHEAP/e-CIS integration was completed for Heating Season 2009-10 and was in production at the opening of the season. The enhancements are summarized as follows:

- Workload Dashboard allows for tracking off LIHEAP activities
- Improved language and format of system generated Client Notices
- Ability for eligibility workers to enter income details for each source of income for each household member
- Automatic eligibility determination to reduce calculation errors
- Automated individual validation by interaction with SSA
- Improved access to data exchange information and support of the scanning and imaging of LIHEAP verification information

- **Recommendation**: ensure crisis contractors develop written policies and procedures to accurately document and process crisis transactions.

Response: all contractors who assist DPW in administering the crisis component for LIHEAP are required to sign a Work Statement which outlines their responsibilities. The Work Statement requires the contractor to provide DPW with its policies and procedures related to the administration of the crisis component of the LIHEAP Program as coordinated with their respective local County Assistance Office within 30 days prior to the opening of the LIHEAP crisis program. These policies and procedures must reflect the policies contained in the LIHEAP State Plan, address case documentation and record retention, and must include the method of processing crisis applications, the method of forwarding crisis applications to the County Assistance Office, and their hours of operation. These policies and procedures are subject to approval/revision by DPW.

DPW constantly monitors this program, updates training, and revises the LIHEAP Manual and Handbook to ensure that this program is being administrated in the most accurate and efficient manner to comply with all state and federal regulations.

Auditors' Conclusion: DPW's response did not address 7 of the 10 control deficiencies specifically reported in the condition above as being uncorrected from the prior audit, so there is no change to our conclusion on the lack of adequate documentation to support the correction of these prior-year deficiencies in the current year. For the remaining three deficiencies discussed in DPW's agency response, DPW describes its corrective action on two of the three items as occurring in the 2009-10 heating season, which is after our current audit period. For the third deficiency regarding Weatherization referrals, DPW disagreed with our recommendation that ineligible crisis applicants should not be referred to DCED's weatherization program. We continue to take exception to this because crisis applicants receive weatherization in response to DPW's LIHEAP referrals automatically based on LIHEAP eligibility. As a result, applicants are rejected by DPW due to ineligible income levels for LIHEAP, and they are referred to DCED's weatherization program, there remains a significant risk that DCED will still inappropriately fund their Weatherization assistance through LIHEAP or through the DOE Weatherization Program, which is not in compliance. No documentation has been provided to support how this prior-year risk and deficiency was mitigated in the current year.

DPW's response also stated that our current year finding did not contain enough specific details for management to appropriately respond at this time. However, these same internal control deficiencies were clearly reported in prior-year findings containing the necessary detail to enable management to understand the issues, implement the needed corrective action, and properly document its corrective action as required by federal regulations. Since adequate documentation

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 56: (continued)

has not been provided by DPW to demonstrate its corrective actions on these control deficiencies in our current audit period, our finding and recommendations, with the above clarifications, will remain as previously stated. Moreover, we will review and audit DPW's future LIHEAP corrective actions during 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, 2009

Finding 09 – 57:

CFDA #93.558 – Temporary Assistance for Needy Families

CFDA #93.568 – Low-Income Home Energy Assistance Program

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

Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$1,704 in LIHEAP (A Similar Condition Was Noted in Prior Year Finding #08-54)

Federal Grant Numbers: 0902PATANF, 0802PATANF, 08B1PALIEA, 09B1PALIEA, 0901PALIE2, 0901PATAN2

Condition: Our prior three Single Audits of LIHEAP disclosed material deficiencies in DPW’s internal controls designed to prevent and/or detect potential fraud and abuse in the LIHEAP program. Our prior audits also disclosed questioned costs as a result. These prior year disclosures were initially based on a June 2007 report of other auditors (from the Department of the Auditor General – Bureau of Departmental Audits) who performed separate testing of LIHEAP cash and crisis benefits paid out by DPW and related internal controls, and issued a separate stand-alone audit report which we utilized in our prior Single Audit of LIHEAP. As part of our current audit, we requested that DPW provide an update and supporting documentation of corrective actions taken by DPW to resolve these prior year deficiencies.

Based on our follow-up, DPW indicated that corrective measures were implemented or were in the process of being implemented as of June 30, 2009. Based on our review of DPW’s support, we determined that a number of the prior-year deficiencies were covered in current-year LIHEAP training. In addition, DPW indicated that system enhancements began during our current audit period and were ongoing into the 2009-2010 season with the implementation of the new eCIS system, including verification of SSN’s and other applicant data.

DPW administers LIHEAP cash and crisis payments through its 67 CAOs and its nine outside crisis contractors for SFYE June 30, 2009, 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) and a master client index number to track each applicant. Additionally, the LIS identifies and tracks household members claimed by each applicant when applying for LIHEAP benefits. Total cash and crisis benefits paid during SFYE June 30, 2009 were \$290,259,530 out of total LIHEAP expenditures of \$335,879,016 reported on the current year SEFA.

Our testwork for the current audit included a haphazard sample of 60 cash and crisis applications which supported \$29,245 in benefit payments made by DPW. We found that 31 of the 60 payments (or more than 50 percent) lacked proper authorizing signatures, which we consider a significant deficiency. Our sample results also disclosed that two applicants received improper payments which were unallowable and one payment where the application could not be located. The three unallowable payments totaled to \$1,704 out of the total of \$29,245 in payments in our sample of 60 items. Moreover, we reviewed the results of three CAO/crisis contractor on-site monitoring reports prepared by DPW monitoring staff and found error rates indicated by the monitors, to include some of the deficiencies noted below, which ranged from 23 percent to 54 percent of items tested.

Overall, based on our current-year sampling, and based on our review of supporting documents provided in response to our follow-up of the prior year finding (#08-54), the following prior audit deficiencies related to potential fraud/abuse in the LIHEAP program were not sufficiently resolved and continued to exist during our current audit period:

- 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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 57: (continued)

- 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 under-report income on their LIHEAP applications to inappropriately obtain LIHEAP benefits since DPW does not check LIHEAP-reported income with other outside sources.
- Applicants may be receiving excessive crisis benefits above the maximum allowable amount in situations where CAOs utilized outside crisis contractors to administer the crisis portion of LIHEAP. This is due to an 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.

Also, during SFYE June 30, 2009 DPW began claiming LIHEAP crisis benefits paid to TANF recipients under the TANF Block Grant (CFDA #93.558). As a result, \$26,134,000 in LIHEAP crisis benefits paid to TANF recipients were claimed under the TANF Block Grant in SFYE June 30, 2009 out of total TANF Block Grant expenditures of \$510,866,157 reported on the SEFA for the year. Subsequently, \$20,907,200 out of this \$26,134,000 in LIHEAP crisis benefits paid to TANF recipients was transferred to and claimed under the ARRA – Emergency Contingency Fund for TANF State Programs (CFDA #93.714), so ARRA funds are significantly impacted by the material weaknesses reported above.

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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 57: (continued)

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 should include written standard operating procedures, supervisory review and approval of application processing, independent review of application data entry, verification of income, and proper reconciliations.

Cause: A number of the corrective actions to strengthen controls to include SSN verification and validation of applicant information, improved documentation requirements were ongoing beyond the end of our audit period, June 30, 2009. DPW indicated that the implementation of the new eCIS system in the 2009-2010 season will include interfaces with the Social Security Administration for SSN verification and the Pennsylvania Department of Labor and Industry for income verification, as well as additional application controls. In addition, management indicated that in the 2009-2010 LIHEAP season, internal controls will be strengthened by requiring that all households provide proof of heating responsibility annually and crisis contractors will be required to provide transmittal sheets to CAO's for review. The prior audit found that the LIS system does not perform adequate edit checks with respect to detecting irregularities or potential fraud and abuse regarding applications submitted with similar addresses, names, and SSNs. In addition, DPW lacked adequate monitoring of the LIHEAP program to ensure that fraud and abuse was minimized. As further explained in another finding, the monitoring conducted by DPW is not assessing the adequacy of CAOs controls for processing applications.

An adequate supervisory review did not exist in the application approval and data entry process of applications into the LIS and crisis contractor databases.

Effect: Due to the lack of documentation to support current-year LIHEAP cash and crisis payments, \$1,704 in LIHEAP costs are questioned as unallowable. Because of the internal control deficiencies noted above, LIHEAP cash and crisis payments are being made in violation of federal regulations and the LIHEAP State Plan. If these control deficiencies are not corrected, such noncompliance and the potential for fraud and abuse will continue to exist in future periods.

Recommendation: We recommend that DPW pursue appropriate settlement of the \$1,704 in LIHEAP questioned costs with the federal awarding agency, HHS. Furthermore, DPW should continue to strengthen controls to include the automated controls that are planned for implementation in the 2009-2010 LIHEAP season with the upgraded LIHEAP system, eCIS and other planned enhancements, such as required documentation for heating responsibility, rent discounts, and crisis contractor transmittal sheets. In addition, DPW should continue to reinforce policy through annual LIHEAP training conducted by DPW. Through ongoing corrective actions, DPW should ensure the following deficiencies are resolved:

- 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 documented reconciliations 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 and outside income prior to application approval; and
- ensure adequate supervisory reviews exist at CAOs and crisis contractors in the application approval and data entry process of applications into the LIS and crisis contractor databases.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 57: (continued)

Agency Response: The auditors state that this problem is due to system limitations as well as inadequate manual controls, including written standard operating procedures and supervisory review and approval of the application/process. Their recommendations focus on system enhancements and upgrades to our training and policies/procedures.

Many of the prior year audit findings were/are in the process of being corrected through system enhancements and training. But the AG still feels that some deficiencies were not resolved and continued to exist during the current audit. No details were provided with this audit finding to identify the \$1,704 in questioned cost; therefore DPW cannot adequately provide a response at this time.

Responses to several of the conditions and recommendations are as follows:

- **Finding:** applicants were able to file multiple LIHEAP applications using variations of the 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.

Response: we utilize a system called File Clearance that allows us to uniquely identify an individual. However, if File Clearance is not properly performed or the results are questionable, there are procedures that will allow the application to be processed. In order to do this, certain steps must be taken to address the current LIS system edits. Bypassing the edit feature of File Clearance will allow benefits to be authorized or rejected, and the safeguard of this function resides in the supervisory review of the LIHEAP workers records. In an effort to eliminate some of the confusion, DPW resubmitted all clients in the Master Client Index (MCI) through SSA for an enumeration process if the LIHEAP client's SSN was blank, and submitted the remaining LIHEAP clients with SSNs through a verification process. This process was completed on all LIHEAP clients for the 2008/09 Heating Season and was completed before the integration of the 2009/2010 LIHEAP/eCIS program on October 12, 2009.

- **Finding:** 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.

Response: during the File Clearance Process, the system will identify clients that are known to other cases/budgets. Because the worker is allowed to change the characteristics of the individual, as discussed above, the potential for duplicate benefit authorization is possible. LIHEAP edits have been brought into alignment with other programs; e.g., if the individual is currently receiving benefits in any other program (CIS, LIHEAP, CCMIS, etc.), the worker receives a message that this person is known and describes county record number and related demographics.

To address the issue of addresses, we have implemented Geographical Interface System (GIS) which validates that the address is a valid location. This validates the location but not necessarily the occupants.

Both of these changes occurred were completed after the close of the 2008/2009 Heating Season and were completed before the integration of the 2009/2010 LIHEAP/eCIS program on October 12, 2009.

- **Finding:** 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.

Response: 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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 57: (continued)

- **Finding:** 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.

Response: per DPW policy, all applicants must verify and provide documentation of their income as a condition of eligibility. Failure to verify and document income will result in application rejection. Additionally, CAOs are required to check CIS for income verification for LIHEAP applicants. In cases where the LIHEAP applicant is known to CIS, income is verified via data exchanges with the Department of Labor and Industry (DLI). Beginning with the 2009/10 LIHEAP season, the upgraded LIHEAP system will include data exchanges with DLI, which will give income verification on all LIHEAP applications.

- **Finding:** applicants may be receiving excessive crisis benefits above the maximum allowable amount in situations where CAOs utilized outside crisis contractors to administer the crisis portion of LIHEAP. This is due to an 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.

Response: DPW requires coordination between CAOs and outside crisis contractors. In addition, the LIHEAP system does not allow any LIHEAP recipient to receive crisis benefits in excess of the maximum amount.

- **Recommendation:** 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 CAOs and crisis contractors to independently verify SSNs and outside income prior to application approval.

Response: beginning in 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 were manually verified by CAO workers.

The LIHEAP/e-CIS system integration was completed for the 2009/10 Heating System and was in production at the opening of the season. Some of the enhancements are commented on above, but are summarized as follows:

- Workload Dashboard allows central tracking of LIHEAP activities
- Improved language and format of system generated Client Notices
- Ability for eligibility workers to enter income details for each source of income for each household member
- Automatic eligibility determination to reduce calculation errors
- Automated individual validation by interaction with SSA
- Improved access to data exchange information and support of the scanning and imaging of LIHEAP verification information.

- **Recommendation:** require routine documented reconciliations 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.

Response: for Program Year 2009/10, the LIHEAP User Manual provides guidelines for the responsibilities of both the crisis contractors and the CAOs. Contractors are required to submit a transmittal listing each crisis authorization to the CAO for review and input.

- **Recommendation:** 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.

Response:

- CAO supervisors complete weekly supervisory reviews of LIHEAP applications. The supervisors report their findings and corrective action activities to the Bureau of Program Evaluation.
- The Confirmation Report is reviewed daily by a supervisor or manager for inconsistencies.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 57: (continued)

- The LIHEAP User Manual was developed for Program Year 2009/10 to provide standard procedures for the CAOs and the responsibilities of the crisis contractors and the CAOs. The CAOs are instructed to conduct weekly meetings with the crisis contractors to ensure coordination of processing.
- An Office of Income Maintenance 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.
- DPW has contracted with an independent private organization to conduct the annual monitoring reviews of the Philadelphia, Allegheny and selected CAOs as well as the current crisis contractors. Additionally, this organization reviews a sample of the work completed by the OIM monitoring team to ensure accuracy.
- The Bureau of Financial Operations provides OIM with technical assistance and conducts performance audits of specific CAOs and crisis contractors as needed to resolve systematic problems identified by the OIM Monitoring Team.

DPW remains committed to administering LIHEAP with the highest possible degree of accuracy and efficiency, and will work toward addressing the findings and recommendations put forth in this audit.

Auditors' Conclusion: DPW has indicated that a number of the control deficiencies carried forward from prior years into our current year under audit continue to be corrected through system enhancements and training provided to program administrators. We support DPW's continued efforts to strengthen internal controls in the LIHEAP program. Based on the agency response, the corrective actions are primarily occurring in the 2009-10 program year, which is after our audit period and beyond the scope of our current audit, so our finding and recommendations will remain as previously stated for our current audit. We will review DPW's LIHEAP corrective actions during 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, 2009

Finding 09 – 58:

CFDA #93.558 – Temporary Assistance for Needy Families

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

DPW Failed to Adequately Support and Account For a Transfer of LIHEAP Funds Charged to TANF and Failed to Qualify for a \$28,507,184 TANF Emergency Fund Grant Award Under ARRA, Resulting in SEFA and ACF-196 Quarterly Reporting Errors and \$26,134,000 in Questioned Costs

Federal Grant Numbers: 0902PATANF, 0901PATAN2

Condition: As part of our audit of the TANF program administered by DPW, we noted \$26,134,000 in costs reported under a new category of expenditures called TANF Home Energy Assistance (DPW Internal Order #G29375168440). This \$26.1 million in Home Energy Assistance payments claimed under the TANF Block Grant represents approximately 5.1 percent of total TANF Block Grant expenditures of \$510,866,157 reported on the SEFA for SFYE June 30, 2009. Our audit of these Home Energy Assistance costs disclosed material noncompliance with federal regulations and internal control weaknesses involving both ARRA and non-ARRA funds related to: 1) Allowability, 2) SEFA and ACF-196 Quarterly Reporting, and 3) Qualifying for TANF-ARRA Emergency Fund Grants.

1) Allowability:

Our inquiry with DPW personnel about this transfer disclosed that, beginning October 1, 2008, DPW had decided to utilize TANF Block Grant funds to pay for household energy crisis payments made to, or on behalf of, TANF-eligible recipients under LIHEAP, another major federal program administered by DPW. As a result, DPW transferred \$26,134,000 of expenditures, that were originally charged to the LIHEAP crisis grant during the period from October 2008 through April 2009, to the FFY 2009 TANF grant.

We noted in our audit the following major documentation deficiencies and internal control weaknesses associated with the allowability of this \$26.1 million transfer:

- Since none of the documents originally provided by DPW to support the \$26,134,000 transfer to TANF included a list of the detail transactions involved (e.g., recipient identification and individual payment amounts), we requested a detail listing of the transactions included in the transfer. In response to our request, DPW provided a file of LIHEAP energy crisis payments made during the entire 2008-09 fiscal year that totaled to \$55,710,870, which is significantly more than the \$26,134,000 transfer to TANF and, therefore, DPW claims is valid support. However, the payment file total does not agree to the transfer amount, so no specific identification of the actual detail transactions totaling to and agreeing to the actual amount transferred to TANF (i.e., an audit trail) could be provided.
- Further, for a sample of 5 individuals included in the file of LIHEAP energy crisis payments provided by DPW to support the transfer to TANF, we tested these individuals and reviewed their case files in our audit of LIHEAP, and we found that no evidence could be provided from the LIHEAP files or from the DPW Client Information System (CIS) to document that any of the 5 individuals were actually TANF recipients.
- We also noted that subgranted TANF funding provided to Local Workforce Investment Act (LWIA) contractors to assist TANF recipients in obtaining employment and training can also include payments to TANF recipients for utility bills; however, as noted in other findings, these payments are not recorded or reported on the statewide SAP accounting system or DPW's CIS, and DPW does not monitor any utility payments issued by LWIA subrecipients to determine the eligibility and accuracy of these benefits issued to clients, to include verifying that duplicate energy crisis benefits are not inappropriately issued by CAOs and the LWIA subrecipients.

Because of the lack of an audit trail or other detail documentation to support the allowability of the transfer amount noted above, and based on discussions with and guidance received from HHS OIG, our Federal Cognizant Agency for Single Audit, we question the \$26,134,000 in LIHEAP energy crisis costs transferred to, and claimed and reported on the current-year SEFA under TANF.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 58: (continued)

Subsequent to the June 30, 2009 end of our current audit period (in September of 2009), \$20,907,200 out of this \$26,134,000 in LIHEAP crisis benefits transferred to TANF was further transferred to and claimed by DPW under the ARRA – Emergency Contingency Fund for TANF State Programs (ARRA TANF grant), CFDA #93.714. Therefore, the documentation deficiencies and internal control weaknesses reported above for the \$26.1 million transfer from LIHEAP also directly impact the \$20.9 million subsequent transfer into the ARRA TANF grant in September 2009, so we further question this subsequent transfer and claim of \$20,907,200 under the ARRA TANF grant.

Furthermore, an additional \$3,315,669 in TANF payments for non-recurring Work Support Component programs incurred during SFYE June 30, 2009 were also included in the September 2009 transfer to the ARRA TANF grant, and although not specifically selected and tested by us in our current audit year, these additional ARRA funds may also be subject to the same documentation deficiencies and internal control weaknesses noted for the household energy crisis payments above.

2) SEFA and ACF-196 Quarterly Reporting:

Due to the transparency required by our Federal Cognizant Agency for ARRA funding, and based on direct HHS OIG guidance, any expenditures incurred during SFYE June 30, 2009 and later transferred into ARRA TANF grants after June 30, 2009 should be reported either: 1) on the SEFA for SFYE June 30, 2009 under ARRA TANF; or 2) as a footnote to the SEFA which discloses that costs incurred during SFYE June 30, 2009 and reported within non-ARRA grants on the June 30, 2009 SEFA were subsequently transferred to the ARRA TANF grant and will be reported as such on the June 30, 2010 SEFA. Since Office of the Budget failed to properly report or footnote \$24,222,869 in subsequent ARRA transfers on the 2009 SEFA (the \$20,907,200 and \$3,315,669 noted above), a material weakness is present over SEFA preparation, and an auditor-proposed SEFA correction was made by the auditee. We also noted that, although DPW reported this \$24.2 million ARRA transfer on the TANF ACF-196 Report for the quarter ended September 30, 2009, no adjustment information was disclosed or reported to HHS on the ACF-196 amounts for ARRA reported for the quarter ended June 30, 2009.

3) TANF-ARRA Emergency Fund Grants:

To obtain award funds under the ARRA TANF Grant (CFDA #93.714), DPW submitted a June 22, 2009 request letter required by HHS, which detailed the estimated increase in DPW's short-term, non-recurrent TANF benefits in FFY 2009 (10/1/08 to 9/30/09) versus prior federal fiscal years due to the recent economic recession. (Note: DPW's request letter was submitted in lieu of HHS's required Form OFA-100, which was not yet available for use by the states in June of 2009). Our review of DPW's letter disclosed an increase of \$36,124,391 in non-recurrent, short-term benefits estimated for FFY 2009 compared to FFY 2007, which was used as the base-year. DPW was subsequently awarded 80 percent of the increase, or \$28,899,513 based on HHS's ARRA formula.

The letter also detailed the \$36.1 million FFY 2009 increase by quarter compared to FFY 2007 base-year as follows: Q1=\$2,136,544, Q2=\$1,180,884, Q3=\$28,507,184 and Q4=\$4,299,779. The unusually large increase in Q3 expenditures included the planned use of the \$26,134,000 in TANF funds mentioned above to pay for the cost of household energy crisis payments made to TANF recipients within LIHEAP.

However, we noted in our audit that the amounts reported for the FFY 2007 base-year erroneously did not include the amount of household energy crisis payments made to TANF recipients within LIHEAP during the FFY 2007, which was required by HHS. As a result of not adjusting (i.e., increasing) the FFY 2007 base-year amounts to include the household energy crisis payments made to TANF recipients within LIHEAP, all program configuration changes that affected quarterly comparisons of the prior base-year (FFY 2007) and the request quarter data (for FFY 2009) were not included in the calculation, as required, so the \$28,899,513 ARRA award calculation appears to be significantly overstated by DPW in violation of HHS requirements.

Criteria: 45 CFR 92.20 Standards for financial management systems, paragraph (2) Accounting records states:

Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 58: (continued)

45 CFR 92.20 Standards for financial management systems, paragraph (5) Allowable costs states:

Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

OMB Circular A-87 Cost Principles for State, Local, and Indian Tribal Governments, Attachment A - General Principles for Determining Allowable Costs, Section C Basic Guidelines, paragraph 1. Factors affecting allowability of costs states:

To be allowable under Federal awards, costs must meet the following general criteria:

g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.

j. Be adequately documented.

45 CFR 92.41 Financial reporting, paragraph (2) Accounting basis states:

Each grantee will report program outlays and program income on a cash or accrual basis as prescribed by the awarding agency.

Section 2101, of ARRA of 2009, Emergency Fund for TANF Program, subsection (a)(3)(B) Grant Related to Increased Expenditures for Non-Recurrent, Short-Term Benefits states, in part:

“(ii) NON-RECURRENT SHORT TERM EXPENDITURE REQUIREMENT.—A State meets the requirement of this clause for a quarter if the total expenditures of the State for non-recurrent short term benefits in the quarter, whether under the State program funded under this part or as qualified State expenditures, exceeds the total expenditures of the State for nonrecurrent short term benefits in the corresponding quarter in the emergency fund base year of the State.”

“(iii) AMOUNT OF GRANT.—Subject to paragraph (5), the amount of the grant to be made to a State under this subparagraph for a quarter shall be an amount equal to 80 percent of the excess described in clause (ii).”

Further, the ARRA required DPW-signed Certification #4 attached to DPW’s request letter in lieu of the Form OFA-100 states: “... the request includes adjustments for all program configuration changes that would affect quarterly comparisons of the base-year and request quarter data”.

Cause: DPW did not establish adequate written procedures for the documenting, reviewing, charging, and outside reporting of TANF ARRA funds and TANF household energy crisis payments.

Regarding the incorrect calculation of the TANF-ARRA Emergency Fund Grant, DPW erroneously believed that the use of TANF funding to pay for the cost of household energy crisis payments made to TANF recipients within LIHEAP was a new initiative under TANF for FFY 2009 that did not require an adjustment for program configuration changes that would affect quarterly comparisons of the FFY 2007 base-year and FFY 2009 request quarter data.

Effect: As a result of not properly documenting, reviewing and reporting ARRA funds (on the SEFA and ACF-196 Report) and TANF household energy crisis payments, we question \$26,134,000 of household energy crisis payments transferred from LIHEAP to TANF during SFYE June 30, 2009, as unallowable. Included in this \$26,134,000 of questioned costs is \$20,907,200 subsequently transferred and charged by DPW to the TANF-ARRA Emergency Fund Grant in September of 2009. Further, an additional \$3,315,669 for work support component payments included in the September 2009 transfer and charged to the TANF-ARRA Grant may also be subject to the same documentation deficiencies and internal control weaknesses noted above for the energy crisis payments. These internal control weaknesses will result in unallowable program charges in the future. Also, weaknesses in auditee SEFA and ACF-196 reporting procedures may cause those reports to be materially misstated in the future.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 58: (continued)

Regarding the incorrect calculation of the TANF-ARRA Emergency Fund Grant, since DPW did not make an adjustment to increase the FFY 2007 base-year amounts to account for the program configuration change related to household energy crisis payments made to TANF recipients within LIHEAP during that year, the calculated net increase in non-recurrent, short-term benefits for FFY 2009 versus FFY 2007 appears significantly overstated and, therefore, the amount of the ARRA TANF award received by DPW appears to be significantly overstated in violation of ARRA regulations.

Recommendations: We recommend that DPW pursue appropriate settlement with HHS regarding the \$26,134,000 in unsupported questioned costs charged to and reported under TANF for the SFYE June 30, 2009, which includes the \$20,907,200 in unsupported questioned costs charged to the ARRA TANF grant in September of 2009, after our current audit period. DPW should also pursue applicable settlement with HHS regarding the additional \$3,315,669 in potentially unsupported costs for work support component expenditures charged to the ARRA TANF Grant after our current audit period.

DPW should strengthen its future controls over the process of documenting, reviewing, charging, and reporting (on both the SEFA and ACF-196 Reports) of ARRA TANF funds and TANF household energy crisis payments and non-recurring TANF work support component payments. Furthermore, to comply with HHS requirements, DPW should adjust its FFY 2007 base-year expenditures to include the amount of household energy crisis payments made to TANF recipients within LIHEAP during FFY 2007, and submit a new Form OFA-100 to HHS reporting the accurate amount of increase in non-recurrent, short-term benefits to support an accurate ARRA TANF Emergency Fund Grant award request.

Agency Response:

DPW Response: TANF Emergency Fund, from ARRA, Title IV, Part A, Section 2101, Pub. L. 111-5 (42 U.S.C § 603(c)): The objective of the program is to provide up to \$5 billion for states, territories, and tribes in fiscal year (FY) 2009 and FY 2010 that have an increase in assistance caseloads and/or certain types of expenditures. The Pennsylvania Department of Public Welfare (DPW) had to use these non-recurrent short term benefit TANF funds in accordance with section 404 of the Act (42 U.S.C § 604), including to provide low income households with assistance in meeting home heating and cooling costs. The DPW used new TANF funds to provide additional heating and cooling assistance to low income households, and those funds were separate from the LIHEAP program funds already used for heating assistance for low-income families.

The \$55.711 million represents the total cost of the program with 46.9 percent of eligible expenses paid with TANF funding (ARRA 80 percent and Regular TANF 20 percent) and the remaining 54.1 percent of payment being provided with Federal LIHEAP funding.

Individuals receiving energy crisis payments with TANF and TANF-ARRA funds were limited to Low Income Families. TANF eligibility in PA for Non-Recurrent Short Term Benefits is limited to Low Income families in accordance with Federal Law. A low income family in PA is defined as a family (must include a relative child) under 235 percent of the Federal Income Poverty Guidelines (FPIG). A client does not need to receive a TANF Cash Assistance benefit to be eligible for Non-Recurrent Short Term Benefits (see OMB Control #0970-0366 below).

The energy crisis payment was limited to 60 percent of median income (around 210 percent of the FPIG) which is well under the TANF income limit. The backup totaling \$55.711 million in claims was limited to households verified to meet the TANF family definition (households containing a relative child).

Excerpt from OFA-100 instructions (OMB Control #0970-0366): Non-recurrent short-term benefits: Consistent with the definition at 45 CFR 260.31 (b) (1) and 45 CFR 286.10 (b) (1), non-recurrent short-term benefits means benefits designed to deal with a specific crisis situation or episode of need, that are not intended to meet recurrent or ongoing needs, and that will not extend beyond four months. This is the same definition that the ACF-196 (line 6g) uses.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 58: (continued)

It should be noted that these benefits include those provided directly to a family and those paid to others on behalf of the family, such as a payment to a landlord. Both families receiving other forms of “assistance” and families that do not otherwise receive ongoing assistance may receive non-recurrent short-term benefits.

Per our Master Guidelines, which guide service provision of our contracted programs, the following definitions and guidance exist.

- Supportive Service – A supportive service is an item or service needed by a participant to prepare for, seek, accept, or maintain employment, education, or training and can be issued by CAO and/or contractors. If a client is facing the potential of having utilities terminated, it becomes a barrier for them to be able to participate in E&T programming.
- Allowances used by the contractor for supportive services are based on the availability of program funds and should supplement, not duplicate, allowances that are available to the participant from the CAO.
- The contractor will confirm with the local CAO the allowances available to participants receiving Cash Assistance and the allowances available to participants receiving SNAP.
- Related to paying for utility bills, contractors are permitted to make issuances as required to alleviate needs not already covered by other supportive services allowances. These would be considered non-recurring crisis needs-based payments.
- The documentation of all supportive services is to be noted in the client case records, documented in Commonwealth Workforce Development System (CWDS) and maintained in contractor fiscal records per GAAP.

DPW initially paid the entire \$26.134 million out of Federal TANF funds pending Federal approval of the use of ARRA funds for this program. Upon receipt of approval and a TANF-ARRA grant award, the Department transferred 80 percent of the new TANF program funds to TANF-ARRA in accordance with Federal guidelines.

TANF Emergency Fund, from ARRA, Title IV, Part A, Section 2101, Pub. L. 111-5 (42 U.S.C § 603(c)): LIHEAP funds are not included or used in the calculation, because those program funds are separate from the TANF funds used. Because these TANF funds were used for the first time in FY 2009 to provide low income households with assistance in meeting home heating and cooling costs separate from the LIHEAP program, every dollar of those TANF funds used in FY 2009 was a new expenditure not made in FY 2007, and these expenditures, therefore, meet the non-recurrent short term expenditure requirement in Section 2101 (42 U.S.C § 603(c)(3)(B)(ii)).

Comptroller Response: Our response applies to item 2 – SEFA and Act 196 Quarterly Reporting. In September 2009, the state Department of Public Welfare requested a transfer of eligible expenditures that were incurred prior to June 30, 2009 from the TANF grant (CFDA #93.558) to the TANF ARRA grant (CFDA #93.558). The TANF ARRA Grant was awarded to the Commonwealth on July 29, 2009 retroactive for the grant period October 1, 2008 through September 30, 2009. All of this activity took place in the Commonwealth’s 2009/2010 fiscal year & June 30, 2010 SEFA reporting year. As a result, our accountants recorded the expenditures consistent with our established accounting policy for recording SEFA activity in the year of occurrence and aligning the SEFA reporting with grant award Financial Status Reports (FSRs). During the single audit fieldwork, the auditors requested that we make an adjustment to report this instance on the June 30, 2009 SEFA. We were unable to locate HHS published criteria addressing this reporting requirement. Consequently, we contacted HHS OIG to request guidance on reporting this circumstance. Although HHS OIG would not provide written guidance to address this issue, they emphasized the importance of transparency in ARRA reporting and suggested exploring the possibility of a footnote if we did not make an adjustment. After acknowledging the lack of published guidelines to address this issue, the accounting firm of Ernst & Young also made the footnote suggestion. In working with HHS OIG and our auditors in order to satisfy ARRA transparency requirements and avoid an audit finding, we incorporated a subsequent event footnote disclosing the activity recorded in our accounting system in September 2009. We disagree that Office of Budget failed to properly report or footnote subsequent ARRA activity and that a material weakness is present over SEFA preparation. Our SEFA is prepared in accordance with published guidelines. The auditors cite no criteria in this audit finding upon which the claim of improper reporting can be measured against. Since this new criteria is a departure from our established and previously audited reporting

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 58: (continued)

methodology, and in an effort to ensure that we continue compliance with SEFA reporting guidelines, we are going to pursue a request for written guidance from HHS OIG specifically addressing cutoff periods for SEFA and FSR reporting activity.

Auditors' Conclusion: The DPW response does not provide documentation to address the non-compliance or weaknesses noted in the condition, including supporting that the funds transferred from LIHEAP included only needy families as defined by the TANF State Plan.

Regarding the Comptroller Office response on the SEFA reporting issue, our conclusions on this new ARRA reporting issue are based on direct contact with HHS OIG, Pennsylvania's federal cognizant agency for Single Audit. Based on current HHS OIG guidance, we recommend that management strengthen its future SEFA preparation procedures to ensure all ARRA activity is properly reported in accordance with HHS OIG guidance.

Based on the agency response, our finding and recommendation, with the above clarifications, remain as previously stated. We will review any corrective action or subsequent guidance from the federal cognizant agency 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, 2009

Finding 09 – 59:

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 #08-47)

Federal Grant Numbers: 0902PATANF, 0802PATANF

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 2009. We selected a sample of 50 out of the 300 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 12th 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 4 of the 50 cases, or 8 percent, as follows:

Out of the 50 cases reviewed on the data report, 17 cases had no work activity for the period and 33 cases included work activity. However, for 4 of the 33 cases with work activity, or 12 percent, the number of unsubsidized weekly employment hours (Item #50) reported was not properly calculated or should not have been reported as follows:

- Documentation provided within Case A indicated that the participant earned \$800 for the month of February 2009, for which the unsubsidized weekly employment hours were calculated. However, when the employment hours were calculated, the DPW employee used the Federal minimum wage of \$6.55/hour as opposed to the State's minimum wage of \$7.15/hour. Therefore, DPW reported 30 hours of weekly employment instead of 28 hours. The documentation within the case file did not identify the participant's hourly wage and, therefore, we cannot determine if the participant was actually paid the State or Federal minimum wage.
- Documentation provided within Case B indicated that the participant was paid \$6.25/hour for 30 hours of work a week. However, this rate was less than the State minimum wage. Therefore, only 26 hours of weekly employment should have been reported when calculating hours based on the State minimum wage.
- Documentation provided within Case C indicated that the participant's cash assistance was closed on March 22, 2009, as a result of the household's income exceeding the income limitations. The household income exceeded the income limitations effective February 23, 2009, when the participant's spouse received her first pay check. Therefore, the participants received an extra month's worth of TANF assistance, and should not have been included on the TANF Data Report for March 2009. As a result, 77 work hours (37 and 40) were reported for two ineligible recipients. (See separate Single Audit finding issued on ineligibility issues for TANF program.)
- Documentation provided within Case D indicated that the participants' income exceeded the income limitations. The household income exceeded the income limitations effective February 20, 2009, when the participant's spouse received his first paycheck. There was no documentation within the case file to indicate that the case was closed and, therefore, the participants should not be receiving TANF assistance and should not be included on the TANF Data Report for March 2009. As a result, 85 work hours (31 and 54) were reported for two ineligible recipients. (See separate Single Audit finding issued on ineligibility issues for TANF program.)

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 59: (continued)

Criteria: Section 411(a)(1) of the Social Security Act states, in part:

(A) *CONTENTS OF REPORT.*—Each eligible State shall collect on a monthly basis, and report to the Secretary on a quarterly basis, the following disaggregated case record information on the families receiving assistance under the State program funded under this part:

(xi) *If the adults participated in, and the number of hours per week of participation in, the following activities:*

(III) *Unsubsidized employment.*

(V) *Job Search*

(VI) *Job skills training or on-the-job training.*

(VII) *Vocational Education*

(xii) *Information necessary to calculate participation rates under section 407.*

In addition, 45 CFR Part 265.3 states:

(b) *TANF Data Report.* The TANF Data Report consists of three sections. Two sections contain disaggregated data elements and one section contains aggregated data elements.

(1) *Disaggregated Data on Families Receiving TANF Assistance – Section one.* Each State must file disaggregated information... such as the type and amount of assistance received, educational level, employment status, work participation activities, citizenship status, and earned and unearned income. The data apply to adults and children.

Also, 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.

The General Assembly of Pennsylvania, in 2006, via Senate Bill No. 1090, amended the Minimum Wage Act and raised the state's minimum wage from \$5.15 an hour to \$6.25 on January 1, 2007 and to \$7.15 on July 1, 2007. The federal minimum wage is \$6.55 (as of July 24, 2008) and will be raised to \$7.25 beginning July 24, 2009.

Cause: Regarding the current-year discrepancies in work hours reported above, DPW officials felt that they reported hours based on their established TANF Work Verification Plan approved by HHS. DPW officials also did not explain why benefit payments were made to ineligible participants that appear to have exceeded the income limitations, but were determined to receive TANF benefits and reported on the ACF-199 Report and, therefore, caused DPW to report work hours for individuals that should not have received TANF benefits.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 59: (continued)

DPW officials could not explain why the wrong minimum wage was used to calculate Participant A's employment hours, or why Participant B was paid less than minimum wage.

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, DPW is allowing TANF recipients to work for less than minimum wage in violation of state law and benefits have been granted to ineligible individuals who 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 cases C and D, DPW should ensure proper follow up is performed to ascertain eligibility of these participants for TANF benefits and pursue settlement on ineligible payments, as appropriate.

Agency Response: DPW disagrees with this finding. The federal government allows states to set our 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.

One of the four cases cited is considered self-employment. In our Work Verification Plan, the number of hours of self-employment is determined by calculating the gross earned income divided by the Federal minimum wage in accordance with the provisions of the Fair Labor Standards Act (FLSA). However, the audit finding for this case states we should have used the State minimum wage; this is not consistent with our Work Verification Plan.

The audit finding for the second case suggests that DPW report data that directly conflicts with the information we have about the client. We have documentation provided to us by the client that states the number of hours worked, but the audit finding suggests we report a different number of hours worked than what is documented. Per federal regulations and our Work Verification Plan, we are required to report the number of hours that we know the client is working. We cannot alter that information and report data to the Federal government that contradicts the documentation we have. The audit should have evaluated DPW's compliance with the 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 we are required to maintain, the auditor did not evaluate the cases against the policies and procedures in the Work Verification Plan.

The other two cases are incorrectly cited as ineligible for TANF benefits during the sample month. The audit finding states that to perform their case review, the auditors obtained the file for the sample month of March 2009. These two cases reported employment at the end of the previous month. Per federal regulation to provide advance notice of closure of benefits, benefits were discontinued after advance notice was provided to these cases. Therefore, these two cases correctly received benefits during the sample month. Cases that receive a benefit for any day of the sample month are eligible to be selected in the TANF sampling process. The audit finding that benefits were issued to ineligible individuals is incorrect.

All of the cases cited by the auditors as having "errors and/or documentation discrepancies" actually met DPW's verification requirements as approved by HHS. Therefore, we do not agree with the auditor's conclusion that "DPW did not comply with federal reporting requirements or its HHS-approved TANF Work Verification Plan." DPW was in fact in complying with all the reporting requirements.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 59: (continued)

DPW continues to provide outstanding service to an increasing number of clients by providing the tools to get clients the services they need. Improvements for clients include instituting Customer Service Centers, Call Centers, expanding COMPASS (our on-line client self-service system), and providing simplified notices to clients informing them of the status of their benefits. We have instituted scanning of client documentation and creating electronic case files that make required verification readily available to staff. We have also improved the Workload Dashboard for CAO staff which enables them to more effectively monitor and track the status of clients. This system allows greater analysis of trends to better anticipate the needs of the residents of the Commonwealth and to provide tools for our staff to make it easier for them to meet these needs.

Over the last decade, Pennsylvania has met its federal Work Participation Rate requirement every year. DPW continues to focus significant time and resources on reporting accurate data in the TANF Data Report (ACF-199), and continues to improve the accuracy of this report. A new automated TANF Data Management system was created and implemented to increase the efficiency and accuracy of ACF-199 reporting. Over the last several years, the DPW has instituted rigorous Quality Control measures to review the eligibility of clients, the completeness of case files, and to verify the data reported to HHS. We have also increased the Corrective Action measures taken in response to any Quality Control findings. We perform multiple reviews of cases reported in the TANF Data Report to ensure the appropriateness of services provided to the clients and the accuracy of the data collected and reported. Ongoing training is provided to staff that work with the clients and that report the data collected for the TANF Data Report.

As a result of these measures, DPW is confident in the quality and integrity of the services provided to clients and the associated data that is collected and reported. We believe strongly we are in compliance with federal requirements.

Auditors' Conclusion: Regarding the 2 TANF participants that were paid less than the state minimum wage, it should be noted that any Block Grant Plan cannot conflict with Federal or state law. Further, since a violation of the state minimum wage law appears to have occurred in both cases, DPW should have followed-up with the employers to determine the accuracy of the hours worked and the wages paid, but did not do this.

Regarding the case that DPW considered self-employment, the letter in the case file is from a rental company and states the TANF participant was an employee of that company and was paid \$800 for the month of February, 2009. Since no hours were noted in the letter, DPW should have followed-up with the employer to determine actual hours worked, but did not do this.

Regarding the case that reported 30 hours worked at \$6.25 per hour, DPW should have followed-up with the employer to determine the accuracy of both the hours worked and the wages paid since the pay rate was in violation of both the Federal and state minimum wage laws. Again, DPW did not follow up.

Regarding the 2 cases that were not terminated during March 2009, we disagree with DPW providing any TANF benefits for March 2009 as outlined in our condition above. While we agree with DPW that advance notice needs to be given, since employment was obtained in the beginning of February in both cases, DPW had time to give advance notice for a timely termination of TANF benefits prior to March 2009.

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, 2009

Finding 09 – 60:

CFDA #93.563 – Child Support Enforcement

Internal Control Deficiencies Over PACSES Contractor Costs Result in Questioned Costs of \$67,021 (A Similar Condition Was Noted in Prior Year Finding #08-50)

Condition: Out of \$140.7 million in expenditures reported on the Commonwealth's SEFA for the CSE program during SFYE June 30, 2009, \$18.0 million (or 13 percent) was expended by DPW on 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 \$18.0 million charged to CSE for our current year, we randomly selected a sample of 8 charges totaling to \$658,545 (federal share), and reviewed each transaction for allowability, reasonableness, and compliance with applicable federal regulations. Our testing disclosed the following exceptions for 2 out of the 8 transactions tested as follows:

- For PACSES contract #SP4000011443, Invoices #8000763334 and #8000777250 related to PACSES application maintenance and operational support services were submitted in the amount of \$45,964 and \$55,583, respectively. These invoices totaling \$101,547 were charged to CSE at the applicable FFP rate of 66 percent resulting in a Federal claim of \$67,021. Our review of the contractors invoices for these charges disclosed that they were 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 exceptions noted above, we consider DPW's internal controls over PACSES contractor costs charged to CSE to be deficient and contractor charges based only on estimated hours instead of actual hours is unreasonable and unallowable.

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.*
- (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.*

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 60: (continued)

Cause: DPW personnel indicated that contract #SP4000011443 was a fixed price contract for system maintenance and operational support services. However, 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. Therefore, 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 which resulted in \$67,021 of unreasonable and unallowable charges to the CSE program.

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. We also recommend that DPW pursue appropriate settlement of the \$67,021 questioned costs with HHS.

Agency Response: The PACSES Contract #4000011443 cost proposal contains the estimated hours and costs of the various PACSES initiatives composing the contracted modifications body of work. These estimated initiative hours and dollars are formally approved by means of the original cost proposal and updated cost submissions, as required. Cost submissions undergo a formal review and acceptance process. All of the key stakeholders have the opportunity to provide their feedback on cost submissions. The compiled comments from these stakeholders are forwarded to the PACSES project manager who provides a recommended disposition of the cost submission (approved, conditionally approved, or rejected). The contract administrator performs a final review and issues the final disposition to Deloitte. The most recent approved cost submission becomes the formal basis for the hours and dollars that can be spent on each PACSES initiative. If any initiative were to require additional hours or dollars to complete, then a new cost submission would have to be submitted and approved, either by increasing hours and dollars to the contract or by reallocating existing hours and dollars.

Cost submissions authorize the availability of modifications hours and dollars, but do not authorize the actual work on an initiative to proceed. For this to occur, a work order must be submitted and approved for each initiative. Modifications initiatives generally follow a defined life cycle including 1) the Requirements and General System Design phases and 2) the Detailed System Design through Deployment phases. The reason this work is divided into two major sections is the payment method for each is different. Requirements and GSD work is priced on a time-and-materials basis, whereas the payment method for DSD through Deployment is fixed-price deliverable. Work orders undergo the same formal review process as do cost submissions. For work to proceed, the associated work order must be approved by the contract administrator.

The particular invoices being scrutinized in this audit finding are #8000763334 and #8000777250, both of which are priced at fixed-price deliverable.

Invoice #800763334 bills for the Detailed System Design portion of the work involved with the DRA IRS Distribution Rule Changes initiative. The work order for the DSD section had previously been approved by the contract administrator. At the point the work order was approved, 471 hours and \$45,963.75 were estimated to complete the DSD section of the work. As a fixed-price instrument, \$45,963.75 is the agreed upon price to pay for this work, whether the actual work takes longer, shorter, or exactly the same number of hours as what was estimated. In this case, actual hours worked was a little less: actual hours were 464. Again, the actual hours are immaterial since the amount agreed to pay for the work was set prior to the work beginning. The reason DPW requires that Deloitte report actual hours for fixed-price work is to be able to continually evaluate the estimating methodology; actual hours has no bearing or impact on the invoiced amount.

Invoice #8000777250 bills for the Integration Test Results portion of the work involved with the Spousal Support Distribution Rule Changes (Rec. 90) initiative. The work for this section had previously been approved by the contract administrator. At the point the work order was approved, \$55,583.36 was estimated to complete the Integration Test Results section of the work. As a fixed-price instrument, \$55,583.36 is the agreed upon price to pay for this work, whether the actual work ends up taking longer, shorter, or exactly the same number of hours as what was estimated.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 60: (continued)

Had either of these two examples been Requirements or GSD work (time-and-materials priced), then the actual hours would have been used for invoicing purposes rather than estimated hours.

The Administration for Children and Families federal agency reviewed and approved the RFP connected with this contract. The contract terms specify the following in regards to fixed-price and time-and-materials pricing:

This Contract contemplates two kinds of services:

- 1) Fixed-price (FP): the services support a well defined work order (including a set of defined deliverables) for which the parties have agreed on a fixed price applicable to both the development of the deliverables and associated warranty support; and*
- 2) Time-and-materials (T&M): the services support a work order that cannot be definitively defined for which the parties have agreed that the Contractor will be paid on a monthly basis for hours (by labor category at the agreed labor category prices) worked in the prior monthly period.*

With respect to fixed-price services, the Commonwealth will make deliverables-based payments after (1) the DPW Contract Administrator's formal written acceptance of each deliverable delivered or (2) the DPW Contract Administrator's formal conditional acceptance of each such deliverable. For fixed price services, the Commonwealth will pay the amount contained in the most recently approved Work Order for such services.

The Commonwealth will make T&M payments on a monthly basis based on T&M services performed during the prior monthly period. The Commonwealth will pay the hourly rates for T&M services at the rates contained in the Rate Card attached as Attachment 3, as adjusted for the applicable fiscal year.

Prior to submission of any Work Order to the DPW Contract Administrator for approval, the DPW Contract Administrator will indicate to the Contractor whether such Work Order shall be performed on a fixed price or T&M basis. Following such agreement, the Contractor will submit Work Orders to the DPW Contract Administrator for approval. The majority of work under this Contract will be fixed price services.

The following contains the process and some of the controls associated with the invoices for each type of payment method:

T&M

The DPW Program Management Office (PMO) enters the total hours and dollar amounts (both estimated and actual) into an online register, somewhat like a checkbook. After the work is performed, DPW receives and reviews a monthly invoice. The actual time worked by each contractor is entered into the DPW Automated Time System (ATS). Each contractor must print out a timesheet for his or her work performed. This timesheet is signed by the individual and a supervisor. The backup documentation received along with the invoice breaks down the work order, phase, account code, contractor name, number of hours worked, and the cost (individual, work order phase, and project total). The PMO verifies the timesheets, the backup documentation, and the register to ensure the hours being billed are available. The project manager reviews and signs the invoice. The Bureau of Information Systems Budget Unit verifies the coding, totals, and signatures are correct. The PMO director signs off to make payment.

Fixed-price Deliverables

The PMO enters hours and dollar information from the approved work order, resource plan, and deliverables schedule as submitted by the contractor. (There are no timesheets given in this type of service.) After the deliverable is received, a deliverables review is conducted by all of the key stakeholders. If the deliverable is acceptable, the contract administrator signs a disposition letter of approval (or conditional approval) and forwards it to the contractor. The contractor can submit an invoice after receiving the approved disposition letter. Upon receipt of the invoice, the PMO verifies the deliverable cost against the approved work order. The information is recorded in the register. The PMO director signs off to make payment.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 60: (continued)

In summary, both of the invoices in question were appropriately priced at a fixed-price deliverable basis. That is the reason why the contractors' actual hours were not used as a basis for the invoiced amounts. Instead, the fixed amounts agreed to up front in the respective approved work orders (resource plans) are what were being charged.

For the reasons noted above, the DPW does not feel that any questioned costs exist, as the payments were for fixed cost deliverables and within the scope of the contracted services. Therefore, the DPW does not need to pursue settlement with the contractor in the amount of \$67,021, as noted within this finding.

Auditors' Conclusion: The support for this payment was 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.

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, 2009

Finding 09 – 61:

CFDA #93.569 – Community Services Block Grant

CFDA #93.710 – ARRA – Community Services Block Grant

Noncompliance and Internal Control Weaknesses Over Subgrantee Payments at DCED (A Similar Condition Was Noted in Prior Year Finding #08-55)

Federal Grant Numbers: 07B1PACOSR, 08B1PACOSR, 09B1PACOSR, and 0901PACOS2

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 sixth 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.

Further, ARRA – Community Services Block Grant funds of \$42.3 million were awarded to DCED in April of 2009; therefore, without resolution of these weaknesses, ARRA funds awarded to subgrantees are at risk.

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:

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 61: (continued)

(b) *The financial management systems of other grantees and subgrantees must meet the following standards:*

- (7) *Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.*

Cause: During a prior audit, 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.

As indicated in the prior year response, the Commonwealth is embarking on a new payment system, and would like to take advantage of that system to resolve the cash on hand issue. DCED proposed creating a general invoice that subrecipients 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), DCED has drafted a revised invoice form that includes a timeframe for expenditures, i.e., the subgrantee has to delineate when the expenditures occurred. Once approved, DCED will re-issue Directive 2007-07: Invoicing, which is used to clarify procedures for the submission of invoices for CSBG. DCED personnel indicated that this system was not implemented during our audit period.

Effect: Payments to subrecipients are not being limited to immediate cash needs in violation of federal cash management regulations. Also, there is inadequate 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 CSBG subrecipients are limited to immediate cash needs, and to properly document and ensure that CSBG expenditures are incurred by subrecipients within the period of availability.

Agency Response: DCED acknowledges that the new invoicing process has not been implemented in a timely manner. The CSBG-ARRA funds were not dispersed in a timely manner due to the budget impasses. Funds for CSBG-ARRA were not released until mid-December, 2009.

Corrective Action Plan: On June 29, 2009, CSBG Directive 2007-07, Invoicing, was issued and implemented immediately, under directive # 2009-07. This directive implements our new payment system, which requires our entities to submit invoices bi-monthly.

Because this directive was in place during the CSBG-ARRA funding cycle, the weakness cited would be mitigated with the new process of bi-monthly invoicing.

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

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 62:

CFDA #93.575 – Child Care and Development Block Grant

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

CFDA #93.713 – ARRA – Child Care and Development Block Grant

DPW's Expenditures For Costs Not Approved in The CCDF State Plan Result in Noncompliance and Known Questioned Costs of at Least \$2,624,449 (A Similar Condition Was Noted in Prior Year Finding #08-56)

Federal Grant Numbers: 0901PACCDF; 0901PACCD7

Condition: As part of our review of programmatic expenditures in the CCDF program for the SFYE 6/30/09, we queried the SAP accounting system for payments to vendors known and reported in the prior audit to have been Nurse Family Partnership (NFP) program providers. The NFP is a service program that provides in-home nurse visitations for first-time low-income mothers and their infants up through two years of age. However, these NFP costs were specifically disallowed in DPW's CCDF State Plan by the U.S. Department of Health and Human Services (HHS) in a letter to DPW dated January 25, 2007.

Our prior-year audit procedures identified at least three vendors (SAP vendor numbers 132689, 139083, 207435) that provided NFP services in the CCDF program for the prior SFYE 6/30/08. We again looked at these same three vendors for the current fiscal year and identified \$2,624,449 of NFP costs charged by them to the CCDF program during FYE June 30, 2009. Accordingly, we question these known NFP costs as unallowable current-year program expenditures.

In the Agency Response to this finding in the prior year, DPW personnel stated that all NFP expenditures were removed from CCDF funding beginning in FFY 2007. As indicated above, this is not the case and DPW acknowledged that NFP costs have been charged to the CCDF program for at least these three vendors. Additional NFP service providers may have been paid with CCDF funds; however, the SAP accounting system does not track NFP costs separately and DPW and Comptroller Office personnel were unable to fulfill our request to provide a listing of all NFP service providers and related amounts paid.

Criteria:

45 CFR Part 98.66(a) states:

(a) *Any expenditures not made in accordance with the Act, the implementing regulations, or the approved [State CCDF] Plan, will be subject to disallowance.*

A U.S. Department of Health and Human Services letter to DPW dated January 25, 2007 rejected DPW's request for an amendment to the state plan to include Nurse Family Partnership costs for infant and toddler quality initiatives. This letter also stated that if expenditures are claimed under Pennsylvania's CCDF program for the Nurse Family Partnership program that such claims are unallowable.

Cause: 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 a portion of the CCDF program, known as the infant and toddler earmark.

Effect: We question at least \$2,624,449 of Nurse Family Partnership costs as an unallowable use of CCDF funds, and there is the potential that additional unallowable NFP costs were, or will be, charged to the CCDF Cluster in SFYE June 30, 2009 and future years. There is also the possibility that future expenditures of CCDF ARRA funds would be unallowable if used for NFP contracts.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 62: (continued)

Recommendation: We recommend that DPW pursue appropriate settlement with HHS regarding the \$2,624,449 in known questioned costs for the FFY 2007 CCDF grant, and for any additional unknown costs related to the Nurse-Family Partnership program for all grant years affected. In addition, DPW should ensure that all expenditures used for CCDF activities are approved in the CCDF State Plan by HHS prior to being charged to the program.

Office of Comptroller Operations Response: Office of Comptroller Operations disagrees that this finding has been issued to OCO. OCO was unable to fulfill the request to provide a listing of all NFP service providers and related amounts paid because the SAP accounting system does not track NFP costs. NFP costs would have to be provided by the agency. OCO thinks this finding should be revised to be issued only towards the department.

Department of Public Welfare Response: In relation to the final sentence in the third paragraph under “Condition” – “Additional NFP service providers may have been paid with CCDF funds; however, the SAP accounting system does not track NFP costs separately and DPW and Comptroller Office personnel were unable to fulfill our request to provide a listing of all NFP service providers and related amounts paid.”

The SAP accounting system can and does identify NFP costs separately; therefore, the DPW, Office of Child Development and Early Learning does not feel this is an accurate statement.

With regard to the noted effect within this finding, “We question at least \$2,624,449 of Nurse Family Partnership costs as unallowable use of CCDF funds, and there is the potential that additional unallowable NFP costs were, or will be, charged to the CCDF Cluster in SFYE June 30, 2009 and future years...”

Beginning July 1, 2009, all Nurse Family Partnership funding in the SAP accounting system has been established using 100 percent state funds.

Auditors’ Conclusion: In response to this finding, DPW provided a listing for June 30, 2009 that included both NFP and non-NFP costs by individual vendor (combined into one SAP account), and manually separated out and calculated a total for vendors it claimed as NFP. However, based on our audit, we know that this listing was not complete since it excluded at least one known NFP vendor and the total NFP costs calculated were less than the known NFP costs reported in the finding. Without a complete listing, and without proper procedures in place during our audit period to track and record NFP costs separately on SAP, we cannot be assured that the questioned costs in our finding include all NFP costs actually charged to CCDF during the current audit period. Therefore, there is no change to our recommendation in this regard. Since neither the OCO response nor the DPW response addressed or resolved our finding for FYE June 30, 2009, our finding and recommendation, with the above clarification, remain as previously stated. We will review any corrective action in our subsequent audit. In the meantime, OCO personnel and DPW personnel need to resolve their contradictory statements about the SAP accounting system tracking and identifying NFP costs.

The 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, 2009

Finding 09 – 63:

CFDA #93.659 – Adoption Assistance Program

Unallowable Costs Charged from the DPW Cost Allocation Plan Result in Questioned Costs of \$1,538,422 (A Similar Condition Was Noted in Prior Year Finding #08-59)

Federal Grant Numbers: 28339 and 29339

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 6/30/09, we noted that a total of \$1,538,422 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, for the second year in a row, 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 \$1,538,422 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:

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 63: (continued)

- (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.*
- (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 for the current year under audit 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 was not documented on the worksheets, or anywhere else in the approved plan.

DPW further indicated that in response to the prior year finding, amendments were made to the CAP (CAP #39) submitted to HHS that covers allocated costs for the fiscal year 6/30/10 to address the conditions cited above.

Effect: Costs allocated to the AA Program through the DPWCAP during the year ended 6/30/09 totaling \$1,538,422 were not part of the approved federal programs in the DPWCAP and are questioned as unallowable. In addition, DPW procedures for preparation of the CAP during the year under audit did not ensure specific inclusion of all federal programs for proper HHS approval.

Recommendation: We recommend that DPW pursue appropriate settlement with HHS regarding the \$1,538,422 in questioned costs. As noted above, we were informed by DPW that they amended the CAP for state fiscal year 2010 to address the recommendations included in our prior year finding regarding the Adoption Assistance Program. Accordingly, we also recommend that DPW ensure existing procedures are adequate to identify allocations to federal programs that are not specifically included in the CAP.

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 Department Cost Allocation Plan (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. The DCAP identifies responsibilities of an OCYF Division to include "Title IV-E adoption services." Both, Foster Care and Adoption Assistance are intermingled throughout the DCAP pages and additional instances can be found in OCYF office descriptions.

The DPW provides the DCAP annually to the Federal cognizant Agency. The DCAP pages in question were submitted and reviewed by the Federal agency 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 and approved annually for over 20 years.

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 the allocations.

The DPW has made the above amendments to the DCAP submitted for State Fiscal Year End June 30, 2010. The page referred to, now includes both Foster Care and Adoption Assistance program headings.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 63: (continued)

Auditors' Conclusion: We agree, as in prior year, 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 DPWCAP as required by federal regulations. We will review the amendments made to the CAP for state fiscal year 2010 in connection with the subsequent audit. Based on the agency response, our finding and recommendation remain as previously stated.

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 64:

CFDA #93.667 – Social Services Block Grant

CFDA #93.959 – Substance Abuse Prevention and Treatment Block Grant

Weaknesses in DPW Program Monitoring of SSBG and SAPT Subgrantees (A Similar Condition Was Noted in Prior Year Finding #08-61)

Condition: For the seventeenth 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 \$42 million (or 42 percent) of total SSBG program expenditures of \$99.3 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, 2009. Total SAPT expenditures on the current SEFA were \$62.5 million.

Furthermore, for the compliance requirement related to cash management, we noted that DPW advanced funds to SSBG subgrantees in 5 of 9 SSBG program areas representing \$39 million (or approximately 39 percent) of SSBG program expenditures without adequate monitoring during the year to ensure subgrantee cash balances were reasonable. In particular, for the Legal and Homeless Services components of the SSBG program, DPW advanced funds to subgrantees on a monthly basis. For SSBG Mental Health, Mental Retardation, and Child Welfare, DPW advanced funds to subgrantees on a quarterly basis. Our inquiries with applicable DPW program administrators disclosed that DPW did not adequately monitor any of its SSBG subrecipients for compliance either at the time of payment or at any other time during the current state fiscal year.

While Circular A-133 audits of SSBG and SAPT subrecipients are conducted each year, this auditing activity does not compensate for the lack of on-site during-the-award program monitoring since the timing, focus, and scope of A-133 auditing activities after year-end are clearly different than compliance monitoring by program officials during the year.

In addition, our testing of the monitoring of Mental Retardation subgrantees noted, for one of the six Administrative Entities tested, one area of subgrantee noncompliance was erroneously omitted from the Summary of Findings subgrantee notification requiring corrective action.

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

A pass-through entity is responsible for:

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

Cash advances by a state to secondary recipients shall conform substantially to the same standards of timing and amount which apply to the state.

45 CFR 92.37, Subgrants, states:

(a) *States shall follow state law and procedures when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local and Indian tribal governments. States shall:*

(4) *Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies.*

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 64: (continued)

In addition:

In discussions with our office, federal agencies have stated that cash advance balances on hand at subrecipients are reasonable if they approximate the grantee's (state's) payment cycle to the subgrantee. In light of the (state agencies) administrative system of making (daily, weekly or monthly) payments by check to subrecipients, a (daily, weekly or up to one month) cash advance on hand monitored at least quarterly is reasonable.

Cause: Except for the Subsidized Child Day Care and the Community Mental Retardation programs, DPW places reliance primarily on A-133 subgrantee audits to ensure after the fact that its SSBG and SAPT subgrantees administer their programs in compliance with federal regulations. Therefore, program monitoring 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, Homeless Services, Mental Health, Mental Retardation and Child Welfare components of SSBG. These programs provide subgrantees with advances in part to comply with Commonwealth law and also to ensure that adequate funds are available to provide services to participants on a timely basis. DPW officials believe that their in-house payment review procedures for the SSBG program are as efficient as is administratively feasible and that controls exist in each of the program areas for SSBG. With no on-site program monitoring visits by funding agency officials except as noted above, we consider DPW's limited in-house reviews of subgrantee status reports or other documents to be insufficient to detect potential subrecipient noncompliance, including excess cash violations. DPW does not adjust payments to the subgrantees based on in-house reviews.

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 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: The DPW expends SSBG funds through several program offices, and directly, on specialty contracts. In order to effectively monitor all of the programs funded the DPW, Bureau of Financial Operations plans to implement a new SSBG monitoring position. This position would allow for centralized monitoring and evaluation through both on-site monitoring visits and supportive documentation (monitoring reports).

Many of the programs supported by SSBG funds are allocated programs, and therefore, operated on an advancement basis. However, the DPW does settle each county program per audited fiscal year expenditures. During this settlement process, any overpayments are recovered by the DPW.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 64: (continued)

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, 2009

Finding 09 – 65:

CFDA #93.713 – ARRA – Child Care and Development Block Grant

DPW Did Not Utilize Available ARRA Grant Award Funds While Significant Waiting Lists Existed For Child Care Assistance For Low-Income Families

Federal Grant Number: 0901PACCD7

Condition: On April 9, 2009 The PA Child Care and Development Fund was awarded \$60,146,767 of American Recovery and Reinvestment Act (ARRA) funding to assist low income families needing child care assistance. This ARRA funding is in addition to regular federal funding already provided by the U.S. Department of Health and Human Services as part of the Child Care and Development Fund Block Grant.

Our testing for the SFYE 6/30/09 revealed that a significant waiting list for child care services existed in April, 2009 when ARRA funds were awarded. As of June 30, 2009 the total number of families on this statewide waiting list was 12,891. However, DPW's Office of Child Development and Early Learning (OCDEL) did not utilize any of the ARRA funding made available to them as of our June 30, 2009 year-end and furthermore did not start to use any ARRA funds to reduce the waiting list until April 2010, or one year after receiving the award.

Criteria: Per Program Instruction CCDF-ACF-PI-2009-03 issued by the Administration for Children and Families (ACF) with the ARRA funding, the ARRA funding provides CCDF lead agencies (i.e. states) with an important opportunity to assist those most impacted by the economic recession through the provision of funds to expand services to additional children and families facing difficult economic circumstances. In addition, ARRA funding was provided with the general purpose of helping to stabilize state and local budgets and was intended to be utilized quickly by recipients in order to promote economic recovery.

Cause: Officials in DPW's OCDEL stated they did not plan to spend ARRA dollars when they became available to the state in April 2009 and their plan was to allocate ARRA dollars sometime in FY 2009-10, 2010-11 and the first quarter of 2011-12. Officials further stated that this plan was the most prudent considering the release of federal program guidance as it relates to the reporting requirements per section 1512 of ARRA. However, the fact that DPW had a significant waiting list as of April 2009 serves as evidence that there was ample opportunity for DPW to utilize the ARRA funding to assist low income families needing child care assistance as soon as the ARRA funding became available and long before they actually began using the funds in April 2010.

Effect: As a result of DPW's OCDEL not timely utilizing ARRA funds that became available on April 9, 2009, many eligible families awaiting child care assistance went needlessly without this assistance for unreasonable and excessive time periods, which is not consistent with the intent and objective of the ARRA funding provided to states.

Recommendation: DPW should have procedures in place to timely utilize ARRA funds when they become available in order to reduce the waiting list for child care services and promote timely economic recovery as intended by ARRA. In addition, DPW should immediately implement corrective action to timely utilize the ARRA funds that are now available.

Agency Response: We disagree with the finding pertaining to DPW's use of ARRA funding. The Terms and Conditions of the supplemental Discretionary Child Care Development Fund Award made by the American Recovery and Reinvestment Act of 2009 indicates that the "Discretionary funds must be obligated by September 30, 2010 and liquidated by September 30, 2011. Discretionary funds are 100 percent Federal funds and no State match is required. The ARRA directs that the Discretionary funds shall be used to supplement, not supplant, State general revenue funds for child care assistance for low income families." Clearly, DPW's plan, shared on an ongoing basis with ACF, does not violate the obligation and/or liquidation terms of the award.

Auditors' Conclusion: DPW failed to timely use the additional ARRA funding which became available for obligation and expenditure in April 2009. Although DPW was cognizant of the 12,891 families on the CCDF waiting list as of April 2009, DPW did not start obligating and expending the funds until April 2010, or one year later. Given this long

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 65: (continued)

waiting list, DPW's comments in their agency response about obligating and liquidating ARRA funds in 2010/2011 and supplementing/not supplanting requirements are irrelevant to the condition stated in our finding and do not address the recommendation. 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, 2009

Finding 09 – 66:

CFDA #93.767 – Children’s Health Insurance Program

Inadequate Controls Over Subrecipient Monitoring (A Similar Condition Was Noted in Prior Year Finding #08-62)

Federal Grant Numbers: 50805PA5021 and 50905PA5021

Condition: During SFYE June 30, 2009, 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 fifth 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.

Also, we reviewed the OMB Circular A-133 Single Audits of the eight insurance providers required to have audits for calendar year 2008 in order to determine the extent of any outstanding noncompliance or internal control weaknesses reported at the subrecipient level. This review revealed that two of the eight insurance providers had audit findings in their reports which related to incorrect eligibility determinations made by subrecipients, internal control deficiencies, and questioned costs. These results demonstrate the need for strengthened on-site program monitoring of CHIP subrecipients by PID.

Further, we noted no follow-up by PID on our prior year finding detailing conflicting results noted between Comptroller Office Performance Audits and Single Audits of CHIP subrecipients. Specifically, we noted that three insurance providers submitted Single Audits with no findings, while Comptroller Office Performance Audits had significant findings to these same providers related to eligibility such as missing documents which indicated a higher risk of fraud and unallowable payments.

During the fiscal year ended June 30, 2009, PID reported CHIP payments to eight insurance providers totaling \$246.7 million, representing 98 percent of total program expenditures of \$252.4 million.

Criteria: Regarding subgrantee monitoring, 42 CFR 92.40 (a) states:

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

Cause: PID personnel indicated that on-site reviews began in October of 2009 and focused on SFYE June 30, 2010 as considerable effort was expended on developing an on-site review program. PID personnel believed that insurance providers corrective action plans were adequate to address all issues with prior year insurance provider audits.

Effect: Since PID did not perform on-site monitoring of its insurance providers during the SFYE June 30, 2009, and did not adequately follow-up on prior year insurance provider audits, PID did not comply with federal monitoring regulations, and did not adequately ensure subgrantees were complying with federal CHIP regulations.

Recommendation: We recommend that PID strengthen its procedures and perform on-site during-the-award monitoring of all insurance providers of the CHIP program for compliance with federal regulations, and properly follow-up on prior year insurance provider audits.

Agency Response: PID believes it has satisfied the substantive concerns in the auditors’ stated recommendation. PID has strengthened its procedure and properly followed up on audit results. For SFY ending June 30, 2010, PID has performed on-site monitoring. In addition PID has sought guidance from CMS (the federal funding agency) regarding additional on-site monitoring. The following are some additional comments in response to the Finding for CFDA #93.767.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 66: (continued)

Regarding its on-site review program: As previously stated, the Department developed its on-site review program and began onsite reviews in October 2009. The period covered by the Department's on-site review and monitoring was a portion of SFYE 6/30/10. Eligibility audits for SFYE 6/30/09 were performed by our contractor Rushmore, as well as by the insurers' independent auditors under OMB Circular A-133. The Department's personnel follow up on the results of the eligibility audit findings of Rushmore and the A-133 audits, as well as monitor complaints from applicants and enrollees that may indicate problems with eligibility determinations by the insurance contractors. There is limited value in Department personnel doing on-site work relative to CHIP eligibility audits because the insurers' independent auditors do on-site audits and because a large percentage of eligibility source data for the CHIP insurance contractors is received in electronic format via PID's CHIP and adultBasic Application Processing System (CAPS). Nevertheless, when Department personnel do periodic on-site activities at the insurance contractors' offices, they seek to understand each insurance contractor's process, which includes a review of sample applications and a meeting with each insurer's eligibility and enrollment unit personnel to assess the eligibility determination process and each insurer's internal quality control processes.

Regarding the A-133 Single Audits of the two contractors with findings: Both contractors had limited instances of data entry error, one of which had a monetary impact of \$257.00. The errors were corrected and the one payment issue was reversed through PID's CHIP and adultBasic Application Processing System (CAPS). PID notes that the outside auditor for one of the contractors noted that the single error identified qualified the contractor as a low-risk auditee, and did not identify any deficiencies in internal control over compliance that it considered to be material weaknesses. Further, PID notes that on-site program monitoring would not have prevented these errors, as they were data entry errors.

Regarding the supposed conflict between the Comptroller Performance Audits and the Single Audits by the contractors: The A-133 audits are independent outside audits performed separate and apart from the Comptroller performance audits. Thus, the random samples pulled in the two audits should be expected to be distinct. The fact that the single audits had no findings and the performance audits had findings is neither surprising nor a concern. Indeed, identical results would have triggered concern about the independence of the two audits. Therefore, PID disagrees with the auditors' assertion that the different results "indicated a higher risk of fraud and unallowable payments." On the contrary, PID asserts that the non-identical results demonstrate the independence of the two audits; the paucity of findings demonstrates a low risk of fraud; and any unallowable payments were reversed through CAPS. In addition, the low error rates found in the A-133 audits are consistent with the eligibility audit results of Rushmore, which found that Pennsylvania CHIP's eligibility error rate is well below the PERM results in other states.

Regarding the results of the Comptroller's performance audits: Three contractors had either missing applications or technical errors. The missing application issues were resolved by denials of coverage or by termination at the time of renewal. The technical errors did not affect eligibility. These situations have not occurred since, and payment adjustment provisions have been implemented. Again, the small number and minor nature of the errors demonstrated a low risk of fraud and the ability to reverse any unallowable payments.

Regarding the alleged necessity of on-site monitoring by PID: PID has been in contact with its federal funding agency - CMS - for guidance as to whether CHIP is doing appropriate monitoring of the program and whether yearly on-site reviews, as opposed to periodic reviews, are necessary given the internal controls which we believe are sufficient to monitor the program. We are currently awaiting a response from CMS.

Regarding the monetary impact on the program: As noted by the auditors, PID reported CHIP payments to eight contractors totaling approximately \$246,700,000. Since 2005, PID has identified and recovered, in contractor error reimbursements, approximately \$9,000. The cost of on-site reviews conducted in the fall of 2009 alone cost PID approximately \$9,000. Therefore, the cost of the reviews is disproportionate to the monetary recoupment, and the monetary recoupment is substantially disproportionate to the cost of the program.

Auditors' Conclusion: Regarding the significant differences in the results of Comptroller Performance Audits vs. Single Audits, PID's assertion that identical audit results should trigger concerns about independence is not relevant to, and does not address, the internal control weakness reported in PID's subrecipient monitoring procedures. In cases where any performance or other audits or reviews of subrecipients disclose a significant amount of case files missing or

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 66: (continued)

other inappropriate errors by subrecipients and the single audits have no findings, we believe that further follow-up and investigation by PID is prudent and necessary to determine if subrecipient single audits are properly testing compliance with federal regulations and can be relied upon as an effective program monitoring control over subrecipient spending in CHIP. PID provided no documentation to support any proper follow up or program investigation in this regard, and PID's statements in the agency response on this issue remain unsupported.

Regarding PID's statements above about the monetary impact on the CHIP program, these statements only consider after-the-fact recoupment of funds as the sole criteria for evaluating monetary impact. But these statements ignore the preventative nature of having strong routine monitoring controls in place which lower the risk of mis-spending by subrecipients beforehand. Furthermore, PID reports total recoupments of only \$9,000 from its CHIP subrecipients, which we agree is an insignificant amount, but it should be further noted that we have reported these major weaknesses in PID's subrecipient monitoring controls for the fifth year in a row, which may be a valid cause for the low recoupment amount and which may not be preventing, detecting, and disclosing significant mis-spending by CHIP subrecipients.

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

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 67:

CFDA #93.778 – Medical Assistance Program (including ARRA)

DPW Failed to Obtain an Outside Service Auditor’s Report for a Third Party Drug Rebate Processor

Federal Grant Numbers: 0905PA5028, 5-0905PAARRA, 0805PA5028

Condition: In the MA program, DPW utilizes a third party processor to perform all drug rebate program functions other than receiving and depositing the rebate funds. The third party processor’s responsibilities include verifying interest payments, billing and reconciliation of all accounts, dispute resolution and reporting all quarterly figures to DPW. Our review of the controls over drug rebates disclosed that for the year ended June 30, 2009, DPW failed to obtain a service auditor’s report that included coverage of the drug rebate functions of the third party processor in accordance with Statement on Auditing Standards #70 (SAS #70) – *Reports on the Processing of Transactions by Service Organizations*. This third party processor was responsible for over 92 percent, or \$186.5 million of the \$201.7 million, of MA drug rebates collected by DPW during the year ended June 30, 2009. Of the \$186.5 million in drug rebates collected, \$101.4 million was related to the regular Federal Medical Assistance Percentage (FMAP) and \$11.8 million was ARRA FMAP, for a total FMAP of \$113.2 million. Total Medicaid Cluster Federal expenditures for SFYE June 30, 2009 are \$10.9 billion of which \$1.1 billion is ARRA funding.

Criteria: Good internal control dictates that a material outsourced computer operation or network have a SAS #70 review to ensure the system has proper controls in place and is complying with program regulations.

Cause: Both DPW and OB, BOA could not explain why the SAS #70 report of the third party processor did not cover the drug rebate program functions for the 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 drug rebate program functions were in compliance with MA regulations.

Recommendation: We recommend that DPW ensure a SAS #70 review is performed at least annually of the third party processor which includes the contractor’s processes and controls over the drug rebate program functions to ensure that it is being administered in compliance with MA regulations.

Agency Response: The DPW will review the MMIS contract as it extends to sub-contractors and determine how to incorporate the need for a SAS 70 review. Any necessary amendments will be made to the corresponding contract.

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, 2009

Finding 09 – 68:

CFDA #93.778 – Medical Assistance Program (including ARRA)

Material Noncompliance and Weaknesses in Internal Controls Over Medical Assistance Provider Audits

Federal Grant Numbers: 0905PA5028, 5-0905PAARRA, 0805PA5028

Condition: During the FYE June 30, 2009, DPW provided material MA funds to two different types of inpatient providers that required periodic audits of their financial and statistical records: 1) Skilled Nursing Facilities (or SNFs), and 2) inpatient hospitals. Our Single Audit of MA for the FYE June 30, 2009 disclosed material noncompliance and internal control weaknesses in DPW's Office of Long Term Living, Bureau of Finance, Division of Rate Setting over ensuring that these federally-required periodic audits are performed as follows:

- 1) **SNFs:** For 2008-09, we noted 626 different approved SNFs participating in MA statewide, of which 590 were private nursing facilities and 36 were County nursing homes. Total statewide federal and state MA payments to private and county SNFs during SFYE June 30, 2009 were \$4.13 billion, which also includes ARRA funding. While all 36 county nursing homes were audited in the current year, only 506 of the 590 private SNFs received audits, so DPW was 84 audits (or 14 percent) short of the federal requirement for the private SNFs. Furthermore, our review of DPW's Agency Audit Plan for 2008-09 disclosed that the plan only listed 556 private SNFs to be audited by DPW, so the agency plan was deficient by 34 audits to begin with. DPW provided no documented evidence, such as internal tracking lists, to demonstrate that management adequately monitored the completion of any SNF audits (private or county) to ensure federal compliance during the FYE June 30, 2009.
- 2) **Inpatient Hospitals:** Total Statewide federal and state fee-for-service MA payments to 215 inpatient hospitals (approx.) during SFYE June 30, 2009 were \$988.2 million which also includes ARRA funding. While our testing disclosed that these participating inpatient hospitals received the federally-required audits in the current year, our review of DPW's internal controls disclosed that, like the SNF audits discussed above, there was no documented evidence, such as internal tracking lists, to demonstrate that DPW management adequately monitored the completion of inpatient hospital audits to ensure federal compliance during the FYE June 30, 2009. DPW relies too heavily on the outside auditors to ensure that its inpatient hospital audits are completed to meet the federal requirement and, therefore, DPW runs the risk that hospital audits may not be completed as required, and the noncompliance would not be detected or corrected by DPW management.

Total Medicaid Cluster Federal and state expenditures for SFYE June 30, 2009 were \$17.9 billion of which \$1.1 billion was ARRA funding.

Criteria: CMS regulations on provider payment rates 45 CFR 447.253(g) Audit requirements states:

The Medicaid agency must provide for periodic audits of the financial and statistical records of participating providers.

To comply with the above federal regulation, DPW requirements call for an audit to be performed of each MA provider every year.

Cause: Since DPW management was not tracking the completion of SNF audits during the FYE June 30, 2009, DPW could not explain why the Division of Rate Setting had audited only 506 of the 590 private SNFs during 2008-09 audit year. Furthermore, DPW management appears to be over-relying on the outside auditors to ensure the hospital audits are completed each year, which explains why inpatient hospital audits are not being tracked and monitored by management.

Effect: Since not all SNFs were audited during 2008-09, DPW did not comply with MA regulations. Furthermore, since inadequate tracking systems are in place for SNF or inpatient hospital audits, DPW management does not verify that all required audits are being performed as required by MA regulations.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 68: (continued)

Recommendation: We recommend that DPW develop adequate tracking and monitoring systems to ensure that all SNFs and inpatient hospitals that are required to have audits during the year have audits completed as required by MA regulations. DPW should also correct the current-year noncompliance noted above for the unaudited SNFs as soon as possible.

Agency Response:

1. Skilled Nursing Facilities

The DPW, Office of Long Term Living does track the audit reports completed. Each audit manager (East or West) maintains an audit log on the audits assigned to his section. The log contains information such as the audit period, audit number, the date when the audit was assigned to an auditor, the auditor completion date, the date the supervisor turned the audit in for the manager's review, the hours the auditor used to complete the audit and the date of the manager's final review. Elaine Henninger also maintains an audit log for tracking purposes. The DPW does have about 590 private nursing homes, which are to be audited each year. However, shorten periods (cost reports of less than 365 days) are not currently audited. They are not included in the tracking database which includes the three most recent full cost reports. This data base is used to calculate the nursing home rates. Also, each year there a few homes that close down, so the number of active, participating homes may vary to the number of cost reports that actually need to be audited.

During this single audit period the DPW, OLTL did not complete all of the required audits; however, the outstanding homes were audited during the following period. As stated above, the department does not audit cost reports with audit periods less than 365 days, which includes homes that dropped out of the program/closed. Only full periods are used for the database tracking.

2. Inpatient Hospitals

The DPW does track the audit reports performed by the AG on inpatient hospitals. The tracking log is maintained on a network drive within Office of Medical Assistance Programs/Division of Rate Setting.

Auditors' Conclusion: While DPW stated in their response that they maintain tracking logs, no tracking logs were provided during the audit or with the above agency response, so the assertions in the agency response are not supported.

Based on the agency response, our finding and recommendation remain, with the above clarification, 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, 2009

Finding 09 – 69:

CFDA #93.917 – HIV Formula Care Grants

Weaknesses in Internal Controls Over Eligibility Determinations and Administration of Third Party Contractor Result in Likely Questioned Costs Over \$10,000 Up To \$27,388,425 (A Similar Condition Was Noted in Prior Year Finding #08-63)

Federal Grant Numbers: 2X07HA00021-18 and 2X07HA00021-19

Condition: Within the HIV Formula Care Grants program, federal regulations established an AIDS Drug Assistance Program (ADAP) earmark, in which funds are to be used to provide therapeutics to treat HIV disease or prevent the deterioration of health arising from HIV disease in eligible individuals. The amount of the ADAP earmark is provided within the annual grant award. Each year the DOH, as lead agency for the program, enters into an interagency agreement with DPW to administer the ADAP portion of the grant, and this administration is the responsibility of DPW's Special Pharmaceutical Benefits Program (SPBP). During the current fiscal year ended June 30, 2009, the SPBP charged \$27,388,425 in drug costs to the HIV Program.

Whenever a person applies for ADAP assistance, they are required to submit to the SPBP a completed application and supporting documentation which includes proof of PA residence, a copy of their social security card, verification of income and copies of their HIV-related and other prescriptions for SPBP reimbursable drugs. Starting in February of 2006 applications were revised to include an Attestation Statement which must be signed and dated by a Licensed Physician that an HIV diagnosis is supported by an HIV-positive lab test. The SPBP reviews all of the documents to determine if the applicant is eligible to receive benefits.

In a prior-year Single Audit for SFYE June 30, 2006, we audited the HIV program as a major Type A program in accordance with OMB Circular A-133 and we reported material noncompliance, questioned costs, and multiple internal control weaknesses in DPW's administration of HIV. Because of the reduction in HIV program expenditures subsequent to June 30, 2006 and a higher Type A threshold since then, we no longer audited the program as a major Type A program, but we conducted limited follow-up on the prior year finding referred to above. The results of our current year follow up in June 30, 2009 on these prior year issues are noted below.

In prior year audits we noted sampled case files containing documents which indicated possible residency in other states (New Jersey, New York, and Ohio); however, DPW has not followed-up with the other states where residency was indicated to ensure applicants were not already receiving benefits in other states, and therefore, not eligible to receive benefits in Pennsylvania. DPW personnel indicated that no follow-up is performed with other states at anytime due to confidentiality issues.

Also, as noted in the prior year, DPW uses a third party contractor to administer all pharmacy benefit claims, the annual re-certification process, and the third party liability process for the HIV Formula Care grant. The primary oversight of the third party contractor is performed by the PA Department of Aging (PDA) since the same contractor administers the Pharmaceutical Assistance Contract for the Elderly (PACE) program, a state funded program at PDA. As part of our inquiry of the controls in place over this third party contractor, we found that while PDA obtained a financial and compliance Yellow Book audit of the third party contractor, the opinion is rendered on the receipts and disbursements taken as a whole. Since the HIV Formula Care grant funds less than 15 percent of the total receipts and disbursements processed by the third party contractor, DPW cannot rely on the audit for reasonable and proper coverage of HIV program pharmacy benefit claims administration.

As a result of the above noted lack of audit coverage of HIV Formula Care grant pharmacy benefit claims, the annual re-certification process, and the third party liability process the propriety of reimbursements to the third party contractor, and in turn to the pharmacies, cannot be assured.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 69: (continued)

Further, during our current Single Audit, since HIV is no longer a Type A program as explained above, we performed limited follow-up testing of two cases that were approved by DPW for HIV ADAP assistance near the end of SFYE June 30, 2009. Our follow up disclosed that, similar to prior years, both cases have significant discrepancies for the HIV program as follows:

- 1) Case file SPxxxxx42 dated 6/22/09: Participant had no income, and no Social Security Number. The only identification provided was an Ecuadorian passport dated August 2, 2008. Further, the application was not signed by a Licensed Physician, but was signed by a Certified Registered Nurse Practitioner. Also, no Client Information Systems (CIS) check was completed, and there was no indication in the case file that Medical Assistance and a Social Security Number was applied for by the participant, since no income was reported the participant may have been eligible for Medical Assistance instead of HIV. Further, the participant lived with his sister but her income and information was not included in the application even though SPBP procedures require family members of the applicant's household to report income for eligibility purposes.
- 2) Case file SPxxxxx54 dated 6/2/09: Participant had no income, no Social Security Number, and no identification. The only evidence to support identity and residency was a letter from a community services agency. While the letter indicated the participant applied for a Social Security Number, no follow-up was documented to obtain the Social Security Number of the participant. Also, the application was not signed by a Licensed Physician, but was signed by a Certified Registered Nurse Practitioner. Further, there was no indication in the case file that Medical Assistance applied for by the participant, since no income was reported the participant may have been eligible for Medical Assistance instead of HIV.

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 in the HIV program, for the sixth 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 \$27,388,425 in drug costs charged to HIV during the fiscal year June 30, 2009 are questioned.

Criteria: Section 2616(a) and (b) of the Ryan White Comprehensive AIDS Resource Emergency Act of 1990 states:

SEC. 2616. Provision of Treatments.

- (a) *In General.* – A State may use amounts provided under a grant awarded under this part to establish a program under section 2612(a)(4) to provide treatments that have been determined to prolong life or prevent the serious deterioration of health arising from HIV disease in eligible individuals.
- (b) *Eligible Individual.* – To be eligible to receive assistance from a State under this section an individual shall—
 - (1) *Have a medical diagnosis of HIV disease; and*
 - (2) *Be a low-income individual, as defined by the State.*

The Special Pharmaceutical Benefits application contains an Attestation Statement that states:

MUST BE SIGNED AND DATED BY A LICENSED PHYSICIAN

In addition, good internal controls dictate that all documentation supporting the participant's eligibility such as identification and residency documents, be maintained within the participant's case file.

In addition, Section 6.2 of DDS Program Policy Guidance No. 6, issued by HHS, regarding eligibility for the ADAP portion of the HIV Care Formula Grants program states:

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 69: (continued)

6.2 Eligibility

- (a) *The CARE Act indicates that ADAPs are to serve “low-income individuals,” as defined by the States. The State’s poverty criterion for ADAP eligibility should be based on Federal poverty guidelines.*
- (b) *All States should devise, implement, and rigorously monitor the use of consistent eligibility standards across all entities involved in certifying and re-certifying ADAP eligibility. Such certification is expected to include review and documentation of an applicant’s income from all sources and any pharmaceutical benefits derived from private health insurance or other sources.*
- (c) *Every State should establish and implement procedures for ADAP client re-certification on a periodic basis, and for de-certifying individuals who qualify but have not utilized the program for a specific period of time (e.g., one year or longer). Re-certification procedures should include mechanisms to assure that individuals who have become eligible for Medicaid are transferred to the Medicaid program at the earliest possible date.*

DPW Guidelines for the SPBP Eligibility Criteria and Documentation Requirements Section B. 1. under Requirements states:

Applicants are required to provide income information for self and each member of the family. Family is defined as any individual or child under age 21, who is related to the applicant by blood, marriage, or adoption, and who resides in the applicant’s household.

Cause: Regarding the lack of audit coverage of the third party contractor that administers the pharmacy benefit claims, the annual re-certification process, and the third party liability process, SPBP personnel indicated that an audit committee was formed to resolve this issue and obtain adequate audit coverage; however, the implementation of additional audit coverage could not be accomplished for SFYE June 30, 2009.

Regarding the two cases noted above, SPBP personnel indicated that SPBP policy does not require an applicant to provide a Social Security Number, and with respect to residency, its policy has been to accept letters from social service agencies, health care providers or relatives stating that the applicant lives in Pennsylvania.

Effect: Based on the lack of audit and monitoring coverage of the third party contractor that administers the HIV pharmacy benefit claims, the annual re-certification process, and the third party liability process, DPW cannot provide assurance on the propriety of HIV pharmacy benefit claims, the annual re-certification process, and the third party liability process.

Given the errors noted in cases tested in prior and current years, SPBP provides limited assurance that HIV participants are eligible to receive ADAP benefits.

As a result of weaknesses related to 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, with likely questioned costs over \$10,000 up to the \$27,388,425 reported on the SEFA. (\$24,252,876 for Federal Grant No. 2X07HA00021-18 and \$3,135,549 for Federal Grant No. 2X07HA00021-19).

Recommendation: SPBP should pursue appropriate settlement with HHS on the undetermined amount of current-year questioned costs reported on the SEFA. In addition, SPBP should strengthen procedures to verify and ensure that applications are properly approved, rejected, or referred to other insurance programs and adequate documentation supporting the participants’ eligibility is maintained within all participant case files. DPW should also ensure that proper auditing and monitoring is performed on the third party contractor that administers the pharmacy benefit claims, the annual re-certification process, and the third party liability process, to ensure that an appropriate sample of HIV program claims is audited and tested at the third party contractor.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 69: (continued)

Agency Response:

Recommendation 1: SPBP should pursue appropriate settlement with HHS on the undetermined amount of current-year questioned costs reported on the SEFA.

DPW-SPBP Response: Agree in part. The 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: 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. As cited in last year's response, DPW's SPBP staff updated its written notice templates to ensure compliance with all enrollee legal rights to due process. DPW's SPBP developed an internal SPBP eligibility procedure manual which outlines Pennsylvania's eligibility requirements for staff to utilize. To further enhance our efforts to strengthen procedures, SPBP's staff is reviewing changes to the various SPBP documents to ensure that they reflect current practice and are to be consistent with Pennsylvania Department of State licensing. DPW's SPBP has also implemented an internal, 100 percent quality check on its enrollment documents. Additionally, DPW's SPBP continues to perform monthly insurance matches with Medical Assistance, Medicare, and other third party payers to verify the existence of other insurance resources. Finally, the SPBP is in the process of updating its Guidelines for SPBP eligibility bulletin from 1988.

Recommendation 3: DPW should also ensure that proper auditing and monitoring is performed on the third party contractor that administers the pharmacy benefit claims process, the annual re-certification process, and the third party liability process, to ensure that an appropriate sample of HIV program claims is audited and tested at the third party contractor.

DPW-SPBP Response: Agree. In response to the Single Audit Finding, DPW's SPBP staff along with staff from the Department of Aging, met with Mr. John Gargiulo, Audit Manager, Office of Budget, Bureau of Audits, to discuss the need for a larger sample of HIV program claims to be audited and tested at the third party contractor. A copy of the GAAP audit report for the year ending June 30, 2009, and the audit plan for fiscal year ending June 30, 2010 are attached. Additionally, DPW's SPBP staff will develop a QM plan that will monitor third party contractor activities independent of the Bureau of Audits. SPBP currently meets with the Department of Aging and its third party contractor two times per month to review the status of processing activities. A compilation of reports will be identified and samples of completed work will be reviewed against established guidelines and criteria to ensure program quality.

DPW's SPBP staff wishes to respond to the reported findings from the two cases that were approved for HIV ADAP assistance near the end of SFYE June 30, 2009. Our comments are as follows:

- 1) Case file SPxxxx42 dated 6/22/09: Participant had no income, and no Social Security Number. The only identification provided was an Ecuadorian passport dated August 2, 2008. Further, the application was not signed by a Licensed Physician, but was signed by a Certified Registered Nurse Practitioner. Also, no Client Information Systems (CIS) check was completed, and there was no indication in the case file that Medical Assistance and a Social Security Number was applied for by the participant, since no income was reported the participant may have been eligible for Medical Assistance instead of HIV. Further, the participant lived with his sister but her income and information was not included in the application even though SPBP procedures require family members of the applicant's household to report income for eligibility purposes.

DPW-SPBP RESPONSE: Disagree. DPW's SPBP does not require a Social Security Number (SSN) to participate in the program nor does it require personal identification. DPW's SPBP recognizes the concern with the attestation by the Certified Registered Nurse Practitioner as the application reflects this should be completed by a

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 69: (continued)

physician. However, it should be noted that the SPBP is updating the application to indicate “clinician” instead of “physician” because that was the true intent of this process. As standard practice, the program already accepts a licensed clinician’s attestation consistent with Pennsylvania Department of State licensing requirements. The SPBP enrollment application will be updated to be reflective of the same. DPW’s SPBP requests that applicants without an SSN apply for one; however this is not a requirement to participate in the program. DPW’s SPBP does not monitor citizenship; therefore, if the applicant does not present a SSN, program staff does not pursue the reason. Without a SSN the applicant does not qualify for Medical Assistance (MA) and therefore even if the income of that person is zero, SPBP would be the payer of last resort as the individual would be ineligible for MA with regard to the applicant living with his sister and her income and information not being included with the application; the SPBP procedures require family members of the applicant’s household to report income for eligibility purposes. The SPBP procedures do not apply to applicant’s who reside in someone else’s household. In this case the applicant’s needs are being met by his sister in her household and therefore her income is not a factor in determining income eligibility.

- 2) Case file SPxxxxx54 dated 6/2/2009: Participant had no income, no Social Security Number, and no identification. The only evidence to support identity and residency was a letter from a community services agency. While the letter indicated the participant applied for a Social Security Number, no follow-up was documented to obtain the SSN of the participant. Also, the application was not signed by a Licensed Physician, but was signed by a Certified Registered Nurse Practitioner. Further, there was no indication in the case file that Medical Assistance applied for by the participant, since no income was reported the participant may have been eligible for MA instead of HIV.

DPW-SPBP RESPONSE: Agree in part. DPW’s SPBP does not require a SSN to participate in the program nor does it require personal identification. DPW’s SPBP requests that applicants without an SSN apply for one; however, this is not a requirement to participate in the program. DPW’s SPBP does not monitor citizenship; therefore, if the applicant does not present a SSN, program staff does not pursue the reason. Without a SSN the applicant does not qualify for MA and therefore even if the income of that person is zero, SPBP would be the payer of last resort as the individual would be ineligible for MA. In this case the residency issue is a concern. The letter presented should not have been acceptable documentation to determine residency. The letter did however indicate that in this case the individual was in the process of applying for a SSN and DPW’s SPBP has verified that the applicant has since received an SSN and was recently enrolled in the MA program and is receiving benefits. The applicants SPBP benefits were cancelled.

Auditors’ Conclusion: Regarding the small sample, since the HIV Formula Care Grants is not a major Single Audit program we did not perform a full-scale audit of the program; however, as required by OMB Circular A-133 and *Government Auditing Standards*, we must follow-up on all findings from the prior year Single Audit. Therefore, we only performed limited procedures to determine if the weaknesses noted in prior year audits still existed during SFYE June 30, 2009 and if those weaknesses could result in likely questioned costs of \$10,000 or more, and we must reissue the finding in our current year Single Audit. Based on the discrepancies noted in our limited sample, a significant amount of questioned costs result in the reissuance of the finding for SFYE June 30, 2009, in accordance with audit standards.

Regarding the GAAP audit report provided for SFYE June 30, 2009 we reviewed this report prior to issuing this finding and, as noted in the condition above, the opinion is rendered on the receipts and disbursements taken as a whole, and the HIV Formula Care grant funds is less than 15 percent of the total receipts and disbursements processed by the third party contractor, so DPW cannot rely on the audit for reasonable and proper coverage of HIV program.

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 Formula Care Grants benefits in other states, and notify the other state of pending approval of benefits in PA in order to prevent claiming benefits in two or more states by one individual.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 69: (continued)

Also, DPW should resolve the practice of accepting the attestation of HIV diagnosis by medical clinicians other than licensed physicians with guidance from 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, 2009

Finding 09 – 70:

CFDA #93.959 – Block Grants for the Prevention and Treatment of Substance Abuse

Inadequate Program Monitoring of Department of Health SAPT Subrecipients

Federal Grant Numbers: TI010044-09, TI010044-08

Condition: DOH performs during-the-award monitoring of SAPT subrecipients through on-site visits conducted on an annual basis, referred to by DOH as the Quality Assurance Assessment (QAA) process. These on-site visits are scheduled and performed as prescribed in DOH's SAPT Block Grant Application submitted to HHS annually as part of the Federal award process. As part of our audit of the SAPT program, we performed procedures to determine if DOH's during-the-award monitoring procedures were adequate on-site. Our testing and inquiry revealed that on-site visits were performed for only 34 of the 51 SAPT subrecipients during SFYE June 30, 2009. DOH did not perform on-site monitoring for 17 of the 51 SAPT subrecipients, or 33 percent. Out of the total SAPT expenditures of \$62.5 million for SFYE June 30, 2009, DOH subrecipient expenditures totaled \$52.1 million, or about 83 percent. The 17 subrecipients not monitored on-site during SFYE June 30, 2009 received \$22.3 million, or 43 percent, of the total subrecipient SAPT expenditures. The 17 subrecipients included 15 Single County Authorities (SCA) totaling \$22.0 million of expenditures and two subrecipients with limited scope agreements with DOH totaling \$306,000 of expenditures. Additionally, one of the 15 SCAs not monitored on-site during SFYE June 30, 2009 was DOH's largest SAPT subrecipient, the city of Philadelphia, which received \$14.9 million, or 29 percent, of the total subrecipient expenditures for the current 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.

Additionally, 45 CFR 96.30(a) states in regard to fiscal control and accounting procedures that:

Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.

Furthermore, the Commonwealth's SAPT Block Grant Application for Federal Fiscal Year 2009 states throughout that DOH's Bureau of Drug and Alcohol Program's Division of Program Monitoring will annually monitor compliance by SCAs to all SAPT Block Grant requirements.

Cause: DOH's Bureau of Drug and Alcohol Programs (BDAP) had been operating on a timeline to monitor each SCA annually between July 1 and June 30. According to DOH management, all SCAs were initially scheduled on this timeline for SFYE June 30, 2009; however, BDAP incurred staff shortages after a hiring freeze which began in October 2008. An internal decision was made to take the SCAs originally scheduled from January 1, 2009 through June 30, 2009 and extend that 6-month monitoring period out through December 2009. Therefore, what was a 12-month monitoring schedule was delayed to an 18-month schedule.

When the six-month extension was implemented, the intent was to monitor the remaining 15 SCAs using BDAP's SFY 2008-2009 QAA process. However, due to the extended delay in approval of the Governor's Proposed Budget for SFY 2009-10 and restricted staff travel associated with that delay, on-site QAA visits were suspended. The inability to provide on-site QAA visits resulted in the creation of a modified QAA process that was used through the end of the 2009

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 70: (continued)

calendar year. Beginning January 1, 2010, with six months remaining in the current five-year grant agreement with the SCAs, further QAA monitoring was suspended until issuance of a new five-year grant agreement to begin on July 1, 2010.

Additionally, BDAP management stated that 2 of the 17 subrecipients not monitored on-site are considered limited scope agreements and are not subject the QAA monitoring process which it performs for SCAs. BDAP stated because of the limited scope of either of these agreements, the intensive type of review conducted for SCAs is not deemed necessary even though each site receives funding from the federal SAPT Program each year.

Effect: DOH did not adequately perform during-the-award monitoring of SAPT subrecipients, in accordance with its annual SAPT Block Grant Application submitted to HHS, to ensure compliance with applicable federal regulations, including no on-site monitoring of 33 percent of its subrecipients which comprised 43 percent of the subrecipient expenditures during SFYE June 30, 2009. Therefore, DOH cannot provide assurance of subrecipient compliance with federal requirements for a material amount of expenditures during SFYE June 30, 2009. As a result, SAPT subrecipients could be operating out of compliance with federal regulations with no DOH oversight and follow-up.

Recommendation: As called for in its annual SAPT Block Grant Application submitted to HHS, DOH should perform on-site during-the-award monitoring procedures for all SAPT subrecipients during each grant year to ensure timely compliance with all applicable federal regulations.

Agency Response: DOH disagrees with this finding, citing primarily no legal or regulatory basis for issuance.

Under the Criteria section of this finding, the auditors quote OMB Circular A-133 relative to during-the-award monitoring and 45 CFR 96.30(a) relative to fiscal control and accounting procedures. The OMB circular does not address frequency or specific means to conduct monitoring, and 45 CFR 96.30(a) is not directly related to the Quality Assurance Assessment (QAA) process, but rather to the internal controls utilized by the Department and the Commonwealth relative to the obligation and expenditure of block grant funds, as well as the fiscal reporting methodology for tracking those funds to sub-recipients by the program office. While there is an obligation as a recipient of federal funds to monitor the expenditure of funds and compliance to the requirements associated by those funds, the QAA is a product of design by the program, and the protocols established and maintained to operate that vehicle for contractual compliance remain at the discretion of the program, within the resources available to execute such protocols.

The QAA process is one of several measures utilized to measure contract compliance and adherence to the requirements of the SAPT Block Grant. At best, the failure to conduct monitoring of all fund recipients within the initially scheduled timeframe may constitute a recommendation by the auditors in the final audit report, but does not rise to the level of a valid finding. In issuing this finding, the auditors cite language contained in the SAPT Block Grant Application, and further indicate the conducting of on-site visits are scheduled and performed as prescribed by that application. The block grant application is utilized as a report and application to secure federal funding for substance abuse programming. Containing fiscal and utilization data, the application also responds in narrative form to how the applicant has, is, or intends to comply with the requirements of the block grant through its response to eighteen goals identified by the Substance Abuse and Mental Health Services Administration. There is nothing that is prescribed by the applicant through the application in response to those goals. Rather, the response to any goal is the methodology that has occurred, or is intended to occur, to meet the requirements specified through the federal legislation and regulations. During the course of the audit conducted for the SFYE June 30, 2009, the auditors requested and reviewed the Federal Fiscal Year (FFY) 2009 SAPT Block Grant Application. That particular application provided report on activities pertinent to Fiscal Year 2006, activities occurring at the time of application for Fiscal Year 2008, and intended address of the goals for Fiscal Year 2009. All items reported for Fiscal Year 2006 would have occurred as reported, but any activities indicated for subsequent periods could be subject to change and any changes would be reported in subsequent applications. Indeed, in responding to pertinent goals of the FFY 2010 application, the narrative for several goals addressed a temporary change in protocol for QAA monitoring visits.

The finding issued also addressed two subrecipients not monitored on-site through the QAA process, indicating the program office's claim that these grant agreements are limited in scope and not included part of the QAA monitoring

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 70: (continued)

process. The QAA was specifically designed to address the contractual arrangement with Single County Authorities (SCAs) as local administrators of drug and alcohol services for their geographic area. The two agreements cited are not SCAs, are limited in total funds received, and are monitored through other means. One of the two agreements is an HIV Early Intervention recipient and is fiscally and programmatically monitored by a program analyst from DOH's Bureau of HIV/AIDS through fiscal and programmatic reports, as well as by on-site visits. The other recipient is monitored through monthly reimbursement invoices, programmatic reports, and no less than annual meetings. The on-site QAA utilized by DOH's Bureau of Drug and Alcohol Programs is not a federal requirement, is not used for non-SCA contractual relationships, and is indicated only as an SCA monitoring device in the SAPT Block Grant Application.

Auditors' Conclusion: We disagree with DOH's response that its lack of on-site monitoring is not a valid finding. DOH is required to monitor subrecipient's use of federal awards through on-site visits or other means to provide reasonable assurance that the subrecipient administers awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. DOH did not provide adequate documentation of other during-the-award monitoring procedures performed to compensate for its lack of on-site monitoring. We consider this material noncompliance and a material weakness since DOH did not adequately monitor 17 of the 51 SAPT subrecipients which received \$22.3 million during SFYE June 30, 2009, or 43 percent of the total SAPT subrecipient expenditures.

Additionally, in regard to DOH's monitoring of the limited scope agreements, a special performance audit of DOH's HIV/AIDS Prevention Program issued in May 2010 by the Bureau of Departmental Audits within the Department of the Auditor General disclosed significant weaknesses in DOH's monitoring of its HIV subrecipients.

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

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 71:

CFDA #93.994 – Maternal and Child Health Services Block Grant to the States

Noncompliance and Internal Control Weaknesses Result in \$139,469 in Questioned Personnel Costs (A Similar Condition Was Noted in Prior Year Finding #08-65)

Federal Grant Numbers: B04MC08899 and B04MC11160

Condition: In our prior year Single Audit for SFYE June 30, 2007, we audited the MCH program as a major Type A program in accordance with OMB Circular A-133 and we reported material noncompliance, questioned costs, and multiple internal control weaknesses in DOH's administration of MCH. Because of the reduction in MCH program expenditures in fiscal years ended June 30, 2008 and 2009, we no longer audited the program as a major Type A program, but we conducted limited follow-up on the prior year findings. The results of our current year follow up on prior-year finding #08-65 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, 2009. Our testing found that there was inadequate documentation to support the charging of 100 percent of the \$85,229 in salary and benefits to the MCH program for this employee for SFYE June 30, 2009 (\$23,729 claimed under Federal grant no. B04MC08899 and \$61,500 claimed under Federal grant no. B04MC11160).

To follow-up on allocated personnel charges during our current audit we reviewed three quarterly transfers of personnel costs totaling \$3,357,000 posted to MCH for the quarters ending September 30, 2008, December 31, 2008 and March 31, 2009. These charges represented transfers for employees working at DOH's State Health Care Centers. DOH allocated the payroll charges for the quarters by requiring employees to enter their hours worked by program into the Community Health Reporting System database for a sample period within the respective quarter. 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 transfers, we obtained the DOH summarized reports that supported the transfers. In order to test the detail in the reports, we obtained excel files for DOH's sampling periods, generated from the Community Health Reporting System showing detail by employee, date, program, and hours worked. However, we could not reconcile these details to the summarized reports used to calculate the quarterly transfers tested. For the quarter ended September 30, 2008 the summary reported an MCH percentage of 21.42 percent; however, the detail provided for audit supported an MCH percentage of only 20.28 percent, or 1.14 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 \$4,757,896 in total State Health Care Center Costs for the quarter, we found that the MCH Block Grant was overcharged by \$54,240 or 1.14 percent of the total State Health Care Center personnel expenditures for state grant no. Y81320 (Federal grant no. B04MC08899). For the quarters ended December 31, 2008 and March 31, 2009 the summaries reported MCH percentages that were less than the MCH percentages calculated based on the detail files resulting in the MCH program being undercharged for state grant no. Y91320 (Federal grant no. B04MC11160); however, since DOH met the MCH personnel budget within the line items charged for the year no further costs can be claimed.

Therefore, the results of our testing disclosed a total of \$139,469 in unsupported personnel charges to the MCH Block Grant for SFYE June 30, 2009 (\$77,969 claimed under Federal grant no. B04MC08899 and \$61,500 claimed under Federal grant no. B04MC11160).

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 71: (continued)

Criteria: 45 CFR Part 96.30 under “Subpart C – Financial Management” and applicable to MCH, states in part:

Section 96.30 Fiscal and administrative requirements.

(a) *Fiscal control and accounting procedures. Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.*

Cause: For the direct charge employee, the job description was not 100 percent MCH-related duties. 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 was implemented in January 2010, in time for the 3rd quarter of SFYE June 30, 2010 reporting period.

Effect: Our testing disclosed \$139,469 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 \$139,469 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: Effective October 1, 2009, the beginning of the MCH Block Grant Fiscal Year, the funding for the position description in question was changed and now 90 percent is being charged to the MCH Block Grant and 10 percent is funded from state funds. The state funded portion covers those duties not directly related to MCH Block Grant activities. A HRSA letter dated March 17, 2010 has resolved this same issue in Prior Year Finding #08-65 and they have determined that any residual amount that could be unrelated to the program would be immaterial.

The Community Health Nurses Daily Reporting System was rewritten and went live for the January 2010 reporting quarter. Because the Auditors requested the Quarterly State Health Care Center personnel transfers prior to January 2010, the program that tracked personnel records and allocated costs still had the flaw that pertains to personnel who have left employment, so that the subsequent printout of reports will not reflect the original reports. We disagree with the most recent finding of *1.14 percent less than the costs actually charged*. Calculations cannot be based on the detailed information that DOH’s Bureau of Information Technology ran on April 8, 2010. The Auditors must use the same report that was run and used to prepare the Quarterly Transfers, which supports the MCH Block Grant percentage of 21.42 that was charged. HRSA has resolved this same issue in Prior Year Finding #08-65 and they have determined that incurred costs have exceeded draws and therefore there would be no overcharges.

Given the additional information provided in this response and its attachments, and the fact that HRSA has resolved this same issue in Prior Year Finding #08-65, it is DOH’s position that this issue be considered resolved and the finding be eliminated.

Auditors’ Conclusion: While we agree the amount questioned was resolved by HRSA as immaterial in the prior year, in accordance with OMB Circular A-133 Section 510(a)(4) we are required by the Single Audit Act to report in a Single Audit finding all known questioned costs which are greater than \$10,000 for a Federal program which is not audited as a

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 71: (continued)

major program. Regarding the Quarterly Transfers report noted in the response, while the summary provided by DOH agreed to the MCH percentage charged, DOH could not provide detail time reports to support the original summary provided by DOH; therefore, we questioned the charges to MCH based on the actual detail provided by DOH.

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, 2009

Finding 09 – 72:

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

CFDA #93.563 – Child Support Enforcement (including ARRA)

CFDA #93.568 – Low-Income Home Energy Assistance

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

CFDA #93.659 – Adoption Assistance (including ARRA)

CFDA #93.667 – Social Services Block Grant

CFDA #93.778 – Medical Assistance Program (including ARRA)

CFDA #93.575, 93.596, and 93.713 – Child Care Development Fund Cluster (including ARRA)

CFDA #93.558, 93.714, and 93.716 – Temporary Assistance for Needy Families Cluster (including ARRA)

CFDA #93.959 – Block Grant for Prevention and Treatment of Substance Abuse

Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (A Similar Condition Was Noted in Prior Year Finding #08-67)

Federal Grant Numbers: 0902PATANF, 0802PATANF, 0904PA4004, 0904PA4002 (ARRA), 0804PA4004, 0901PACCDF, 0801PACCDF, 0901PA1401, 0801PA1401, 0901PA1407, 0801PA1407, 0901PASOSR, 0801PASOSR, 0905PA5028, 5-0905PAARRA, 0805PA5028, TI010044-09, TI010044-08, 0901PATAN2

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 fifth 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.*

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 72: (continued)

- (3) *Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*
- (4) *Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.*
- (6) *Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.*

In order to carry out these responsibilities properly, good internal control dictates that state pass-through agencies ensure A-133 subrecipient SEFAs are properly and timely reconciled to state payment records each year, and reconciling items 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 DPW, Audit Resolution Section (ARS) has been working to complete the backlog of required program settlements. Beginning during FYE June 30, 2009, the ARS now completes both the review of the subrecipient single audit reports and the required program settlement. As of June 30, 2010, the DPW will have eliminated a significant portion of the overdue settlements, and by fiscal year end June 30, 2011, ARS hopes to be current with review and settlements.

For subrecipient audits received for calendar year end December 31, 2008, the ARS has been reconciling the SEFA to payment information contained within the Commonwealth's SAP system. As SAP records payments made, the DPW now requires subrecipients to include a receipts column on the SEFA. This allows the ARS to reconcile the payments made to the recorded receipts during the period.

Auditors' Conclusion: Based on the agency response, in order for the review of funds performed by DPW 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. Any procedures implemented by DPW for the FYE December 31, 2008 subrecipient audits

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 72: (continued)

occurred after our current year-end and will be evaluated during the SFYE June 30, 2010 audit period, which is the period in which the FYE December 31, 2008 audits were due. 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, 2009

Finding 09 – 73:

- CFDA #10.557 – Special Supplemental Nutrition Program for WIC**
- CFDA #10.558 – Child and Adult Care Food Program**
- CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds (including ARRA)**
- CFDA #84.048 – Career and Technical Education (CTE) – Basic Grants to States**
- CFDA #84.367 – Improving Teacher Quality State Grants**
- CFDA #93.563 – Child Support Enforcement (including ARRA)**
- CFDA #93.568 – Low-Income Home Energy Assistance**
- CFDA #93.658 – Foster Care – Title IV-E (including ARRA)**
- CFDA #93.659 – Adoption Assistance (including ARRA)**
- CFDA #93.667 – Social Service Block Grant**
- CFDA #93.767 – Children’s Health Insurance Program**
- CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse**
- CFDA #10.553, 10.555, 10.556, and 10.559 – Child Nutrition Cluster**
- CFDA #14.228 and 14.255 – CDBG – State-Administered Small Cities Program Cluster (including ARRA)**
- CFDA #16.007, 97.004 and 97.067 – Homeland Security Cluster**
- CFDA #17.258, 17.259, and 17.260 – WIA Cluster (including ARRA)**
- CFDA #20.205, 20.219, and 23.003 – Highway Planning and Construction Cluster (including ARRA)**
- CFDA #84.010 and 84.389 – Title I, Part A Cluster (including ARRA)**
- CFDA #84.027, 84.173, 84.391, and 84.392–Special Education (IDEA)Cluster (including ARRA)**
- CFDA #93.044, 93.045, 93.053, 93.705, and 93.707 – Aging Cluster (including ARRA)**
- CFDA #93.558, 93.714, and 93.716 – Temporary Assistance for Needy Families Cluster (including ARRA)**
- CFDA #93.575, 93.596, and 93.713 – Child Care Development Fund Cluster (including ARRA)**
- CFDA #93.775, 93.776, 93.777, and 93.778 – Medicaid Cluster (including ARRA)**

Noncompliance and Control Deficiencies Exist in the Commonwealth’s Subrecipient Audit Resolution Process (A Similar Condition Was Noted in Prior Year Finding #08-68)

Federal Grant Numbers: Various grant numbers per each CFDA listed above.

Condition: Under the Commonwealth's implementation of the Single Audit Act, review and resolution of OMB Circular A-133 subrecipient audit reports is split into two stages. The Commonwealth receives all A-133 subrecipient audit reports through OB-BOA which ensures the reports meet technical standards through a centralized desk review process. Once they are deemed acceptable by OB-BOA, the reports are transmitted to the various funding agencies in the Commonwealth and each agency in the Commonwealth's resolution system must make a management decision on each finding within six months of receipt by the Commonwealth to ensure corrective action is taken by the subrecipient. The agency is also responsible for reviewing financial information in each audit report (e.g., SEFA) to determine whether the audit included all pass-through funding provided by the agency and to adjust Commonwealth records, if necessary. Our testing of this two-stage process disclosed the following audit exceptions:

- 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 fourth year in a row. Based on our sample of 40 subrecipient audit reports we detail tested and analysis of all audits desk reviewed during SFYE June 30, 2009, we noted the average time OB-BOA took to forward the desk reviewed reports to the funding agencies for further

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 73: (continued)

resolution was 3.97 months, which represents 66 percent of the federal requirement to resolve subrecipient findings within six months after receipt. Based on our sampling and based on further overall review of OB-BOA's listings of forwarded reports, we concluded that OB-BOA's desk review process is not reasonably timely.

- For the fifth 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 41 reports with findings at a sample of four different funding agencies (DOH, L&I, PENNVEST, and DPW), we noted 13 (or 32 percent) with findings at DOH, L&I, and DPW that were resolved between approximately 7 months to 30 months after originally received by OB-BOA for processing. In addition, an overall review of other agency listings that we did not sample and detail test showed a similar lack of timeliness in resolving subrecipient findings. Based on sampling and overall review of agency listings, we concluded that agency finding resolution is not reasonably timely.
- Our detailed testing also disclosed that for 1 out of 40 subrecipient audit reports tested, OB-BOA personnel did not retain the desk review checklist prepared in August 2008 which documented the results of OB-BOA's desk review. In addition, although OB-BOA notified the subrecipient that the subrecipient auditor did not properly identify and audit one Type A major program and did not submit the audit report to the Federal Audit Clearinghouse, OB-BOA inappropriately accepted the audit report without requiring any report revisions and did not follow up to ensure that the audit report was submitted to the Federal Audit Clearinghouse.

Additional audit exceptions noted in our testing at the individual funding agencies are as follows:

- Our detailed testing of DOH's subrecipient audit resolution procedures disclosed that for 5 subrecipient audit reports with findings out of 13 subrecipient audit reports we tested, the time period for making management decisions on findings ranged from over 13 months to over 22 months from the date that DOH received the audit reports. Our current year testing also disclosed that for 2 out of 13 subrecipient audit reports we tested, the SEFA reconciliation was in process but not complete for over 18 months and over 21 months, respectively, from the date that DOH received the audit reports. Our current year testing also disclosed that for 6 out of 13 subrecipient audit reports tested, DOH did not retain the SEFA reconciliation documentation.
- Our detailed testing of L&I's subrecipient audit resolution procedures disclosed that for 1 audit report with findings (note that this was the only audit report with findings which required follow-up by L&I), the time period for making a management decision and performing the SEFA reconciliation was over 13 months from the date L&I received the audit report.
- Our detailed testing of DPW's subrecipient audit resolution procedures disclosed that for 2 out of 31 subrecipient audit reports with findings tested, the time period for making management decisions on findings was approximately 14 months and over 15 months, respectively, from the date that DPW received the audit reports.
- Our review of the PennDOT agency listing and inquiry of PennDOT personnel disclosed that for 6 out of 15 subrecipient audit reports with findings, the time period for making management decisions on findings ranged from approximately 7 months to over 9 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 11 out of 50 subrecipient audit reports with findings, the time period for making management decisions on findings ranged from approximately 8 months to over 21 months from the date that PDE received the audit reports.
- Our review of the DCED agency listing and inquiry of DCED personnel disclosed that for 4 out of 30 subrecipient audit reports with findings, the time period for making management decisions on findings ranged from approximately 7 months to over 14 months from the date that DCED received the audit reports.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 73: (continued)

- Our review of the Insurance Department agency listing and inquiry of Insurance Department personnel disclosed that for 1 out of 2 subrecipient audit reports with findings, the time period for making a management decision on findings was 9 months from the date that the Insurance Department received the audit report.
- Our review of the PEMA agency listing and inquiry of PEMA personnel disclosed that PEMA's subrecipient audit report tracking list was not adequate as a management or audit tool because it did not identify whether audit reports received during SFYE June 30, 2009 had findings. In addition, our review disclosed that for 47 out of 95 audit reports received by PEMA during SFYE June 30, 2009, the time period for PEMA's audit resolution process which includes making management decisions on findings and reconciling the audit report SEFAs ranged from 7 months to over 11 months from the date that PEMA received the reports. Further, 2 out of 95 audit reports received by PEMA during SFYE June 30, 2009 were misplaced by PEMA and could not be located.

Criteria: The Single Audit Act of 1984 and the Single Audit Act Amendments of 1996 require state and local governments to adhere to provisions of OMB Circular A -133.

OMB Circular A-133, Section 400, states the following:

- (d) *Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:*
- (2) *Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.*
 - (3) *Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*
 - (4) *Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.*
 - (5) *Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.*
 - (6) *Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.*

In order to carry out these responsibilities properly, good internal control dictates that state pass-through agencies ensure A-133 subrecipient SEFAs are properly and timely reconciled to state payment records each year, and reconciling items properly resolved.

OMB Circular A-133, Section 320, Report Submission, states the following:

- (g) *Report retention requirements. Auditees shall keep one copy of the data collection form described in paragraph (b) of this section and one copy of the reporting package described in paragraph (c) of this section on file for three years from the date of submission to the Federal Audit Clearinghouse designated by OMB. Pass-through entities shall keep subrecipients' submissions on file for three years from date of receipt.*

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 implemented by the Governor's Office. Some Commonwealth personnel also indicated that additional duties which have been designated as being a higher priority have been assigned to existing audit resolution staff.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 73: (continued)

Regarding the OB-BOA desk review checklist which was not retained, OB-BOA personnel stated that during the relocation of OB-BOA's office in May 2009, they were informed that there would not be adequate storage space for all their files in the new location. Therefore, a decision was made to purge certain files, one of which was the desk review checklist in question.

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, and there is an increased risk of unallowable charges being made to federal programs if recovery of questioned costs is not timely. With respect to the SEFA reconciliations which are not being performed timely, 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. We also recommend that Commonwealth personnel retain documentation which may be subject to audit for the required time period.

Agencies' Responses:

BOA's Responses:

Management Responses to Condition #1:

The Bureau of Audits (OB-BOA) concurs with the condition. From the period of July 1, 2008 through May 18, 2009, the OB-BOA desk review unit was understaffed, having only two auditors to perform the desk review function for approximately 1566 single audit reports. The two available desk reviewers performed and completed 826 reviews during that period.

Thereafter, from the period of May 18, 2009 to the present, a total of four full-time auditors have been assigned to the single audit desk review process. Additionally, three auditors have been assigned to the single audit desk review process on a part-time basis. The effort of these seven individuals has resulted in a reduction to the backlog of 98 percent. To further ensure that the single audit reports are processed in a more timely manner the following desk procedures have been implemented: 1) Weekly reports of single audit reports with findings are generated from the Single Audit Tracking System (SATS) and are assigned priority; 2) Effective July 1, 2009, an electronic submission process is in place to ensure that subrecipients' single audit reports are received by OB-BOA more timely; and 3) In conjunction with the electronic submission process, a collaborative site is being put into place to electronically transmit single audit reports from OB-BOA to the respective Commonwealth agencies. Phase I of the utilization of the collaborative site will be effective August 2010 for local educational agencies. Phase II will be implemented by January 2011 for local governmental agencies and non-profit entities. Phase III will be implemented no later than June 2011 for Counties and County related component units.

Additionally, it was noted that the average time OB-BOA took to forward the desk reviewed reports to the funding agencies for further resolution was 3.97 months, which represents 66 percent of the federal requirement to resolve subrecipient findings within six months after receipt. With the aforementioned corrective actions already in process and being implemented, the turnaround time is expected to decrease to an average of a one-month to transmit single audit reports with findings, which represents 16 percent of the federal requirement to resolve subrecipient findings within six months after receipt.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 73: (continued)

Condition #2:

Our detailed testing also disclosed that for 1 out of 40 subrecipient audit reports tested, OB-BOA personnel did not retain the desk review checklist prepared in August 2008 which documented the results of OB-BOA's desk review. In addition, although OB-BOA notified the subrecipient that the subrecipient auditor did not properly identify and audit one Type A major program and did not submit the audit report to the Federal Audit Clearinghouse, OB-BOA inappropriately accepted the audit report without requiring any report revisions and did not follow up to ensure that the audit report was submitted to the Federal Audit Clearinghouse.

Management's Responses to Condition #2:

The subrecipient in question received an acceptance letter with the following minor deficiencies:

Schedule of Findings and Questioned Costs

- The summary of auditor's results section states that CFDA numbers 93.044, 93.558, and 14.235 were tested as major programs. Our review of the Schedule of Expenditures of Federal Awards reveals that CFDA 84.002 has expenditures in excess of the \$300,000 threshold and is considered a Type A program. Since this program was not tested as a major program in the two most recent audit periods, it cannot be considered a low-risk program and should have been tested in 2006. For future reports all Type A programs must be identified correctly and tested as required.
[AICPA Audit Guide, Government Auditing Standards and Circular A-133 Audits, paragraphs 9.05 to 9.25]

Data Collection Form

- The data collection form was not included with the single audit report package. The data collection form and audit report package should be filed with the Federal Audit Clearing house, as required by section 320(c) of OMB Circular A-133, and a copy of the form should be submitted to our office.
[OMB Circular A-133, section 320(c); AICPA Audit Guide, Government Auditing Standards and Circular A-133 Audits, paragraphs 12.44 to 12.49]

Further investigation disclosed that CFDA 84.002 was not considered a Type A major program. The Commonwealth of PA SAP Business Warehouse and the Schedule of Expenditures of Federal Awards (SEFA) disclosed that the subrecipient received and expended exactly \$248,794. The additional amount of \$75,611 disclosed on the SEFA represented state awards. Accordingly, state awards are excluded from the computation of the risk-based approach and major program determination. The SEFA properly separated the amounts; however, it classified the state awards as federal awards by assigning the CFDA number 84.002. This SEFA disclosure gave the indication that it was federal awards and not state awards. Therefore, the report did contain the essential elements as required by the OMB Circular A-133 auditing and reporting requirements. Since this deficiency should not have been cited and there were no commonwealth findings, the single audit report should have been processed as a "NR." A "NR" denotes that no desk review is required. When a preliminary desk review is performed for a "NR" type of single audit report, the submission of the data collection form is not verified whether the Federal Audit Clearinghouse received it. Subsequently, there is evidence that a DCF was filed with the Federal Audit Clearinghouse.

The report retention requirements were waived during the Finance Transformation process because agencies were mandated to downsize their files in order to accommodate the new limited space and storage for files at the new centralized location. It was a professional and prudent business decision to maintain subrecipients' files for only years 2008 and 2009. Even though this single audit report for the year ended 6/30/2006 was received on 8/18/2008, the single audit report for the years ended 6/30/2008 was already received on 1/26/2009. Therefore, the year ended 6/30/2006 was purged based on the purging requirements stipulated by the Finance Transformation's direction.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 73: (continued)

In conclusion, this administrative finding should be removed and deemed too immaterial to cite. Additionally, the new electronic submission process will automatically mandate the submission of the complete components of the single audit reporting package, which includes the data collection form.

L & I Response: L&I has now made a management decision and performed the SEFA reconciliation for this specific subrecipient audit report. In the future, L&I will more closely monitor the status of received subrecipient audit reports.

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." Due to the inability to hire a full-time staff person to perform this function, DOH hired annuitants on a temporary basis to address the review of backlogged reports. As a result, while DOH's review of reports for the year ending June 30, 2009 may not have been completed within the six month guideline, all reports received during that time period have been addressed.

INS Response: As recognized in the "cause" section above, there have been staffing concerns that caused the one missed deadline noted above. However, this was a one-time situation, and it has been resolved and payment reimbursement has been completed. CHIP now has a process in place to log and track A-133 reports as they come in. In addition, we note that CHIP has, as a matter of course, waited for the Office of Budget/Bureau of Audits (OB/BOA) to identify issues with A-133 reports submitted by the CHIP contractors before CHIP addresses findings noted by the contractor's auditors. However, due to delays in the OB/BOA identification of issues (OB/BOA was cited above for being untimely about notifying agencies of their findings and/or non-findings) CHIP has requested from the OB/BOA if it is permissible for CHIP to start resolution of a finding before OB/BOA officially completes and notifies CHIP of the results of its "technical standards compliance" review.

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 received by the Department from the Bureau of Audits in Office of the Budget. This function is handled by the Audit Resolution Section in the Bureau of Office Services.

In April 2009, due to the Financial Transformation Project, the Audit Resolution Section was given the additional task of managing the Department's Accounts Receivable program without additional staff. These extra assigned duties, which took precedence, directly impacted the timely processing of all subrecipient reports for a brief period of time in calendar year 2009 which led to audit report management decisions exceeding the required six month time period.

The six reports noted in the finding that were not closed out within the required six month timeframe have now all been closed out. PennDOT currently has no open subrecipient audit reports that are greater than four months old signifying that PennDOT is currently in full compliance with OMB circular A-133.

DPW Response: DPW Response – The audits listed as having findings outstanding past the 6 months allowed by A-133 are for the DPW's Intermediate Care Facility for the Mentally Retarded (ICF/MR) program. The DPW, Bureau of Financial Operations, Division of Audit and Review has begun formally responding to these audit findings via formal letter. These letters will now be kept with the audit report as proof of the determination made with regard to 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.

DCED Response: DCED acknowledges that sub-recipient audit reports with findings should be completed within a 6 month period of the date that DCED receives the audit report. Due to a 10 month vacancy, DCED did not have adequate staff to process A-133 sub recipient audit reports more timely. DCED has since filled this vacancy and is working diligently to resolve any backlog of sub-recipient audit reviews. It should be noted that these 4 mentioned reports with findings were resolved prior to the Commonwealth Single Audit review. In addition, DCED will continue to strive to achieve the goal of timely audit resolution.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 73: (continued)

PEMA Response: PEMA has since modified the database used to track sub-recipient single audits upon receipt from the Bureau of Audits (BOA). Included are the date of receipt from BOA, whether or not a response is required from the grant sub-recipient, the type of response required (if applicable), the date of reply to the sub-recipient, the date their response is due to PEMA, the date their response is received at PEMA, dollar amount requiring verification, CFDA Numbers, opened/closed status of the audit, and finally, the date the audit was closed.

Additionally, going forward we anticipate recent staffing enhancements will greatly improve our ability to monitor and process audits in a more expedient manner. It is our goal to greatly lower the amount of time elapsed from our receipt to close-out of each audit. Our increased staffing capabilities coupled with the enhancements to our database should ensure that all audits can quickly be accounted for at any point of the audit process.

Auditors' Conclusion: Based on OB-BOA's response related to the lack of timeliness of the desk review process, it appears that OB-BOA is in agreement with the auditors' finding. Except for the increase in OB-BOA's staff which occurred in May 2009, near the end of our current audit period, the majority of OB-BOA's corrective action occurred subsequent to the current audit period. Therefore, we will evaluate these corrective actions in our subsequent audit, and our finding and recommendation remain as previously stated.

Based on OB-BOA's response related to the desk review for which the desk review checklist was missing, apparently the subrecipient SEFA was misstated, and this misstatement was not detected during OB-BOA's desk review process. Also, our review of the Federal Audit Clearinghouse website disclosed that there is still no evidence that the June 30, 2006 subrecipient audit report and data collection form for the subrecipient in question were ever submitted to the Federal Audit Clearinghouse. Subrecipient A-133 audits and data collection forms are required to be submitted to the Federal Audit Clearinghouse, regardless of whether or not they contain findings. Our finding and recommendation remain as previously stated.

Based on the various Commonwealth agency responses, it should be noted that although agency personnel stated that some of the subrecipient audit reports have now been closed, the agencies should work on implementing adequate procedures to ensure that subrecipient audit resolution is performed in a timely manner and in compliance with federal regulations in future audit periods. We will review any corrective action in our subsequent audit, and our finding and recommendation remain as previously stated.

The 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, 2009

Finding 09 – 74:

CFDA #10.557 – Special Supplemental Nutrition Program for WIC
CFDA #10.558 – Child and Adult Care Food Program
CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds
CFDA #84.048 – Career and Technical Education (CTE) – Basic Grants to States
CFDA #84.367 – Improving Teacher Quality State Grants
CFDA #93.563 – Child Support Enforcement (including ARRA)
CFDA #93.568 – Low-Income Home Energy Assistance
CFDA #93.658 – Foster Care – Title IV-E (including ARRA)
CFDA #93.659 – Adoption Assistance (including ARRA)
CFDA #93.667 – Social Service Block Grant
CFDA #93.767 – Children’s Health Insurance Program
CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse
CFDA #10.553, 10.555, 10.556, and 10.559 – Child Nutrition Cluster
CFDA #14.228 and 14.255 – CDBG – State-Administered Small Cities Program Cluster (including ARRA)
CFDA #16.007, 97.004 and 97.067 – Homeland Security Cluster
CFDA #17.258, 17.259, and 17.260 – WIA Cluster (including ARRA)
CFDA #20.205, 20.219, and 23.003 – Highway Planning and Construction Cluster (including ARRA)
CFDA #84.010 and 84.389 – Title I, Part A Cluster (including ARRA)
CFDA #84.027, 84.173, 84.391, and 84.392 – Special Education (IDEA) Cluster (including ARRA)
CFDA #93.044, 93.045, 93.053, 93.705, and 93.707 – Aging Cluster (including ARRA)
CFDA #93.558, 93.714, and 93.716 – Temporary Assistance for Needy Families Cluster (including ARRA)
CFDA #93.575, 93.596, and 93.713 – Child Care Development Fund Cluster (including ARRA)
CFDA #93.775, 93.776, 93.777, and 93.778 – Medicaid Cluster (including ARRA)

Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements (A Similar Condition Was Noted in Prior Year Finding #08-69)

Federal Grant Numbers: Various grant numbers per each CFDA listed above.

Condition: As part of our audit of OB’s statewide A-133 subrecipient audit monitoring system, we evaluated the significance of unaudited subrecipient dollars recorded on OB-BOA’s subrecipient universe in the prior fiscal year (SFYE June 30, 2008) for which audits were required to be submitted in the current year (SFYE June 30, 2009). For subrecipients which received at least \$500,000 under programs being audited as major, OB-BOA’s subrecipient universe reported 792 subrecipients which received approximately \$3.872 billion in total. Our testwork disclosed that subgrants totaling \$183,422,915 to 71 of these subrecipients which received at least \$500,000 each for SFYE June 30, 2008 did not appear to be audited in accordance with OMB Circular A-133 as of May 2010. Also, additional subgrants totaling \$209,823,565 to 90 subrecipients which received at least \$500,000 each for SFYE June 30, 2008 appeared to be audited per review of the Federal Single Audit Clearinghouse website, but these subrecipient audits had not been submitted to the Commonwealth as of May 2010. All 161 of these subrecipient audits were at least 14 months late as of May 2010, and some subrecipient audits with a FYE December 31, 2007 due date were 20 months late as of May 2010. However, the Commonwealth did not follow up on the outstanding SFYE June 30, 2008 subrecipient audits until May 24, 2010 when the Commonwealth sent letters to the 161 subrecipients to request copies of the audits. The Commonwealth’s follow up was not performed on a timely basis.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 74: (continued)

As part of our current year follow up on two subrecipients (Crawford County and Bucks County) cited in our prior year Single Audit Finding #08-69, we noted that Crawford County had not submitted a Single Audit Report for FYE December 31, 2007 as of our May 2010 test date, more than 20 months late based on the September 30, 2008 due date. Although we noted that Bucks County submitted a Single Audit Report for FYE December 31, 2007 to OB-BOA in April 2010, this audit was 18 months late based on the September 30, 2008 due date. In addition, OB-BOA's subrecipient universe indicated that the Commonwealth subgranted Homeland Security Cluster funding in the amount of \$16,734,422 to Bucks County during SFYE June 30, 2008. However, the Bucks County SEFA did not report any expenditures under the Homeland Security Cluster. Therefore, it appears that the Homeland Security Cluster subgrants of \$16,734,422 were not audited as required.

Our current-year testwork disclosed that for 21 out of the 23 major programs/clusters with material subgranted funds recorded on OB-BOA's subrecipient universe, 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 23 major programs/clusters we tested, unaudited dollars were considered material to the program/cluster as follows:

CFDA #	Program Name	SFYE June 30, 2008 Expenditures	
		Total Subgranted Funds Per OB-BOA Universe	Total Subgrants Not Audited
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	\$51,130,162	\$ 2,418,570
16.007, 97.004 and 97.067	Homeland Security Cluster	\$39,055,449	\$16,734,422

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 for the CDBG program were subgranted to six different entities, and the unaudited federal funds for the Homeland Security Cluster were subgranted to Bucks County as indicated previously.

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 that audits of federal pass-through funds are received and process by the Commonwealth in accordance with OMB A-133, Commonwealth Management Directive 325.9, *Processing Audits of Federal Pass-through Funds*, Section 6 related to responsibilities states, in part:

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 74: (continued)

c. *Office of the Budget, Bureau of Audits shall:*

- (1) *Develop Commonwealth policy and procedures for reviewing, evaluating, responding to, and following up on subrecipient report submissions to the Commonwealth in accordance with the provisions of this Circular.*
- (2) *Utilize a universe of subrecipients who receive federal pass-through funds and noncash awards from the Commonwealth to determine that required report submissions are received from subrecipients.*
- (6) *Function as a clearing house for the receipt of subrecipient report submissions in accordance with the Circular and Commonwealth policy.*

Cause: Commonwealth personnel indicated that a project to automate the subrecipient audit report receipt and transmittal process took priority over follow up of outstanding audit reports. Therefore, the Commonwealth's follow up was delayed until May 2010 for SFYE June 30, 2008 outstanding audit reports which were due March 31, 2009. The Crawford County and Bucks County reports have been submitted late for the last three years, and the Commonwealth appears reluctant to use remedial action such as withholding funding in order to enforce the submission of the required audits on a timely basis.

Effect: Since the Commonwealth did not obtain and review the required audit reports on a timely basis, material federal funds in the CDBG 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 and clusters (including ARRA, see above) and not be detected and followed up by Commonwealth personnel. In addition, a control deficiency exists since the Commonwealth did not have adequate procedures in place to ensure that outstanding subrecipient audit reports were followed up on a timely basis. This control deficiency may result in material unaudited dollars (including ARRA) in the future.

Recommendation: We recommend that Commonwealth implement procedures to ensure that follow up of outstanding subrecipient audit reports is performed on a timely basis. The Commonwealth should 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, the Commonwealth should implement remedial action procedures.

Agency Response: We do not concur that a project to automate the subrecipient audit report receipt and transmittal process took priority over follow-up of outstanding Single Audit reports. Single audit monitoring and OMB Circular A-133 enforcement is the top priority for the Commonwealth's Single Audit Division. The deficiency occurred as a result of organizational changes of Comptrollers' Offices made in May 2009. At that time, the single audit division's manager after more than twenty years of service was replaced with new leadership. The reorganization required the new division manager to assume additional responsibilities; to physically relocate staff; and to complete the cost savings initiative to receive, review and track subrecipient audit reports through the electronic data transmissions and file sharing process. The loss of the experience in conjunction with the reorganization during that time period was the sole cause of this one-time deficiency. To remedy the situation, the former manager returned to transfer the knowledge and experience to the new leadership team. The Commonwealth's follow up process occurred in May 2010 for the outstanding single audit reports for the year ended June 30, 2008, which were due by March 31, 2009. In December 2009, a staff member was assigned the Subrecipient Universe Process for both the calendar and fiscal years. The staff member will be completely trained for subsequent years to retrieve the flat file, import the Excel file to an Access database, and create the necessary tables, forms, queries and reports in order to monitor those subrecipients who did not comply with the reporting requirements or OMB Circular A-133.

As of June 2010, 62 of the 90 subrecipients, who had previously submitted report to the Federal Single Audit Clearinghouse, have now submitted their single audit reports to the Bureau of Audits. The dollar amount totals to \$121,647,124 for the 62 subrecipients. The dollar amount for those 28 of 90 subrecipients still pending submission totals to \$88,176,441. As of June 2010, 33 of the remaining 71 subrecipients submitted their single audit reports or properly documented that no single audit report is required. The dollar amount totals to \$46,554,913. The total amount for those 38 of the 71 subrecipients still pending submission totals to \$136,868,002.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 74: (continued)

The Crawford County and Bucks County reports have been submitted late for the last three years, and the Commonwealth is not reluctant to use remedial actions. In accordance with Management Directive 325.8, Remedies for Recipient Noncompliance with Audit Requirements, examples of the types of progressive remedial actions that agencies may take are the following:

- (a) Meet with or call the recipient officials to explain the importance and benefits of the audit and audit resolution processes, emphasizing the value of the audit as an administrative tool and the commonwealth's reliance on an acceptable audit, and prompt resolution as evidence of the recipient's ability to properly administer the program.
- (b) Encourage the entity to establish an "audit committee" or to designate an individual as the single point of contact to: 1) Serve as a focal point for all communications regarding the audit; 2) Arrange for and oversee the audit; & 3) Direct and monitor audit resolution.
- (c) Provide technical assistance to the recipient in devising and implementing an appropriate plan to remedy the problem.
- (d) Withhold a portion of assistance payments until the problem is resolved.
- (e) Withhold or disallow overhead costs until the problem is resolved.
- (f) Suspend the assistance agreement until the problem is resolved.
- (g) Terminate the assistance agreement with the recipient and, where necessary, seek alternative entities to administer the program.

As it pertains to the Homeland Security Cluster, Pennsylvania Emergency Management Agency (PEMA) provided the following guidance:

- There is no dollar threshold on equipment that designated Counties' Task Forces received. For single audit purposes, the total dollar value of equipment received, regardless of the individual dollar value, must be reported on the Schedule of Expenditures of Federal Awards (SEFA).
- When the Counties' Task Forces functioning as fiduciary agents accept receipt of the equipment, they must list the values of the equipment on the SEFA as part of its single audit report. If the fiduciary counties forward the equipment to another entity, the fiduciary counties should track the value of the equipment on their records as going out and maintain records as to where the equipment was sent.
- If the equipment is sent from the vendor directly to another entity instead of the fiduciary counties, the entity is required to report the equipment on its SEFA and maintain records.

PEMA is responsible to track the delivery of items by recipient, and this must be properly reflected on the SAP accounting records in order to ensure that the Commonwealth's SEFA is accurate. It is PEMA's responsibility, in conjunction with the Comptroller's Office, to implement an account code structure to track the delivery count and cost for each item on the purchase order to the Counties' Task Forces or other recipients. This would enable the Comptroller's Office to develop schedules that support the SEFA and ensure the information appears on the Subrecipient Payment Report. Because the dollar amounts are not known by the Counties' Task Forces, we cite in our acceptance letter the following deficiency:

- The County must include the value of equipment received under the Homeland Security Equipment Support Program Cluster program for CFDA's 16.007 and 97.004 pass-through PEMA. Please ensure that all federal funding expended by the County is included on the SEFA and tested as required by OMB Circular A-133.

As it pertains to any unaudited dollars and where recipients fail to respond to requests made as part of BOA's audit report receipt and technical review process, BOA shall notify affected state agencies, in writing, of such recipients and shall provide a description of the actions taken and responses received relative to the requested information. Affected agencies shall then take appropriate remedial action in accordance with the provisions of Management Directive 325.8, Section 5 (Policy). Where multiple state agencies are affected, BOA shall designate the agency which has provided the largest amount of assistance to the recipient as the lead agency in accordance with Management Directive 325.8 Section 5.c.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 74: (continued)

On or before August 2010, more aggressive remedial procedures are being considered and implemented by the Bureau of Audits to ensure subrecipients are complying with the submission requirements of OMB Circular A-133. Such remedial procedures are the following:

- As soon as the Subrecipient Universe is determined for any fiscal or calendar year, those non-complying subrecipients are immediately referred to the Commonwealth agencies that provided the federal funding. Additionally, the subrecipients still receive a notification via a dunning letter package from Bureau of Audits
- The timetable will be changed to start the Subrecipient Universe Process sooner and before the deadline submission dates of March 31st and September 30th. For example, we usually determine the universe after the deadline submission date. For example, follow-up procedures are performed in the month of April for a subrecipient's single audit reports, which are due by March 31st. Follow-up procedures are performed in the month of October for subrecipient's single audit reports, which are due September 30th. Instead of notifying the subrecipients one month after the deadline submission dates, procedures will be changed to send the notifications one month before the deadline dates of March 31st or September 30th.

It was cited that a control deficiency may result in material unaudited dollars including ARRA funds in the future. The Bureau of Audits took the initiative to inform all Commonwealth agencies about the accountability objectives of OMB Circular A-133 and the auditing and reporting requirements of the OMB Circular Compliance Supplement pertaining to the ARRA. A form letter was distributed to all commonwealth agencies to notify their subrecipients of the following guidance:

- To inform the subrecipients that proper financial reporting and accounting procedures must be utilized for ARRA funds;
- To inform the subrecipients that ARRA funds are adequately accounted for in the financial statements and disclosed on the SEFA;
- To inform the subrecipients that ARRA funds are subject to various federal policies, regulations and guidance for cost principles and administrative requirements; and
- To inform the subrecipients those auditors must use the risk-based approach for determining those programs including ARRA funds, which are subject to increased testing for major program determination.

This proactive approach by distribution of a form letter provided guidance for subrecipients to understand the purposes and uses of ARRA funds. It is also a preventive measure to ensure that ARRA funds are properly audited in accordance with the auditing and reporting requirements of the OMB Circular A-133 and the Compliance Supplement.

Auditors' Conclusion: Our findings and recommendation remain as previously stated for our current year under audit. Management mentions a number of corrective actions in the agency response above which it says are being implemented subsequent to our current audit period ended June 30, 2009, and we support management in taking a proactive approach to correct the deficiencies noted in the finding. We will review management's 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, 2009

Finding 09 – 75:

CFDA #12.401 – National Guard Military Operations and Maintenance Projects

CFDA #10.551 and 10.561 – SNAP Cluster

CFDA #16.574 – Byrne Evaluation Partnership Program

CFDA #16.610 – Regional Information Sharing System

CFDA #17.002 – Labor Force Statistics

CFDA #17.225 – Unemployment Insurance

CFDA #20.218 – National Motor Carrier Safety

CFDA #84.002 – Adult Education – Basic Grants to States

CFDA #84.027 and 84.173 – Special Education Cluster

CFDA #93.558 – Temporary Assistance for Needy Families

CFDA #93.563 – Child Support Enforcement

CFDA #93.658 – Foster Care Title IV-E

CFDA #93.667 – Social Services Block Grant

CFDA #93.778 – Medical Assistance

Unallowable Payments for Unused Employee Leave Result in \$1,854,993 in Questioned Costs (A Similar Condition Was Noted in Prior Year Finding #08-70)

Federal Grant Numbers: Various grant numbers per each CFDA listed above.

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, 2009, 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, 2009, and they are as follows:

CFDA #	Program Name	Amount
12.401	National Guard Military Operations and Maintenance Projects	\$30,102
16.574	Byrne Evaluation Partnership Program	\$17,749
16.610	Regional Information Sharing Systems	\$11,336
17.002	Labor Force Statistics	\$14,448
17.225	Unemployment Insurance	\$64,651
20.218	National Motor Carrier Safety	\$15,519
84.002	Adult Education – Basic Grants to States	\$25,357
Various	Special Education Cluster (CFDA #84.027 and 84.173)	\$12,307
93.999	Miscellaneous	\$58,202

Total Leave Payouts Over \$10,000 Per Program/Cluster: \$249,671

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 75: (continued)

We also noted that similar leave payouts of \$3,476,273 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 46.18 percent of these leave payouts, or \$1,605,322, 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 \$1,605,322 by federal program was estimated by the auditors as follows:

CFDA #	Program Name	Amount
93.778	Medical Assistance	\$776,334
Various	SNAP Cluster (CFDA #10.551 and 10.561)	\$455,911
93.558	Temporary Assistance for Needy Families	\$170,004
93.563	Child Support Enforcement	\$87,329
93.658	Foster Care Title IV-E	\$24,080
93.667	Social Services Block Grant	\$91,664

Total Leave Payouts From DPW Cost Allocation Plan: \$1,605,322

Total unallowable costs for leave payouts inappropriately charged to the above federal programs were, therefore, \$1,854,993 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: 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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 75: (continued)

were not in compliance. In response to the prior year findings, Commonwealth management indicated that they were aware of the situation and implemented corrective action effective July 1, 2009, which was outside of the period under audit. Therefore, since this corrective action was after the end of the audit period, direct charges to federal awards programs continued to occur during the fiscal year ended June 30, 2009.

Effect: At least \$1,854,993 in unused annual and sick leave payments charged to the above federal programs are questioned as unallowable.

Recommendation: We recommend that Commonwealth management pursue appropriate settlement with the Federal Government regarding the \$1,854,993 in questioned costs. Finally, we recommend that management ensure that any future methodology for charging unused leave payouts is in accordance with applicable federal regulations.

Agency Response: We have taken action to address and resolve this audit finding. Effective for the fiscal year beginning July 1, 2009, the Commonwealth implemented 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 & Human Services, Division of Cost Allocation.

Auditors' Conclusion: Since the corrective action was implemented after our audit period, we will review any corrective action in the subsequent audit. Therefore, the finding and recommendation remain as previously stated.

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 76:

- CFDA #10.551 – Supplemental Nutrition Assistance Program (including ARRA)**
- CFDA #93.558 – Temporary Assistance for Needy Families**
- CFDA #93.563 – Child Support Enforcement (including ARRA)**
- CFDA #93.568 – Low-Income Home Energy Assistance Program**
- CFDA #93.575 – Child Care and Development Block Grant**
- CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund**
- CFDA #93.658 – Foster Care – Title IV-E (including ARRA)**
- CFDA #93.659 – Adoption Assistance (including ARRA)**
- CFDA #93.667 – Social Services Block Grant**
- CFDA #93.713 – ARRA-Child Care and Development Block Grant**
- CFDA #93.714 – ARRA-Emergency Contingency Fund for TANF State Programs**
- CFDA #93.778 – Medical Assistance Program (including ARRA)**

Deficiencies in Information Technology Controls at DPW (A Similar Condition was Noted in Prior Year Finding #08-71)

Federal Grant Numbers: 0902PATANF, 0802PATANF, 0904PA4004, 0904PA4002 (ARRA), 0804PA4004, 08B1PALIEA, 09B1PALIEA, 0901PALIE2, 0901PACCDF, 0801PACCDF, 0901PA1401, 0801PA1401, 0901PA1402, 0901PA1403, 0901PA1407, 0801PA1407, 0901PASOSR, 0801PASOSR, 0905PA5028, 5-0905PAARRA, 0805PA5028, 0901PATAN2

Condition: In connection with our audit of the DPW major programs for the year ended June 30, 2009, 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 controls at DPW that need to be addressed by Commonwealth management:

- **PROMISE/Client Information System (CIS)** - Our review of the BOA audit over the UCCs in the SAS 70 report for the Medicaid PROMISE System, run by an independent contractor (HP), disclosed that 11 of 25 users sampled were not appropriately documented as authorized. The user management process is similar across both PROMISE and CIS. Therefore, inappropriate authorization documentation of users also applies to CIS.
- **EBT**- Our review of the BOA audit over the UCCs in the SAS 70 report for the EBT system (for SNAP, 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, 7 separated DPW employees were not deleted in a timely manner and three new hires were not appropriately documented as authorized. In addition, it was noted that for one CAO, EBT cards were printed and stored in a secure area prior to pick-up by clients. Furthermore, it was also noted that due to a high turnover, formal training was not documented for new or existing employees and reporting requirements were not formally communicated to the independent contractor (JP Morgan).
- **PA's Enterprise to Link Information for Children Across Networks (PELICAN) and LIHEAP Information System (LIS)** - The current-year SAS 70 Report obtained for PELICAN, the statewide system used to administer DPW's child care payments to its 56 CCIS subrecipients in the CCDF Cluster, and for LIS used for LIHEAP cash and crisis payments, did not address any of the controls in place that were associated with these two outsourced major program payment systems. Our review of this SAS 70 report disclosed that no control objectives were tested

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 76: (continued)

by the SAS 70 auditor for these two systems, and there has been no DPW follow up to correct this. As in the prior year (Finding #08-48), we consider this a material internal control weakness in our current year because of the major utilization and reliance on these outsourced systems by DPW and its CAOs and subrecipients.

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 Comptroller Operations, and this is an internal control weakness since no other significant ADP Risk Analysis or system review activity is documented or performed.

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 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 in controls with applicable federal program officials, and ensure that there is adequate system coverage in SAS #70 reports and that only properly documented, authorized, and appropriate individuals are granted access to the above-noted systems on a regular basis.

Agency 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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 76: (continued)

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.

PROMISE

When PROMISE was implemented in 2004, a decision was made between the Office of Medical Assistance Programs (OMAP) and the Office of Income Maintenance (OIM), to allow read only access to provider information within PROMISE. During the PROMISE SAS 70 User Control Consideration audit, it was found that there was not an official document in place between OMAP and OIM that stated this agreement, reference the 11 OIM users included in the audit sample. Due to this finding from the PROMISE SAS 70 UCC audit, DPW worked with the audit team in December 2009 to secure an agreement between OMAP and OIM. When OIM user accounts are created they are automatically granted PROMISE provider read only access as defined by the agreement and also the RBAC (Role Based Access Control) model that DPW has in place.

PELICAN/LIS

The DPW will review the SAS 70 provided by the contractor and determine where additional control procedures are needed. During the next request for proposal, the DPW plans to add any additional control requirements to the applicable audit clause contained within the prospective contract.

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, 2009

Finding 09 – 77:

- CFDA #10.555 – National School Lunch Program for Children**
- CFDA #10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children**
- CFDA #10.558 – Child and Adult Care Food Program**
- CFDA #10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program**
- CFDA #20.205 – Highway Planning and Construction**
- CFDA #23.003 – Appalachian Development Highway System**
- CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds**
- CFDA #84.010 – Title I Grants to Local Educational Agencies**
- CFDA #84.027 – Special Education – Grants to States**
- CFDA #84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States**
- CFDA #84.367 – Title II - Improving Teacher Quality State Grants**
- CFDA #93.558 – Temporary Assistance for Needy Families**
- CFDA #93.563 – Child Support Enforcement (including ARRA)**
- CFDA #93.568 – Low-Income Home Energy Assistance**
- CFDA #93.575 – Child Care and Development Block Grant**
- CFDA #93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund**
- CFDA #93.658 – Foster Care – Title IV-E (including ARRA)**
- CFDA #93.659 – Adoption Assistance (including ARRA)**
- CFDA #93.667 – Social Services Block Grant**
- CFDA #93.767 – Children’s Health Insurance Program**
- CFDA #93.778 – Medical Assistance Program (including ARRA)**
- CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse**
- CFDA #96.001 – Social Security – Disability Insurance**

Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$3.4 Million Known Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding #08-73)

Federal Grant Numbers: 1PA300305, 2009IW100341, 2009IW100641, 2008IW100341, 2008IW100641, 2008IW500341, 2008IW551041, 2008CW500341, CS-42-0001-06, CS-42-0001-07, CS-42-0001-08, S010A080038A, H027A080093, H126A090056, H126A080056, H126A070056, S367A080051A, 0902PATANF, 0802PATANF, 0901PATAN2, 0904PA4004, 0904PA4002 (ARRA), 0804PA4004, 08B1PALIEA, 09B1PALIEA, 0901PALIE2, 0901PACCDF, 0801PACCDF, 0901PA1401, 0801PA1401, 0901PA1402, 0901PA1403, 0901PA1407, 0801PA1407, 0901PASOSR, 0801PASOSR, 50805PA5021, 50905PA5021, 0905PA5028, 5-0905PAARRA, 0805PA5028, TI010044-09, TI010044-08

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 sixteenth year in a row, since the initial implementation of the CMIA in the Commonwealth during SFYE June 30, 1994, numerous control weaknesses remain unresolved.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 77: (continued)

During our current audit period, the Commonwealth implemented new ADC patterns based on a new check clearance study for the first time since 2000. However, we noted the following exceptions in our statewide testing of the check clearance patterns and in our overall testing of major program drawdowns based on these clearance patterns:

- The ADC patterns were developed based on business days, while the ADC patterns implemented by the Commonwealth to actually draw the funds on CDS are based on calendar days. Therefore, beginning July 1, 2009, for most major programs subject to CMIA, the Commonwealth has been drawing funds early and owes interest to the federal government. Furthermore, the annual CMIA State-Treasury Agreement requires actual drawdown patterns to be based on business days, not calendar days, so the CDS drawdown methodology is in violation of the State-Treasury Agreement.
- The check clearance study was based on the date that the invoices were sent to PA Treasury for payment as opposed to the date posted to SAP. The date sent to PA Treasury was known as the “clearance date”; however, our testing of drawdowns disclosed that CDS was programmed to apply the draw delay based on the SAP posting date. As a result, since the “clearance date” was usually after the SAP posting date, funds drawn would be received earlier than if the study was based on the SAP posting date.
- The check clearance study for the MA program (CFDA #93.778) properly excluded all SAP adjustment documents that are used to record MA funding to the county MR subrecipients. However, since these costs are prefunded with State Funds and subsequent adjustments are posted to SAP to transfer costs from the state to the federal ledger and to draw the Federal funds, and they represent a material portion (approximately 10 percent) of the MA program, the Commonwealth is violating the State-Treasury Agreement which should be changed to indicate a draw technique of monthly draws (similar to cost allocation transfers) instead of Average Clearance for these funds.
- Within the State-Treasury Agreement for the WIC program (CFDA #10.557), we noted that the categories of expenditures identified were WIC Benefit Payments at 93 percent and Payroll/Direct payments at 7 percent. Our review of the expenditure categories disclosed that this breakout was not accurate, as Benefit Payments represent only about 80 percent and Payroll/Direct are 20 percent of the WIC program, respectively. Further, since nearly all of the Payroll/Direct category actually represents outside payments to subgrantees and contractors, the one-day clearance pattern reported in the State-Treasury Agreement (normally used for payroll only) is too short given the normal payment process for these outside costs.
- Excess cash on hand can result from the rejection of payment invoices by the PA Department of Treasury (which happens routinely) if timely adjustments are not made (as indicated in the first bullet 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 the Supplemental Nutrition Assistance 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 an average of the actual allocation of costs for the preceding six months and reconciled monthly. However, DPW’s monthly draws for its CAP costs were not based on this required methodology, but were routinely based upon actual DPW CAP costs for the previous month and were made approximately 20 to 30 days after month end. This draw procedure violated the Treasury-State Agreement.
- Within the RSBS program, CFDA #84.126, we noted that the LECS Comptroller Office posted three expenditure adjustments during August and September 2008 totaling \$9.9 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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 77: (continued)

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, 2009, or nine months later, the required state match for the two open RSBS grants was still underfunded by approximately \$5.9 million, so the excess federal cash remained on hand. Although this is a violation of CMIA, the CDS system does not record a state interest liability in situations where state matching funds are not being timely posted and excess federal cash is drawn down early to temporarily fund program state match. As a result, an unknown amount of CMIA interest is owed on this excess RSBS federal cash for SFYE June 30, 2009 to be remitted during SFYE June 30, 2010.

Also, the State interest liability on the CMIA Annual Report for SFYE June 30, 2008 which was submitted to the U.S. Treasury during our current audit period SFYE June 30, 2009, was understated by a minimum of \$3,399,824 as follows:

- We noted that invoice #ZI2203064901 selected for testing during SFYE June 30, 2008 posted \$102,883 of payments to a subgrantee on SAP. As a result, federal funds were received under the CWSRF program, CFDA #66.458, on September 27, 2007; however, the PA Treasury Department rejected the invoice and the funds were not returned to EPA until November 16, 2007. Since the Commonwealth did not pay any interest to the federal government for the period that these excess funds were on hand for 50 days, the Commonwealth's interest liability was understated by \$421.
- Within the CCDF program (CFDA #93.575), we noted that DPW posted 30 transactions to SAP totaling \$13,796,240 on July 17, 2007 for payments to subgrantees for Child Care Services. As a result, federal funds were drawn and received on July 30, 2007; however, these transactions were subsequently reversed on August 29, 2007 through August 30, 2007 with the funds being returned to HHS on September 6, 2007. On the Commonwealth's interest report, we noted that interest was only calculated on these funds from the date the 30 reversing documents posted to SAP (August 29, 2007 through August 30, 2007) until the funds were returned on September 6, 2007. Since the Commonwealth only paid interest to the federal government for 6 to 8 days, as opposed to the 38 days that the cash was actually on hand, the Commonwealth's interest liability was understated by \$35,403.
- 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 \$118,081,451 at June 30, 2008, with a carry-forward balance from the prior fiscal year of \$106,917,750. 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 \$112.50 million during the June 30, 2008 fiscal year, the state's interest liability was understated by an estimated \$3,364,000 for the Medical Assistance program, CFDA#93.778. We also found that the excess cash in this account was \$137.66 million as of June 30, 2009, so additional CMIA interest is owed for SFYE June 30, 2009 to be remitted during SFYE June 30, 2010.
- Within our testing of Federal Revenue Collected in Advance, we noted a \$1,765,605 balance at the Department of Labor and Industry. Our inquiry of Comptroller Office personnel disclosed that this balance represented the remaining balance of SSA reimbursements received. In addition, these funds were to be treated as program income and expended before any additional federal funds were to be drawn. Since additional SSA funds have been drawn since these funds were initially received, the Commonwealth would owe an undetermined amount of interest on these funds.

Further, we noted that the check clearance study was performed by one person and not subject to supervisory review.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 77: (continued)

Criteria: 31 CFR 205.20 provides the following regarding clearance patterns:

States use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. A State must ensure that clearance patterns meet the following standards:

- a. A clearance pattern must be auditable.*
- b. A clearance pattern must accurately represent the flow of Federal funds under the Federal assistance programs to which it is applied.*
- c. A clearance pattern must include seasonal or other periodic variations in clearance activity.*

Also, 31 CFR 205.22 (a) on the accuracy of clearance patterns states:

If a State has knowledge, at any time, that a clearance pattern no longer reflects a Federal assistance program's actual clearance activity, or if a Federal assistance program undergoes operational changes that may affect clearance activity, the State must notify us, develop a new clearance pattern, and certify that the new pattern corresponds to the Federal assistance program's clearance activity.

The Commonwealth's CMIA Agreement with the U.S. Treasury Department Section 6.2.4 related to the monthly draws under Cost Allocation Plans states:

Monthly Draws

The State shall request funds at the beginning of each month to fund the activity of the prior month. The amount of the request for a given month's activity shall be an estimate based on the actual allocation of costs for the preceding 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.*

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 77: (continued)

31 CFR 205.29(d) states the following regarding compliance and oversight:

- (d) If a State repeatedly or deliberately fails to request funds in accordance with the procedures established for its funding techniques, as set forth in §205.11, §205.12, or a Treasury-State agreement, we may deny the State payment or credit for the resulting Federal interest liability, notwithstanding any other provision of this part.*

Further, 31 CFR 205.26(a) related to the Annual Report states:

- (a) A State must submit to us an Annual Report accounting for State and Federal interest liabilities of the State's most recently completed fiscal year. Adjustments to the Annual Report must be limited to the two State fiscal years prior to the State fiscal year covered by the report. The authorized State official must certify the accuracy of a State's Annual Report. A signed original of the Annual Report must be received by December 31 of the year in which the State's fiscal year ends. We will provide copies of Annual Reports to Federal agencies. We will prescribe the format of the Annual Report, and may prescribe the format of the Annual Report, and may prescribe that the Annual Report be submitted by electronic means.*

The Commonwealth's CMIA Agreement with the U.S. Treasury Department Section 6.1.6 states:

With several programs subject to the Act, the primary State agency administering a program will subgrant portions of the program to secondary state agencies. As costs in support of the program are incurred, the secondary agency charges the primary agency, which in turn draws down Federal funds.

In all such cases, the secondary agency shall charge the primary agency no earlier than the day transactions post to the accounts of the secondary agency. The procedures governing the request for funds from the primary agency, and the payment of such requests, shall be in accordance with the agreement between the primary and secondary agencies.

Cause: Regarding the ADC patterns in the check clearance study being based on business days, while the draws were based on calendar days, Office of Comptroller Operations (OCO) personnel indicated that they identified this error in February 2010 and developed a computer program to calculate the interest owed to the federal government. An OCO e-mail dated May 17, 2010 sent to US Treasury stated that exact interest figures are not available yet, but for 2008-09 it appears over \$400,000 is owed to US Treasury.

Regarding the issue of payments rejected by PA Treasury causing unrecognized interest liabilities, OCO personnel have indicated that this issue is not significant. Also, PA Treasury rejecting payments is outside the control of OCO 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 OCO has continued to state that number of invoices rejected by the State Treasury is minimal, no proof of this assertion has ever been provided, because the invoices rejected by PA Treasury are not tracked.

Regarding the failure to address the prefunded subrecipient costs within the State-Treasury Agreement for MA, OCO personnel indicated that they properly excluded adjustment documents from the check clearance study and no other action was deemed necessary. However, 10 percent of MA program costs are prefunded and not properly reported in the State-Treasury Agreement. With regards to the expenditure categories within the WIC program, OCO personnel indicated that they would verify the breakout of expenditures with Comptroller personnel to verify the accuracy of the expenditure breakout.

For other items addressed in the condition relating to errors and weaknesses in the CMIA interest calculation, Commonwealth personnel indicated they would review the documents identified and determine if they agree that the transactions created an interest liability or the transactions arose outside of CDS and were not considered when preparing the Annual Report of CMIA interest liabilities.

Effect: As a result of the weaknesses noted, the Commonwealth is not in compliance with the CMIA regulations and procedures for clearance pattern requirements and for the interest calculation in the CMIA Annual Report as stated in 31 CFR 205.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 77: (continued)

The state and federal interest liability amounts reported on the CMIA Annual Report for SFYE June 30, 2008 are not accurate. Our testing disclosed a minimum estimate of \$3,399,824 in understatements in the state interest liability to the federal government.

Because of the overall pervasiveness of the check clearance discrepancies involving drawing funds based on calendar days versus business days, incorrect posting dates, and differences in expenditure populations, etc., we cannot determine the overall impact of these weaknesses on major program check clearance patterns.

Also, various transactions that create interest liabilities, such as adjustment transactions, cancelled payments, etc. are not recognized by CDS as interest-generating transactions. Since manual adjustments are not made to compensate for this system weakness, the Commonwealth's CMIA interest calculation is further understated by an undetermined amount.

Finally, these cash management deficiencies have a material impact on compliance with federal regulations in the Commonwealth's ARRA-funded programs.

Recommendation: We recommend that OCO pursue appropriate settlement with the federal government regarding the \$3.4 million in additional interest owed to the U.S. Treasury.

For its check clearance studies, we recommend OCO personnel implement a strong control system to ensure that the clearance patterns developed and utilized on CDS accurately represent the flow of federal funds as required by 31 CFR 205.20, and include supervisory reviews of the study and implementation of the study.

In addition, OCO personnel should determine the additional amount of June 30, 2009 CMIA interest due to the federal government as a result of all of the additional above noted discrepancies for CMIA-covered programs, and report and remit this additional interest liability to the U.S. Treasury.

Also, we recommend that OCO modify the CDS system or have Comptroller personnel review possible interest generating transactions occurring outside of CDS so that all transactions that generate CMIA interest are accurately included in the CMIA interest calculation.

Further, we recommend that OCO calculate any prior-year additional June 30, 2008 CMIA interest due to the U. S. Treasury as a result of the drawdown system weaknesses disclosed above and repay the amount calculated or pursue additional settlement with U.S. Treasury.

Finally, we recommend OCO consider amending the Commonwealth's CMIA State-Treasury Agreement to reflect the current actual monthly draws methodology used by the Comptroller for DPW's CAP costs and for the MR subrecipient portion within the MA program. The CMIA State-Treasury Agreement should also be in agreement with the CDS drawdown system methodology in terms of using business days vs. calendar days in applying the draw delay for each major program.

Agency Response:

Average Daily Clearance Pattern

Comptroller Operations developed a new Average Day Clearance (ADC) pattern. In the development of that study it was identified that additional controls could be put in place by incorporating IT system rules that calculated the delay of draw based on the date at which the transaction was sent for payment to Treasury rather than the date at which it posted to the accounting system. This limits the chance of a document being drawn and then later being reversed and never sent for payment. Comptroller Operations worked with US Treasury to revise the State-Treasury Agreement to make these changes effective in November 2008. The new Average Day Clearance study was based on business days, rather than calendar days, which is what previous patterns were based on. As noted in the finding our CMIA Draw Down System (CDS) inadvertently was drawing based on calendar days rather than business days. This error was due to a breakdown

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 77: (continued)

of communication between Comptroller Operations and IT staff. This discrepancy was identified subsequently by Comptroller staff, and Comptroller Operations has discussed the issue with US Treasury and agreed that repayment of interest will be made with the next interest payment scheduled for March 2011.

The auditor states that CDS was programmed to apply the draw delay based on the SAP posting date rather than the clearing date. This is incorrect, because as of November 2008 CDS was applying the draw delay based on clearing date. The auditor stated that their testing showed that the SAP posting date matched the date that was used in CDS for draw down. Based on discussions with the auditor it was communicated that in most instances the SAP Posting date is the same as the clearing date. Supporting documentation was provided to the auditors that demonstrated documents where the SAP Posting Date was usually the same as clearing date. In addition, examples of documents not in the auditor's test sample were provided demonstrating that CDS was using clearing date. During the testing the auditors only tested SAP Posting date to CDS and did not request information on the clearing date or change documentation supporting the change to CDS.

WIC Program

The majority of WIC program (CFDA #10.557) is paid using an advancement account and the Commonwealth expends the money prior to being reimbursed. Based on the method by which the WIC programs payments are made there would be a negative delay of draw for those payments that are processed through the advancement account. Since a negative draw is not possible it was agreed upon that the Commonwealth would use a 1 day delay of draw. Comptroller Operations will review the categories of expenditures and modify the State-Treasury Agreement if needed to reflect the appropriate percentages of expenditure categories.

Supplemental Nutrition Assistance

As indicated by the auditors, the monthly draws for the DPW CAP Costs were not based on the required methodology, however the draws based upon actual DPW CAP costs for the previous month that are made approximately 20 to 30 days after month end had no adverse effect on the Federal government.

CWSRF Program

Invoice #ZI2203064901 was rejected by Treasury and the funds were drawn and returned as stated. Since there was no check issued, the Commonwealth agrees that there was cash on hand and the Commonwealth's interest liability was understated.

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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2009

Finding 09 – 77: (continued)

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.

Ongoing discussions are proceeding with HHS to finalize a resolution for this issue.

Other

Comptroller Operations has no additional comments related to the other items mentioned in the finding.

Auditors' Conclusion: Based on our review of the above agency response, our finding and recommendation remain as previously stated. Regarding the issue of the use of clearing date vs. posting date on CDS, a significant control deficiency existed during at least the first five months of our current audit period (November 2008) since CDS used the SAP posting date, thus allowing differences in these dates to raise the risk of early drawdowns as reported in the finding. No further documentation or evidence has been provided by management to resolve this part of the finding. We will review any corrective action and further documentation on this exception 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.

THIS PAGE INTENTIONALLY LEFT BLANK

Summary Schedule of Prior Audit Findings



Commonwealth of Pennsylvania

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
<u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2008:</u>			
OFFICE OF THE BUDGET (OB)			
08-30	Internal Control Deficiency Over Expenditure Information Reported on the SEFA and Financial Status Reports by PPR Comptroller	DHS	Unresolved – Corrective action has been implemented. Awaiting federal audit resolution action.
08-57	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #07-57)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on December 2, 2009. Awaiting federal audit resolution action.
08-66	Internal Control Deficiencies in Systems of Cash Management and Federal Reporting for PAG Program (Prior Year Finding #07-69)	DHS	Unresolved – Corrective action has been implemented by OB, the PA Dept. of Conservation and Natural Resources, and the PA Emergency Management Agency. Awaiting federal audit resolution action.
08-68	Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding #07-72)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on December 2, 2009. Awaiting federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
OFFICE OF THE BUDGET (Continued)			
08-70	Unallowable Payments for Unused Employee Leave Result in \$3,826,028 in Questioned Costs (Prior Year Finding 07-74)	HHS	Unresolved – Corrective action has been implemented by OB and PA Depts. of Health and Public Welfare. Additional information provided to HHS on December 2, 2009, and February 24, 2010. HHS/HRSA portion resolved through receipt of letter dated March 10, 2010. Awaiting further federal audit resolution action.
		USDA	Unresolved – Corrective action has been implemented by OB and PA Depts. of Education and Public Welfare. Awaiting federal audit resolution action.
		DOD	Unresolved. No response issued by PA Dept. of Military & Veterans' Affairs.
		DOT	Unresolved – PA State Police currently working on a resolution with federal agency.
		USDE	Unresolved – PA Depts. of Corrections and Education awaiting notification by the federal agency.
		DHS	Unresolved – initial assessment performed. PA Emergency Management Agency is working with OB to resolve.
08-73	Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$5.6 Million Known Understatement of the CMIA Interest Liability (Prior Year Finding #07-75)	HHS	Unresolved – Corrective action has been implemented, but there is continued disagreement over the amount of CMIA interest liability. Additional information provided to HHS on December 2, 2009. BFM is currently documenting program information with the Pennsylvania Department of Education.
08-74	CFDA Numbers and Program Names Were Not Properly Reported on the Schedule of Expenditures of Federal Awards	HHS	Unresolved – Corrective action has been implemented but there is disagreement over what constitutes proper identification. Additional information provided to HHS on December 2, 2009. Awaiting federal audit resolution action.
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)			
08-29	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #07-27)	HUD	Unresolved – Corrective action has been partially implemented and a reorganization of staff is in process to best utilize resources. Awaiting federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (Continued)			
08-51	Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of LIHEAP Weatherization Subrecipients (Prior Year Finding #07-50)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 25, 2009. Awaiting federal audit resolution action.
08-55	Noncompliance Over Subgrantee Payments at DCED (Prior Year Finding #07-54)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 25, 2009. Awaiting federal audit resolution action.
DEPARTMENT OF EDUCATION (PDE)			
08-24	PDE Failed to Reconcile PEARS Meal Count and Expenditure Information to the SAP Accounting System	USDA	Unresolved – Corrective action has been implemented. Additional documentation provided to USDA and closeout completed in January of 2010. USDA approved it in April of 2010. Awaiting a final Program Determination letter from USDA.
08-35	PDE During-The-Award Monitoring Failed to Document and Ensure Subrecipient Compliance With Title I and Title II Regulations	USDE	Unresolved – Corrective action has been implemented. Additional information provided to USDE on December 3, 2009. Awaiting federal audit resolution action.
08-36	Inadequate Controls Over Ensuring Compliance With MOE Requirements (Prior Year Finding #07-33)	USDE	Unresolved – Corrective action has been implemented. Additional information provided to USDE on December 3, 2009. Awaiting federal audit resolution action.
08-37	Inadequate PDE Monitoring Controls Over Subrecipient Compliance With Cash Management Regulations	USDE	Unresolved – Corrective action has been implemented. Additional documentation provided to USDE on November 24, December 3, and December 10, 2009. Partial resolution received from USDE/OSEP for IDEA Part B. Awaiting federal audit resolution action in regard to the Title I and Title II portions of the finding.
08-38	Noncompliance and Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #07-34)	USDE	Unresolved – Corrective action has been implemented. Additional information provided to USDE on December 3, 2009. Awaiting federal audit resolution action.
08-39	Errors and Internal Control Weaknesses in PDE's Career and Technical Education Consolidated Annual Performance, Accountability, and Financial Status Report Submitted to USDE (Prior Year Finding #07-35)	USDE	Unresolved – Corrective action has been implemented. Awaiting federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF EDUCATION (Continued)			
08-44	Control Deficiency in PDE's Monitoring of Federal Earmarking Requirements Results in Questioned Costs of \$199,709 (Prior Year Finding #07-40)	USDE	Unresolved – Corrective action has been implemented. Additional information provided to USDE on December 3, 2009. Awaiting federal audit resolution action.
DEPARTMENT OF HEALTH (DOH)			
08-25	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)	USDA	Resolved – Final determination letter dated January 20, 2010 received from USDA/FNS.
08-64	Noncompliance and Internal Control Weaknesses Result in \$2,048 of Questioned Personnel Costs	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 24, 2009. Awaiting federal audit resolution action.
08-65	Noncompliance and Internal Control Weaknesses Result in \$101,394 in Questioned Personnel Costs (Prior Year Finding #07-66)	HHS	Resolved – Final determination letter dated March 17, 2010 received from HHS/HRSA.
DEPARTMENT OF LABOR AND INDUSTRY (L&I)			
08-33	Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (Prior Year Finding #07-30)	DOL	Unresolved – Corrective action has been implemented and was submitted to DOL for review on January 19, 2010. Awaiting federal audit resolution action.
08-34	Internal Control Weakness and Inaccurate Reporting on the ETA 9130 Reports	DOL	Unresolved – Corrective action has been implemented and was submitted to DOL for review on January 19, 2010. Awaiting federal audit resolution action.
08-40	Control Deficiency Over Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA Results in Unsupported Program Income (Prior Year Finding #07-38)	USDE	Unresolved – Corrective action has been implemented and clarification was submitted to USDE in December of 2009. Awaiting federal audit resolution action.
08-41	A Control Deficiency exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #07-36)	USDE	Unresolved – Corrective action has been implemented. Awaiting federal audit resolution action.
08-42	Noncompliance and Control Deficiency Over Charging of Personnel Costs Results in Unknown Questioned Costs of at Least \$72,851 (Prior Year Finding #07-39)	USDE	Unresolved – Corrective action has been implemented. Additional information was provided to USDE. Awaiting federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF LABOR AND INDUSTRY (Continued)			
08-43	Noncompliance and a Control Deficiency Over Preparation and Submission of the Annual RSA-2 Report	USDE	Unresolved –Corrective action has been implemented. Awaiting federal audit resolution action.
08-72	Deficiencies in Information Technology Controls at L&I	DOL	Unresolved – Corrective action has been implemented and was submitted to DOL for review on January 19, 2010. Awaiting federal audit resolution action.
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)			
08-27	Noncompliance and Deficiencies in Internal Control Over Charging of Personnel Costs (Prior Year Finding #07-25)	DOD	Unresolved – Corrective action has been implemented. Currently under review by DOD. Awaiting federal audit resolution action.
08-28	Improper FFP Rate Results in Questioned costs of \$44 and Likely Questioned Costs Over \$10,000	DOD	Unresolved – Corrective action has been implemented. Currently under review by DOD. Awaiting federal audit resolution action.
PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)			
08-31	Unallowable Equipment Purchase Results in Questioned Costs of \$10,204 and Internal Control Deficiencies and Noncompliance in PEMA's Subrecipient Monitoring	DHS	Unresolved – Letter dated July 13, 2009 received from FEMA in which costs were determined to be eligible. Awaiting final federal audit resolution.
08-32	Noncompliance and Internal Control Deficiency Over Period of Availability Requirements Results in Questioned Costs of \$251,420 (Prior Year Finding #07-29)	DHS	Unresolved – Corrective action has been implemented. Awaiting federal audit resolution action.
PENNSYLVANIA INSURANCE DEPARTMENT (PID)			
08-62	Inadequate Controls Over Subrecipients Result in Unknown Questioned Costs (Prior Year Finding #07-62)	HHS	Unresolved – Corrective action has been implemented. Final review and decision requested from CMS. CMS expected to be on site at PID on May 10, 2010.
DEPARTMENT OF PUBLIC WELFARE (DPW)			
08-22	Internal Control Weaknesses at DPW Related to Returned EBT Cards (Prior Year Finding #07-23)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
08-23	Internal Control Deficiencies at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding 07-22)	HHS	Unresolved – Corrective action has been implemented. Follow-up letter dated February 23, 2010 received from HHS/ACF indicating that future monitoring is required to ensure compliance with program requirements.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF PUBLIC WELFARE (Continued)			
08-26	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs (Prior Year Finding #07-49)	HHS	Unresolved – Corrective action has been implemented. Follow-up letter dated February 23, 2010 received from HHS/ACF indicating that future monitoring is required to ensure compliance with federal regulations.
08-45	DPW Did Not Specify CFDA Number and Other Required Award Information in Subrecipient Award Documents, Resulting in Noncompliance with OMB Circular A-133 (Prior Year Finding #07-47)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
08-46	DPW Did Not Perform Adequate During-The-Award Monitoring of TANF Subrecipients	HHS	Unresolved – Corrective action has been implemented. Follow-up letter dated February 23, 2010 received from HHS/ACF indicating that future monitoring is required to ensure compliance with federal regulations.
08-47	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #07-48)	HHS	Unresolved – Corrective action has been implemented. Follow-up letter dated February 23, 2010 received from HHS/ACF indicating that future monitoring is required to ensure compliance with report documentation reviews.
08-48	Weaknesses in DPW Program Monitoring of Child Care Subgrantees (Prior Year Finding #07-55)	HHS	Unresolved – Corrective action has been implemented. Follow-up letter dated February 23, 2010 received from HHS/ACF indicating that future monitoring is required to ensure compliance with federal regulations.
08-49	DPW Failed to Obtain an Outside Service Auditor's Report for the Statewide PACSES System	HHS	Resolved – Letter dated February 22, 2010 received from HHS/ACF stating that implemented corrective action plans are sufficient to resolve the auditors' recommendation.
08-50	Internal Control Deficiencies Over PACSES Contractor Costs Result in Likely Questioned Costs Greater Than \$10,000	HHS	Resolved – Letter dated February 22, 2010 received from HHS/ACF stating that implemented corrective action plans are sufficient to resolve the auditors' recommendation.
08-52	Internal Control Deficiencies in DPW's Administration of LIHEAP Cash and Crisis Benefits (Prior Year Finding #07-51)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF PUBLIC WELFARE (Continued)			
08-53	DPW Failed to Adequately Monitor the Processing of LIHEAP Applications (Prior Year Finding #07-52)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
08-54	Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$2,315 in LIHEAP (Prior Year Finding #07-53)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
08-56	Internal Control Weaknesses Result in Noncompliance with Federal Earmarking Requirements and Questioned Costs of at Least \$569,175 (Prior Year Finding #07-56)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
08-58	Weaknesses in DPW Office of Children, Youth and Families Monitoring of Foster Care and Adoption Assistance Subrecipients (Prior Year Finding #07-59)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
08-59	Unallowable Costs Charged from the DPW Cost Allocation Plan Result in Questioned Costs of \$1,530,316	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
08-60	Inadequate Controls Over Charging of YDS Personnel Costs	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
08-61	Weaknesses in DPW Program Monitoring of SSBG and SAPT Subgrantees (Prior Year Finding #07-60)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
08-63	Weaknesses in Internal Controls Over Eligibility Determinations Result in an Undetermined Amount of Questioned Costs Up To \$18,684,980 (Prior Year Finding #07-63)	HHS	Unresolved – Corrective action has been implemented, and the SPBP Recertification Master Action Plan has been revised. Additional information provided to HHS on November 23, 2009. The SPBP Enrollment Application is currently undergoing revision. Awaiting federal audit resolution action.
08-67	Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (Prior Year Finding #07-71)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
DEPARTMENT OF PUBLIC WELFARE (Continued)			
08-69	Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements (Prior Year Finding #07-73)	HHS	Unresolved – Corrective action has been implemented. Awaiting federal audit resolution action.
08-71	Deficiencies in Information Technology Controls at DPW	HHS	Unresolved – Corrective action has been implemented. Awaiting federal audit resolution action.
 <u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2007:</u>			
OFFICE OF THE BUDGET (OB)			
07-31	Weaknesses in the Calculation of CWSRF and DWSRF Outstanding Federal Loans Receivable Balances Reported in the Footnotes to the SEFA	EPA	Resolved – Determination received from EPA stating that CWSRF and DWSRF should not be considered federal loans and the note disclosure is unnecessary.
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. Awaiting federal audit resolution action.
07-58	Internal Control Weakness Over Expenditure Information Reported on the SEFA (Prior Year Finding #06-65)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 24, 2009. Awaiting federal audit resolution action.
07-70	Internal Control Deficiency Over Expenditure Information Reported on the SEFA by PPR Comptroller and PADOT Comptroller	DHS	Unresolved – Corrective action has been implemented. Awaiting federal audit resolution action.
07-72	Noncompliance and Internal Control Weaknesses Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding #06-73)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 24, 2009. Awaiting federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
OFFICE OF THE BUDGET (Continued)			
07-74	Unallowable Payments for Unused Employee Leave Result in at Least \$10,436,574 in Questioned Costs	HHS	Unresolved – Corrective action has been implemented by OB and PA Depts. of Health and Public Welfare. Additional information provided to HHS on February 24, 2010. HHS/HRSA portion resolved through receipt of letter dated March 10, 2010. Letter dated February 17, 2010 received from HHS/ACF indicating that future monitoring is required to ensure compliance. Awaiting further federal audit resolution action.
		USDA	Unresolved – Corrective action has been implemented by PA Depts. of Education, Health, and Public Welfare. Awaiting federal audit resolution action.
		DOD	Unresolved. No response issued by PA Dept. of Military & Veterans' Affairs.
		DOJ	Unresolved – Corrective action has been implemented. Awaiting federal audit resolution action.
		DOL	Unresolved. No response issued by PA Dept. of Labor & Industry.
		DOT	Unresolved – PA Dept. of Education and PA State Police currently working on a resolution with federal agency.
		EAC	Unresolved – working with federal agency and awaiting federal audit resolution action.
		NFAH	Unresolved – PA Dept. of Education awaiting notification by the federal agency.
		VA	Unresolved – PA Dept. of Education awaiting notification by the federal agency.
		USDE	Unresolved – PA Depts. of Education, Labor & Industry, and Public Welfare awaiting federal audit resolution action.
		SSA	Unresolved. No response issued by the PA Dept. of Labor & Industry.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
OFFICE OF THE BUDGET (Continued)			
07-75	Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$7.5 Million Known Understatement of the CMIA Interest Liability (Prior Year Finding #06-74)	HHS	Unresolved – Corrective action has been implemented, but there is continued disagreement over the amount of CMIA interest liability. Additional information provided to HHS on November 24, 2009. In April of 2010 BFM received a call from HHS seeking to settle this issue without interest payment. BFM is currently documenting program information with the Pennsylvania Department of Education.
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)			
07-26	Noncompliance and Internal Control Deficiencies Over Federal Reporting	HUD	Unresolved – Corrective action has been implemented. Awaiting federal audit resolution action.
07-27	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #06-21)	HUD	Unresolved – Corrective action has been partially implemented and a reorganization of staff is in process to best utilize resources. Awaiting federal audit resolution action.
07-50	Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of LIHEAP Weatherization Subrecipients (Prior Year Findings #06-53 through 06-58)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 25, 2009. Awaiting federal audit resolution action.
07-54	Noncompliance and Internal Control Deficiencies at DCED Over Subgrantee Payments (Prior Year Finding #06-59)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 25, 2009. Awaiting federal audit resolution action.
DEPARTMENT OF EDUCATION (PDE)			
07-33	Inadequate Controls Over Ensuring LEA Compliance With MOE Requirements (Prior Year Finding #06-31)	USDE	Unresolved – Corrective action has been implemented. Additional information provided as requested in a letter dated August 13, 2008 from USDE. Although an email from USDE/OESE was received indicating that the finding is resolved, PDE is awaiting receipt of a final Program Determination letter from USDE.
07-34	Inadequate Controls Over PDE's Consolidated State Performance Report (Prior Year Finding #06-30)	USDE	Resolved – Final determination letter dated January 22, 2010 received from USDE/OESE.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF EDUCATION (Continued)			
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	Resolved – Final determination letter dated February 18, 2010 received from USDE/OESE.
07-40	Internal Control Weakness in PDE's Monitoring of Federal Earmarking Requirements (Prior Year Finding #06-38)	USDE	Unresolved – Corrective action has been implemented. Additional documentation provided to USDE on September 24, 2008. Awaiting federal audit resolution action.
07-42	Internal Control Weaknesses and Noncompliance With Earmarking Requirements Result in Questioned Costs of \$213,734 (Prior Year Finding #06-41)	USDE	Unresolved – Corrective action has been implemented. Additional information provided as requested in a letter dated August 13, 2008 from USDE. Awaiting federal audit resolution action.
07-43	Noncompliance Noted in PDE's Allocations of Reading First Subgrant Awards to LEAs (Prior Year Finding #06-39)	USDE	Unresolved – Corrective action has been implemented. Additional information provided as requested in a letter dated August 13, 2008 from USDE. Awaiting federal audit resolution action.
DEPARTMENT OF ENVIRONMENTAL PROTECTION (DEP)			
07-32	Internal Control Weakness in State Matching Procedures at DEP for DWSRF	EPA	Unresolved – Corrective action has been implemented. Awaiting federal audit resolution action.
DEPARTMENT OF HEALTH (DOH)			
07-45	Noncompliance and Internal Control Weaknesses in Charging Personnel Costs (Prior Year Finding #06-43)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 24, 2009. Awaiting federal audit resolution action.
07-46	Weaknesses in DOH Program Monitoring of CDC Subgrantees (Prior Year Finding #06-44)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 24, 2009. Awaiting federal audit resolution action.
07-64	Internal Control Deficiencies Result in Questioned Costs of \$27,231 and Improper Reporting on the SEFA	HHS	Resolved – Final determination letter dated March 17, 2010 received from HHS/HRSA.
07-65	Weaknesses in DOH Program Monitoring of MCH Subgrantees	HHS	Resolved – Final determination letter dated March 17, 2010 received from HHS/HRSA.
07-66	Noncompliance and Internal Control Weaknesses Result in \$194,610 in Questioned Personnel Costs	HHS	Resolved – Final determination letter dated March 17, 2010 received from HHS/HRSA.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF HEALTH (Continued)			
07-67	DOH Could Not Support Information Submitted to HHS on its Annual Statistical Report	HHS	Resolved – Final determination letter dated March 17, 2010 received from HHS/HRSA.
07-68	Internal Control Deficiencies Result in Questioned Costs of \$36,912	HHS	Resolved – Final determination letter dated March 17, 2010 received from HHS/HRSA.
DEPARTMENT OF LABOR AND INDUSTRY (L&I)			
07-30	Lack of Supporting Documentation and Inaccurate Reporting on the ETA 563 Report (Prior Year Finding #06-24)	DOL	Unresolved – Corrective action has been implemented and was submitted to DOL for review on January 19, 2010. Awaiting federal audit resolution action.
07-36	A Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #06-34)	USDE	Resolved – Final determination letter dated July 15, 2009 received from USDE.
07-37	Unallowable Payment to a Vendor Results in Questioned Costs of \$146 and Likely Questioned Costs Over \$10,000	USDE	Resolved – Final determination letter dated July 15, 2009 received from USDE.
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	Resolved – Final determination letter dated July 15, 2009 received from USDE.
07-39	Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs (Prior Year Finding #06-35)	USDE	Resolved – Final determination letter dated July 15, 2009 received from USDE.
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)			
07-25	Noncompliance and Deficiencies in Internal Control Over Charging of Personnel Costs (Prior Year Finding #06-20)	DOD	Unresolved – DMVA submitted a detailed corrective action plan to the U. S. Property and Fiscal Officer for Pennsylvania on January 7, 2009. Awaiting federal audit resolution.
PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)			
07-28	Unallowable Equipment Purchases and Cash Payments Result in Questioned Costs of \$9,678 and Internal Control Deficiencies and Noncompliance in PEMA's Subrecipient Monitoring (Prior Year Finding #06-22)	DHS	Unresolved – Corrective action is in process, with monitoring visits scheduled to begin in June of 2010. Awaiting federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (Continued)			
07-29	Noncompliance and Internal Control Deficiency Over Period of Availability Requirements Results in Questioned Costs of \$1,632,447	DHS	Unresolved – Corrective action has been implemented. Awaiting federal audit resolution action.
07-69	Internal Control Deficiencies in Systems of Cash Management and Federal Reporting for PAG Program (Prior Year Finding #06-71)	DHS	Unresolved – Corrective action has been implemented. Awaiting federal audit resolution action.
PENNSYLVANIA INSURANCE DEPARTMENT (PID)			
07-61	Noncompliance With Procurement Standards Related to Ensuring Actuarial Soundness of Monthly Premium Rates (Prior Year Finding #06-67)	HHS	Unresolved – Corrective action has been implemented. Final review and decision requested from CMS. CMS expected to be on site at PID on May 10, 2010.
07-62	PID Did Not Perform Adequate During-The-Award Monitoring of CHIP Subrecipient Insurance Providers (Prior Year Finding #06-68)	HHS	Unresolved – Corrective action has been implemented. Final review and decision requested from CMS. CMS expected to be on site at PID on May 10, 2010.
DEPARTMENT OF PUBLIC WELFARE (DPW)			
07-22	Internal Control Weaknesses at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #06-18)	HHS	Unresolved – Corrective action has been implemented. Follow-up letter dated February 17, 2010 received from HHS/ACF indicating that future monitoring is required to ensure compliance with program requirements.
07-23	Internal Control Weaknesses at DPW Related to Returned EBT Cards	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
07-47	DPW Did Not Specify CFDA Number and Other Required Award Information in Subrecipient Award Documents, Resulting in Noncompliance with OMB Circular A-133 (Prior Year Finding #06-45)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
07-48	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #06-47)	HHS	Unresolved – Corrective action has been implemented. Follow-up letter dated February 17, 2010 received from HHS/ACF indicating that future monitoring is required to ensure compliance with report documentation reviews.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF PUBLIC WELFARE (Continued)			
07-49	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs of at Least \$20,617 (Prior Year Finding #06-48)	HHS	Unresolved – Corrective action has been implemented. Follow-up letter dated February 17, 2010 received from HHS/ACF indicating that future monitoring is required to ensure compliance with federal regulations.
07-51	Internal Control Deficiencies in DPW's Administration of LIHEAP Cash and Crisis Benefits (Prior Year Findings #06-50 and #06-51)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
07-52	DPW Failed to Adequately Monitor the Processing of LIHEAP Applications (Prior Year Finding #06-52)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
07-53	Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$7,101 in LIHEAP (Prior Year Finding #06-49)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
07-55	Weaknesses in DPW Program Monitoring of Child Care Cluster Subgrantees (Prior Year Finding #06-62)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
07-56	Internal Control Weaknesses Result in Noncompliance with Federal Earmarking Requirements and Questioned Costs of at Least \$912,853 (Prior Year Finding #06-61)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
07-57	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #06-63)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
07-59	DPW Office of Children, Youth and Families Documentation Supporting the Licensing and Monitoring of Foster Care and Adoption Assistance Agencies is Incomplete (Prior Year Finding #06-64)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
07-60	Weaknesses in DPW Program Monitoring of SSBG Subgrantees (Prior Year Finding #06-62)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
DEPARTMENT OF PUBLIC WELFARE (Continued)			
07-63	Weaknesses in Internal Controls Over Eligibility Determinations Result in an Undetermined Amount of Questioned Costs Up To \$13,275,656 (Prior Year Finding #06-70)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
07-71	Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (Prior Year Finding #06-72)	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.
07-73	Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on November 23, 2009. Awaiting federal audit resolution action.

FINDINGS FOR THE YEAR ENDED JUNE 30, 2006:

OFFICE OF THE BUDGET (OB)

06-40	Noncompliance and Internal Control Weakness in the LECS Comptroller Office System of Cash Management	USDE	Unresolved – Corrective action has been implemented. Additional information provided to USDE from September 2008 to April 2009 in response to requests from USDE. Awaiting federal audit resolution action.
06-65	Internal Control Weakness Over Expenditure Information Reported by PHHS Comptroller on the SEFA (Prior Year Finding #05-6)	HHS	Unresolved – Procedures have been implemented to ensure that federal deferral, disallowance, and settlement activity is appropriately disclosed in the notes to the SEFA. Awaiting federal audit resolution action.
06-73	Noncompliance and Internal Control Weaknesses Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Findings #05-43 and #05-44)	HHS	Unresolved – Corrective action has been implemented. BOA provided additional information to HHS on May 30, 2008 and October 6, 2008. Awaiting federal audit resolution action.
06-74	Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$1.76 Million Known Understatement of the CMIA Interest Liability (Prior Year Finding #05-46)	HHS	Unresolved – Corrective action has been implemented. BFM provided additional information to HHS on May 30, 2008 and January 26, 2009. Awaiting federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)			
06-21	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #05-8)	HUD	Unresolved – Corrective action has been partially implemented and a reorganization of staff is in process to best utilize resources. Awaiting federal audit resolution action.
06-53	Control Weaknesses and Potential Abuse Found in Administering the Weatherization Assistance Program Result in Potential Questioned Costs	HHS	Unresolved – Corrective action has been implemented. DCED appealed the repayment of questioned costs and submitted a response to HHS on November 25, 2009. Awaiting federal audit resolution action.
06-54	Two Local Agencies Wasted \$94,081 Providing Weatherization Services to the Same Dwellings in Philadelphia and Result in Potential Questioned Costs	HHS	Unresolved – Corrective action has been implemented. DCED appealed the repayment of questioned costs and submitted a response to HHS on November 25, 2009. Awaiting federal audit resolution action.
06-55	DCED Does Not Adequately Review Weatherization Assistance Program Expenditures for Accuracy Prior to Approving Local Agency Grant Payments	HHS	Unresolved – Corrective action has been implemented. DCED submitted a response to HHS on November 25, 2009. Awaiting federal audit resolution action.
06-56	Weaknesses in Contracting for Services Exist at Local Agencies	HHS	Unresolved – Corrective action has been implemented. DCED submitted a response to HHS on November 25, 2009. Awaiting federal audit resolution action.
06-57	The Most Vulnerable and Needy Pennsylvanians Do Not Always Receive Priority and are Waiting up to Nine Years to Receive Weatherization Services	HHS	Unresolved – Corrective action has been implemented. DCED submitted a response to HHS on November 25, 2009. Awaiting federal audit resolution action.
06-58	DCED Failed to Adequately Monitor Local Agencies	HHS	Unresolved – Corrective action has been implemented. DCED submitted a response to HHS on November 25, 2009. Awaiting federal audit resolution action.
06-59	Weaknesses in Internal Controls Over Subgrantees Result in \$37,772 in Questioned Costs (Prior Year Finding #05-33)	HHS	Unresolved – DCED has repaid the \$37,772 in questioned costs and has also appealed the repayment. DCED submitted a response to HHS on November 25, 2009. Awaiting federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (Continued)			
06-60	Weaknesses in Internal Controls Over DCED On-Site Monitoring of Subgrantees	HHS	Unresolved – Corrective action has been implemented. HHS letter of January 13, 2009 stated that auditors should verify in the next audit that procedures have been implemented. Awaiting federal audit resolution action.
DEPARTMENT OF EDUCATION (PDE)			
06-29	Internal Control Weaknesses in PDE Scheduling of On-Site Monitoring Visits to LEAs	USDE	Unresolved – Corrective action has been implemented. PDE provided additional information and documentation to USDE on December 4, 2009. Awaiting federal audit resolution action.
06-30	Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #05-21)	USDE	Unresolved – Corrective action has been implemented. PDE provided additional information to USDE on December 3, 2008. Awaiting federal audit resolution action.
06-31	Inadequate Controls Over Ensuring LEA Compliance With MOE Requirements	USDE	Unresolved – Corrective action has been implemented. PDE provided additional information and documentation to USDE on December 4, 2009. Awaiting federal audit resolution action.
06-37	Internal Control Weakness in the OMB Circular A-133 Subrecipient Audit Monitoring System	USDE	Unresolved – Corrective action has been implemented. PDE provided additional information and documentation to USDE on December 4, 2009. Awaiting federal audit resolution action.
06-38	Internal Control Weakness in PDE's Monitoring of Federal Earmarking Requirements	USDE	Unresolved – Corrective action has been implemented. PDE provided additional information and documentation to USDE on December 4, 2009. Awaiting federal audit resolution action.
06-39	Noncompliance Noted in PDE's Allocations of Reading First Subgrant Awards to LEAs	USDE	Unresolved – Corrective action has been implemented. PDE provided additional documentation to USDE on September 28, 2007. Awaiting federal audit resolution action.
06-41	Internal Control Weaknesses and Noncompliance With Earmarking Requirements Result in Questioned Costs of \$1,669,416	USDE	Unresolved – Corrective action has been implemented. PDE provided additional documentation to USDE on September 28, 2007. Awaiting federal audit resolution action.
DEPARTMENT OF LABOR AND INDUSTRY (L&I)			
06-25	Unallowable Benefit Payments Result in Questioned Costs of \$638 (Prior Year Finding #05-16)	DOL	Unresolved – Corrective action has been implemented and is pending submission to USDOL for review. The questioned costs of \$638 were remitted to USDOL on November 25, 2008.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF LABOR AND INDUSTRY (Continued)			
06-34	A Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #05-25)	USDE	Resolved – Final determination letter dated July 6, 2009 received from USDE.
06-35	Noncompliance and Weakness in Internal Controls Over Charging of Personnel Costs	USDE	Resolved – Final determination letter dated July 6, 2009 received from USDE.
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	Resolved – Final determination letter dated July 6, 2009 received from USDE.
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)			
06-20	Noncompliance and Weakness in Internal Control Over Charging of Personnel Costs	DOD	Unresolved – Corrective action has been implemented. Currently under review by DOD.
PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)			
06-22	Internal Control Weaknesses and Noncompliance in PEMA's Subrecipient Monitoring (Prior Year Finding #05-11)	DHS	Unresolved – Corrective action is in process, and monitoring visits are scheduled to begin in June of 2010. Awaiting federal audit resolution action.
06-71	Internal Control Weaknesses in PEMA's Systems of Cash Management and Federal Reporting (Prior Year Finding #05-19)	DHS	Unresolved – 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. Awaiting federal audit resolution action.
PENNSYLVANIA INSURANCE DEPARTMENT (PID)			
06-67	Internal Control Weakness in PID Procedures to Ensure Actuarial Soundness of Monthly Premium Rates (Prior Year Finding #05-39)	HHS	Unresolved – Corrective action has been implemented. Final review and decision requested from CMS. CMS expected to be on site at PID on May 10, 2010.
06-68	PID Did Not Perform Adequate Monitoring of CHIP Subrecipient Insurance Providers (Prior Year Finding #05-38)	HHS	Unresolved – Corrective action has been implemented. Final review and decision requested from CMS. CMS expected to be on site at PID on May 10, 2010.
DEPARTMENT OF PUBLIC WELFARE (DPW)			
06-45	DPW Did Not Specify CFDA Number and Other Required Award Information in Subrecipient Award Documents, Resulting in Noncompliance with OMB Circular A-133	HHS	Unresolved – Corrective action has been implemented. Additional information provided to HHS on June 24, 2008. Awaiting federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

FINDING NO.	STATE AGENCY / FINDING	FEDERAL AGENCY	COMMENTS
DEPARTMENT OF PUBLIC WELFARE (Continued)			
06-47	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #05-29)	HHS	Unresolved –HHS determination letter dated September 2, 2008 received. DPW disagrees with this finding. Awaiting further federal audit resolution action.
06-48	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs of at Least \$28,252 (Prior Year Finding #05-30)	HHS	Unresolved – HHS determination letter dated September 2, 2008 received. Corrective action has been implemented. Awaiting further federal audit resolution action.
06-49	Systemic Weaknesses Exist in LIHEAP That Resulted in Potential Fraud and Abuse and Questioned Costs	HHS	Unresolved – HHS letter dated January 12, 2009 requested return of questioned costs of \$475,974. This amount was returned on January 29, 2009, but DPW also filed an appeal on that date. Awaiting federal audit resolution action.
06-50	Control Weaknesses Found in Administering LIHEAP Cash Benefits Result in Questioned Costs	HHS	Unresolved – Corrective action has been implemented. HHS letter dated January 12, 2009 indicated that the auditors should verify implementation in the next audit. Awaiting further federal audit resolution action.
06-51	Control Weaknesses Found in Administering LIHEAP Crisis Benefits Result in Questioned Costs	HHS	Unresolved – Corrective action has been implemented. HHS letter dated January 12, 2009 indicated that the auditors should verify implementation in the next audit. Awaiting further federal audit resolution action.
06-52	DPW Failed to Adequately Monitor the Processing of LIHEAP Applications	HHS	Unresolved – Corrective action has been implemented. HHS letter dated January 12, 2009 indicated that the auditors should verify implementation in the next audit. Awaiting further federal audit resolution action.
06-61	Internal Control Weaknesses and Inadequate Support for Federal Earmarking Requirements Result in Questioned Costs of \$3,135,166 (Prior Year Finding #05-35)	HHS	Unresolved – Questioned costs of \$3,135,166 for FFY 2004 and \$2,276,806 for FFY 2005 were returned on November 18, 2008; however, DPW has appealed these determinations. Awaiting federal audit resolution action.
06-62	Weaknesses in DPW Program Monitoring of Subgrantees (Prior Year Finding #05-34)	HHS	Unresolved – Corrective action has been implemented. HHS/ACF letter of October 20, 2008 states that ACF concurs with the auditors' recommendation and will review any corrective action in the subsequent audit. Awaiting further federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
DEPARTMENT OF PUBLIC WELFARE (Continued)			
06-63	Internal Control Weaknesses Over Reviewing and Approving Supplemental Payments to Subrecipients (Prior Year Finding #05-36)	HHS	Unresolved – Corrective action has been implemented. DPW provided additional information to HHS. Awaiting federal audit resolution action.
06-64	DPW Office of Children, Youth and Families Documentation Supporting the Licensing of Foster Care and Adoption Assistance Agencies is Incomplete (Prior Year Finding #05-37)	HHS	Unresolved – Corrective action has been implemented. DPW provided additional information to HHS. Awaiting federal audit resolution action.
06-66	Lack of Documentation and Internal Control Weaknesses in DPW's Youth Development Centers Result in Unknown Questioned Costs Up To \$10 Million	HHS	Unresolved – Corrective action has been implemented. DPW provided additional information to HHS. Awaiting federal audit resolution action.
06-72	Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (Prior Year Finding #05-45)	HHS	Unresolved – Corrective action has been implemented. DPW provided additional information to HHS. Awaiting federal audit resolution action.

FINDINGS FOR THE YEAR ENDED JUNE 30, 2005:

OFFICE OF THE BUDGET (OB)

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	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued and HHS is not currently following up on the finding.
-------	---	-----	--

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)

05-8	DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #04-6)	HUD	Unresolved – Corrective action has been taken. Awaiting federal audit resolution action.
------	---	-----	--

DEPARTMENT OF EDUCATION (PDE)

05-21	Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #04-18)	USDE	Unresolved – Corrective action has been implemented. PDE provided additional documentation to USDE on December 3, 2008. Awaiting federal audit resolution action.
-------	---	------	---

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
DEPARTMENT OF LABOR AND INDUSTRY (L&I)			
05-25	A Weakness Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #04-21)	USDE	Resolved – Final determination letter dated June 26, 2009 received from USDE.
DEPARTMENT OF PUBLIC WELFARE (DPW)			
05-2	Internal Control Weaknesses at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #04-3)	HHS	Unresolved – Corrective action has been implemented. Addressed in HHS/OARCP letter of January 31, 2007. Awaiting further federal audit resolution action.
05-29	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #04-24)	HHS	Unresolved – HHS determination letter dated September 2, 2008 received. Corrective action has been implemented. Awaiting further federal audit resolution action.
05-30	Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Questioned Costs of \$271,758	HHS	Unresolved – HHS determination letter dated September 2, 2008 received. Corrective action has been implemented. Awaiting further federal audit resolution action.
05-31	Internal Control Weaknesses in the Administration of Child Support Enforcement Program Collections	HHS	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued and HHS is not currently following up on the finding.
05-34	Weaknesses in DPW Program Monitoring of Subgrantees (Prior Year Finding #04-29)	HHS	Unresolved – Additional information provided to HHS on September 21, 2006 and September 25, 2006. Awaiting federal audit resolution action.
05-35	Internal Control Weaknesses and Inadequate Support for Federal Earmarking Requirements Result in Questioned Costs of \$3,221,990 (Prior Year Finding #04-28)	HHS	Unresolved – Questioned costs of \$3,135,166 for FFY 2004 and \$2,276,806 for FFY 2005 were returned on November 18, 2008; however, DPW has appealed these determinations. Awaiting federal audit resolution action.
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 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 on September 21, 2006 and September 25, 2006. Awaiting federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
DEPARTMENT OF PUBLIC WELFARE (Continued)			
05-40	Internal Control Weaknesses in the Administration of the MA Program (Prior Year Finding #04-32)	HHS	Unresolved – Additional information provided to HHS on September 21, 2006 and September 25, 2006. Awaiting federal audit resolution action.
 <u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2004:</u>			
DEPARTMENT OF EDUCATION (PDE)			
04-16	Internal Control Weakness in Monitoring Subrecipient Compliance With Maintenance of Effort Requirements	USDE	Unresolved – Corrective action has been implemented. PDE provided additional information as requested in the Program Determination Letter dated September 21, 2006 from USDE, with the last contact with USDE occurring on May 9, 2007. Awaiting federal audit resolution action.
04-17	Inadequate Controls in PDE's On-Site Monitoring of Subrecipients	USDE	Unresolved – Corrective action has been implemented. PDE provided additional documentation as requested in the Program Determination Letter dated September 21, 2006 from USDE, with the last contact with USDE occurring on May 9, 2007. Awaiting federal audit resolution action.
04-18	Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card	USDE	Unresolved – Corrective action has been implemented. PDE provided additional documentation as requested in the Program Determination Letter dated September 21, 2006 from USDE, with the last contact with USDE occurring on May 9, 2007. Awaiting federal audit resolution action.
DEPARTMENT OF PUBLIC WELFARE (DPW)			
04-24	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #03-21)	HHS	Unresolved – HHS determination letter dated September 2, 2008 received. Corrective action has been implemented. Awaiting further federal audit resolution action.
04-28	Internal Control Weaknesses and Inadequate Support for Federal Earmarking Requirements Result in Questioned Costs of \$3,220,142 (Prior Year Finding #03-23)	HHS	Unresolved – Questioned costs of \$3,135,166 for FFY 2004 and \$2,276,806 for FFY 2005 were returned on November 18, 2008; however, DPW has appealed these determinations. Awaiting federal audit resolution action.

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings – June 30, 2009

<u>FINDING NO.</u>	<u>STATE AGENCY / FINDING</u>	<u>FEDERAL AGENCY</u>	<u>COMMENTS</u>
DEPARTMENT OF PUBLIC WELFARE (Continued)			
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 information provided to HHS 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 on September 21, 2006 and September 25, 2006. Awaiting federal audit resolution action.
04-32	Internal Control Weaknesses in the Administration of the MA Program	HHS	Closed – Closed per OMB Circular A-133, Section 315(b)(4). Two years have passed since the report was issued and HHS is not currently following up on the finding.

Corrective Action Plans



Commonwealth of Pennsylvania

THIS PAGE INTENTIONALLY LEFT BLANK

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Financial Statement Findings - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
09-1	OB/OCO	<p>Internal Control Weaknesses Over Financial Reporting for the Lottery Fund (A Similar Condition Was Noted in Prior Year Finding #08-11)</p> <p>BCA plans to use the errors, obstacles and misinterpretations identified with the newly presented system data (as it relates to the 2008-09 GAAP preparations) to provide strict direction to the Department of Lottery as to providing a more clear and visible discernment of the data and the accrual components moving forward. Collaboration with the Department of Lottery to better clarify and identify the critical accrual elements of the year end reports will be completed prior to June 30, 2010. In addition, OCO will implement, where necessary, more control totals to validate the calculation formulas and accrual results and provide for a more thorough and detailed secondary level review. Additional control totals and other determined improvements to the accrual calculation (.xls) templates will also be implemented prior to June 30, 2010.</p>
09-2	PennDOT	<p>Internal Control Deficiencies Over Lottery Fund Shared Ride Program (A Similar Condition Was Noted in Prior Year Finding #08-10)</p> <p>The Bureau of Public Transportation currently has the retainage of a consultant currently working with both the Southeastern Pennsylvania Transportation Authority (SEPTA) and the Port Authority of Allegheny County (PAAC) regarding a review of their shared ride programs. The Bureau has also started to perform on site monitoring of various other transit agencies throughout the Commonwealth.</p> <p>The review of SEPTA was performed from July to December of 2009 and is now complete and the work regarding PAAC has begun with a completion timeframe of June 2010.</p> <p>A total of seven Shared-Ride field reviews were conducted across the Commonwealth in calendar year 2009. Our established goal is to conduct 12 such reviews each year. We will continue these transit agencies reviews in 2010.</p>
09-3	PennDOT	<p>Lack of Procedures to Monitor, Assess, and Report the Impact of Highway and Bridge Infrastructure Replacement Activity in the BFS (A Similar Condition Was Noted in Prior Year Finding #08-6)</p> <p>PennDOT has gathered data reflecting the volumes of asphalt materials consumed during the 2004-2008 period. During April 2010, PennDOT will use the consumption data to develop percentage estimates of the amount of asphalt consumption in an average year that is used for resurfacing purposes.</p> <p>PennDOT will utilize the aforementioned data to estimate the highway infrastructure retirements associated with highway infrastructure replacements for the period 1980-2004.</p> <p>PennDOT will meet with Office of the Budget in May 2010. Office of the Budget and PennDOT will forge an agreement as to how the statistical data regarding resurfacing tonnage should be used to retire highway balances.</p> <p>PennDOT will apply the agreed methodology during the July – August 2010 timeframe.</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Financial Statement Findings - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
09-4	OB PennDOT	<p>Weaknesses in BFS Reporting of Motor License Fund Liabilities and Encumbrances</p> <p>OB:</p> <p>PennDOT: A Department-wide letter was issued on March 5, 2010, under Deputy Secretary Suzanne Itzko's signature that announces a new report was developed to monitor prior year commitments to ensure compliance with Management Directive 310.3. PennDOT Finance will be producing a report monthly by PennDOT organization that includes details on prior year commitments remaining in violation of Management Directive 310.3, and will be monitoring the progress to ensure that all commitments are reviewed and proper corrective action is then taken.</p>
09-5	OB/OCO PennDOT	<p>Weakness in BFS Reporting of Motor License Fund Inter-State License and Fee Revenues</p> <p>PennDOT: No additional information provided. See Agency Response in the body of the finding.</p> <p>OB/OCO: A Corrective Action Plan has already been implemented. Since the December 2008 adjustment OCO has taken the following corrective action: OCO now receives two monthly reports from the IRP Clearinghouse. The first report lists the net amount due from, or due to PA. The second report details the amount of registration fees collected by each participating state and providence for PA, and the amount of registration fees PA collected for each participating state and providence. The difference of the two amounts on this second report is the net amount received from, or due to the IRP Clearinghouse, depending on whether the result is a net payment to, or from PA. The amounts on the IRP Clearinghouse reports are based on data that all participants send to the IRP Clearinghouse monthly. On a monthly basis after the reports are received, the agency parks an Adjustment Memo (AM) in SAP to transfer the amount of the registration fees PA collected for each participating state and providence from the restricted receipt account to the non-restricted account. The amount to be transferred is based on the report received from the IRP Clearinghouse mentioned above. BCA then reviews the AM for accuracy, posts the transaction in SAP, and forwards the necessary paperwork to Treasury to complete the transfer. Staff from BCA and the agency will also monitor the restricted receipt account to ensure that amounts are not accumulating incorrectly.</p>
09-6	OB/OCO L & I	<p>Control Deficiency Over Financial Reporting in the Unemployment Compensation Fund (A Similar Condition Was Noted in Prior Year Finding #08-1)</p> <p>The Corrective Action Plan (CAP) for this finding will be implemented during the preparation of the upcoming GAAP package for SFY ending 6/30/10. The CAP will include performing a look back analysis of receivables as well as payables. In doing so, estimates that were used in the original receivable entries will be compared to actual payments received. If there is a substantial difference, an adjusting entry will be suggested and the estimates will be adjusted to actual amounts. This will eliminate adjusting entries for inaccurate estimates such as the \$8.6 million reduction for Due from Other Governments. Another CAP item that will be implemented during the preparation of this year's package</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Financial Statement Findings - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
		<p>will be to compare the figures used to calculate the Accounts Payable amount against the amount listed on the UC Contribution Fund monthly reconciliation. It is expected that where those items match, the Accounts Payable will be accurately reported. This will eliminate adjusting entries such as the \$3.2 Accounts Payable adjustment as it relates to refunds.</p> <p>An additional CAP item that will be implemented by the Office of Comptroller Operations will be to review and refine our approach when determining the amount for Due from the Federal Government and the associated Accounts Payable entry. This entry will be reviewed and scrutinized to assure the amount is correct. This will eliminate the GAAP adjustments of \$19.5 to Due from the Federal Government and \$7.5 million to Accounts Payable.</p> <p>Finally, the "Unemployment Assessment Receivable" item noted in the finding is provided by the Department of Labor and Industry. OCO will verify through their department contact that the information provided is accurate and takes into consideration the effects of current economic conditions.</p>
09-7	L & I	<p>Control Deficiency Over Financial Reporting of SWIF Premium Revenue</p> <p>No additional information provided, see Agency Response in the body of the finding.</p>
09-8	L & I	<p>Noncompliance With Statutory Limits for Equity Investments (A Similar Condition Was Noted in Prior Year Finding #08-12)</p> <p>No additional information provided, see Agency Response in the body of the finding.</p>
09-9	OB/OCO	<p>Tax Accruals in the BFS Are Not Properly Reviewed For Accuracy (A Similar Condition Was Noted in Prior Year Finding #08-05)</p> <p>BCA plans to implement the following steps prior to June 30, 2010 to ensure that the accrual determination schedules are accurately presented:</p> <ul style="list-style-type: none">• Develop a project plan by end of third quarter of fiscal year, with defined roles and responsibilities• Collaborate with DOR to gain knowledge of DOR tax systems and transactions• Assess training needs and seek appropriate training• Develop better documentation on the tax accrual process with detailed instructions related to the preparation of tax accruals schedules• Reevaluate the methodology of tax accrual determination• Increase supervisory review of tax accrual schedules
09-10	LCB	<p>Internal Control Deficiencies Over Accounting and Financial Reporting for Merchandise Inventory Accounts in the State Stores Fund</p> <p>With respect to POS to RMS system reconciliation, all system issues that resulted in reconciling sale items were corrected by September 30th retroactive to June 1, 2009. Daily transaction reconciliation is consistently performed and a monitoring system is in place to ensure that daily transmissions from POS are complete and accurately recorded. Additionally, Inventory Reconciliation Report # 108 is now being generated to allow reconciliation of RIMS to RMS and this reconciliation is being completed in Supply Chain on a weekly basis.</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Financial Statement Findings - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
09-11	OB/OCO TREAS	<p>Initial reconciliations between EBS and RMS were performed by PLCB's consultant and the data was validated and approved by the LCB Comptroller staff. Reconciliation data is not available on the front-end of the system, so reports must be developed for that purpose. In November 2009 a BI Publisher report was developed to reconcile the interface data flowing from RETEK/RMS to EBS; routine daily reconciliations began in January 2010. System fixes were implemented in January 2010 to correct the missed and incorrectly calculated up-charges that occurred; correcting journal entries were made in February and March 2010. Procedures and reports are being developed to reconcile RMS to EBS data on a weekly basis beginning in April 2010.</p> <p>Internal Control Weaknesses in Investment Disclosure Reporting (A Similar Condition Was Noted in Prior Year Finding #08-14)</p> <p>Treas: No additional information provided, see Agency Response in the body of the finding.</p> <p>BFM: BFM will meet with Treasury to review the investment reporting categories and agree to an appropriate time that will allow Treasury the opportunity to compile the primary government investment charts in the Note D disclosure. BFM will provide a list of the agreed upon reporting categories to BCA to ensure consistency. BFM will review all files provided by Treasury thoroughly. Once Treasury files have been reviewed and are acceptable, BFM will collect the Statutory Liquidator investment files from BCA and compile combined files that include both primary government and Statutory Liquidator. The final combined files will be provided to Treasury for a final review prior to providing to the Auditors. June 9, 2010 – BFM and Treasury meet to review the investment reporting categories and agree to a timeline for data preparation. July 2010 – Provide investment reporting categories to BCA August/September 2010 – Receive disclosure files from treasury detailing Investment By Type. Review the files and ensure the reporting categories are in concurrence with the agreed upon investment reporting categories. September 2010 – BFM returns the Note D disclosure files to Treasury for a final review prior to releasing to the Auditors.</p> <p>BCA: Information provided by the Bureau of Commonwealth Accounting for the SL Fund to BFM is based on data received from staff at the companies in liquidation. This involves gathering investment information from 5 different sources, 4 of which are externally managed (not part of Comptroller Office Accounting) Insurance Company Estates with over \$2.5B in invested assets held with numerous custodians.</p> <ul style="list-style-type: none">• Statutory Liquidator Staff will be notified of the Investment Type Classifications used by Treasury and will be trained on what each Investment Type classification means.• After the Classification Types are identified and Statutory Liquidator staff is trained, the Investment templates and instructions that are sent to each Insurance company estate will be tailored to better meet the requirements of Note D.• BFM will review Instructions and spreadsheets prior to release to Insurance

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Financial Statement Findings - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
		<p>Company Estates to ensure template and instructions are accurate and complete.</p> <ul style="list-style-type: none">• Meet with the managers of each insurance company on the new investment template format and explain to them the purpose of the template and the requirements of GASB 40.• Internal checklists will be revised to reflect all information needed by BFM. Procedures will be enhanced & streamlined to simplify the process and prevent errors.• An additional level of management review will be added prior to providing the information to BFM.
09-12	OB/OCO	<p>Internal Control Deficiency Over Litigation Accruals (A Similar Condition Was Noted in Prior Year Finding #08-9)</p> <p>BFM, in conjunction with the Office of General Counsel (OGC), will annually circulate a preliminary letter of audit inquiry (LAI) in early September. Using the information provided by legal staff via the preliminary LAI process, BFM will apply criteria for determining whether a liability should be recorded and post adjusting accounting entries as necessary.</p>
09-13	OB OA	<p>Lack of Documentation to Support Contracting and Procurement (A Similar Condition Was Noted in Prior Year Finding #08-02)</p> <p>No additional information provided, see Agency Response in the body of the finding.</p>
09-14	OB/OCO	<p>Internal Control Weaknesses over Financial Reporting in the Department of Public Welfare GAAP Template (A Similar Condition was Noted in Prior Year Finding #08-18)</p> <p>Comptroller Operations will ensure the balance in the bank account for assessments that were received prior to the end of the fiscal year, will be correctly recorded as cash and not as a receivable for future fiscal years.</p> <p>After further review Comptroller Operations does not think an allowance account is necessary. An allowance for uncollectible accounts will not be recorded because the agency has established processes to ensure the collection, including the suspension of Nursing Home Licenses and placing liens on the facilities.</p> <p>A meeting was held in late January with Agency Personnel who provide Nursing Home Assessment detail to the Comptroller's Office. This meeting was held to discuss the process of calculating assessments and ensuring the entire nursing facility population is accounted for. A worksheet has been developed to include all nursing facilities who submitted data on time, who submitted data late, who never submitted data and those facilities currently in litigation. The Agency will provide this detailed information to Comptroller Operations. These totals will be included in the receivable amount for the Nursing Home Assessment entry.</p> <p>Quality control procedures have been revised to add a third level of review to ensure all Nursing Home Assessment calculations are correct and all data has been included.</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Financial Statement Findings - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
09-15	OB OA	Statewide Weaknesses Within the SAP Accounting System Related to Monitoring of Potential Segregation of Duties Conflicts (A Similar Condition Was Noted in Prior Year Finding #08-21) No additional information provided, see Agency Response in the body of the finding.
09-16	OB OA	General Computer Controls in Various Commonwealth Agencies Need Improvement (A Similar Condition Was Noted in Prior Year Finding #08-19) No additional information provided, see Agency Response in the body of the finding.
09-17	LCB	Internal Control Deficiencies Over Financial Reporting of Capital Assets in the State Stores Fund Core procedures have been developed and are contained in the process document that was prepared as part of the ERP Implementation. Instructions and redesigned e-forms have been issued and are available on Agency website. Detailed procedures are being developed and incorporated into the PLCB's policy and procedures manual (Employee Steps Towards Excellence).
09-18	OB/OCO	Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System and Inappropriate Role Assignments No additional information provided, see Agency Response in the body of the finding.
09-19	LCB	Material Weaknesses Exist in the Contracting and Procurement Process that Need Improvement The Agency has created specific RFP section within the Bureau of Contracting and Purchasing to be responsible for the (1) development and issuance of written policies and procedures for the RFP process and (2) compliance with established policies and procedures during the RFP process.
09-20	PDE	Internal Control Weaknesses in the Allocation of Property Tax Relief Payments The Pennsylvania Department of Education, Bureaus of Budget and Fiscal Management has created a template for a document that will be prepared each year when the allocations are calculated for the Property Tax Reduction. This document includes instructions for the staff creating the allocation file as well as a table on which the Division Chief or Bureau Director will independently record state totals for the various data elements used in creating the allocations. This document was created for use starting with Property Tax reduction allocations for 2010-11 prepared in May 2010. The Bureau Director or Division chief will ensure the Property Tax Reduction document is created and utilized for the calculating of the allocations.

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
09-21	DPW	<p>Internal Control Deficiencies at DPW Related to Returned EBT Cards (Prior Year Finding #08-22)</p> <p>The Office of Income Maintenance has revised policy regarding the EBT card destruction. Please review the attached operation memorandum which addresses this new policy. (BPS 2010-015) This ops memo was issued on March 15, 2010.</p>
09-22	DPW	<p>Internal Control Deficiencies at DPW County Assistance Offices Result in Noncompliance With Federal Regulations (Prior Year Finding #08-23)</p> <p>1. Ensure the CAO caseworkers continue to receive additional training and are more thoroughly supervised to follow established DPW policies and procedures regarding eligibility determinations and re-determinations.</p> <p>Management continuously reinforces to staff the importance of following established DPW policies and procedures regarding eligibility determinations and re-determinations. As a further corrective action, supervisors continue to complete TSRs and are now completing Rushmore reviews. The Rushmore Case Review Database is a 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.</p> <p>2. Revise policy to require a review of all changes to income, including ongoing employment, when it becomes available.</p> <p>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.</p> <p>3. Revise policy to require that CAO caseworkers 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.</p> <p>Caseworkers continue to complete PA 176K/176KM and 173S forms. These documents capture all pertinent accident information, as well as anticipated compensation through sources other than Medical Assistance anticipated by the recipient. This process makes the separate documentation of auto insurance unnecessary.</p> <p>4. Evaluate existing procedures to ensure that recipients are complying with reporting requirements relative to maintaining welfare eligibility.</p> <p>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.</p> <p>5. Strengthen systems access controls for Welfare-to-Work participants employed at</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
		<p>the CAOs.</p> <p>Currently there are three Welfare-to-Work clients statewide performing duties at the CAOs. None have access to CIS. There is no evidence that a security breach has occurred.</p> <p>6. Establish procedures to ensure DPW's compliance with Act 1996-35 and ensure recipient compliance with court-order payment plans.</p> <p>IEVS Exchange 10 screens have been revised, which has made it easier for the caseworker to interpret the information on the screens. Also, CAOs have collaborative arrangements with courts to exchange information to address inquiries and updates.</p> <p>7. Comply with the Requirement mandating that all CAOs perform CSRs or TSRs on a monthly basis and to implement corrective action to address the deficiencies.</p> <p>A memo was issued on April 24, 2008 instructing all CAOs to complete CSRs and TSRs in the Rushmore system on a monthly basis. When supervisors identify a problem in a record, they are directed to work with the caseworker to ensure that individual has a thorough knowledge and understanding of the policies and procedures.</p> <p>8. Continue monitoring and manual oversight by DPW caseworkers to ensure that MEDA controls over eligibility determinations remain effective.</p> <p>DPW identified the system logic deficiencies and have implemented software updates to correct existing cases as well as closed cases effective March 4, 2008.</p> <p>9. Stop payment of Medicaid benefits immediately upon identification of ineligible recipients and follow up with the Office of Inspector General to see if Medicaid overpayments made on behalf of ineligible recipients can be recouped.</p> <p>There are currently policies and procedures in place to suspend benefits and recoup overpayments from clients deemed ineligible.</p>
09-23	PDE	<p>Deficiencies in Information Technology Controls Over the Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (CN-PEARS)</p> <p>Specific Steps to be Taken and Timetable:</p> <p>The Pennsylvania Department of Education, Division of Food and Nutrition (DFN), is continuing to seek approval for a contract to upgrade CN PEARS, which will include a redesign of the security features. Upon approval of the contract, the Division of Food and Nutrition will work with the contractor to align the security features in CN PEARS with those identified in the Finding Criteria.</p> <p>To further segregate duties, staff will be assigned by the vendor to be responsible for</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
		<p>the installation of code to the production site. This individual will not develop code, except in cases of emergencies when no other developer is available. In these instances, this individual will not be permitted to install the code to production. In order to monitor this, any time a change to code is installed on production the contractor will send an e-mail to the primary point of contact in the DFN and the Center for Data Quality and Information Technology. The e-mail will indicate what was installed, when it was installed, who installed it and who developed the code.</p> <p>Description of Monitoring:</p> <p>The DFN will be contracting for a staff augmentation to serve as an information technology liaison with the goal of hiring an individual in this capacity on a long term basis. This individual will be the point of contact when installations to code are made on the production site.</p> <p>Title of Official Responsible for Corrective Action:</p> <p>Information Technology Liaison</p> <p>Anticipated Completion Date for Corrective Action:</p> <p>Anticipated start date of contract to upgrade PEARS is July 1, 2010, if all approvals are obtained by that time.</p>
09-24	DOH	<p>Weaknesses in Department of Health Monitoring of WIC Local Agencies</p> <p>No further information provided. See Agency Response in the body of the finding.</p>
09-25	DOH	<p>Noncompliance and Internal Control Weaknesses Related to Voided Food Instruments and Vendor Overcharges Result in Likely Questioned Costs Over \$10,000 (A Similar Condition Was Noted in Prior Year Finding #08-25)</p> <p>DOH will pursue resolution of the known and potential questioned costs in this finding with USDA's FNS. No further information provided. See Agency Response in the body of the finding.</p>
09-26	DPW	<p>Internal Control Weaknesses and Inadequate Support for Special Allowance Payments Result in Unknown Questioned Costs (Prior Year Finding #08-26)</p> <p>1. Ensure the CAO caseworkers continue to receive additional training and are more thoroughly supervised to follow established DPW policies and procedures regarding eligibility determinations and re-determinations.</p> <p>Management continuously reinforces to staff the importance of following established DPW policies and procedures regarding eligibility determinations and re-determinations. As a further corrective action, supervisors continue to complete TSRs and are now completing Rushmore reviews. The Rushmore Case Review Database is a food stamp corrective action tool which assists supervisors in identifying trends and helps counties determine</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
		<p>where training is needed as well as identifies procedural deficiencies.</p> <p>2. Revise policy to require a review of all changes to income, including ongoing employment, when it becomes available.</p> <p>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.</p> <p>3. Revise policy to require that CAO caseworkers 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.</p> <p>Caseworkers continue to complete PA 176K/176KM and 173S forms. These documents capture all pertinent accident information, as well as anticipated compensation through sources other than Medical Assistance anticipated by the recipient. This process makes the separate documentation of auto insurance unnecessary.</p> <p>4. Evaluate existing procedures to ensure that recipients are complying with reporting requirements relative to maintaining welfare eligibility.</p> <p>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.</p> <p>5. Strengthen systems access controls for Welfare-to-Work participants employed at the CAOs.</p> <p>Currently there are three Welfare-to-Work clients statewide performing duties at the CAOs. None have access to CIS. There is no evidence that a security breach has occurred.</p> <p>6. Establish procedures to ensure DPW's compliance with Act 1996-35 and ensure recipient compliance with court-order payment plans.</p> <p>IEVS Exchange 10 screens have been revised, which has made it easier for the caseworker to interpret the information on the screens. Also, CAOs have collaborative arrangements with courts to exchange information to address inquiries and updates.</p> <p>7. Comply with the Requirement mandating that all CAOs perform CSRs or TSRs on a monthly basis and to implement corrective action to address the deficiencies.</p> <p>A memo was issued on April 24, 2008 instructing all CAOs to complete CSRs and TSRs in the Rushmore system on a monthly basis. When supervisors identify a problem in a record, they are directed to work with the caseworker to ensure that individual has a thorough knowledge and understanding of the policies and procedures.</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
		<p>8. Continue monitoring and manual oversight by DPW caseworkers to ensure that MEDA controls over eligibility determinations remain effective.</p> <p>DPW identified the system logic deficiencies and have implemented software updates to correct existing cases as well as closed cases effective March 4, 2008.</p>
		<p>9. Stop payment of Medicaid benefits immediately upon identification of ineligible recipients and follow up with the Office of Inspector General to see if Medicaid overpayments made on behalf of ineligible recipients can be recouped.</p> <p>There are currently policies and procedures in place to suspend benefits and recoup overpayments from clients deemed ineligible.</p>
09-27	DMVA OB/OCO	<p>Noncompliance and Deficiencies in Internal Control Over Charging of Project Costs Results in Questioned Costs of \$14,004</p> <p>A corrective action plan will be developed and implemented by December 31, 2010.</p>
09-28	DMVA	<p>Noncompliance and Deficiencies in Internal Control Over Charging of Personnel Costs (Prior Year Finding #08-27)</p> <p>No additional information provided. See Agency response in the body of the finding.</p>
09-29	DCED	<p>DCED Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding #08-29)</p> <p>No additional information provided. See Agency response in the body of the finding.</p>
09-30	DCED	<p>Noncompliance and Internal Control Deficiencies in DCED's Section 3 Summary Report</p> <p>No additional information provided. See Agency response in the body of the finding.</p>
09-31	OB/OCO	<p>Internal Control Deficiency Over Expenditure Information Reported on the Financial Status Reports by Comptroller Operations (Prior Year Finding #08-30)</p> <p>The FSR for the 2007 HS Cluster reports federal expenditures on a cumulative basis. The cumulative expenditures reported on the FSR through 6/30/2009 were net of the \$2 million local government contribution. By 2/28/2010, the cumulative net effect of the \$2 million contribution on the 2007 HS Cluster federal expenditures was \$0.00. The expenditures reported on the FSR are accurate as of 3/31/10.</p> <p>This particular local government contribution was a unique situation for Comptroller Operations and PEMA. The HS Cluster grant payments are on a reimbursement basis and the local government usually incurs the expense and submits documentation to PEMA supporting the local share as part of their reimbursement request. The local government contribution in the form of a check was necessary in this situation since PEMA was responsible for all of the procurement for the generator project. Based on this experience, any future local government contribution in the form of a check made out to the</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
		<p>Commonwealth of PA will be treated as revenue, not a refund of expenditure, and will be posted, along with the corresponding expenditures, to non-federal accounts. Additionally, the Comptroller's Office has advised fiscal staff in PEMA that in the future any local contributions in the form of a check must be treated as revenue and posted to a non-federal fund by staff in the Comptroller's Office.</p>
09-32	PEMA	<p>Noncompliance and Internal Control Deficiency Over Period of Availability Requirements Results in Questioned Costs of \$26,613 (Prior Year Finding #08-32)</p> <p>By July 31, 2010, PEMA will request that DHS retroactively extend the liquidation period to 7/3/09 for the 2005 HSGP grant. By December 31, 2010, procedures will be updated in the Federal Grants Program Administrative Manual to put expedited pay dates on documents posted in the liquidation period and invoices will be posted prior to the last 15 days of the liquidation period.</p>
09-33	PEMA	<p>Unallowable Equipment Purchases and Unallowable Cash Payments Result in Questioned Costs of \$37,150 and Internal Control Deficiencies and Noncompliance in PEMA's Subrecipient Monitoring (Prior Year Finding #08-31)</p> <p>Of the questioned equipment costs of \$32,624, PEMA has resolved \$1,831 through adjustments. PEMA will work with the subgrantees on the resolution of the remaining questioned costs of \$30,793.</p> <p>Of the questioned costs under cash payments, \$2,895 has been resolved through adjustments with the subgrantees. PEMA will work with the subgrantees on the resolution of the remaining questioned costs of \$1,631.</p> <p>Formal procedures for both desk and site visit monitoring have been implemented, with the first desk monitoring visit scheduled for July 7, 2010. A schedule of monitoring visits has been developed for the 2010-2011 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.</p> <p>PEMA has developed a policy to ensure accurate reporting on the SEFA, using specific county-based coding. The new policy goes into effect July 1, 2010 and will be used for all equipment purchases.</p>
09-34	L&I OB/OCO	<p>Internal Control Deficiency Over Expenditure Information Reported on the SEFA by L&I and Comptroller Operations Personnel</p> <p>Comptroller Operations has issued guidance to all federal accounting staff directing them to review and verify the CFDA numbers on the grant notification letters to those reported in SAP. In addition, federal accounting staff have been directed to review the CFDA numbers each time an amended grant notification letter is received.</p>
09-35	L&I	<p>Deficiencies in Information Technology Controls at the Department of Labor & Industry (A Similar Condition Was Noted in Prior Year Finding #08-72)</p> <p>No additional information provided. See Agency response in the body of the finding.</p>
09-36	OB/OCO	<p>Internal Control Deficiency Over Expenditure Information Reported on the SEFA</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
		<p>As part of Comptroller Office's review and reconciliation of the custom data table a current list of SAP document types will be generated and reviewed for inclusion in the custom table logic. Upon completion and review by the manager of the Special Accounting, Transportation Team, the list will be forwarded to the Assistant Director for final review. All supporting document will be retained for audit purposes.</p>
09-37	PENNVEST	<p>Internal Control Deficiencies Cause Errors in the CWSRF Annual Report Submitted to EPA</p> <p>No additional information provided. See Agency response in the body of the finding.</p>
09-38	PENNVEST	<p>Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority</p> <p>No additional information provided. See Agency response in the body of the finding.</p>
09-39	DCED	<p>Noncompliance and Internal Control Deficiencies in DCED's Program Monitoring of Weatherization Subrecipients (Prior Year Finding #08-51)</p> <p>No additional information provided. See Agency response in the body of the finding.</p>
09-40	PDE	<p>Internal Control Deficiencies in PDE Monitoring of Subrecipient Cash Management (Prior Year Finding #08-37)</p> <p>No additional information provided. See agency response in the body of the finding.</p>
09-41	PDE	<p>Noncompliance and Inadequate Controls Over PDE's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding #08-38)</p> <p>Specific Steps to be taken and Timetable:</p> <p>The Pennsylvania Department of Education, Bureau of Assessment and Accountability (BAA) will develop a written set of procedures for the PSSA data in the Consolidated State Performance Report (CSPR) and for data included in the State Report Card (SRC) that will include the item reviewed, the date reviewed, any issues found during the review and the method/process used for the resolution of those issues. The name of the files used in the verification process will also be noted in this process and will be signed by the reviewer. The procedures will be implemented with the 2010 data.</p> <p>The owners of all external data required for the SRC from within the Department will be required to sign for the accuracy verification of the data. This will include the attendance data, the graduation data and the highly qualified teacher data. It will also include all data submitted to DRC from PIMS. These procedures will be implemented with the 2010 data.</p> <p>Description of Monitoring:</p> <p>The forms will be signed and maintained by the BAA.</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
09-42	PDE	<p>Internal Control Deficiencies in PDE During-the-Award Monitoring of Title I and Title II Subrecipients (Prior Year Finding #08-35)</p> <p>The Pennsylvania Department of Education (PDE), Division of Federal Programs (DFP), is developing an updated Monitoring Cycle List for 2010. To ensure all LEAs as well as all new charter schools are included on the list, the Monitoring Cycle List will be cross referenced with the 2010-2011 Title I and Title IIA allocations. This information will then be cross referenced with the Fedmonitor Reports. The updated Monitoring Cycle List will be completed by July 23, 2010. This will provide sufficient time for the LEAs to be aware of updated information prior to monitor training and the next monitoring cycle through the Fedmonitor and PDE Web Site Updates. The 29 Intermediate Units (IUs) will be monitored in September 2010. A separate Monitoring Cycle List will be created for the IUs and posted on PDE's Web Site. This Monitoring Cycle List will also be completed by July 23, 2010.</p> <p>The DFP staff will develop and complete the updated Monitoring Cycle List. The Monitoring Cycle Lists will be cross referenced with Title and Title IIA allocations as they are updated throughout the year. This will ensure all LEAs are captured, especially newly opened Charter Schools, and an onsite visit will be conducted once in a three year cycle. Changes and/or corrections will be made as necessary.</p> <p>Title of Official Responsible for Corrective Action:</p> <p>Basic Education Associate II</p> <p>Anticipated Completion Date for Corrective Action:</p> <p>August 18, 2010</p>
09-43	PDE	<p>Noncompliance and Internal Control Deficiencies in PDE Monitoring of IDEA-B Subrecipients</p> <p>Specific Steps to be Taken and Timetable:</p> <p>The Pennsylvania Department of Education (PDE) Bureau of Special Education (BSE) will implement a database system (replacing the current paper process) to track the refund reimbursements pertaining to federal child count verification citations. This process will be implemented beginning School Year 2010-2011.</p> <p>The BSE will implement a 180 day timeline from the date of the issuance of the Monitoring Report, for the return of refund reimbursements for those local education agencies (LEAs) cited in the federal child count verification item. This process will be implemented beginning School Year 2010-2011.</p> <p>As indicated in the Agency Response, the PDE disagrees with the finding and is awaiting a response from USDE to PDE's request for a determination on the recommendations in the OIG Audit Report.</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
		<p>Description of Monitoring:</p> <p>Upon issuance of a Monitoring Report with a citation of required federal child count corrective action, BSE staff will be notified via e-mail of the citation by our contractor. The BSE staff will contact the Division Chief who will follow-up with a letter to the LEA with the calculated reimbursement amount. This information will be input into the database. Upon receipt of the reimbursement, the BSE Administrative Supervisor will, via memo, forward the funds to the Office of Budget/Comptroller Operations. A copy of the memo and check including any other pertinent documentation will be forwarded to the BSE staff to be maintained in the monitoring file. This information will be input into the database and the citation will be closed on the Monitoring Report.</p> <p>With the issuance of the Monitoring Report, the corrective action will state that the refund reimbursement will be required to be remitted to BSE within 180 days of the Monitoring Report. The BSE reserves the right to provide a timeline extension to the 180 days on an individual case by case basis, if deemed appropriate (not to exceed the Federal timeline of one year from the date of issuance of the Monitoring Report).</p> <p>Title of Official Responsible for Corrective Action:</p> <p>Administrative Education Associate</p> <p>Anticipated Completion Date for Corrective Action:</p> <p>School Year 2010-2011</p>
09-44	PDE	<p>Inadequate Controls at PDE Over Exceeding Maximum Earmarking Requirements in the CTE Program</p> <p>Specific Steps to be Taken and Timetable:</p> <p>A spreadsheet for allocations of Institutionalized Programs/Correction ED under State Leadership Activities identifying the 1% expenditures limit is presently in place.</p> <p>Description of Monitoring:</p> <p>When the Perkins Budget Plan is submitted in March by PDE Bureau of Career and Technical Education to USDE, the above spreadsheet will be used as a control to ensure that the 1% threshold is maintained in accordance with CTE grant earmarking requirements.</p> <p>In July, when the Grant Award is sent to the Office of Comptroller Operations to input budgets in SAP, PDE will again use the above spreadsheet as a control to ensure that the 1% threshold is maintained and budgets are inputted accordingly.</p> <p>At the end of the first year and at the end of Grant Award period, PDE will monitor expenditures through SAP reports to ensure that 1% threshold is maintained for CAR interim and final reports.</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
		Title of Official Responsible for Corrective Action: Budget Analyst 4 Anticipated Completion Date for Corrective Action: Since the spreadsheet is presently in place, the whole cycle will be completed by June 30, 2011.
09-45	L&I	A Control Deficiency Exists Over the Preparation and Submission of Vocational Rehabilitation Provider Claim Forms to SSA (Prior Year Finding #08-40) No additional information provided. See Agency response in the body of the finding.
09-46	L&I	A Control Deficiency Exists in L&I's Procurement System Related to Debarment and Suspension (Prior Year Finding #08-41) No additional information provided. See Agency response in the body of the finding.
09-47	L&I	A Control Deficiency Exists in L&I's Procedures for Performing Eligibility Determinations No additional information provided. See Agency response in the body of the finding.
09-48	L&I	A Control Deficiency Exists in L&I's Procedures for Performing Eligibility Determinations No additional information provided. See Agency response in the body of the finding.
09-49	Aging	PDA Monitoring of AAA Subrecipients Needs Improvement PDA will begin utilizing its Quality Management Evaluation Team (QMET) to review AAA programs. Beginning January 2011 the AAAs will be examined to ensure that they meet their obligations under the Aging waiver and Aging Block Grant programs including OPTIONS Care Managed and Non-Care Managed programs as well as other programs such as Senior Centers, Nutrition, etc. The QMET will also conduct a "look behind" of AAA monitoring by interviewing providers who were monitored to ensure the quality and integrity of the AAA field monitoring. Finally, the AAA will be reviewed for financial accountability as a provider. The QMET will issue the AAA a statement of findings for any standards that are missed.
09-50	DPW	DPW Did Not Always Specify CFDA Number and Other Required Award Information in Subrecipient Award Documents, Resulting in Noncompliance With OMB Circular A-133 (Prior Year Finding #08-45) The program offices have corrected the award documents (allocation letters), as of SFY 2009-2010, to include all CFDA numbers. The DPW feels that the allocation letters now meet the requirements for notifying subrecipients, as required by OMB Circular A-133. Awarding documents do contain ARRA funds (listed separately) for the SFY ended June

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
		30, 2010.
09-51	DPW OB/OCO	Internal Control Weaknesses Over Reviewing, Approving and Reporting Regular, ARRA, and Supplemental Payments to Subrecipients (Prior Year Finding #08-57) OB/OCO: Supplemental invoices were processed after July 1, 2009 for those counties that received reimbursement at the regular FMAP rate during the January through June 2009 time period for costs incurred after October 1, 2008. These costs were then drawn and claimed on the September 2009 quarterly report. These costs will be reflected on the 6/30/10 SEFA. Every effort is made to ensure the Federal reports reflect the proper federal share of expenditures for each quarter. Staff has been directed to add comments to reports when there are instances that items reported may be construed as something different. DPW: The finding on the review of supplemental invoices stemmed from TANF payments, Title IV-E supplemental payments are already reviewed by the invoicing system. The Office of Children Youth and Families (OCYF) is in the process of having the counties change the child identification numbers from a county specific number (AFCARS number) to a statewide number (MCI number). Once this conversion has been completed, OCYF will revise the TANF invoice and instructions. Included in these instructions will be a mandate to have the new invoices submitted electronically back to OCYF in Excel. With an electronic version of the invoice, OCYF will be able to extract and accumulate the data into a statewide table by quarter to identify if there are duplicate claims for the same MCI number, not just by county but across the Commonwealth. If a duplicate claim is found, OCYF will follow up with county(ies) to verify that it is not for a duplicate service.
09-52	DPW	Weaknesses Exist in DPW's Contracting and Program Monitoring of Child Care Subgrantees (Prior Year Finding #08-48) The DPW, Office of Child Development and Early Learning (OCDEL) feels that a more accurate comparison of allowable benefits would be to compare the percentage of personnel benefits to total personnel (salaries and wages plus benefits). The OCDEL feels that the monitoring policies and procedures in place, adequately, monitoring each type of funding utilized, including TANF. The OCDEL does review program invoices monthly. It is at this time that any overpayments would be recovered, and the DPW, Audit Resolution Section, prepares the grant settlement during review of the subrecipient's audit report, this reconciliation is a final review of payments made to services rendered.
09-53	DPW	Weaknesses in DPW Office of Children, Youth and Families Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients (Prior Year Finding #08-58) The DPW, Office of Children, Youth and Families is monitoring program through Licensing and Quality Assurance Reviews. Licensing is for the health and safety of the child and Quality Assurance review is for the eligibility of the child and allowability of the costs using federal Title IV-E funds, including placement maintenance and administrative claims.

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
09-54	DPW	<p>DPW Failed to Adequately Monitor the Processing of LIHEAP Cash and Crisis Applications (Prior Year Finding #8-53)</p> <p>Starting in February 2008 with the 2008-2009 LIHEAP season, the following changes were implemented:</p> <ul style="list-style-type: none">• The CAOs and/or Crisis contractors do not select the applications that are to be monitored. This process is outlined in Attachment 1, page 2, Section III “Application Data Sample”.• Scheduled field visits are conducted for selected CAOs and crisis contractors by either an independent forensic accounting firm or the OIM monitoring team. During these formal and in-depth site visits, specific attention is paid to observing and testing the controls for processing LIHEAP applications.• The DPW issued to the CAOs standardized written procedures for processing LIHEAP applications.• Several system edits were improved to prevent duplicate Cash payments and edits and LIS were expanded to allow for verification at the household member level.
09-55	DPW	<p>DPW Did Not Perform Adequate During-The-Award Monitoring of TANF Subrecipients (Prior Year Finding #08-46)</p> <p>Monitoring had been completed for FYE June 30, 2009; however, the reports were in the review/approval process. Therefore, the DPW supplied those monitoring reports that were considered final reports. These reports were for FYE June 30, 2008.</p> <p>The DPW, Bureau of Employment and Training’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 action plans can be developed immediately upon completion of the on-site visit.</p>
09-56	DPW	<p>Internal Control Deficiencies in DPW’s Administration of LIHEAP Cash and Crisis Benefits (Prior Year Finding #08-52)</p> <ol style="list-style-type: none">1. Applications do not contain supervisory approval signatures to demonstrate a proper supervisory review of cash benefits for compliance. <p>Beginning in the 2009-10 program year with the implementation of e-CIS, manual approvals will no longer be required.</p> <ol style="list-style-type: none">2. Applications to support cash benefit payments cannot always be located by the CAOs. <p>For Program Year 2009-10, LIHEAP applications and supporting documentation were electronically scanned and archived.</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
		<p>3. Ineligible applicants are referred by the CAOs to DCED for Weatherization Assistance.</p> <p>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.</p> <p>4. Implementation of e-CIS system and verification that the related internal controls in this system are operating effectively.</p> <p>The LIHEAP/e-CIS integration was completed for Heating Season 2009-10 and was in production at the opening of the season.</p> <p>5. Ensure crisis contractors develop written policies and procedures to accurately document and process crisis transactions.</p> <p>All contractors who assist DPW in administering the crisis component for LIHEAP are required to sign a Work Statement which outlines their responsibilities. The Work Statement requires the contractor to provide DPW with its policies and procedures related to the administration of the crisis component of the LIHEAP Program as coordinated with their respective local County Assistance Office within 30 days prior to the opening of the LIHEAP crisis program.</p>
09-57	DPW	<p>Noncompliance and Internal Control Deficiencies at DPW Result in Questioned Costs of \$1,704 in LIHEAP (Prior Year Finding #8-54)</p> <p>The DPW utilizes a system called File Clearance that allows us to uniquely identify an individual. However, if File Clearance is not properly performed or the results are questionable, there are procedures that will allow the application to be processed. In order to do this, certain steps must be taken to address the current LIS system edits. Bypassing the edit feature of File Clearance will allow benefits to be authorized or rejected, and the safeguard of this function resides in the supervisory review of the LIHEAP workers records. In an effort to eliminate some of the confusion, DPW resubmitted all clients in the Master Client Index (MCI) through SSA for an enumeration process if the LIHEAP client's SSN was blank, and submitted the remaining LIHEAP clients with SSNs through a verification process. This process was completed on all LIHEAP clients for the 2008/09 Heating Season and was completed before the integration of the 2009/2010 LIHEAP/eCIS program on October 12, 2009. During the File Clearance Process, the system will identify clients that are known to other cases/budgets. Because the worker is allowed to change the characteristics of the individual, as discussed above, the potential for duplicate benefit authorization is possible. LIHEAP edits have been brought into alignment with other programs; e.g., if the individual is currently receiving benefits in any other program (CIS, LIHEAP, CCMIS, etc.), the worker receives a message that this person is known and describes county record number and related demographics.</p> <p>To address the issue of addresses, we have implemented Geographical Interface System (GIS) which validates that the address is a valid location. This validates the location but not necessarily the occupants.</p> <p>Both of these changes occurred were completed after the close of the 2008/2009 Heating</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
		Season and were completed before the integration of the 2009/2010 LIHEAP/eCIS program on October 12, 2009.
09-58	DPW OB/OCO	DPW Failed to Adequately Support and Account For a Transfer of LIHEAP Funds Charged to TANF and Failed to Qualify for a \$28,507,184 TANF Emergency Fund Grant Award Under ARRA, Resulting in SEFA and ACF-196 Quarterly Reporting Errors and \$26,134,000 in Questioned Costs No additional information provided. See Agency response in the body of the finding.
09-59	DPW	Inaccurate Reporting on the TANF ACF-199 Data Report (Prior Year Finding #08-47) The federal government allows states to set our 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. All of the cases cited by the AG as having “errors and/or documentation discrepancies” actually met DPW’s verification requirements as approved by HHS. Therefore, we do not agree with the auditor’s conclusion that “DPW did not comply with federal reporting requirements or its HHS-approved TANF Work Verification Plan.”
09-60	DPW	Internal Control Deficiencies Over PACSES Contractor Costs Result in Questioned Costs of \$67,021 (Prior Year Finding #08-50) The invoices noted within this finding do not require any additional corrective action.
09-61	DCED	Noncompliance and Internal Control Weaknesses Over Subgrantee Payments at DCED (Prior Year Finding #08-55) No further information provided. See Agency Response in the body of the finding.
09-62	DPW OB/OCO	DPW’s Expenditures For Costs Not Approved in The CCDF State Plan Result in Noncompliance and Known Questioned Costs of at Least \$2,624,449 (Prior Year Finding #08-56) No further information provided. See Agency Response in the body of the finding.
09-63	DPW	Unallowable Costs Charged from the DPW Cost Allocation Plan Result in Questioned Costs of \$1,538,422 (Prior Year Finding #08-59) The DPW has made the above amendments to the Department Cost Allocation Plan submitted for State Fiscal Year End June 30, 2010. The page referred to, now includes both Foster Care and Adoption Assistance program headings.
09-64	DPW	Weaknesses in DPW Program Monitoring of SSBG and SAPT Subgrantees (Prior Year Finding #08-61)

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
		<p>The DPW plans to implement a new SSBG monitoring position during FYE June 30, 2011. This position will work with the program offices to oversee the use of SSBG funds and monitor subrecipients.</p>
09-65	DPW	<p>DPW Did Not Utilize Available ARRA Grant Award Funds While Significant Waiting Lists Existed For Child Care Assistance For Low-Income Families</p> <p>The DPW operated within the requirements of the award letter.</p>
09-66	PID	<p>Inadequate Controls Over Subrecipient Monitoring (Prior Year Finding #08-62)</p> <p>The Department's position is that there is limited value in Department personnel doing on-site work relative to CHIP <u>eligibility audits</u> because the insurers' independent A-133 auditors do on-site audits and because a large percentage of eligibility source data for the CHIP insurance contractors is received in electronic format via the Department's CHIP and adultBasic Application Processing System (CAPS). The Department has contacted its federal funding agency, the Centers for Medicare and Medicaid (CMS), to review the Department's internal monitoring processes and to render a decision on the necessity of the Department conducting eligibility audits on-site on an annual basis.</p> <p>CMS has rendered its decision in favor of the Department's approach to monitoring. It has informed us that it is satisfied with the actions taken by the Department and it is acceptable for CHIP contractors to hire independent auditing firms to conduct the A-133 audits at the Department's request. CMS expects to submit a letter to the Department resolving the SYE 2007-02008 audit findings within the next 10 days or so, though we have already been informed that the letter contains the following statement: "In respect to A-133 audits and the resulting findings, CMS is comfortable with the actions taken by the PID in contacting the MCO, reviewing the corrective action plan, and following up on the resolutions and/or the return of funds. It is also CMS' position, per our telephone conversation, that it is an acceptable practice for the MCO to hire an independent audit firm to conduct the required A-133 audits at the Insurance Department's request."</p> <p>The Department further notes that it will continue to conduct periodic on-site reviews relating to compliance with the procedural and operational requirements set forth in the RFP/contract (including application processing, quality controls in place to review eligibility workers' accuracy and review of pre-selected sample applications). The Department will also continue to require and monitor:</p> <ol style="list-style-type: none">(1) <u>Quarterly and Annual Reports</u>: Fraud in general and health care providers precluded from participating in public health programs more specifically; Act 68 complaints and grievances compliance in conjunction with the Department of Health; and HEDIS medical services audits conducted by our vendor IPRO.(2) <u>Internal Eligibility Reviews</u>: Eligibility reviews will be conducted by our current vendor Rushmore through the end of SFY 2010. As previously noted, Rushmore's contract was initially entered into between DPW and PID for the PERM reviews mandated by CMS. CMS suspended the PERM reviews for CHIP only for the FYE 2009. In the interim, we have been utilizing Rushmore's services to assist PID in conducting its internal eligibility reviews utilizing the same eligibility criteria as would be applicable to PERM in

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
		<p>the event the PERM reviews were reinstated. Future SFY reviews will be performed either by a contracted vendor or by internal PID staff.</p> <p>(3) <u>Health Management Systems Cross Match (HMS)</u>: As noted in previous responses, the Department contracts with HMS to cross match CHIP applicants against its national insurance data base to pre-determine employer-sponsored insurance coverage and potential fraud <u>before</u> enrolling applicants (cross match is performed on both new applicants and renewals). One of the eligibility requirements for CHIP is to be uninsured at the time of application and/or to adhere to a six-month go-bare period (with some exceptions). The HMS cross match is performed <u>daily</u> and reported to the Division of Quality Assurance, via our IT Division, on a quarterly basis.</p> <p>(4) <u>Department of Public Welfare Cross Match</u>: This is similar to the HMS cross match and serves the purpose of pre-determining enrollment in Medicaid before enrolling applicants in CHIP. Like the HMS cross match, it is performed <u>daily</u> and reported to the Division of Quality Assurance quarterly.</p>
09-67	DPW	<p>DPW Failed to Obtain an Outside Service Auditor's Report for a Third Party Drug Rebate Processor</p> <p>No further information provided. Corrective Action included in the agency response.</p>
09-68	DPW	<p>Material Noncompliance and Weaknesses in Internal Controls Over Medical Assistance Provider Audits</p> <p>The DPW already tracks reports for both the Skilled Nursing Facilities and the Inpatient Hospitals to ensure all required audits are received; therefore, no corrective action is needed.</p>
09-69	DPW	<p>Weaknesses in Internal Controls Over Eligibility Determinations and Administration of Third Party Contractor Result in Likely Questioned Costs Over \$10,000 Up To \$27,388,425 (Prior Year Finding #08-63)</p> <p>SPBP's staff is reviewing changes to the various SPBP documents to ensure that they reflect current practice and are to be consistent with Pennsylvania Department of State licensing. DPW's SPBP has also implemented an internal, 100% quality check on its enrollment documents. Additionally, DPW's SPBP continues to perform monthly insurance matches with Medical Assistance, Medicare, and other third party payers to verify the existence of other insurance resources.</p> <p>Additionally, DPW's SPBP staff will develop a QM plan that will monitor third party contractor activities independent of the Bureau of Audits. SPBP currently meets with the Department of Aging and its third party contractor two times per month to review the status of processing activities.</p>
09-70	DOH	<p>Inadequate Program Monitoring of Department of Health SAPT Subrecipients</p> <p>No further information provided. See Agency Response in the body of the finding.</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
09-71	DOH	<p>Noncompliance and Internal Control Weaknesses Result in \$139,469 in Questioned Personnel Costs (Prior Year Finding #08-65)</p> <p>DOH will pursue resolution of the questioned costs with HHS. No additional information provided. See Agency Response in the body of the finding.</p>
09-72	OB/BFM	<p>Inadequate Controls at DPW Over Its Review and Reconciliation of SEFA Amounts in OMB Circular A-133 Subrecipient Single Audit Reports (Prior Year Finding #08-67)</p> <p>No further information provided. See Agency Response in the body of the finding.</p>
09-73	OB/OCO DOH PennDOT PEMA PDE L&I PID	<p>Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding #08-68)</p> <p>DOH:</p> <p>No further information provided. See Agency Response in the body of the finding.</p> <p>PennDOT:</p> <p>PennDOT currently has a detailed database which includes the date reports are received and also if they contain any findings that require action by PennDOT. The manager of the subrecipient program will run a report on the first of each month to determine what audit reports require additional attention in order to close them out in the six month time period to meet the requirements of OMB circular A-133.</p> <p>As of June 22, 2010 PennDOT currently has 61 open subrecipient reports. The oldest report is 4 months old signifying that PennDOT is currently in full compliance with OMB circular A-133.</p> <p>OB/OCO:</p> <p>To ensure that the single audit reports are processed in a timelier manner the following desk procedures have been implemented:</p> <ol style="list-style-type: none">1) Weekly reports of single audit reports with findings are generated from the Single Audit Tracking System (SATS) and are assigned priority;2) Effective July 1, 2009, an electronic submission process is in place to ensure that subrecipients' single audit reports are received by OB-BOA more timely; and,3) In conjunction with the electronic submission process, a collaborative site is being put into place to electronically transmit single audit reports from OB-BOA to the respective Commonwealth agencies. Phase I of the utilization of the collaborative site will be effective August 2010 for local educational agencies. Phase II will be implemented by January 2011 for local governmental agencies and non-profit entities. Phase III will be implemented no later than June 2011 for Counties and County related component units. <p>With these corrective action steps, the turnaround time is expected to decrease to an average of one-month to transmit single audit reports with findings. This represents 16 percent of the federal requirement to resolve subrecipient findings within six months after</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
		<p>receipt.</p> <p>PEMA:</p> <p>Effective Spring 2010 the Single Audit tracking database was overhauled to include fields for all relevant data pieces as they relate to the processing and tracking of sub-recipient Single Audits. The Section Chief of PEMA's State and Federal Grant Division has taken ownership of said database and the management of PEMA's Single Audit tracking. Additionally, PEMA's Division of Grants Management is now operating at full complement (effective June 2010). It is believed that the aforementioned actions will immediately deliver desired results for the effective management, processing, and completion of sub-recipient Single Audits.</p> <p>PDE response:</p> <p>Specific Steps to be Taken and Timetable:</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>Description of Monitoring:</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>Title of Official Responsible for Corrective Action:</p> <p>Audit Coordinator Division of Budget Bureau of Budget and Fiscal Management</p> <p>Anticipated Completion Date for Corrective Action:</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 2011.</p> <p>L&I response:</p> <p>L&I BWDP view this, as it pertains to making a management decision, as an instance of noncompliance and not an internal control deficiency that would require a corrective action plan. L&I BWDP have now made a management decision for this specific subrecipient audit report. In the future, L&I BWDP will more closely monitor the status of received subrecipient audit reports and ensure that management decisions are made within six (6)</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
		<p>months after receipt of report submission from BOA relative to audit disclosures affecting the agency and to those crosscutting findings assigned to the agency for resolution.</p> <p>In regards to performing the SEFA reconciliation of subrecipients, L&I BWDP disagrees that a SEFA reconciliation must be performed by BWDP, but, rather, that the SEFA, as well as the financial information contained in the single audit, is reviewed to provide reasonable assurances that the accuracy and completeness of the SEFA within the single audit are consistent with BWDP's records.</p> <p>L&I BWDP utilizes, among other rules and regulations, the Commonwealth of Pennsylvania's Management Directives 325.7 - Implementation of the Commonwealth's State-Level Single Audit Process and 325.9 - Processing Audits of Federal Pass-Through Funds as guidance when reviewing subrecipient single audits.</p> <p>Insurance response:</p> <p>The delay in resolving this audit finding was due to staffing shortages. The two program monitoring positions allocated to the Division of Quality Assurance were filled in 2008. In addition, we have revised the internal process for tracking and logging A-133 reports. We currently have ten (10) CHIP contractors. Each program monitor has been assigned five (5) companies that they are specifically responsible for with respect to day-to-day operational tasks, which include A-133 reporting and resolution. See attached <i>Transmittal 2009-3: Assignment of Contractors to Specific Program Monitors</i>, issued February 10, 2009. All report submissions are first logged in by our unit secretary and disbursed to the Program Monitor assigned to the specific contractor. An Outlook tickler system has been implemented to alert the program monitors and their supervisor of the 6-month count down. Please note that we have recently requested clarification from the Bureau of Audits (BOA) as to our ability to resolve findings prior to receipt of their notice to PID since we receive copies of the reports at the same time they submit them to BOA. Currently, the process is to wait for BOA to notify the contractors and our Bureau of Administration of their internal review results. Once our Bureau of Administration receives BOA's results, the Division of Quality Assurance proceeds to contact the contractor(s) in question to resolve any findings relating to eligibility determinations. We have not received an official response from BOA at this time.</p>
09-74	OB/OCO	<p>Noncompliance With OMB Circular A-133 Subrecipient Audit Requirements (Prior Year Finding #08-69)</p> <p>No additional information provided. See Agency response in the body of the finding.</p>
09-75	DMVA OAG L&I PSP PDE DPW	<p>Unallowable Payments for Unused Employee Leave Result in \$1,854,993 in Questioned Costs (Prior Year Finding #08-70)</p> <p>No additional information provided. See Agency response in the body of the finding.</p>
09-76	DPW	<p>Deficiencies in Information Technology Controls at DPW (Prior Year Finding #08-71)</p> <p>No additional information provided. See Agency response in the body of the finding.</p>

COMMONWEALTH OF PENNSYLVANIA

Corrective Action Plans - Federal Award Findings and Questioned Costs - June 30, 2009

Finding	State Agency	Finding Title/Corrective Action
09-77	OB/OCO	<p>Weaknesses in Cash Management System Cause Noncompliance with CMIA and at Least a \$3.4 Million Known Understatement of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding #08-73)</p> <p><u>Average Daily Clearance Pattern:</u> The Commonwealth has contacted the US Treasury and informed them of the discrepancy between business days and calendar days. An analysis has been done and the Commonwealth will remit the interest due with the next interest payment scheduled for March 2011. To accommodate current system requirements the Average Daily Clearance Pattern was recalculated to determine calendar days delay of draw. The Treasury State Agreement for July 1, 2010 has been revised to reflect the draw based on calendar days and the system will be revised on July 1 to draw based on the ADC pattern of calendar days.</p> <p><u>Supplemental Nutrition Assistance:</u> The Treasury State Agreement will be modified to reflect the actual draw procedures.</p> <p><u>CWSRF Program:</u> The next interest report will be adjusted to include the \$421 in interest due and the Commonwealth will remit payment to the US Treasury.</p> <p><u>CCDF Program:</u> The Commonwealth will review the 30 transactions identified by the auditor and review the Commonwealth's interest liability. Based on confirmation of that review and agreement with the auditor's proposed calculations the Commonwealth will include the \$35,403 in interest due in the next interest payment and will remit payment to the US Treasury.</p> <p><u>Medical Assistance Program:</u> The Treasury State Agreement will be revised to reflect the actual draw technique related to monthly draws for the MR subrecipients in the MA Program (#93.778). Ongoing discussions are proceeding with HHS as it relates to DPW's PROMISE system process for medical claims related to school-based medical program to finalize a resolution for this issue.</p> <p><u>WIC Program:</u> The WIC Program expenditure categories will be reviewed for appropriate percentages and the Treasury State Agreement will be revised. This review will occur each year going forward.</p> <p><u>Excess Cash on Hand from Rejected Invoices:</u> The Commonwealth will maintain a list of rejected and redlined invoices to identify those invoices related to Federal funds. Once invoices have been identified that relate to federal funds a report will be generated to determine the amount of days lapsed between the original draw date and reversal of the draw. Interest liability will be reviewed for materiality and the interest report will be adjusted appropriately.</p>

Appendix



Commonwealth of Pennsylvania

COMMONWEALTH OF PENNSYLVANIA

APPENDIX - Legend of Abbreviations - June 30, 2009

The following legend presents descriptions of abbreviations that appear throughout the report:

<u>ABBREVIATION</u>	<u>DESCRIPTION</u>
21 st CCLC	Twenty-First Century Community Learning Centers
ACF	Administration for Children and Families
ADC	Average Daily Clearance
ARRA	American Recovery and Reinvestment Act
BCA	Bureau of Commonwealth Accounting
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
CTE	Career and Technical Education
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

COMMONWEALTH OF PENNSYLVANIA

Legend of Abbreviations (Continued) - June 30, 2009

<u>ABBREVIATION</u>	<u>DESCRIPTION</u>
ICS	Integrated Central System
IDEA-B	Individuals With Disabilities Education Act – Part B
IES	Integrated Enterprise System
IT	Information Technology
L&I	Pennsylvania Department of Labor and Industry
LEA	Local Educational Agency
LECS	Labor, Education & Community Services Comptroller’s Office
LIHEAP	Low Income Home Energy Assistance Program
MA	Medical Assistance Program
MCH	Maternal and Child Health Care Services Block Grant to the States
MD	Management Directive
MLF	Motor License Fund
MOE	Maintenance of Effort
NGMO	National Guard Military Operations and Maintenance Projects
OA	Office of Administration
OB	Office of the Budget
OCO	Office of Comptroller Operations
OCYF	Office of Children, Youth and Families
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
PEARS	Program Electronic Application and Reimbursement System
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
RA	Regional Administrator
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
SRF	State Revolving Fund
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

COMMONWEALTH OF PENNSYLVANIA

Legend of Abbreviations (Continued) - June 30, 2009

ABBREVIATION

DESCRIPTION

VOC ED

Vocational Education

WIA

Workforce Investment Act

WIC

Women, Infants, and Children