



Commonwealth of Pennsylvania

Single Audit Report

For the Fiscal Year Ended June 30, 2014

Tom Wolf
Governor



Commonwealth of Pennsylvania
Single Audit Report
For the Fiscal Year Ended June 30, 2014



Tom Wolf, Governor

Prepared By:

Randy C. Albright, Secretary
Office of the Budget

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Chief Accounting Officer

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**Commonwealth of Pennsylvania
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COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR

RANDY ALBRIGHT
SECRETARY
GOVERNOR'S OFFICE OF THE BUDGET

March 20, 2015

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, 2014. 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, 2014 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 \$25.98 billion of federal expenditures by the Commonwealth during the fiscal year ended June 30, 2014. Most of the \$25.98 billion in federal expenditures occurred in ten state agencies, as follows:

AGENCY NAME	FEDERAL EXPENDITURES <u>(in thousands)</u>
Human Services	\$16,867,799
Labor & Industry	3,808,447
Education	1,863,770
Transportation	1,767,691
Health	424,297
Insurance	286,678
Military & Veterans Affairs	128,079
Emergency Management Agency	126,303
Community & Economic Development	123,173
Aging	107,285
Subtotal	<u>\$25,503,522</u>
Other Agencies (22)	479,338
Grand Total	<u><u>\$25,982,860</u></u>

For purposes of the Commonwealth's single audit, a Type A federal program is any program with federal expenditures of at least \$38.97 million. Of the \$25.98 billion expended, 96 percent, or \$25 billion, represents

expenditures under federal programs audited as major programs. The Summary of Auditors' Results lists the Commonwealth's 34 major federal programs for the fiscal year ended June 30, 2014.

FINDINGS AND RECOMMENDATIONS - CURRENT YEAR

The accompanying report for the fiscal year ended June 30, 2014 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 year unresolved findings. The status of 64 findings are described from single audits between the years ended June 30, 2012 through June 30, 2013.

INDEPENDENT AUDIT

The Commonwealth's June 30, 2014 single audit and basic financial statement audit were performed jointly by the Department of the Auditor General and the independent public accounting firm of KPMG LLP. The audits were performed pursuant to the authority vested in the Auditor General and the Governor under Section 402 of the Fiscal Code of 1929, and in the Governor under Section 701 of the Administrative Code of 1929.

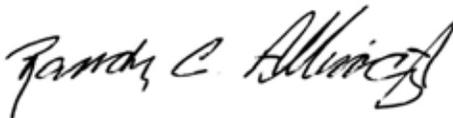
REPORTS OF OTHER INDEPENDENT AUDITORS

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

ACKNOWLEDGMENTS

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

Sincerely,



Randy C. Albright
Secretary of the Budget

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Independent Auditors' Reports



Commonwealth of Pennsylvania



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



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Independent Auditors' Report on the Basic Financial Statements

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

Report on the Financial Statements

We have jointly audited the financial statements, issued under separate cover, of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania (the Commonwealth), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents of the separately issued Comprehensive Annual Financial Report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not jointly audit the financial statements of the Philadelphia Regional Port Authority and the State Stores Fund, non-major Enterprise Funds, which represent 11 percent of total assets and 18 percent of total revenues of the business-type activities

and 1 percent of total assets and 8 percent of total revenues of the aggregate remaining fund information, the Tuition Payment Fund and the Commonwealth Financing Authority, which are both major Enterprise Funds, and represent 33 percent of total assets and 4 percent of total revenues of the business-type activities, and certain discretely presented component units, which represent 100 percent of total assets and 100 percent of total revenues of the aggregate discretely presented component units. We also did not jointly audit 100 percent of the total assets and 95 percent of the total additions of the Pension and Other Employee Benefit Trust Funds and 100 percent of the total assets and 100 percent of the total additions of the Investment and Private Purpose Trust Funds, which, in total, comprise 85 percent of total assets and 70 percent of total additions/revenues of the aggregate remaining fund information. The financial statements of the Philadelphia Regional Port Authority, the State Stores Fund, the Tuition Payment Fund, the Commonwealth Financing Authority, the discretely presented component units, and the Pension and Other Employee Benefit, the Investment, and the Private Purpose Trust Funds were audited by other auditors, including KPMG LLP and the Department of the Auditor General acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Philadelphia Regional Port Authority, the State Stores Fund, the Tuition Payment Fund, the Commonwealth Financing Authority, the discretely presented component units, and the Pension and Other Employee Benefit, the Investment, and the Private Purpose Trust Funds, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

The financial statements audited by other auditors of the State Employees Retirement System, the Public School Employees Retirement System, the Deferred Compensation Fund, the PA Industrial Development Authority, the PA Turnpike Commission, the State Public School Building Authority, the PA Higher Educational Facilities Authority, and the Port of Pittsburgh Commission were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commonwealth's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The Honorable Tom Corbett, Governor

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S generally accepted accounting principles.

Emphasis of Matter

Pennsylvania Turnpike Commission

As discussed in Note S to the financial statements, the Pennsylvania Turnpike Commission, a discretely presented component unit, has committed to making significant payments under an Amended Lease and Funding Agreement as required under the terms of Act 44 of 2007 and Act 89 of 2013. The Pennsylvania Turnpike Commission's ability to make such payments is dependent on its continuing capability to issue bonds to fund such payments and ultimately to raise tolls sufficient to repay its bonded debt and current lease payments. Our opinion is not modified with respect to this matter.

Change in Accounting Principle Resulting from the Adoption of a New Accounting Pronouncement

As discussed in Note B to the financial statements, effective July 1, 2013, the Commonwealth adopted the provisions of Governmental Accounting Standards Board's Statement No. 65, "Items Previously Reported as Assets and Liabilities" Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, schedules of funding progress and employer contributions of other postemployment benefit plans, and budgetary comparison information included in the separately issued Comprehensive Annual Financial Report on pages 19 through 39 and 157 through 163 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate

operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described previously, and the reports of the other auditors, the combining non-major fund and component unit financial statements and budgetary comparison schedules for budgeted non-major special revenue funds are fairly stated in all material respects in relation to the basic financial statements 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 do not express an opinion or provide any assurance on them.

The Honorable Tom Corbett, Governor

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014 on our consideration of the Commonwealth'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commonwealth's internal control over financial reporting and compliance.



KPMG LLP

December 19, 2014



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



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

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania

We have jointly audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania (the Commonwealth), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements, and have issued our report thereon dated December 19, 2014. Our report includes a reference to other auditors who audited the financial statements of certain activities as described in our report on the Commonwealth's financial statements. 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 Industrial Development Authority, the PA Turnpike Commission, the State Public School Building Authority, the PA Higher Educational Facilities Authority, and the Port of Pittsburgh Commission were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commonwealth's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2014-001 and 2014-003 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2014-002 and 2014-004 through 2014-007 to be significant deficiencies.

Compliance and Other Matters

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

The Commonwealth's Response to Findings

The Commonwealth's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Commonwealth's responses were not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

The Honorable Tom Corbett
Governor

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commonwealth's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commonwealth's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



KPMG LLP

December 19, 2014



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



KPMG LLP
30 North Third Street
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Harrisburg, PA 17101-1715

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Honorable Tom Wolf, Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania

Report on Compliance for Each Major Federal Program

We have jointly audited the Commonwealth of Pennsylvania's (Commonwealth) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Commonwealth's major federal programs for the year ended June 30, 2014. The Commonwealth's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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, the Philadelphia Regional Port Authority, the Pennsylvania Convention Center Authority, and the Judicial Department of Pennsylvania, which received approximately \$8.9 billion in federal awards and \$35.5 billion of federal loan guarantees that are not included in the schedule of expenditures of federal awards for the year ended June 30, 2014. Our audit, described below, did not include the operations of these seven entities because other auditors were engaged to perform audits (when required) in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Commonwealth's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted

our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commonwealth's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified and modified audit opinions on compliance. However, our audit does not provide a legal determination of the Commonwealth's compliance.

Basis for Adverse Opinion on the Major Federal Program Identified in the Following Table

As identified in the following table and as described in the accompanying schedule of findings and questioned costs, the Commonwealth did not comply with requirements regarding the following:

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program Cluster	Compliance Requirement
Department of Community and Economic Development	2014-008	14.228	Community Development Block Grants – State's Program	Subrecipient Monitoring
Department of Community and Economic Development	2014-009	14.228	Community Development Block Grants – State's Program	Reporting
Various	2014-035	14.228	Community Development Block Grants – State's Program	Subrecipient Monitoring
Various	2014-037	14.228	Community Development Block Grants – State's Program	Subrecipient Monitoring

Compliance with such requirements is necessary, in our opinion, for the Commonwealth to comply with the requirements applicable to the Community Development Block Grants – State's Program.

Adverse Opinion on the Major Federal Program Identified Above

In our opinion, because of the significance of the effects of the noncompliance described in the Basis for Adverse Opinion paragraph, the Commonwealth did not comply in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Community Development Block Grants – State's Program for the year ended June 30, 2014.

Basis for Qualified Opinion on the 28 Major Federal Programs Identified in the Following Table

As identified in the following table and as described in the accompanying schedule of findings and questioned costs, the Commonwealth did not comply with requirements regarding the following:

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
Department of Education	2014-012	84.010	Title I Grants to Local Educational Agencies	Special Tests and Provisions related to Identifying Schools and LEAs Needing Improvement, Special Tests and Provisions related to the Annual Report Card, High School Graduation Rate
Department of Education	2014-013	84.377 84.388 – A	School Improvement Grants Cluster	Activities Allowed or Unallowed, Allowable Costs, Earmarking, Subrecipient Monitoring
Department of Human Services	2014-015	10.551	Supplemental Nutrition Assistance Program	Special Tests and Provisions related to EBT Card Security
		93.558	Temporary Assistance for Needy Families	
Department of Human Services	2014-016	93.558	Temporary Assistance for Needy Families	Reporting
Department of Human Services	2014-017	93.558	Temporary Assistance for Needy Families	Subrecipient Monitoring
		93.658	Foster Care – Title IV-E	
		93.659	Adoption Assistance	
Department of Human Services	2014-022	93.667	Social Services Block Grant	Cash Management, Subrecipient Monitoring
Department of Military and Veterans Affairs	2014-030	64.015	Veterans State Nursing Home Care	Eligibility
Pennsylvania Emergency Management Agency	2014-031	97.067	Homeland Security Grant Program	Special Tests and Provisions related to Subgrant Awards
Pennsylvania Emergency Management Agency	2014-032	97.067	Homeland Security Grant Program	Subrecipient Monitoring

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
Pennsylvania Emergency Management Agency	2014-033	97.067	Homeland Security Grant Program	Equipment and Real Property Management
Pennsylvania Infrastructure Investment Authority	2014-034	66.458 - A	Capitalization Grants for Clean Water State Revolving Funds	Subrecipient Monitoring
Various	2014-037	10.553 10.555 10.556 10.559	Child Nutrition Cluster	Subrecipient Monitoring
		10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	
		10.558	Child and Adult Care Food Program	
		17.258 17.259 17.278	WIA Cluster	
		20.205 - A 20.219 23.003	Highway Planning and Construction Cluster	
		66.458 - A	Capitalization Grants for Clean Water State Revolving Funds	
		84.010	Title I Grants to Local Educational Agencies	
		84.027 84.173	Special Education Cluster	
		84.048	Career and Technical Education – Basic Grants to States	
		84.287	Twenty-First Century Community Learning Centers	
		84.367	Improving Teacher Quality State Grants	
		84.377 84.388 - A	School Improvement Grants Cluster	

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
		93.044 93.045 93.053	Aging Cluster	
		93.558	Temporary Assistance for Needy Families	
		93.563	Child Support Enforcement	
		93.568	Low-Income Home Energy Assistance	
		93.575 93.596	CCDF Cluster	
		93.658	Foster Care – Title IV-E	
		93.659	Adoption Assistance	
		93.667	Social Services Block Grant	
		93.767	Children’s Health Insurance Program	
		93.775 93.777 93.778 - A	Medicaid Cluster	
		93.917	HIV Care Formula Grants	
		93.959	Block Grants for Prevention and Treatment of Substance Abuse	
		97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	
		97.067	Homeland Security Grant Program	

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

Qualified Opinion on the 28 Major Federal Programs Identified Above

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the identified major federal programs for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the Commonwealth complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are identified in the following table and described in the accompanying schedule of findings and questioned costs. Our opinion on each major federal program is not modified with respect to these matters.

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
Department of Education	2014-011	84.010	Title I Grants to Local Educational Agencies	Reporting
Department of Health	2014-014	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Special Tests and Provisions related to Food Instruments and Cash-Value Voucher Disposition
Department of Human Services	2014-018	93.558	Temporary Assistance for Needy Families	Subrecipient Monitoring
Department of Human Services	2014-019	93.568	Low-Income Home Energy Assistance	Allowable Costs, Eligibility
Department of Human Services	2014-020	93.575	Child Care and Development Block Grant	Cash Management
Department of Human Services	2014-021	93.575 93.596	CCDF Cluster	Special Tests and Provisions related to Health and Safety Requirements
Department of Human Services	2014-022	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Cash Management, Subrecipient Monitoring
Department of Human Services	2014-023	93.778 - A	Medical Assistance Program	Activities Allowed or Unallowed, Allowable Costs, Eligibility

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
Department of Labor and Industry	2014-024	17.225 - A	Unemployment Insurance	Special Tests and Provisions related to UC Program Integrity - Overpayments
Department of Labor and Industry	2014-026	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Reporting
Department of Labor and Industry	2014-027	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Eligibility
Department of Labor and Industry	2014-028	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Allowable Costs (Effort Reporting)
Department of Military and Veterans Affairs	2014-029	12.401	National Guard Military Operations and Maintenance Projects	Allowable Costs, Period of Availability of Federal Funds
Various	2014-035	20.205 - A 20.219 23.003	Highway Planning and Construction Cluster	Subrecipient Monitoring, Special Tests and Provisions related to Awards with ARRA Funding
		84.377 84.388 - A	School Improvement Grants Cluster	
		93.558	Temporary Assistance for Needy Families	
		93.563	Child Support Enforcement	
		93.658	Foster Care – Title IV-E	
		93.659	Adoption Assistance	
		93.667	Social Services Block Grant	
		93.775 93.777 93.778 - A	Medicaid Cluster	
		93.917	HIV Care Formula Grants	

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
		93.959	Block Grants for Prevention and Treatment of Substance Abuse	
Office of the Budget	2014-036	10.555	National School Lunch Program	Cash Management
		10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	
		10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	
		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	
		93.568	Low-Income Home Energy Assistance	
		93.575 93.596	CCDF Cluster	
		93.658	Foster Care – Title IV-E	
		93.659	Adoption Assistance	
		93.667	Social Services Block Grant	
		93.767	Children’s Health Insurance Program	

State Administering Agency	Finding Number	CFDA No. (A-ARRA)	Federal Program/Cluster	Compliance Requirement
		93.778 – A	Medical Assistance Program	
		96.001	Social Security – Disability Insurance	

The Commonwealth’s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Commonwealth’s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Commonwealth is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commonwealth’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commonwealth’s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-008, 2014-009, 2014-012, 2014-013, 2014-015, 2014-016, 2014-017, 2014-022, 2014-023, 2014-030, 2014-031, 2014-032, 2014-033, 2014-034, 2014-035, and 2014-037 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-010, 2014-011, 2014-014, 2014-018, 2014-019, 2014-020, 2014-021, 2014-022, 2014-024,

The Honorable Tom Wolf, Governor

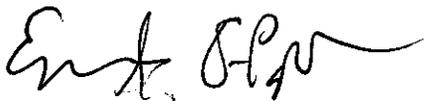
2014-025, 2014-026, 2014-027, 2014-028, 2014-029, 2014-035, 2014-036, and 2014-038 to be significant deficiencies.

The Commonwealth's responses to the findings are described in the accompanying schedule of findings and questioned costs. The Commonwealth's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements. We issued our report thereon dated December 19, 2014, which includes a reference to other auditors and contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



March 20, 2015

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Schedule of Expenditures of Federal Awards



Commonwealth of Pennsylvania

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2014

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
	<i>SNAP Cluster:</i>			
10.551	Supplemental Nutrition Assistance Program		2,618,057	
10.561	State Admin Matching Grants for Supp Nutrition Assist Prgm		171,904	32,188
	Total <i>SNAP Cluster</i>			2,789,961
	<i>Child Nutrition Cluster:</i>			
10.553	School Breakfast Program		85,341	85,124
10.555	National School Lunch Program (Cash Assistance)	321,072		320,018
10.555	National School Lunch Program (Food Commodities)	41,554		41,554
	Total National School Lunch Program		362,626	
10.556	Special Milk Program for Children		378	378
10.559	Summer Food Service Program for Children (Cash Assistance)	13,617		13,042
10.559	Summer Food Service Program for Children (Food Commodities)	115		115
	Total Summer Food Service Program for Children		13,732	
	Total <i>Child Nutrition Cluster</i>			462,077
	<i>Food Distribution Cluster:</i>			
10.565	Commodity Supplemental Food Program (Cash Assistance)	2,513		2,513
10.565	Commodity Supplemental Food Program (Food Commodities)	9,818		9,818
	Total Commodity Supplemental Food Program		12,331	
10.568	Emergency Food Assistance Program (Administrative Costs)		2,764	1,609
10.569	Emergency Food Assistance Program (Food Commodities)		14,859	14,859
	Total <i>Food Distribution Cluster</i>			29,954
10.025	Plant and Animal Disease, Pest Control, and Animal Care		1,138	328
10.028	Wildlife Services		9	
10.069	Conservation Reserve Program		(1)	
10.162	Inspection Grading and Standardization		44	
10.163	Market Protection and Promotion		35	
10.170	Specialty Crop Block Grant Program - Farm Bill		1,058	676
10.171	Organic Certification Cost Share Programs		203	
10.304	Homeland Security - Agricultural		28	
10.435	State Medication Grants		27	
10.458	Crop Insurance Education in Targeted States		678	243
10.557	Special Supp Nutrition Prgm for Women, Infants, and Children		193,592	47,672

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2014

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
10.558	Child and Adult Care Food Program (Cash Assistance)		100,665	99,934
10.558	Child and Adult Care Food Program (Food Commodities)		37	37
	Total Child and Adult Care Food Program		100,702	
10.560	State Administrative Expenses for Child Nutrition		6,856	
10.572	WIC Farmers' Market Nutrition Program (FMNP)		1,632	244
10.574	Team Nutrition Grants		281	
10.576	Senior Farmers Market Nutrition Program		1,845	
10.578	WIC Grants to States (WGS)		395	395
10.579	Child Nutrition Discretionary Grants Limited Availability		1,464	225
10.580	Supp Nutrition Assistance Program, Process & Technology Improvement Grants		183	183
10.582	Fresh Fruit and Vegetable Program		4,283	4,283
10.664	Cooperative Forestry Assistance		1,806	510
10.665	Schools and Roads - Grants to States		2,867	2,867
10.675	Urban and Community Forestry Program		14	
10.676	Forest Legacy Program		27	26
10.678	Forest Stewardship Program		130	
10.680	Forest Health Protection		192	
10.681	Wood Education and Resource Center (WERC)		1	
10.687	ARRA - Capital Improvement and Maintenance		96	
10.769	Rural Business Enterprise Grants		11	
10.912	Environmental Quality Incentives Program		416	416
10.913	Farm and Ranch Lands Protection Program		541	
	Total - U.S. Department of Agriculture		\$3,602,545	\$679,257
11.303	Economic Development - Technical Assistance		86	84
11.307	Economic Adjustment Assistance		231	
11.419	Coastal Zone Management Administration Awards		1,974	979
11.474	Atlantic Coastal Fisheries Cooperative Management Act		79	
11.549	State and Local Implementation Grant Program		7	
11.557	ARRA - Broadband Technology Opportunities Program (BTOP)		2,793	
11.558	ARRA - State Broadband Data and Development Grant Program		1,411	804
	Total - U.S. Department of Commerce		\$6,581	\$1,867

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2014

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
12.400	Military Construction, National Guard	2,541	
12.401	National Guard Military Operations and Maintenance Projects	49,429	
Total - U.S. Department of Defense		\$51,970	\$0
14.228	Community Development Block Grants/State's Program	40,415	38,955
14.231	Emergency Solutions Grant Program	6,285	6,138
14.235	Supportive Housing Program	(121)	
14.239	Home Investment Partnerships Program	10,609	9,723
14.241	Housing Opportunities for Persons with AIDS	1,634	1,632
14.251	Economic Development Initiative-Special Project, Misc Grants	198	
14.267	Continuum of Care Program	224	
14.401	Fair Housing Assistance Program - State and Local	(30)	
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	1,025	801
Total - U.S. Department of Housing and Urban Development		\$60,239	\$57,249
<i>Fish and Wildlife Cluster:</i>			
15.605	Sport Fish Restoration Program	3,457	
15.611	Wildlife Restoration and Basic Hunter Education	19,428	
<i>Total Fish and Wildlife Cluster</i>		22,885	
15.226	Payments in Lieu of Taxes	137	137
15.250	Regulation of Surface Coal Mining	10,455	7
15.252	Abandoned Mine Land Reclamation (AMLR) Program	41,849	321
15.608	Fish and Wildlife Management Assistance	169	
15.612	Endangered Species Conservation	2	
15.615	Cooperative Endangered Species Conservation Fund	74	
15.622	Sportfishing and Boating Safety Act	1,526	
15.634	State Wildlife Grants	1,124	
15.650	Research Grants (Generic)	13	
15.657	Endangered Species Conservation - Recovery Implement Funds	20	
15.808	U.S. Geological Survey - Research and Data Collection	60	
15.810	National Cooperative Geologic Mapping Program	149	
15.904	Historic Preservation Fund Grants-In-Aid	1,171	101
15.916	Outdoor Recreation - Acquisition, Development and Planning	110	106
Total - U.S. Department of the Interior		\$79,744	\$672

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2014

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
<i>JAG Program Cluster:</i>			
16.738	Edward Byrne Memorial Justice Assistance Grant Program	8,940	7,306
16.803	ARRA - Edward Byrne Memorial Justice Assistance Grant Prgm	5,659	2,636
	<i>Total JAG Program Cluster</i>		14,599
16.004	Law Enforcement Asst - Narcotics & Dangerous Drugs Training		1,012
16.017	Sexual Assault Services Formula Program		378
16.523	Juvenile Accountability Block Grants		1,137
16.540	Juvenile Justice & Delinquency Prevention - Alloc to States		767
16.548	Title V - Delinquency Prevention Program		22
16.550	State Justice Statistics Prgm for Statistical Analysis Centers		(1)
16.560	Natl Inst of Justice Research, Eval and Devel Project Grants		31
16.575	Crime Victim Assistance		15,740
16.576	Crime Victim Compensation		4,088
16.579	Edward Byrne Memorial Formula Grant Program		(1)
16.580	Ed Byrne Memorial St & Loc Law Enforce Asst Disc Grants Prgm		115
16.588	Violence Against Women Formula Grants		4,172
16.593	Residential Substance Abuse Treatment for State Prisoners		608
16.607	Bulletproof Vest Partnership Program		15
16.609	Project Safe Neighborhoods		119
16.610	Regional Information Sharing Systems		5,030
16.727	Enforcing Underage Drinking Laws Program		52
16.740	Statewide Automated Victim Info Notification (SAVIN) Program		239
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program		214
16.746	Capital Case Litigation Initiative		61
16.750	Support for Adam Walsh Act Implementation Grant Program		98
16.812	Second Chance Act Reentry Initiative		130
16.816	John R. Justice Prosecutors and Defenders Incentive Act		134
16.922	Equitable Sharing Program		2,763
Total - U.S. Department of Justice			\$53,586
			\$31,680
<i>Employment Service Cluster:</i>			
17.207	Employment Service/Wagner-Peyser Funded Activities	26,291	
17.801	Disabled Veterans' Outreach Program (DVOP)	2,648	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2014

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
17.804	Local Veterans' Employment Representative Program		2,781	
	Total Employment Service Cluster			31,720
	<i>WIA Cluster:</i>			
17.258	WIA Adult Program		27,674	25,170
17.259	WIA Youth Activities		23,645	23,586
17.278	WIA Dislocated Worker Formula Grants		31,621	26,715
	Total WIA Cluster			82,940
17.002	Labor Force Statistics			2,190
17.005	Compensation and Working Conditions			199
17.225	Unemployment Insurance		2,890,757	398
17.225	ARRA - Unemployment Insurance		522,373	
	Total Unemployment Insurance			3,413,130
17.235	Senior Community Service Employment Program			4,763
17.245	Trade Adjustment Assistance			19,377
17.261	WIA Pilots, Demonstrations, and Research Projects			65
17.267	Incentive Grants - WIA Section 503			33
17.271	Work Opportunity Tax Credit Program (WOTC)			539
17.273	Temporary Labor Certification for Foreign Workers			178
17.277	WIA National Emergency Grants			4,689
17.600	Mine Health and Safety Grants			76
	Total - U.S. Department of Labor			\$3,559,899
				\$85,023
	<i>Highway Planning and Construction Cluster:</i>			
20.205	Highway Planning and Construction		1,652,677	211,696
20.205	ARRA - Highway Planning and Construction		4,615	
	Total Highway Planning and Construction		1,657,292	
20.219	Recreational Trails Program		2,056	1,636
23.003	Appalachian Development Highway System		35,021	
	Total Highway Planning and Construction Cluster			1,694,369
	<i>Federal Transit Cluster:</i>			
20.500	Federal Transit - Capital Investment Grants		3,340	2,018
20.500	ARRA - Federal Transit - Capital Investment Grants		350	350
	Total Federal Transit - Capital Investment Grants		3,690	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2014

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
20.507	Federal Transit - Formula Grants	1,298		517
20.507	ARRA - Federal Transit - Formula Grants	586		423
	Total Federal Transit - Formula Grants		1,884	
	Total <i>Federal Transit Cluster</i>			5,574
	<i>Transit Services Programs Cluster:</i>			
20.513	Capital Assistance Program for Elderly and Disabled Persons		4,354	4,354
20.516	Job Access - Reverse Commute		3,968	3,968
20.521	New Freedom Program		1,634	1,634
	Total <i>Transit Services Programs Cluster</i>			9,956
	<i>Highway Safety Cluster:</i>			
20.600	State and Community Highway Safety		10,435	3,996
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I		4,902	2,988
20.602	Occupant Protection Incentive Grants		721	859
20.610	State Traffic Safety Information System Improvement Grants		281	263
20.612	Incentive Grant Program to Increase Motorcyclist Safety		268	
	Total <i>Highway Safety Cluster</i>			16,607
20.106	Airport Improvement Program		10,430	10,344
20.218	National Motor Carrier Safety		7,230	44
20.231	Performance and Registration Information Systems Management		533	
20.232	Commercial Driver's License Program Improvement Grant		425	
20.314	Railroad Development		5,001	5,001
20.317	Capital Assistance to States - Intercity Passenger Rail Service		103	
20.319	ARRA - High-Speed Rail and Intercity Passenger Rail Service		9,454	2,240
20.505	Metro Trans Planning & State & Non-Metro Planning & Research		96	
20.509	Formula Grants for Rural Areas		18,066	17,806
20.515	State Planning and Research		545	
20.523	Capital Assistance Program for Reducing Energy Consumption		160	160
20.604	Safety Incentive Grants for Use of Seatbelts		2	
20.614	Nat Highway Traffic Safety Admin Discretionary Safety Grants		133	
20.700	Pipeline Safety Program State Base Grant		1,105	
20.703	Interagency Hazardous Materials Training and Planning Grants		557	360
20.933	National Infrastructure Investments		5,678	5,547
	Total - U.S. Department of Transportation		\$1,786,024	\$276,204

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2014

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
21.000	Treasury Equitable Sharing Program	77	
Total - U.S. Department of the Treasury		\$77	\$0
23.002	Appalachian Area Development	414	314
23.011	Appalachian Research, Technical Assistance and Demo Projects	37	
Total - Appalachian Regional Commission		\$451	\$314
30.002	Employment Discrimination - State and Local Agency Contracts	2,078	
Total - Equal Employment Opportunity Commission		\$2,078	\$0
39.003	Donation of Federal Surplus Personal Property	3,830	3,830
39.011	Election Reform Payments	92	
Total - General Services Administration		\$3,922	\$3,830
45.025	Promotion of the Arts - Partnership Agreements	929	326
45.310	Grants to States	4,860	2,414
Total - National Foundation on the Arts and Humanities		\$5,789	\$2,740
59.061	State Trade and Export Promotion Pilot Grant Program	996	
Total - Small Business Administration		\$996	\$0
64.005	Grants to States for Construction of State Home Facilities	1,987	
64.010	Veterans Nursing Home Care	196	
64.014	Veterans State Domiciliary Care	5,240	
64.015	Veterans State Nursing Home Care	39,347	
64.111	Veterans Education Assistance	1,251	
Total - U.S. Department of Veterans Affairs		\$48,021	\$0

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2014

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
66.001	Air Pollution Control Program Support	6,203	
66.032	State Indoor Radon Grants	398	44
66.040	State Clean Diesel Grant Program	69	69
66.202	Congressionally Mandated Projects	218	
66.419	Water Pollution Control State and Interstate Program Support	5,524	28
66.432	State Public Water System Supervision	4,541	
66.454	Water Quality Management Planning	507	
66.458	Capitalization Grants for Clean Water State Revolving Funds	53,005	53,005
66.458	ARRA - Capitalization Grants for Clean Water State Revolving Funds	910	910
	Total Capitalization Grants for Clean Water State Revolving Funds		
66.460	Nonpoint Source Implementation Grants	5,137	4,103
66.461	Regional Wetland Program Development Grants	151	
66.466	Chesapeake Bay Program	4,466	3,375
66.468	Capitalization Grants for Drinking Water State Revolving Funds	26,693	18,874
66.468	ARRA - Capitalization Grants for Drinking Water State Revolving Funds	234	234
	Total Capitalization Grants for Drinking Water State Revolving Funds		
66.469	Great Lakes Program	102	
66.511	Office of Research and Development Consolidated Research	103	103
66.605	Performance Partnership Grants	629	
66.606	Surveys, Studies, Investigations and Special Purpose Grants	892	18
66.608	Environmental Information Exchange Network Grant Program	116	
66.707	TSCA Title IV State Lead Grants Certification	165	
66.708	Pollution Prevention Grants Program	101	101
66.709	Multi-Media Capacity Building Grants for States and Tribes	36	
66.714	Regional Agricultural IPM Grants	5	
66.801	Hazardous Waste Management State Program Support	3,913	
66.802	Superfund State Site-Specific Cooperative Agreements	40	
66.804	Underground Storage Tank Prevention and Compliance Program	924	
66.805	Leaking Underground Storage Tank Trust Fund Program	1,611	
66.817	State and Tribal Response Program Grants	736	50
	Total - Environmental Protection Agency	\$117,429	\$80,914
81.039	National Energy Information Center		3
81.041	State Energy Program		1,033
81.042	Weatherization Assistance for Low-Income Persons	7,668	7,057
81.042	ARRA - Weatherization Assistance for Low-Income Persons	368	(227)

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2014

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
	Total Weatherization Assistance for Low-Income Persons	8,036	
81.119	ARRA - State Energy Program Special Projects	297	297
81.122	ARRA - Electricity Delivery and Energy Reliability, Research & Dev	196	
Total - U.S. Department of Energy		\$9,565	\$7,127
<i>Special Education Cluster (IDEA):</i>			
84.027	Special Education - Grants to States	390,863	379,398
84.173	Special Education - Preschool Grants	12,066	11,557
	Total Special Education Cluster (IDEA)	402,929	
<i>Student Financial Assistance Programs Cluster:</i>			
84.007	Federal Supplemental Educational Opportunity Grants	14	
84.033	Federal Work-Study Program	22	
84.063	Federal Pell Grant Program	2,951	
	Total Student Financial Assistance Programs Cluster	2,987	
<i>Statewide Data Systems Cluster:</i>			
84.372	Statewide Longitudinal Data Systems	646	
84.384	ARRA - Statewide Data Systems	5,410	49
	Total Statewide Data Systems Cluster	6,056	
<i>School Improvement Grants Cluster:</i>			
84.377	School Improvement Grants	19,019	17,658
84.388	ARRA - School Improvement Grants	21,959	20,423
	Total School Improvement Grants Cluster	40,978	
84.002	Adult Education - Basic Grants to States	17,428	16,881
84.010	Title I Grants to Local Educational Agencies	502,254	496,886
84.011	Migrant Education - State Grant Program	7,005	6,511
84.013	Title I Program for Neglected and Delinquent Children	757	562
84.032	Federal Family Education Loans	2,317	
84.042	TRIO - Student Support Services	216	
84.048	Career and Technical Education - Basic Grants to States	40,832	38,173
84.126	Rehabilitation Services - Vocational Rehab Grants to States	124,943	
84.144	Migrant Education - Coordination Program	73	73
84.169	Independent Living - State Grants	1,100	

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2014

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
84.177	Rehab Serv - Indep Living Services for Older Blind Indiv	1,047	
84.181	Special Education - Grants for Infants and Families	21,002	19,250
84.187	Supp Employment Serv for Indiv with Significant Disabilities	841	
84.196	Education for Homeless Children and Youth	2,811	2,569
84.235	Rehabilitation Services Demonstration and Training Programs	48	
84.265	Rehab Training - State Voc Rehab Unit In-Service Training	329	
84.282	Charter Schools	(67)	(67)
84.287	Twenty-First Century Community Learning Centers	44,824	42,749
84.323	Special Education - State Personnel Development	1,199	
84.330	Advanced Placement Program	495	411
84.358	Rural Education	1,497	1,497
84.365	English Language Acquisition State Grants	12,446	12,162
84.366	Mathematics and Science Partnerships	4,992	4,992
84.367	Improving Teacher Quality State Grants	88,051	85,314
84.369	Grants for State Assessments and Related Activities	12,886	
84.371	Striving Readers	35,542	35,539
84.378	College Access Challenge Grant Program	324	324
84.412	Race to the Top - Early Learning Challenge	1	0
84.413	Race to the Top	10,422	5,148
84.902	National Assessment of Educational Progress	87	
Total - U.S. Department of Education		\$1,388,652	\$1,198,059
90.401	Help America Vote Act Requirements Payments	3,618	2,430
Total - Elections Assistance Commission		\$3,618	\$2,430
<i>Aging Cluster:</i>			
93.044	Special Programs for the Aging - Title III, Part B	23,686	23,469
93.045	Special Programs for the Aging - Title III, Part C	25,621	25,391
93.053	Nutrition Services Incentive Program	5,399	5,399
<i>Total Aging Cluster</i>			54,706
<i>CCDF Cluster:</i>			
93.575	Child Care and Development Block Grant	203,166	195,427
93.596	Child Care Mandatory and Matching Funds of the CCDF	121,834	121,330
<i>Total CCDF Cluster</i>			325,000

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2014

CFDA #	CFDA Program Name		Federal Expenditures (000's)	Passed Through to Subrecipients
	<i>Medicaid Cluster:</i>			
93.775	State Medicaid Fraud Control Units		3,807	
93.777	State Survey and Cert of Health Care Providers and Suppliers		17,059	
93.778	Medical Assistance Program	12,579,004		1,340,708
93.778	ARRA - Medical Assistance Program	76,070		661
	Total Medical Assistance Program		<u>12,655,074</u>	
	Total Medicaid Cluster			12,675,940
93.041	Special Programs for the Aging - Title VII, Chapter 3		200	200
93.042	Special Programs for the Aging - Title VII, Chapter 2		635	632
93.043	Special Programs for the Aging - Title III, Part D		868	868
93.052	National Family Caregiver Support, Title III, Part E		4,675	4,675
93.069	Public Health Emergency Preparedness		19,725	4,950
93.070	Environmental Public Health and Emergency Response		370	
93.071	Medicare Enrollment Assistance Program		939	714
93.079	Cooperative Agreements to Promote Adolescent Health		236	38
93.089	Emergency System for Advance Registration of Vol Health Prof		86	
93.090	Guardianship Assistance		7,510	7,080
93.092	Affordable Care Act Personal Responsibility Education Prgm		1,692	1,289
93.094	Well-Integrated Screening & Eval for Women Across the Nation		319	120
93.103	Food and Drug Administration - Research		918	
93.104	Community Mental Health Services for Children with SED		4,564	4,564
93.110	Maternal and Child Health Federal Consolidated Programs		187	102
93.116	Project Grants and Coop Agreements for Tuberculosis Control		1,123	253
93.127	Emergency Medical Services for Children		128	
93.130	Primary Care Offices Coordination and Dev Coop Agreements		224	
93.136	Injury Prevention and Control Research		1,680	1,303
93.150	Projects for Asst in Transition from Homelessness (PATH)		2,330	2,257
93.165	Grants to States for Loan Repayment Program		130	
93.234	Traumatic Brain Injury State Demonstration Grant Program		186	155
93.235	Affordable Care Act Abstinence Education Program		1,865	
93.240	State Capacity Building		411	
93.243	Substance Abuse and Mental Health Services - Projects		1,093	867
93.251	Universal Newborn Hearing Screening		216	189
93.268	Immunization Cooperative Agreements (Cash Assistance)		8,728	3,528
93.268	Immunization Cooperative Agreements (Vaccines)		<u>76,086</u>	
	Total Immunization Cooperative Agreements			84,814

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2014

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
93.270	Adult Viral Hepatitis Prevention and Control	104	
93.275	Substance Abuse & Mental Health Serv. - Access to Recovery	3,669	3,635
93.283	Centers for Disease Control & Prevention - Investigations	6,480	2,631
93.292	National Public Health Improvement Initiative	232	
93.296	State Partnership Grant Program to Improve Minority Health	90	
93.324	State Health Insurance Assistance Program	270	270
93.414	ARRA - State Primary Care Offices	77	69
93.448	Food Safety and Security Monitoring Project	184	
93.505	Affordable Care Act Maternal, Infant, Childhood Home Visit	9,828	9,759
93.507	PPHF National Public Health Improvement Initiative	186	
93.511	Affordable Care Act Grants for Health Insur Premium Review	40	
93.518	Affordable Care Act - Medicare Improvements	(15)	(15)
93.519	Affordable Care Act - Consumer Assistance Program Grants	434	
93.521	Affordable Care Act - Building Epi, Lab, & Health Info Sys.	1,006	38
93.525	State Planning & Establishment Grants for Affordable Care Act	16	
93.538	Affordable Care Act - Environmental Public Health Tracking	637	
93.544	Coordinated Chronic Disease Prevention and Health Promotion	77	
93.556	Promoting Safe and Stable Families	9,366	9,367
93.558	Temporary Assistance for Needy Families	471,941	164,065
93.563	Child Support Enforcement	151,720	111,592
93.566	Refugee and Entrant Assistance - State Administered Programs	12,301	3,249
93.568	Low-Income Home Energy Assistance	224,220	30,551
93.569	Community Services Block Grant	25,029	24,023
93.576	Refugee and Entrant Assistance - Discretionary Grants	956	668
93.584	Refugee and Entrant Assistance - Targeted Assistance Grants	1,014	1,014
93.590	Community-Based Child Abuse Prevention Grants	1,027	1,027
93.597	Grants to States for Access and Visitation Programs	356	356
93.599	Chafee Education and Training Vouchers Program (ETV)	1,481	1,481
93.600	Head Start	1,703	1,703
93.602	Assets for Independence Demonstration Program	(1,575)	(1,176)
93.603	Adoption Incentive Payments	889	107
93.609	Affordable Care Act - Medicaid Adult Quality Grants	1,099	982
93.617	Voting Access for Individuals with Disabilities - Gov Grants	102	98
93.624	ACA - State Innovation Models - Design & Testing Assistance	989	591
93.630	Developmental Disabilities Basic Support and Advocacy Grants	3,071	2,142

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Schedule of Expenditures of Federal Awards - June 30, 2014

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
93.643	Children's Justice Grants to States	471	471
93.645	Stephanie Tubbs Jones Child Welfare Services Program	9,183	8,272
93.658	Foster Care - Title IV-E	146,166	141,758
93.659	Adoption Assistance	89,796	86,259
93.667	Social Services Block Grant	93,525	77,013
93.669	Child Abuse and Neglect State Grants	642	102
93.671	Family Violence Prevention and Services	2,761	2,761
93.674	Chafee Foster Care Independence Program	4,512	4,512
93.719	ARRA - State Grants to Promote Health Information Technology	8,488	2,054
93.733	Strengthen Public Health Immunization Infrastructure	362	312
93.735	State Health Approaches for Ensuring Quitline Capacity	1,141	
93.744	PPHF: Breast & Cervical Cancer Screening Opportunities	199	199
93.745	BRFSS Prevention & Public Health Funds	112	
93.758	PHHS Block Grant Funded Solely with PPHF	568	165
93.767	Children's Health Insurance Program	294,857	276,793
93.768	Medicaid Infrastructure Grants to Support Competitive Employ	218	3
93.779	CMS Research, Demonstrations and Evaluations	1,053	1,013
93.791	Money Follows the Person Rebalancing Demonstration	15,216	(16)
93.889	National Bioterrorism Hospital Preparedness Program	12,485	9,567
93.917	HIV Care Formula Grants	34,759	8,463
93.928	Special Projects of National Significance	(258)	
93.938	Coop Agreements to Support School Health Programs	32	
93.940	HIV Prevention Activities - Health Department Based	4,299	1,306
93.944	HIV/AIDS Surveillance	979	
93.945	Assistance Programs for Chronic Disease Prevention and Control	1,202	472
93.946	Coop Agreements to Support Safe Motherhood and Infant Health	124	
93.958	Block Grants for Community Mental Health Services	13,927	13,686
93.959	Block Grants for Prevention and Treatment of Substance Abuse	58,488	49,946
93.977	Preventive Health Serv Sexually Trans Diseases Control Grant	2,236	673
93.991	Preventive Health and Health Services Block Grant	3,019	2,648
93.994	Maternal and Child Health Services Block Grant to the States	23,125	13,348
Total - U.S. Department of Health and Human Services		\$14,945,461	\$2,816,176

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2014

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
94.003	State Commissions	178	
94.006	AmeriCorps	8,774	8,774
94.007	Program Development and Innovation Grants	4	4
94.009	Training and Technical Assistance	27	16
Total - Corporation for National and Community Service		\$8,983	\$8,794
95.001	High Intensity Drug Trafficking Areas Program	3,061	
Total - Executive Office of the President		\$3,061	\$0
96.001	Social Security - Disability Insurance	101,079	
Total - Social Security Administration		\$101,079	\$0
97.008	Non-Profit Security Program	237	237
97.023	Community Assistance Program State Support Services Element	250	
97.029	Flood Mitigation Assistance	7	6
97.036	Disaster Grants - Public Assist (Presidentially Declared)	49,669	33,007
97.039	Hazard Mitigation Grant	15,725	15,153
97.041	National Dam Safety Program	166	13
97.042	Emergency Management Performance Grants	10,959	5,220
97.043	State Fire Training Systems Grants	18	
97.045	Cooperating Technical Partners	5	
97.047	Pre-Disaster Mitigation	1,105	1,098
97.050	Presidentially Declared Dis Assist to Households - Other Needs	(27)	
97.052	Emergency Operations Centers	1,444	1,444
97.055	Interoperable Emergency Communications	529	529
97.056	Port Security Grant Program	1,476	944
97.067	Homeland Security Grant Program	53,864	44,454
97.075	Rail and Transit Security Grant Program	4,431	4,431
97.078	Buffer Zone Protection Program (BZPP)	53	43
97.088	Disaster Assistance Projects	(147)	(147)
97.089	Driver's License Security Grant Program	725	
97.091	Homeland Security Biowatch Program	347	
97.092	Repetitive Flood Claims	1,542	1,470

COMMONWEALTH OF PENNSYLVANIA

Schedule of Expenditures of Federal Awards - June 30, 2014

CFDA #	CFDA Program Name	Federal Expenditures (000's)	Passed Through to Subrecipients
97.107	National Incident Management System (NIMS)	47	
97.110	Severe Repetitive Loss Program	665	651
Total - U.S. Department of Homeland Security		\$143,090	\$108,553
GRAND TOTAL		\$25,982,860	\$5,360,889

COMMONWEALTH OF PENNSYLVANIA

Notes to the Schedule of Expenditures of Federal Awards - June 30, 2014

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), the Pennsylvania Convention Center Authority (PCCA), the Philadelphia Shipyard Development Corporation (PSDC), which are discretely presented component units, and the Philadelphia Regional Port Authority (PRPA), which is a blended component unit, elect to have their own single audits (when required) and their expenditures of federal awards are therefore excluded from the Commonwealth's SEFA. These six component units are required to submit their own single audit reports to the Federal Audit Clearinghouse. The PCCA, the PRPA and the PSDC are not required to submit a single audit for the year ended June 30, 2014 because their federal expenditures were 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, 2014.

The reported expenditures for benefits under SNAP (CFDA #10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 0.64 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2014.

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 28, 2012.

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

Subrecipient expenditures reported under CFDA #14.228, Community Development Block Grants, CFDA #14.231, Emergency Solutions Grants Program prior to January 1, 2012, 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, CFDA #20.515, State Planning and Research, CFDA #20.604, Safety Incentive Grants for Use of Seatbelts, CFDA #20.933, National Infrastructure Investments, CFDA #23.002, Appalachian Area Development and CFDA #23.003, Appalachian Development Highway System are presented on the basis that expenditures are reported to the U.S.

COMMONWEALTH OF PENNSYLVANIA

Notes to the Schedule of Expenditures of Federal Awards - June 30, 2014

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 23.68 percent of the federal government's original acquisition cost (OAC) of the federal property transferred to recipients by the Commonwealth.

Expenditures identified on the SEFA as Vaccines under CFDA #93.268, Immunization Cooperative Agreements, represent the dollar value of the items used.

The following item indicates costs reported under CFDA #93.658, Foster Care - Title IV-E, which were disallowed by the U.S. Department of Health and Human Services (HHS), as the result of a HHS Office of Inspector General multi-phased Foster Care audit of the period October 1, 1997 to September 30, 2002:

As directed by HHS, Pennsylvania agreed to make payments for the total disallowed costs (\$93,600,227) in ten quarterly installments pursuant to 45 CFR 201.66. Based on the agreement terms, installment payments shall be made through the adjustment of quarterly grants, as provided by 45 CFR 201.66(b)(4). Repayments must be made through the submission of a Title V-E Programs Quarterly Financial Report (Form CB-496) beginning with the report for the quarter ending September 30, 2013. The amounts were disallowed due to claims that included services not provided, ineligible children and ineligible or unlicensed providers. Although these decreasing adjustments reduced the current year grant expenditures and award by \$37,440,092, the reported expenditures for this CFDA program are shown at the gross amount for the June 30, 2014 SEFA.

Expenditures reported by the Pennsylvania Department of Transportation (PennDOT) for CFDA #97.036, Disaster Grants-Public Assistance (Presidentially Declared Disasters), 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, 2014. The categorization of expenditures by program included in the SEFA is based on the Catalog of Federal Domestic Assistance (CFDA). Changes in the categorization of expenditures occur based on revisions to the CFDA, which are issued on a real-time basis on the CFDA website.

Note D: Unemployment Insurance

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

State Regular UC Benefits	\$2,513,243
Federal UC Benefits	753,313
Federal Admin.	146,574
Total Expenditures	<u>\$3,413,130</u>

Schedule of Findings and Questioned Costs



Commonwealth of Pennsylvania

COMMONWEALTH OF PENNSYLVANIA

Summary of Auditors' Results - June 30, 2014

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiencies identified not considered to be material weaknesses? X yes none reported

Noncompliance material to financial statements noted? yes X 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 none reported

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

Adverse opinion for the following major program:

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

Qualified for noncompliance in the following major programs:

Supplemental Nutrition Assistance Program (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 Women, Infants, and Children (CFDA #10.557)
Child and Adult Care Food Program (CFDA #10.558)
Workforce Investment Act (WIA) Cluster (CFDA #17.258, #17.259 and #17.278)
Highway Planning and Construction Cluster (CFDA #20.205, #20.219 and #23.003)
Veterans State Nursing Home Care (CFDA # 64.015)
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)
Twenty-First Century Community Learning Centers (CFDA #84.287)
Improving Teacher Quality State Grants (CFDA #84.367)
School Improvement Grants Cluster (CFDA #84.377 and #84.388)
Aging Cluster (CFDA #93.044, #93.045 and #93.053)
Temporary Assistance for Needy Families (CFDA #93.558)
Child Support Enforcement (CFDA #93.563)

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Summary of Auditors' Results - June 30, 2014

Low-Income Home Energy Assistance (CFDA #93.568)
 Child Care and Development Fund (CCDF) Cluster (CFDA #93.575 and #93.596)
 Foster Care – Title IV-E (CFDA #93.658)
 Adoption Assistance (CFDA #93.659)
 Social Services Block Grant (CFDA #93.667)
 Children's Health Insurance Program (CFDA #93.767)
 Medicaid Cluster (CFDA #93.775, #93.777 and #93.778)
 HIV Care Formula Grants (CFDA #93.917)
 Block Grants for Prevention and Treatment of Substance Abuse (CFDA #93.959)
 Disaster Grants – Public Assistance (Presidentially Declared Disasters) (CFDA #97.036)
 Homeland Security Grant Program (CFDA #97.067)

Unmodified for the following major programs:

National Guard Military Operations and Maintenance Projects (CFDA #12.401)
 Abandoned Mine Land Reclamation (AMLR) Program (CFDA #15.252)
 Unemployment Insurance (CFDA #17.225)
 Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA #84.126)
 Social Security – Disability Insurance (CFDA #96.001)

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

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster	Federal Expenditures (000s)
10.551 and 10.561	Supplemental Nutrition Assistance Program (SNAP) Cluster	\$ 2,789,961
10.553, 10.555, 10.556 and 10.559	Child Nutrition Cluster	462,077
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	193,592
10.558	Child and Adult Care Food Program	100,702
12.401	National Guard Military Operations and Maintenance Projects	49,429
14.228	Community Development Block Grants – State's Program	40,415
15.252	Abandoned Mine Land Reclamation (AMLR) Program	41,849
17.225	Unemployment Insurance (A)	3,413,130
17.258, 17.259 and 17.278	Workforce Investment Act (WIA) Cluster	82,940
20.205, 20.219 and 23.003	Highway Planning and Construction Cluster (A)	1,694,369
64.015	Veterans State Nursing Home Care	39,347
66.458	Capitalization Grants for Clean Water State Revolving Funds (A)	53,915
84.010	Title I Grants to Local Educational Agencies	502,254
84.027 and 84.173	Special Education Cluster (IDEA)	402,929
84.048	Career and Technical Education – Basic Grants to States	40,832

COMMONWEALTH OF PENNSYLVANIA

Summary of Auditors' Results - June 30, 2014

84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	124,943
84.287	Twenty-First Century Community Learning Centers	44,824
84.367	Improving Teacher Quality State Grants	88,051
84.377 and 84.388	School Improvement Grants Cluster (A)	40,978
93.044, 93.045 and 93.053	Aging Cluster	54,706
93.558	Temporary Assistance for Needy Families	471,941
93.563	Child Support Enforcement	151,720
93.568	Low-Income Home Energy Assistance	224,220
93.575 and 93.596	Child Care and Development Fund (CCDF) Cluster	325,000
93.658	Foster Care – Title IV-E	146,166
93.659	Adoption Assistance	89,796
93.667	Social Services Block Grant	93,525
93.775, 93.777 and 93.778	Medicaid Cluster (A)	12,675,940
93.767	Children's Health Insurance Program	294,857
93.917	HIV Care Formula Grants	34,759
93.959	Block Grants for Prevention and Treatment of Substance Abuse	58,488
96.001	Social Security – Disability Insurance	101,079
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	49,669
97.067	Homeland Security Grant Program	53,864
	Total Federal Expenditures – Major Programs	<u>\$25,032,267</u>

(A) = ARRA Funds included

Dollar threshold used to distinguish between

Type A and Type B programs (000s): \$38,974

Auditee qualified as low-risk auditee? yes X no

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Index to Basic Financial Statement Findings - June 30, 2014

Finding No.	Finding Title	Impacted State Agency	Finding Page	CAP Page
2014-001**	A Material Weakness Exists Over Financial Reporting in the Unemployment Compensation Fund	OB/OCO	50	210
2014-002*	General Computer Controls in the Pennsylvania Department of Treasury Need Improvement (A Similar Condition Was Noted in Prior Year Finding 13-02)	Treasury	51	210
2014-003**	Material Weaknesses Over Financial Reporting of Corporation Tax Receivables and Tax Refunds Payable	OB/OCO DOR	54	211
2014-004*	Statewide Weaknesses Within the SAP Accounting System Related to Potential Segregation of Duties Conflicts and Inappropriate User Roles (A Similar Condition Was Noted in Prior Year Finding 13-04)	OB/OCO	56	213
2014-005*	Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System and Inappropriate Role Assignments (A Similar Condition Was Noted in Prior Year Finding 13-03)	OB/OCO	59	214
2014-006*	General Computer Controls In Various Commonwealth Agencies Need Improvement (A Similar Condition Was Noted in Prior Year Finding 13-05)	OB/OCO OA	63	214
2014-007*	Ineffective Methodology in Estimating Escheat Liability (A Similar Condition Was Noted in Prior Year Finding 13-01)	Treasury	79	226

* - Significant Deficiency

** - Material Weakness

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings – June 30, 2014

Finding 2014 – 001:

Office of Comptroller Operations – Bureau of Accounting and Financial Management

A Material Weakness Exists Over Financial Reporting in the Unemployment Compensation Fund

Condition: The Commonwealth's Basic Financial Statements (BFS) contained misstatements in the Unemployment Compensation (UC) Fund related to the UC revenue bonds and the UC demand revenue bonds. The misstatements occurred in the account balances for interest payable, interest expense, restricted cash, current demand revenue bonds payable, and noncurrent demand revenue bonds payable. Our testing disclosed that two adjusting entries posted by Bureau of Accounting and Financial Management (BAFM) personnel to the UC Fund GAAP Template for the fiscal year ended June 30, 2014 were incorrect. The first incorrect adjusting entry resulted in a \$39.5 million overstatement of interest payable and interest expense, and the second incorrect adjusting entry resulted in a \$36.6 million understatement of interest expense and a \$36.6 million overstatement of restricted cash. Our testing also disclosed that BAFM personnel neglected to post a third adjusting entry which resulted in a \$76.3 million understatement of current demand revenue bonds payable and a corresponding \$76.3 million overstatement of noncurrent demand revenue bonds payable.

Criteria: Management review controls, which are part of the control activities component of the internal control environment, are essential for effective internal control. These controls involve management reviewing information in documents and reports prepared by the entity. These reviews require judgment related to significant transactions. Strong internal controls should include a management review and approval process which is adequate to ensure that account balances are accurately reported in the BFS in accordance with GAAP.

Cause: BAFM internal management review procedures over the UC GAAP Template preparation process were not adequate to timely detect and correct the errors noted above. The GAAP templates are the Commonwealth's basis for the preparation of its BFS.

Effect: The above balances in the UC Fund government-wide and fund financial statements were misstated and required adjustment.

Recommendation: We recommend that BAFM improve its procedures for preparing, reviewing, and approving the UC Fund GAAP Template to ensure that the UC Fund amounts are accurately reported in the BFS.

Agency Response: BAFM agrees with this finding.

The corrective action plan 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, 2014

Finding 2014 – 002:

Department of Treasury

General Computer Controls in the Pennsylvania Department of Treasury Need Improvement (A Similar Condition Was Noted in Prior Year Finding 13-02)

Condition: Our review of general computer controls at the Department of Treasury (Treasury) during the fiscal year ended June 30, 2014 disclosed the following internal control deficiencies that need to be addressed by Treasury management:

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

1. Shared administrative accounts exist with direct access to the OnBase Oracle database, which are used for updates to the OnBase application and database. There is no regularly documented review of activities performed using these administrative accounts.
2. The number of badges with access to the data center where the OnBase system is hosted appears to be excessive. The data center access list is being reviewed by management on a regular basis for appropriateness, and management has taken action to reduce the number of badges; however, a number of badges are issued to individuals who do not have daily responsibilities requiring data center access.
3. The password settings for the OnBase application and the Bureau of Unemployment Compensation Disbursements (BUCD) domain do not comply with Treasury password policies.
4. A comprehensive listing of OnBase application programming changes is not available. Due to a system limitation, a system-generated listing of changes cannot be obtained from the OnBase system, and therefore does not provide auditable evidence required to verify that all programming changes were appropriately documented, approved, and tested.
5. Financial data is processed in spreadsheets, databases, and other user-developed programs that may be used to support financial reporting. Management has drafted a policy to address IT controls related to access, change control, development, and backup of these programs and supporting data; however, the policy has not been fully implemented. Although there are no standardized policies regarding end user computing, the auditors note that based on interviews, Treasury management asserts that access to significant spreadsheets is limited to authorized users.

The following deficiency relates to a service organization utilized by Treasury:

6. J.P. Morgan Treasury Services:
The following control deficiencies related to prepaid card services were noted as a result of the Service Organization Controls (SOC 1/SSAE 16) examination of J.P. Morgan Treasury Services, the service organization that provides electronic disbursement of unemployment compensation and State Workers Insurance Fund (SWIF) payments administered through the Department of Treasury. Management responses and follow-up testing performed by the service auditors are included within the SOC 1 report.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings – June 30, 2014

Finding 2014 – 002: (continued)

Control	Exception
<p>Functionality and systems acceptance tests are performed for new system developments and changes to existing systems. Testing is approved by the party requesting the change or a designee.</p>	<p>For the period July 1, 2013 to October 31, 2013, inaccurate logic within the ITSM system in combination with human error allowed for the possibility of certain tickets to be moved into production-ready status without the appropriate approvals or failed to route the ticket for approval where management was obtaining retrospective approval of an emergency change.</p>
<p>New system developments and changes to existing systems are approved by the required business and/or technology management prior to the implementation of the change. Scheduled changes require approval prior to the implementation of the change. Emergency changes may be approved retrospectively.</p>	<p>For the period July 1, 2013 to October 31, 2013, inaccurate logic within the ITSM system in combination with human error allowed for the possibility of certain tickets to be moved into production-ready status without the appropriate approvals or failed to route the ticket for approval where management was obtaining retrospective approval of an emergency change.</p>
<p>Access to systems is recertified after internal transfer and is amended or revoked, when appropriate based on defined criteria and notifications.</p>	<p>For the period January 31, 2014 to February 4, 2014, the automated job process that loads a file containing transferred users into IDCert failed, causing users who transferred in that time not to be routed for access recertification by their line manager. Management identified the issue on May 12, 2014, and on May 24, 2014 reflagged all users for recertification within IDCert who transferred during the period January 31, 2014 to February 4, 2014.</p> <p>For the period February 7, 2014 through May 18, 2014, for 9 out of a total population of 194 application entitlements marked for deletion in the IDCert transfer utility as a result of a transfer event, access was not removed. Inaccurate logic implemented within IDCert on February 7, 2014 caused certain entitlements that were requested for deletion to fail to route to a deletion queue; the system issue was fixed on May 18, 2014. The application entitlements were held by 2 users out of a total population of 36 users whose access was requested to be removed during this period.</p> <p>For the period February 7, 2014 through May 18, 2014, for 397 out of a total population of 2534 Unix operating system entitlements marked for deletion in the IDCert transfer utility as a result of a transfer event, access was not removed. Inaccurate logic implemented within IDCert on February 7, 2014 caused certain entitlements requested to be deleted to fail to route to a deletion queue; the system issue was fixed on May 18, 2014. The operating system entitlements were held by 34 users out of a total population of 420 users who access was requested to be removed during this period.</p>

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Finding 2014 – 002: (continued)

	<p>For the period July 1, 2013 to December 4, 2013, a total of 17 AutoSys entitlements marked for deletion as a result of a transfer event were not removed timely. Security administrators did not consistently monitor the queue containing Autosys offboarding requests as a result of a transfer. Access was removed on December 5, 2013 at which point Autosys began following the same transfer process as other job schedulers whereby security administrators consistently monitor the offboarding queue.</p>
<p>Changes to the job scheduler are approved by the required business and/or technology management or designee prior to the implementation of the change.</p>	<p>For the period July 1, 2013 to June 30, 2014, one out of 50 changes to the Control-M job scheduler was deployed to production, as an emergency change, with only a Peregrine incident ticket. After deployment, no retroactive ITSM ticket was raised.</p>

Criteria: A well-designed system of internal controls dictates that sound general computer controls be established and functioning to reduce the risk that agency operations are out of compliance with management’s intent.

Cause: Management is aware of the control weaknesses related to the OnBase general IT controls. Due to limited resources to implement controls and the application’s limits on functionality and configurable options, some weaknesses are difficult to mitigate without significant manual compensating efforts.

Effect: Inappropriate and/or unintentional changes to application functionality or transactional data can result from the weaknesses in IT controls related to OnBase.

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

- Revoke the shared database administration accounts on the OnBase system and ensure that administrative users are actively using their own individual ID.
- Implement alternate procedures for emergency data center access to ensure that only individuals with daily work requirements in the data center are issued badges to that area.
- Implement changes to the password settings for the OnBase application and BUCD domain or implement a manual process to ensure that users’ passwords meet the minimum requirements of the Treasury password policy.
- Establish a logging function on all applications, databases, and servers to ensure that an audit trail of all changes is accessible in the event of a system change requiring research.
- Implement a policy regarding access, change control, development, and backup of user-developed programs (spreadsheets and databases) that are used to support financial processes.

Agency Response: Treasury agrees strong internal controls are necessary for the integrity of payment processing. Several identified weaknesses exist because of conditions beyond the direct control of the Treasury Department. Treasury continues to address these conditions with compensating controls outside of the system. The Bureau and the Department are actively working to create and maintain compensating controls to ensure security and accurate processing for all conditions. Treasury will continue to monitor JP Morgan Chase for benefit card processing.

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

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Finding 2014 – 003:

Office of Comptroller Operations – Bureau of Accounting and Financial Management Department of Revenue

Material Weaknesses Over Financial Reporting of Corporation Tax Receivables and Tax Refunds Payable

Condition: The Commonwealth's Basic Financial Statements (BFS) contained material misstatements in the Government-Wide Statement of Net Position and the General Fund Balance Sheet that required adjustment. The Office of Comptroller Operations (OCO) developed a new methodology to record corporation tax accruals due to the implementation of a new corporation tax system, Integrated Tax System (ITS), which provided additional data than what was available in prior years to calculate corporation tax receivables and payables. In prior years, the accrual methodology focused on cash collections and cash trends to project receivables and tax refunds paid and credits issued subsequent to the respective fiscal year end to determine tax refunds payable.

To validate the tax accruals, the Department of Revenue (DOR) tested selected payable and receivable transaction data on behalf of OCO. The DOR's test results disclosed little to no errors in the accrual data. However, based on auditor testing the DOR test results were determined to be inaccurate. The DOR testing did not adequately take GAAP Reporting requirements into consideration which contributed to the incorrect conclusions.

In addition, the new accrual methodology resulted in other factors that were not adequately considered, including the grossing up of receivables and payables in the fiscal year end data files and the need for an allowance for uncollectible accounts. The methodology also did not consider the gross up caused by delays in receipt and processing returns in the recorded receivable which were later considered and eliminated by DOR. In addition, the methodology failed to include the taxpayer's utilization of carry forward credits to offset future estimated payments.

Our testing of tax accruals recorded in the General Fund, DOR GAAP template for FYE June 30, 2014 disclosed a \$3.0 billion overstatement or 79 percent of the recorded \$3.8 billion corporation tax receivable and a \$1.7 billion overstatement or 71 percent of the \$2.4 billion corporation tax refunds payable initially reported at the October 6, 2014 template due date by management. Based on additional analysis conducted by OCO in combination with our test results and analysis of the corporation tax data, adjustments to reduce receivables by \$2.9 billion and tax refunds payable by \$1.5 billion were recorded. The adjustments to receivables included gross ups, allowance for uncollectible accounts, backlogged returns, and errors in test results. The adjustments to payables included gross ups, estimated credits used to offset future estimated payments, and errors in test results.

Criteria: Governmental Accounting Standards Board Statement No. 33: Accounting and Financial Reporting for Non-exchange Transactions paragraph 16 states, "...Revenues from derived tax revenue transactions should be recognized, net of estimated refunds and estimated uncollectible amounts, in the same period that assets are recognized, provided that the underlying exchange transaction has occurred."

Since a government entity usually cannot collect all taxes that are legally due, the revenue reported should be the estimated tax that it expects to realize. The government entity should use various estimation methods in order to report net revenues from derived tax sources.

Management review controls, which are part of the control activities component of the internal control environment, are essential for effective internal control. These controls involve management reviewing information in documents and reports prepared by the entity. These reviews require judgment related to significant management estimates and significant unusual transactions. Strong internal controls ensure that account balances and adjustments are reported accurately in the BFS in accordance with GAAP.

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Finding 2014 – 003: (continued)

Cause: Corporation tax return processing backlogs, resulting from the significant manual involvement required to correct returns suspended for various business rules, complicated DOR's and OCO's analysis and subsequent adjustment of ITS data to a GAAP presentation. OCO's inexperience with ITS and lack of adequate time to evaluate the ITS data also resulted in the deficiencies in their review methodology and use of accounting estimates. Additionally, DOR corporation tax personnel conducting testing on the ITS data lacked adequate knowledge of GAAP requirements for timing of revenue recognition to confirm the appropriate accounting treatment of transactions.

Effect: The above balances in the government-wide and fund financial statements were misstated and required significant adjustment.

Recommendation: We recommend that OCO review and improve its methodology to test and record corporation tax receivables and payables. DOR should consider options to reduce tax return processing backlogs and, in conjunction with OCO staff, ensure that ITS taxpayer-level transactions are appropriately characterized for GAAP reporting. OCO and DOR should further develop procedures for evaluating, validating, and reviewing the ITS data and accounting estimates to ensure receivables and payables are valid and the amounts reported in the GAAP Template are accurate as of fiscal year end.

OCO Response: OCO partially agrees with this finding.

OCO does not fully agree with the auditor-proposed overstatement values due to differences in judgments on the approach and analysis by the auditors. Therefore, the OCO did not record the auditor's total proposed receivable and payable adjustments. Following the initial posting of the corporation tax accrual entries, OCO continued to work with the DOR in evaluating approaches including the estimation of uncollectible receivables, backlogged returns, converted payments, and carry forward credits, upon which subsequent adjustments were proposed to change the value of both receivables and payables.

OCO did consider the gross receivable and related payment transactions existing within all evaluated files and conducted gross comparative analyses relative to the subsequent events ITS file and the backlogged returns file. A sample investigation of the June 30 file was conducted when preparing the original entries, but the extent of gross ups was not identified by the sample and additional analysis needed to be done.

DOR Response: DOR concurs with OCO's response.

Auditors' Conclusion: OCO's disagreement with the entire auditor proposed adjustment was addressed by the auditors in the Condition. OCO and DOR acknowledge the need for improving the methodology used to record corporation tax receivables and payables.

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

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Finding 2014 – 004:

Office of the Budget

Statewide Weaknesses Within the SAP Accounting System Related to Potential Segregation of Duties Conflicts and Inappropriate User Roles (A Similar Condition Was Noted in Prior Year Finding 13-04)

Condition: The following system access issues exist in the overall SAP computer environment:

1. For the SAP application, management is not adhering to Management Directive 205.37, "Role Assignment Security, and Internal Control Maintenance" amended March 25, 2013, which requires documentation and approval of mitigating controls in situations where it is determined that role conflicts are operationally necessary. Management Directive 205.37 requires that requests for mitigating controls follow the segregation of duties (SoD) waiver process.

Although the Management Directive was amended on March 25, 2013, role cleanup associated with the SAP Governance, Risk and Compliance (GRC) project was not finalized as of June 30, 2014. As a result, there were risks identified by the SAP GRC tool that were not addressed, and not mitigated, as of June 30, 2014.

2. Multiple SAP users have user accounts that allow them to perform specific sensitive user functions that are inconsistent with their daily job responsibilities. Due to the current efforts underway to implement SAP GRC for access management, the auditors did not perform a full analysis of user roles in SAP to identify users with inappropriate roles or segregation of duties conflicts. However, based on our limited procedures, we determined that specific examples include the following:

Vendor Master Data Access:

- a. Call center employees have access to create and change SAP bank account information and to view vendor master records. SAP is not utilized to require a secondary review or approval for changes to vendor records. According to Management Directive 310.26, "Vendor Data Management Unit (VDMU) for Agencies Using SAP," the ability to add/change/delete vendor records should be restricted to only the VDMU manager and four (4) staff members who are responsible for performing these functions on a regular and substantial basis.

Comptroller Role Access:

- b. For direct pay transactions (FB-60) entered by the Comptroller (OCO), SAP roles are not utilized to enforce segregation of duties. When an employee enters the invoice into SAP, it is automatically approved for payment. OCO employees have this access for operational efficiencies to request payment for expenses incurred for which there is no purchase order or goods receipt, e.g., utilities and leases. Current SAP functionality does not prevent improper entries and does not require secondary review to ensure that the invoices were approved by the agencies.
- c. Management remediated a prior year finding during the fiscal year by removing inappropriate Comptroller roles assigned to users who did not require this access based on their job responsibilities. This remediation occurred as part of the ongoing SAP GRC "cleanup" project.
- d. On April 3, 2014, management remediated a prior year finding by removing logical access to check printing functions from the central advancement account check processing role in SAP. This was the final step in the remediation process to implement segregation of duties between check requests, approval and check printing functions.

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Finding 2014 – 004: (continued)

Criteria: Proper segregation of duties among SAP functional users is critical in minimizing and mitigating the risks of inappropriate transactions. Where user-level segregation of duties conflicts are determined to be necessary, compensating controls and adequate documentation should be maintained in accordance with Management Directive 205.37 to demonstrate proper review, as well as to justify user conflicts as appropriate in the circumstances. Management should also conduct periodic reviews of individuals with access to SAP to ensure that only appropriate individuals have access based on their current job responsibilities.

Cause: The procedures established by the Directive to monitor role conflicts were not performed, at least partially, because of configuration issues with the previously-installed role conflict software. The effort underway to utilize SAP GRC should mitigate these weaknesses. Additionally, it appears that some role conflicts were created for practical reasons in order to provide IES staff and others within individual agencies with the ability to assist in multiple situations during the SAP implementation process, and to overcome problems noted during the transition from the old ICS accounting system to SAP. However, requisite revocation and refinement of roles has not occurred. Additional role conflicts were created after the SAP implementation for various business reasons.

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

Recommendation: We recommend that:

- SAP GRC should be completely implemented, including the segregation of duties waiver process, and regularly used to determine that all SAP users are granted appropriate access and to identify and remediate users with segregation of duties violations.
- Vendor Master Data access should be restricted to the VDMU group, or SAP should be configured to require a secondary review of all changes by specified individuals outside of the VDMU business unit.

Office of the Budget Response:

Bureau of Quality Assurance (BQA) Response:

Response to Condition 1:

BQA agrees with this item.

Bureau of Payable Services (BPS) Response:

Responses to Condition 2:

- a. BPS agrees with this item. SAP access has since been removed.
- b. BPS agrees that system functionality does not exist to prevent improper entries or ensure a secondary review; however, our internal procedures require the invoice to be approved by the agency for those invoices outside of the typical workflow process.
- c. BPS agrees with this item. Inappropriate roles were removed by BQA during the GRC project to review all SAP roles.

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Finding 2014 – 004: (continued)

- d. BPS agrees with this item. Although there is not a system-enforced segregation of duties, BPS is prevented from printing the checks since this function was physically moved to the Office of Administrative Services and we no longer have the check printer or check stock available for our use.

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

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Finding 2014 – 005:

Office of the Budget – Bureau of Payable Services

Office of Comptroller Operations – Bureau of Accounting and Financial Management

Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System and Inappropriate Role Assignments (A Similar Condition Was Noted in Prior Year Finding 13-03)

Condition: The following internal control deficiencies related to the SAP configuration related to one-time vendor transactions (payments that are not associated with an established vendor within SAP):

1. The Office of Comptroller Operations (OCO) and Bureau of Accounting and Financial Management (BAFM) do not actively monitor the usage of one-time vendor payments in accordance with the requirements of Management Directive 310.28. The Directive states that the OCO and BAFM are responsible for “monitoring the use of one-time vendor records to determine if a permanent master record should be established and contacting identified vendors to register with the Central Vendor Management Unit (CVMU).” The Directive also requires the performance of “a periodic analysis of the payments posted to one-time vendor records to determine if a permanent vendor master record should be established.” The policy also states that “One-time vendor records shall be used for all payments made to vendors that are paid on a one-time basis or very infrequently and that are not established in the SAP Vendor Master Database.”
2. SAP functionality is not configured to match manually-entered, one-time vendor payments and payments received through automated interfaces to an established vendor in the SAP Vendor Master Database. As a result, numerous payments are made via the one-time vendor process to payees that are already established vendors, which provides limited ability to validate the total payments made to each vendor and to validate that the payment was remitted to the vendor according to their instructions (account, address, contact person, etc.).
3. SAP configuration does not require the entry of an original document reference for one-time vendor refund payments. While the functionality in SAP allows attachments to provide justification for the payment, no justification is required.
4. SAP is not configured to query employee records to determine whether a one-time vendor payment (interfaced or non-interfaced) is being made to a Commonwealth employee. Additionally, management does not have a monitoring process in place to analyze payments that are made to employees to verify appropriateness.
5. OCO supervisors, without adequate documented justification, have the ability to both enter and approve a one-time vendor invoice. In these instances, SAP is not configured to require additional approval.

The auditor acknowledges that items 2 through 5 are a result of choices made in the configuration of SAP; however, the weaknesses that result from the configuration are notable due to the state of weakened controls that impact the prevention of the misuse of one-time vendor transactions.

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 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: The requirements of Management Directive 310.28 are in place to detect and reduce the misuse of one-time vendor functionality because SAP is not configured to systematically enforce limitations on usage. However, OCO and BAFM are not currently following the requirements of Management Directive 310.28.

Some agency systems send large volumes of payment data to SAP for processing, but due to lack of automated functionality to match the payment with an established payee, all of the payments are processed as one-time vendor payments. Additionally, one-time vendor refund payments can be entered directly into SAP with no required supporting

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Finding 2014 – 005: (continued)

documentation or validation that the payment is authorized. There is no additional functionality to validate that the payee is an established approved vendor or require supporting documentation that links the payment to a source document. The auditors recognize that many of these transactions are entered through an interface from another system (e.g., Low Income Home Energy Assistance Program and Third Party Liability payments from Department of Human Services), and the common practice implemented for these payments is to retain the original records in the source system without linking directly to the SAP transaction. However, during audit testing, it was noted that the refunds in SAP which do not have identifying information, whether a single payment or multiple payments, cannot be traced back to the original program or an original document and therefore cannot be substantiated within SAP.

Another factor affecting the usage of one-time vendor functions is that the population of vendor records is not well-controlled, including vendors with multiple Vendor Master and Tax ID numbers, multiple unblocked vendor records with the same name and address, and vendor payments being entered without a Taxpayer Identification Number (TIN) or with multiple TIN numbers. Cleaning up these records requires a significant effort, and management has begun a process to correct errors in vendor records and eliminate duplicate records.

The formal process for establishing/maintaining vendor accounts in SAP may be unnecessary for low-volume vendors, which provides justification for a one-time vendor option; however, it is not intended to be used for frequent payments to a single person or business and is not intended to be used without the compensating functionality of SAP enforcing restrictions on its usage.

Effect: The lack of effective one-time vendor policies (and non-compliance with existing policy) and the failure to configure SAP to prevent duplicate or undocumented payments through the one-time vendor process increases the risk of improper payment activity. As a result of numerous payments being made via the one-time vendor process to payees that are already established vendors, the ability to validate the total payments made to each vendor and to validate that the payments were remitted to the vendor according to their instructions is very limited. These weaknesses can result in duplicate payments to valid vendors, intentional or unintentional overpayment to vendors, improper and undocumented payments to Commonwealth employees, inaccurate tax reporting, payments to individuals misrepresenting themselves as a vendor providing alternate payment instructions (account, address, payee), and other fraudulent activity.

Recommendation: We recommend that Commonwealth management review the various deficiencies noted above and take the necessary actions to resolve them. Specifically, for each item noted above, we recommend that 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, and regular reviews of all one-time vendor payments should be conducted according to the Management Directive.
- Develop and implement a procedure that continually monitors and documents compliance with the Management Directive.
- Update SAP's configuration to systematically associate manually-entered or interfaced transactions with an established vendor, if one already exists. SAP does have this capability if it is properly configured. Management should also continue efforts to clean the vendor master records to eliminate duplicate and incorrect records.
- Update SAP's configuration to require some supporting documentation or reference to source documents for each one-time vendor transaction to provide justification for all payments.
- Update SAP's configuration to query employee records to flag any one-time vendor payment (interfaced or non-interfaced) that may be sent to a Commonwealth employee.

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Finding 2014 – 005: (continued)

- Implement a process to analyze one-time vendor payments to verify the appropriateness of any payments being sent to employees.
- Require an external secondary review of all one-time vendor invoices that are entered by OCO supervisors or provide internal staffing to eliminate the segregation of duties conflict.

Office of the Budget Response:

Bureau of Payable Services (BPS) Response:

2. BPS agrees with this item.
4. BPS agrees with this item, although all invoices go through the standard invoice audit process to verify appropriateness.
5. BPS agrees with this item. Although we recognize supervisors have the ability to enter a one-time vendor invoice, our internal procedure is to only allow this with the approval of the Assistant Director or Director of Payable Services.

BAFM Response:

1. BAFM disagrees with the assertion in condition 1 of this finding, that the use of the one-time vendor in SAP is not actively monitored. Although the last “periodic analysis” prepared in accordance to Management Directive 310.28 was completed several years ago, OCO staff continue to actively monitor one-time vendor activity and work on implementing efficiencies identified through its results. In the last periodic analysis, OCO staff reviewed one-time vendor postings for the time period of July 1, 2009 through April 30, 2010. The analysis identified that approximately 96 percent of one-time vendor postings occur through interface postings from agency legacy systems into SAP. The analysis also identified that approximately 61 percent of the interface postings to the one-time vendor record had SAP vendor records established.

Pursuant to this analysis, BAFM staff initiated efforts with several agencies to change interfaces that use the one-time vendor record, to instead use SAP vendor records as the means of making payments. This effort is time consuming, difficult and requires the expenditure of considerable resources.

Several hurdles BAFM has encountered in pursuing its efforts to convert the interfaces include:

- Cost
- Involvement and cooperation of outside vendors (third party administrators)
- Involvement and cooperation of agencies
- Matching and cleansing of vendor data
- Development of functionality that permits outside contractors access to vendor data in the SAP system

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However, OCO staff has managed the process of successfully converting one interface from one-time vendor to SAP vendor records during the fiscal year ended June 30, 2013 and another one during the fiscal year ended June 30, 2014. BAFM staff is actively working on converting two other interfaces where agencies have shown support in overcoming conversion hurdles. This is an ongoing initiative and OCO intends to continue to work with agencies to convert from using one-time vendor records to SAP vendor records as time and budgets permit. Given the results of the last periodic review combined with BAFM's active efforts on one-time vendor interface conversion, we have concluded that inhibiting the current effort to complete another "periodic analysis" is not cost effective and won't yield any conclusions that have not already been identified.

3. As previously stated in response to prior year findings 12-02 and 13-03, BAFM continues to disagree with this item, as compensating controls have been built into the business process to combat the SAP limitations. Compensating controls are prudent when preventive controls are unfeasible or impractical. These controls were outlined within the corrective action plan (CAP) relevant to Finding 12-02.

Auditors' Conclusion: Management's response related to Condition 1 refers to efforts underway to address Management Directive requirements and provides further clarification regarding the circumstances that affect the SAP one-time vendor process. While the auditors acknowledge that BAFM continues to take steps to address conversion of interface payments to SAP payments by converting additional interfaces, and will continue to monitor progress toward proper use of established vendor records as required in Management Directive 310.28, the underlying system-related control weakness still presides. Although ancillary, downstream detective controls can help mitigate some risks associated with not using established system-based vendor records for payments, the risk of improper or erroneous payments will remain until a system-enforced control is in place.

Management's response related to Condition 3 refers to manual processes that are in place as ancillary controls. Although ancillary controls can help to mitigate some of the risk associated with a lack of system-enforced justification for refund payments, the lack of preventive control within SAP's functionality continues to exist. System-based enforcement that requires justification for payments would serve as a preventive control.

No further conclusion is necessary regarding Conditions 2, 4, and 5.

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

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Finding 2014 – 006:

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 13-05)

Condition: We reviewed the general Information Technology (IT) controls over SAP, and the significant financial systems identified that provide source data to SAP, as part of our general computer controls reviews at various Commonwealth agencies for the fiscal year ended June 30, 2014. Our reviews disclosed internal control deficiencies in individual Commonwealth agencies. This finding also includes internal control deficiencies in service organizations that provide support to Commonwealth agencies. The deficiencies that need to be addressed by Commonwealth management are included below:

General Computer Control Deficiencies Related to SAP and Multiple Commonwealth Agencies:

1. Due to the size and complexity of Commonwealth agencies and operations, numerous information systems pass significant financial data to SAP. While an interface listing was created to identify the inputs from outside agencies into SAP, the interface listing is not comprehensive enough to provide an auditable listing of applications transferring significant financial data into SAP.

Management has taken action during the current fiscal year to include additional information on the interface listing related to source application name, and other relevant information that would allow an auditor to identify the source application for transactions flowing into SAP through an interface; however, efforts are still underway to complete the related information on the listing. Additionally, an owner has not been identified to maintain the listing on a continuous basis.

2. In certain agencies, financial data is processed through end-user computing applications. End-user computing applications are defined as spreadsheets, databases, and other user-developed programs that may be used to support financial reporting. With the issuance of Management Directive 205.43, “Quality Assurance for Business Productivity Tools”, management implemented standardized policies and procedures to address IT controls related to access, change control, development, and backup of end-user computing programs and data during the fiscal year; however, agencies are still in the process of implementing the procedures identified in the policy.
3. Because information technology systems reside at the Commonwealth’s Consolidated Data Center (Data Powerhouse or DPH), the following table of control deficiencies relate to both the SAP environment, and multiple, critical applications for the Department of Human Services, Department of Transportation, Department of Revenue, Department of Labor and Industry, and the PA Liquor Control Board. The Commonwealth contracts with Unisys Corporation (Unisys) and International Business Machines Corporation (IBM) as service organizations to provide managed services to DPH, including data hosting and programming support services. The following operating effectiveness exception was noted within the Service Organization Controls (SOC 1) examination of DPH under Statements on Standards for Attestation Engagements (SSAE) No. 16. Management responses and follow-up testing performed by the service auditors are included within the SOC 1 report:

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Finding 2014 – 006: (continued)

Control	Exception
Visitors to the Data Center must sign in and be escorted by an authorized employee through the Unisys-controlled space. Security and Facility Managers perform monthly Data Center access reviews to verify that individuals who have access to the Data Center require this level of access to perform their job function.	Inspected Data Center Access reviews for a selection of months, inquired of the Project Security Manager, and determined that, for one out of three months selected, a Data Center Access Review was not performed to verify that users with Data Center access required that level of access to perform their job function.

Our reviews also disclosed the following internal control deficiencies in individual agencies:

Pennsylvania Lottery (Lottery)

1. Management took steps to remediate a prior year weakness in the Internal Control System (ICS) application by providing evidence that they were monitoring logs of contractor access as of June 2014. However, management was unable to provide “system-generated” evidence that contractors performing development did not also have access to promote changes to ICS production servers. Furthermore, one administrator in the Backoffice application also had the ability to perform application development.
2. Password requirements for ICS are not configured to enforce adequate complexity settings to comply with Information Technology Policy (ITP) – SEC007, “Minimum Standards for User IDs and Passwords”, specifically regarding user lockout after multiple failed login attempts.
3. Two administrators in the Backoffice and ICS applications did not have their userIDs deleted within two weeks after employment was terminated. One UserID in Backoffice remained active over two years from the date her employment ended, while the other UserID in ICS was active almost ten months from the date his employment ended.

Department of Labor and Industry (L&I)

1. There was no formally documented system development life cycle policy as required by Commonwealth Information Technology Policy (ITP) – APP012, “Systems Development Life Cycle Policy”, established to outline requirements for planning, designing, developing, testing, approving, and implementing new applications and upgrades to existing applications, including vendor-developed software. Relative to this weakness:
 - L&I did not have an adequate formally documented policy requiring documentation of testing in ClearQuest (software used to track and document program changes) prior to implementation of program changes in the Unemployment Compensation Modernization System (UCMS) production environment.
 - L&I did not have an adequate formally documented policy requiring documentation to evidence successful and accurate data migration during implementation of new systems development projects.
2. Outside contractors have both development access and the ability to change the job schedule, resulting in a lack of segregation of duties in the Unemployment Compensation (UC) mainframe environment. Although management implemented a monitoring process over the production environment to compensate for the weakness, evidence of the compensating control was not maintained.

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3. Management partially remediated a prior year weakness by reducing the number of users with SPECIAL and AUDITOR access in the Resource Access Control Facility security system used to secure the mainframe environment. The number of users with OPERATIONS access and the number of users with all three attributes remained unchanged. Further, there are still no policies or procedures for granting powerful user attributes (SPECIAL, OPERATIONS or AUDITOR) in the mainframe environment.
4. An excessive number (183) of users have administrative access into UCMS.
5. Periodic access reviews to determine the appropriateness of all users with privileged access have not been implemented in the UCMS client/server environment.
6. Management remediated a prior year weakness in which developers had access to promote changes into production. Corrective action was implemented in November 2013.
7. There is no alarm system to alert for any type of physical intrusion or for any forced entry to the external steel door that accesses the first floor server room.

State Workers' Insurance Fund (SWIF)

1. There is no formally documented system development life cycle policy as required by Commonwealth Information Technology Policy (ITP) – APP012, “Systems Development Life Cycle Policy”, established to outline requirements for planning, designing, developing, testing, approving, and implementing new applications and upgrades to existing applications, including vendor-developed software.
2. There are no formal reconciliation policies in place to ensure that data migrates successfully and accurately when new or upgraded software applications are implemented.
3. Administrators log in to an OnBase (document management system) service account with a shared password to access a production server.
4. Password requirements for PowerComp (workers compensation policy and claim software), Freedom Financial (general ledger and financial reporting software) and Iworks (investment portfolio software) did not fully comply with Information Technology Policy (ITP) – SEC007, “Minimum Standards for User IDs and Passwords,” specifically regarding inadequate settings for minimum length, password complexity, password expiration, and user lockout after multiple failed login attempts.
5. As a result of software limitations, PowerComp users log on to the application using their CWOPA user ID, which is also their password.

Department of Transportation (PennDOT)

1. An excessive number of users had administrator access (the ability to add, change or delete userIDs) in the Engineering and Construction Management System (ECMS) application. Also, management had no policies or procedures in place to ensure administrator access requests were approved by appropriate management or to conduct periodic access reviews to determine the appropriateness of the users with administrator access.
2. Multiple users have access to a group account that uses a shared password to promote changes to production for the dotGrants application.

Department of Human Services (DHS)

1. DHS partially remediated a prior year weakness in which an annual review of user IDs was not performed in accordance with DHS’s policy. Management performed access reviews for several, but not all, significant applications. DHS has also implemented an automated access de-provisioning process for terminated employees; however non-employees with access to DHS’s systems are not automatically de-provisioned.

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2. A generic database ID is used for direct database administration. The password for this account is not configured appropriately. While the system records login activity, a regular review of user access is not documented to ensure that only members of IT are utilizing this powerful generic account.
3. Management remediated a prior year deficiency related to mainframe password settings for the Client Information System (CIS) application. Password settings were modified to comply with Information Technology Policy (ITP) – SEC007, “Minimum Standards for User IDs and Passwords”.

The following deficiencies are related to service providers that support DHS’s critical applications:

4. DHS’s Bureau of Information Systems (BIS):
The following control deficiencies relating to DHS’s Bureau of Information Systems was noted as a result of the SOC 1 examination of DHS’s Strategic Business Systems. DHS’s Bureau of Information Systems is responsible for providing support for DHS’s Strategic Business Systems.

Control	Exception
New technical contractor employees undertake orientation and training, including as it relates to DHS’s security standards, requirements and procedures which are available in DHS’s Business and Technical Standards within the Security Domain. New contractor employees are required to sign various confidentiality and security agreements.	For 1 of the 30 contractors selected, evidence could not be provided to demonstrate the contractor signed the confidentiality and security agreements.
DHS grants new authorized technical contractor employees access to the mainframe and other systems as a result of authorization forms the contractors submit for this purpose.	For 7 of the 30 contractors selected, evidence could not be provided to demonstrate the contractors submitted authorization forms prior to DHS granting access to new technical contractor employees.
Prior notification must be given to BIS when an employee is “rolled off” in order to provide for timely termination of individual system and building access. All “rolled off” employees have their respective user profiles deleted or deactivated from each system including the applications, the Network, Exchange email, and remote access. Also, all building access cards and/or other security items are returned upon employee “roll off”.	For 1 of the 9 contractors selected, while we noted that notification was completed prior to the contractor’s “roll off”, the deactivation was not performed until three months later.

5. Xerox Services:
The following control deficiency relating to Electronic Benefits Transfer (EBT) was noted as a result of the SOC 1 examination of Xerox Services. Xerox Services is the service organization that provides EBT services to DHS. Management responses and follow-up testing performed by the service auditors are included within the SOC 1 report.

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Control	Exception
Administrative Terminal (AT) password configuration setting requires minimum password length, expiration, complexity settings, and account lockout after a number of unsuccessful attempts.	For four of five clients selected, AT passwords were not configured in accordance with AT minimum required password settings. For all clients selected, AT password complexity was not configured in accordance with AT minimum required password settings.

6. Hewlett Packard:

The following control deficiency relating to Title XIX, Medicaid, transaction processing was noted as a result of the SOC 1 examination of Hewlett Packard Enterprise Services (HP ES). Hewlett Packard is the service organization that provides processing transactions on behalf of the Commonwealth for the Title XIX, Medicaid, claims processing services for DHS. Management responses and follow-up testing performed by the service auditors are included within the SOC 1 report.

Control	Exception
HP ES has implemented a Lenel OnGuard Security System, an electronic access card system that manages cardkey access to the HP ES Camp Hill facility.	Badge access was not granted according to the Automated Physical Access Request System, allowing the recipient of the badge to inappropriate access to the server room, mail room and print room.

7. Unisys Global Outsourcing and Infrastructure Services:

The following control deficiency relating to Title XIX, Medicaid, transaction processing was noted as a result of the SOC 1 examination of Unisys Global Outsourcing and Infrastructure Services, subservice organization of Hewlett Packard. Unisys Global Outsourcing and Infrastructure Services is contracted to provide transaction processing for Medicaid pharmacy rebates on behalf of the Commonwealth. Management responses and follow-up testing performed by the service auditors are included within the SOC 1 report.

Control	Exception
Access to update production code is restricted to authorized individuals.	Segregation of duties did not exist within the Pharmacy Reimbursement Information Management System application as developers had access to update production code and a formal process does not exist to monitor production code libraries for unauthorized changes.

Department of Health (DOH)

1. Management remediated a prior year deficiency by reducing the number of people with access to the data center that houses the Women, Infants and Children (WIC) application servers and databases. Also, the data center access list is reviewed by management on a regular basis for appropriateness.
2. Generic user IDs had access to domain administration, WIC database administration, and server administration functions, with no monitoring of the activities performed by these IDs. Management is in the process of implementing a process to monitor the usage of generic IDs.

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3. Management partially remediated a prior year deficiency by developing written procedures for granting access to the WIC application at the remote QuickWIC offices, including the creation of a request form for new access requests. The auditor recognizes that this improves the design of the control; however, additional improvements are necessary to ensure that documentation exists for all access requests. Specifically, a documented access request should be used for all new users, and changes to existing users' access. Additionally, the access request should specify the level of access being requested. Without specifying the level of access requested, there is no documented audit trail that the access granted was appropriate.

Department of Education (PDE)

1. A segregation of duties weakness exists in the Pennsylvania Information Management System (PIMS) application, which collects student data from Local Educational Agencies as the basis for state and federal subsidies. Two outside vendor employees have access into PIMS to both develop and promote program changes into production.
2. PDE's formal program change methodology for the PIMS application failed to identify a segregation of duties weakness at the vendor. The review of the server logs was not sufficient to detect that developers promoted code changes into production.
3. The vendor maintains 24/7 access to the PIMS database production servers in order to perform weekly Extract Transform Loads. PDE's review of server logs is not designed to identify vendor actions in the system. Therefore, the vendor could make unauthorized changes to PIMS data.
4. Servers at PDE have a machine-level administrator account, which was accessed by two employees using a shared password. PDE staff did not follow procedures in PDE's guideline, "SEC 002: Server Password Security and Resets". E-mails were not sent to the Local Area Network team manager and IT Support Manager when the PDE Admin account was used.
5. A potential lack of segregation of duties exists because a PDE developer has administrator access in PIMS. Her access enables her to create accounts and roles, which also gives her the ability to promote program changes into production.
6. Administrator access to PIMS for two vendor users was authorized by PDE management without verifying whether the users' job function(s) required this level of access. Further, PDE management learned as part of the audit that one of the users no longer needed administrator access because her job duties had changed.

Department of Revenue (DOR)

1. A lack of segregation of duties exists because developers (including contractors) can promote program changes to production in the client server environment, the mainframe environment, and the servers at the imaging facility. Certain developers have administrative/privileged access in the client server environment (ability to add/delete users or change data directly) in the following applications: Electronic Tax Information and Data Exchange System (E-Tides) (tax filing system) and Cigarette Tax. Developers at the imaging facility have privileged access in the production environment (ability to change data in production) in the six applications residing there.
2. Password requirements for the Transaction Management System (TMS) (imaging software used to scan check images for electronic bank deposit) and E-Tides are not configured to enforce adequate complexity settings or to comply with Information Technology Policy (ITP) – SEC007, "Minimum Standards for User IDs and Passwords".

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3. Management partially remediated a prior year weakness by performing periodic access reviews to determine the appropriateness of users with privileged access to the applications in the client/server environment. However, management has not yet completed a review of privileged access into the six applications residing at the imaging facility and one application in the mainframe environment.
4. Management partially remediated a prior year weakness by revoking duplicate badge access for three employees at DOR’s imaging facility. However, management has not corrected the physical access weaknesses that allow all 434 employees with access to the facility to access all areas of the building. Consequently, management has not adequately secured the six applications residing at the imaging facility including the applications used to process checks for bank deposit.
5. A lack of segregation of duties exists because developers (DOR personnel and contractors) have the ability to change the operations schedule in the computing environment used to scan and transmit images of invoices received by the Commonwealth. (Applications impacted are Formware, SoftTrac and InputAccel).
6. A lack of segregation of duties exists because developers can change the operations schedule and promote programs to production in the client server applications at the Strawberry Square data center and in the E-Tides application residing at the Enterprise Data Center.
7. Management remediated a prior year weakness whereby documentation is not maintained to evidence application changes are approved by management or tested prior to implementation into the TMS and the Check 21 (used to transmit check images to the bank) production environment. Corrective action was implemented in July 2014.
8. There are an excessive number of users with access to privileged attributes and powerful commands in the mainframe environment.

The following deficiencies are related to service providers that support DOR's critical applications:

9. First Data Government Solutions (FDGS):
The following control deficiencies were noted as a result of the SOC 1 examination of FDGS. FDGS provides Telefile tax services to the DOR:

Control	Exception
Administrative access to systems, resources, and data is limited to specific employees and groups whose job responsibilities require such access. Administrative authorities for Active Directory and hypervisor systems are reviewed on a periodic basis.	<p>The Windows Active Directory Domain Administrator accounts of six users who have excessive administrator access were identified in testing the population of 39 accounts with access to the Domain Administrator group on the Firstdatawh.local domain. The access of the six users did not result in a lack of segregation of duties.</p> <p>Generic shared administrator accounts are used by First Data to administer the Pennsylvania Administrator Portal.</p> <p>From a sample of all DB2 administrators, determined that one (1) administrator maintained inappropriate access to the system after their transfer date.</p>

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<p>First Data systems are implemented with certain key logical security configuration parameters (as supported by the system) to identify and authenticate users including: (1) forced password changes at a defined interval, (2) a limit on the number of attempts to enter a password correctly before the User ID is suspended, (3) a minimum password length, and (4) a limit on the number of days a User ID is inactive after which the User ID is suspended. Employees accessing First Data’s network via the internet authenticate through a token-based SSL VPN. An automated tool is used to review the configuration parameters of production UNIX systems on a monthly basis, while firewall configurations are reviewed on a semiannual basis.</p>	<p>Inspection of the Pennsylvania Tax system web portal password configurations determined that a password reset, account lockout and inactivity measurements are not enabled.</p>
<p>Access is disabled or removed based on notification from authorized personnel for applications and data centers.</p>	<p>For all privileged users with access to the production files on the FDGS RemitONE/StateEFT and Pennsylvania Tax production servers, 13 terminated/transferred users maintained access to the production servers after their termination/transfer date. Inspection of access logs determined that all identified users did not access their IDC (network) accounts after their termination transfer date.</p>
<p>Client reports on the SFTP and MessageWay servers and on the online applications are restricted to only client personnel based on access rules defined in each system.</p>	<p>Inspection of all users with access to MessageWay identified that 26 users maintained either invalid access, or were assigned to terminated users. Of the 26 user accounts, the following was determined:</p> <ul style="list-style-type: none"> • Eleven (11) accounts were associated to terminated users which were not accessed during the examination period. • Twelve (12) accounts were inappropriately assigned administrator access and should have been assigned operator access; these 12 accounts were either not accessed at all, or not accessed during the examination period. • Three (3) accounts were associated with two (2) current employees and should not have been assigned administrator access and one (1) terminated employee. Investigation of access logs determined that the three (3) accounts were accessed during the examination period.

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InfoSec performs a periodic review of access rights with business owners of critical resources and applications to confirm that no individual has unauthorized or inappropriate access.	In a sample of two (2) quarterly reviews of users with administrative privileges for the VPN, one (1) shared VPN account was not reviewed in the Q2 review.
RemitOne and StateEFT system exception reports are generated and reviewed daily by FDGS and exceptions are communicated to the client.	For a sample of exception reports for rejected/abandoned payments, it was noted that no documentation was maintained to support that two (2) of the five (5) sampled exception reports were reviewed and that the client was notified about the rejected/abandoned payment.

10. Official Payments Corporation (OPC):

The following control deficiencies were noted as a result of the SOC 1 examination of OPC. OPC provides credit card payment services to DOR:

Control	Exception
Access to production environment is restricted to appropriate individuals.	<p><i>October 1, 2012 through June 23, 2013:</i> Given the limited number of resources available as well as inherent limitations of the VSS tool (inability to support clear segregation of duties between development and migration to production), OPC was unable to design a segregation of duties between the development and production environments.</p> <p><i>June 24, 2013 to September 30, 2013:</i> OPC implemented a monitoring process whereby changes to the Tran\$act production libraries are captured by the TripWire tool and reported to the Information Security and the Network Operations Center team for monitoring and corrective action.</p>
Procedures exist and are followed to authenticate all users of the system (both employees and contractors) to support the existence of transactions.	<ol style="list-style-type: none"> Tran\$act Platform: Four out of 15 user accounts (100 percent population) in the 'Administrators' Active Directory group and two out of four accounts in the 'Remote Desktop Users' Active Directory group were obsolete accounts. Central Platform: Six out of 18 user accounts (100 percent population) in the 'Administrators' group were obsolete accounts. <p>Obsolete accounts, defined in this case as those that are active yet unused, pose a security risk since they may allow unauthorized access to the network.</p>

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Upon Human Resources or employee's manager notification of an employee's termination, the support group terminates the employee's operating system access.	One of 152 terminated users (representing 100%) retained active account access to Active Directory and the platforms for approximately five months after termination.
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Pennsylvania Liquor Control Board (PLCB)

1. Management partially remediated a prior year weakness by reducing the number of users, including contractors, with administrator and/or privileged access (i.e., the ability to add, change or delete user IDs, edit data directly, or make configuration changes) in the Information Business Management System (IBMS). However, management indicated that access for additional users still needed to be revoked from the Point of Service (POS) module of IBMS as of June 30, 2014.
2. Management partially remediated a prior year weakness whereby PLCB management had not formally released a policy to comply with Information Technology Policy (ITP) – APP012, "Systems Development Life Cycle (SDLC) Policy", to establish requirements for planning, designing, developing, testing, approving, and implementing new applications and upgrades to existing applications, including vendor-developed software. In June, 2014, PLCB management developed a draft SDLC policy.
3. Robocom Inventory Management System, warehouse inventory management software, was producing inaccurate Quarterly Cycle Count Reports during the audit period.

Criteria: For the auditors to conduct the audit with reliance on computer controls, a preliminary requirement is an overall diagram/schematic of SAP that includes all the key financial system interfaces. We also require a comprehensive trail to link each transaction back to its original application source within the agencies.

A well designed system of internal controls dictates that sound general computer controls (which include adequate segregation of duties, access controls to programs and data, and program change controls) be established and functioning to best ensure that overall agency operations are conducted as closely as possible in accordance with management's intent. Management Directives (MDs) and Information Technology Policies (ITPs) are a source of guidance and criteria for designing and managing well-controlled IT environments. Specific MDs and ITPs were referenced throughout the conditions noted in this finding and management should refer to these documents for detailed criteria.

In addition, for activities that are outsourced to external service providers, management is responsible for monitoring service providers and ensuring that deficiencies in their environments are addressed and, if not, that the Commonwealth implements mitigating controls to reduce the impact of those deficiencies.

Cause: Although an interface listing of the Commonwealth's key interfaces was recently prepared by the Office of Administration, Office for Information Technology, Bureau of Integrated Enterprise System (IES) group, the IES group has not been provided with a wider view of the source systems that originate these inputs. Individual agencies' IT departments are responsible for their own systems, which can result in a limited view of the entire technology landscape by any one department or agency. Additionally, as interfaces share transaction types and document types, it is difficult to trace the origin of all transactions that are received through interfaces.

Regarding the IT general control deficiencies at various agencies listed above, management has addressed some of the general computer control deficiencies noted in prior years; however, due to system limitations, upgrade needs, or limited staffing, some of the deficiencies persist. Regarding the segregation of duties deficiencies concerning personnel with the ability to develop programs and move programs to the production environments, there is no overall Commonwealth policy (i.e., IT Bulletin) to provide guidance in this area.

Regarding the deficiencies noted in the service organizations, Commonwealth management needs to be mindful that when contracting with outside vendors, the responsibility for internal control remains with the Commonwealth. Accordingly, those service organizations need to be monitored to ensure that appropriate controls are in place over Commonwealth systems. Further, Commonwealth management believe that, although strong computer controls are clearly important in agency operations, there are manual compensating internal controls within agency operations that mitigate the impact of the general control deficiencies reported above.

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Effect: Without an overall diagram/schematic of SAP that includes all the key financial system interfaces, the auditors are precluded from reliance on computer controls. Further, in certain agencies management has not performed access reviews for all significant applications. The remaining risk associated with not reviewing user access for all significant applications is that segregation of duties conflicts are not analyzed for some applications; existing employees who change roles may retain excessive access; and contractors may retain excessive access, as non employees are not automatically de-provisioned. If general computer controls are not improved in the various agencies, computer and other agency operations may not be conducted in accordance with management’s intent.

As previously noted in the condition section of this finding, management is not following certain Information Technology Policies (ITPs) that relate to effective internal computer controls. Specifically, by not following ITP – SEC007, “Minimum Standards for User IDs and Passwords”, the risk exists that unauthorized access can occur and not be detected. Further, by not following ITP – APP012, “Systems Development Life Cycle (SLDC) Policy”, applications may be implemented without a structured approach to project management, which contributes to project delays and overruns. The lack of an SDLC at L&I has contributed to L&I’s inability to successfully replace the legacy unemployment compensation mainframe application. The project to implement the benefits portion of the Unemployment Compensation Management System was abandoned in 2013, and L&I management is continuing to draft the request for proposal to restart the project.

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.

Without appropriate monitoring of service organization environments, deficiencies could remain unresolved and could introduce unnecessary risk to the Commonwealth.

Recommendation: We recommend that Commonwealth management continue the current effort to update and maintain a current diagram of SAP and its interfaces that will assist the auditors in identifying the source applications that originate data flowing into SAP, and provide a clear view of the SAP data that are populated through each interface. Also, we recommend that an owner for the interface listing is established within the Office of the Budget who can update the listing when a new interface is created, and can maintain the required information including: source ID, source agency, application name, document type, and transaction code. Ideally, the owner would be involved in the change request process to ensure they are aware of requests for new interfaces.

We recommend that Commonwealth management continue to review the various general computer control deficiencies noted above and take the necessary actions to resolve them. Commonwealth management should ensure that they are in conformance with the MD’s and ITP’s to maintain a well-controlled IT environment. Management has made progress in resolving general IT control deficiencies; however, based on our analysis, several significant issues continue to exist in multiple agencies including: administrative access not commensurate with job responsibilities, segregation of duties weaknesses between development and production responsibilities, password configuration and periodic access reviews. We recommend that management focus their efforts in these areas to address these pervasive issues as a priority.

Commonwealth management also needs to monitor service organizations to ensure the appropriate controls are in place over the outsourced IT environments.

Office of Administration (OA) Response to the three issues listed under General Computer Control Deficiencies:

1. OA agrees with the finding.
2. OA agrees with the finding.

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3. OA agrees with the finding.

Pennsylvania Lottery (Lottery) Response:

1. Lottery disagrees with this finding. For the ICS we did provide an org chart for Spectra employees that clearly indicated who the developers were and who could promote changes. We also showed that no developers had accounts on the ICS servers. We also demonstrated that the promoters only had access to the ICS application directory. In response to the Backoffice administrator account, although the account was included in the developer group, the specified user does not have access to the application source code as such modifications to the application were not possible.
2. Lottery disagrees with this finding. The ICS servers are configured to meet CWOPA password standards with the exception of the lockout after failed login attempts. The servers lock user accounts for one hour after three failed login attempts. This is due to administrator availability in the evenings to unlock accounts and still be able to have Spectra support within a reasonable timeframe to meet drawing requirements. Given that these servers are not on the CWOPA domain, are accessible to a very limited number of internal networks, and only have accounts for the Spectra staff and Lottery IT supervisors, the lockout timeout is not a concern.
3. Lottery disagrees with this finding. For the ICS server, the account referenced in the finding, was not active, but disabled. The employee did not have access to any Commonwealth networks and again, the ICS servers are only accessible from a limited set of internal networks. The account was not deleted in order to verify the contents of the user's home directory and if anything needed to be retained. For the Backoffice administrator account, system account password expiration and system connectivity controls by the Department of Revenue restricting access to Backoffice server prevented access by this user account.

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

1. The finding is acknowledged. A standard System Development Life Cycle (SDLC) is currently being developed for use by all L&I system development projects. However, this enterprise SDLC has not yet been finalized.
2. The finding is acknowledged. Management will research feasible compensating controls to limit/eliminate contractor's ability to promote code into the production environment.
3. The finding is acknowledged. Due to current staffing levels the documented access has been determined to be necessary.
4. The finding is acknowledged. Due to the current nature of the UCMS application this level of access has been determined to be necessary.
5. The finding is acknowledged. Due to current staffing levels resources do not currently exist to conduct the access reviews on a regular basis.
6. The remediation is acknowledged.
7. The finding is acknowledged. While there currently isn't an alert system in place for this door, the door has had additional security added. The door now requires badge access to enter or exit. Research will be conducted to identify whether an alert system can be implemented.

State Workers' Insurance Fund (SWIF) Response:

1. The finding is acknowledged. A standard SDLC is currently being developed for use by all L&I system development projects. However, this enterprise SDLC has not yet been finalized.

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2. The Finding is acknowledged. It is expected that a procedure will be developed as part of any future data migration efforts.
3. The finding is acknowledged. Research will be conducted to determine if a shared account is required by the OnBase product. If it's determined that a shared password is not required, staff will log onto the server with their unique username and password instead of a shared account.
4. The finding is acknowledged. The password requirements used are based on the functionality/limitations for these products. A request for proposal (RFP) is being drafted to modernize the SWIF systems. The RFP will include specific requirements to ensure the replacement systems meet all L&I, OA, and industry best practices around user and password management. Until the SWIF systems are modernized, the Department can only use the functionality available through the products used/listed.
5. The finding is acknowledged. While the PowerComp system uses the userID as its password, the user must first log onto the workstation with their CWOPA ID and password. The system requires the userID entered to match the ID that was used to log onto the workstation. The Department feels this is a mitigation factor until the PowerComp application is replaced as part of a pending RFP.

Department of Transportation (PennDOT) Response:

1. PennDOT agrees with the finding.
2. PennDOT agrees with the finding.

Department of Human Services (DHS) Response:

1. DHS agrees with this finding. DHS has procured Sailpoint, which will be used as an automated recertification tool. Currently we are piloting a subset of users with plans to expand the solution in a phased approach.
2. DHS agrees with this finding. DHS has also procured CyberArch, which will be used to manage privileged user accounts.
3. DHS agrees that the finding was remediated. The mainframe password compliance was completed in March 2014.
4. DHS agrees with this finding.
5. DHS agrees with this finding.
6. DHS agrees with this finding. A newly employed Securitas Security staff incorrectly granted full access to the auditor badge instead of granting the partial access requested on the Automated Physical Access request System (APARS). The Securitas Security staff was reminded to follow the established procedures at all times. We believe this to be an isolated human error that was corrected immediately and did not jeopardize the security at the HP ES Camp Hill facility.
7. DHS agrees with this finding. Unisys management recognizes that a formal process does not currently exist to monitor production code libraries for unauthorized changes. Though the risk is small, Unisys recognizes that the potential exists that unauthorized changes to production code can be made. Unisys management has discussed this issue with Unisys and Molina technical resources as well as the Account Security Officer for HP ES. As a result, Unisys management has identified a solution that is anticipated to be implemented in September 2015.

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Department of Health (DOH) Response:

1. DOH agrees with the facts of the finding.
2. DOH agrees with the facts of the finding.
3. DOH agrees with the facts of the finding.

Department of Education (PDE) Response:

1. The PDE is currently working with the vendor in developing a plan to ensure that all program promotions into production will be performed by a non-developer staff member.
2. The procedures have been in the process of being updated for the server log review, anomaly detection, and follow-up. The PDE will determine if it can capture log data that identify individual actions in the system by the vendor staff.
3. This finding addresses the same logging issue as number 2 above, and will be addressed by the IT Support Division through that finding. The PDE will perform an analysis to determine if it can capture log data that permits identifying individual actions in the system by the vendor staff.
4. The PDE disagrees with this finding. As was explained to the audit team, all servers everywhere have a machine-level administrator account. They must have this to allow an administrator to log on to the machine to repair and recover it, in the event the server has crashed, or otherwise has become disconnected from a domain server such as CWOPA. The PDE's current policy, a copy of which was provided the audit team, directs System Administrators (SAs) to always login to a server using their CWOPA credentials. If for some reason a machine login is needed, they are to e-mail the LAN Team Manager and IT Support Division Manager, documenting the occurrence and the reason for the machine login.

Regarding the two cases cited in the finding, it was explained to the audit team that one of these cases involved a known crashed server, and the situation was discussed by the SA and the LAN Team Manager prior to the SA being dispatched to restart the server and restore it. The LAN Team Manager already was aware of this because he dispatched the SA, and knew because the server was crashed that the machine login would be done. In this instance, the SA understandably did not believe a follow-up e-mail was required, since his specific instructions were to restore the server.

The other case was one where the SA made an independent decision that a machine login was needed, but simply overlooked sending the documenting e-mail. This situation was formally discussed with the SA by the IT Support Division Chief and the LAN Team Manager, and the official policy was reviewed with the SA at that time.

It should be noted that aside from these two cases, during the audit period there were likely several hundred SA logins done to the in-scope system servers in the manner prescribed by our policy, using their CWOPA credentials. The two cases cited, therefore, represent less than 1 percent error rate, and conversely, an effective control rate in excess of 99 percent; it is, therefore, PDE's position that the current policy will be maintained, and no specific corrective action is necessary.

The PDE is formally reviewing this and other similar CDQIT security policies on a quarterly basis with members of the IT Support Division staff at regular staff meetings.

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Finding 2014 – 006: (continued)

5. The PDE disagrees with this finding. The application source code is maintained solely by the vendor. Only executable files are resident on PDE servers for testing and promotion to production. Therefore, the PDE developer in question cannot make changes to the application. Additionally, her roles as an Application Administrator and the Cognos Reporting Lead require her to be able to grant roles and create accounts for application users.
6. The PDE was informed by our vendor about the need for these users to be added to the system and what level of access was required in order to perform their duties. The PDE was not made aware of the transition of one of these vendors to another role. Going forward, PDE will work with our vendor to provide us with timely notification of changes to vendor staff duties and justification of requested access for new or existing vendor staff.

Department of Revenue (DOR) Response:

1. DOR agrees with the finding. There is no migration team that exists to perform the functions described in the finding. A lack of resources requires us to allow developers to change operation schedules since they are the only ones with an understanding of these processes. No one on the user side has the expertise or knowledge to perform these functions.

However, it must be noted that in the imaging/scanning environment, the promotion of Formware changes is more complex than simply copying program files to production. Promotion requires detailed technical knowledge of the code, because a series of code or configuration changes have to be made at different parts of the environment.

2. DOR agrees with the finding. TMS is third party software and we have no control over how they implement their password rules. We have asked them for an enhancement to their software to allow some flexibility in setting password rules. E-Tides is used by over 500,000 taxpayers and having them change their passwords to conform to the ITB is not feasible. Most of these taxpayers are quarterly and semi-annual filers and changing their passwords would occur several times between their required filings. E-Tides is like other popular web sites in the commercial sphere in that it does not require taxpayers to constantly change their passwords since the main users of the application are the public.
3. DOR agrees with the finding. DOR implemented an access review procedure and has completed the review of three in-scope systems. DOR has completed additional reviews and will continue to expand the periodic access review procedure to the remaining in-scope systems.
4. DOR agrees with the finding. As mentioned in the finding, the current layout of the data center has an emergency exit in the room where the imaging equipment and servers are located. DOR has made employee safety our top priority by providing access to all employees in event of an emergency. Additionally, DOR does not own the building, so changes will need to be done in accordance with agreement(s) with the building owner. The department is currently evaluating options to restrict access to certain parts of the building to only those employees with a business need to access that area, while ensuring employee safety will not be impacted.
5. DOR agrees with the finding. There is no migration team that exists to perform the functions described in the finding. A lack of resources requires us to allow developers to change operation schedules since they are the only ones with an understanding of these processes. No one on the user side has the expertise or knowledge to perform these functions.
6. DOR agrees with the finding. There is no migration team that exists to perform the functions described in the finding. A lack of resources requires us to allow developers to change operation schedules since they are the only ones with an understanding of these processes. No one on the user side has the expertise or knowledge to perform these functions.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings – June 30, 2014

Finding 2014 – 006: (continued)

7. DOR agrees that the issue was remediated.
8. DOR agrees with the finding. The Revenue Security and Audit Review Office has reviewed and reduced the mainframe operations (privileged) attribute from 60+ to 27. DOR will continue to review and reduce operations attributes where feasible without disrupting department operations.
9. DOR agrees with the finding and will work with the service provider to correct the issues listed.
10. DOR agrees with the finding and will work with the service provider to correct the issues listed.

Liquor Control Board (PLCB) Response:

1. PLCB agrees with the finding.
2. PLCB agrees with the finding; however the policy was completed in August 2014.
3. PLCB agrees with the finding; however Robocom remediated the issue in October 2014.

Auditors' Conclusion: We continue to be mindful that the information contained in this finding is considerable; nevertheless, we are pleased that management has agreed with the majority of the deficiencies in the finding. Moreover, we are encouraged that management has implemented or initiated corrective actions to correct many of the identified deficiencies.

Regarding Lottery's disagreement with Condition 1, we requested Lottery to obtain a "system-generated" listing of developers and promoters from the vendor, but Lottery officials indicated they were unable to provide it. We have adjusted the wording in the body of the finding accordingly. We do not recall Lottery demonstrating that developers did not have accounts on the ICS servers, nor that the promoters only had access to the ICS application directory. Regarding the administrator in the Backoffice application, the deficiency relates to the developer's ability to grant himself access to the application source code. Therefore, the finding remains as stated above.

Regarding Lottery's disagreement with Condition 2, Lottery notes in its response that password standards meet policy criteria in Information Technology Policy – SEC007, "... with the exception of the lockout after failed login attempts." If the policy is not followed in its entirety, then Lottery should apply for a waiver as specified to document the reason for the noncompliance.

Regarding Lottery's disagreement with Condition 3, Lottery indicates that the accounts could not access any Commonwealth networks. Although our testing was not extensive enough to validate this statement, the issue remains that the user accounts were not deleted within a reasonable amount of time as required by policy.

Regarding PDE's disagreement with Condition 4, although we agree that PDE's controls were designed adequately, our tests indicated that PDE employees were not following the procedures specified in the policy. Therefore, the control was not operating effectively, and the finding remains as stated above.

Regarding PDE's disagreement with Condition 5, PDE states, in part, in its management response that, "... the PDE developer in question cannot make changes to the application." However, the issue remains that the developer has administrator access, which allows her the ability to change her access rights.

We will review 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

Basic Financial Statement Findings – June 30, 2014

Finding 2014 – 007:

Department of Treasury

Ineffective Methodology in Estimating Escheat Liability (A Similar Condition Was Noted in Prior Year Finding 13-01)

Condition: The Treasury Department (Treasury) administers the Commonwealth’s Unclaimed Property program, which collects, accounts for and distributes escheated property, including funds from abandoned bank accounts, uncashed checks, certificates of deposit, life insurance policies and forgotten stocks to the rightful owners upon proof of ownership. Under the Commonwealth’s Unclaimed Property laws, such property is held in perpetuity for the rightful owners. Under Governmental Accounting Standards Board Statement No. 21 (GASB 21), “Accounting for Escheat Property,” the Commonwealth is required to report a liability for unclaimed property that has been escheated to the Commonwealth to the extent that it is probable that the property will be reclaimed and paid to claimants. Treasury calculates an average payment rate to estimate the value of property that will be paid to claimants based on annual data on receipts and distributions from fiscal year 2000 through the current fiscal year. The percentage is calculated as the total distributions divided by total receipts of unclaimed property. This percentage is then applied to the total balance of all unclaimed property held at year end. The result is reported as a liability in both the General Fund and Governmental Activities statements (the liability is allocated to a current and non-current liability in the Governmental activities statement of net position). The methodology used by Treasury is based on the assumption that all property received, regardless of the year in which received, is paid out at the same rate; however, this is not the case.

Based on an analysis of June 30, 2013 and 2014 unclaimed property reports received from Treasury (the Total Amounts Claimable report generated by the UPS2000 system used by the Bureau of Unclaimed Property to account for property received, disbursed and held), there are significant differences in the payout rates for property depending on the year in which the property was received. For example, of the total amount paid out during the fiscal year ended June 30, 2014, approximately 3 percent consisted of property received in 2013, 58 percent consisted of property received 2011 to 2012, 21 percent consisted of property received in 2008 through 2010, 10 percent consisted of property received in 2004 through 2007, 6 percent consisted of property received in 2000 through 2003, and 2 percent consisted of property received in all years prior to 2000. Therefore, with the exception of the most recent year, the probability that property will be reclaimed and paid decreases the longer the property is held. Treasury’s methodology, which is based on an average payout rate, does not take this factor into account.

Criteria: GASB 21, paragraph 5, states: “The liability should represent the best estimate of the amount ultimately expected to be reclaimed and paid, giving effect to such factors as previous and current trends in amounts reclaimed and paid relative to amounts escheated, and anticipated changes in those trends.” In Appendix B: Basis for Conclusions, Calculation of the Liability, paragraph 13, GASB provides an example of an estimation method, stating “One way to estimate the liability is to analyze over a period of years the subsequent claims experience against escheat property collected in a particular year. This could be done for several years, and the resulting annual rates of claims payout versus escheats collected in a given year could be applied to escheat collections for a period of years before the balance sheet date to establish the liability as of the balance sheet date.”

Cause: Treasury has been using the same methodology to report the escheat liability for a number of years due to budgetary constraints, which limit staff resources available to analyze available data. In addition, the reporting capabilities of the UPS2000 system are limited. Treasury is unable to produce status date reports for any date other than the date on which the report is generated, making it difficult to generate a data base of historical experience.

Effect: The escheat liability being reported in the CAFR may be inaccurate for assets collected in older years.

Recommendation: We recommend that Treasury develop a method of estimating the escheat liability that better reflects the probability that property will be reclaimed and paid.

COMMONWEALTH OF PENNSYLVANIA

Basic Financial Statement Findings – June 30, 2014

Finding 2014 – 007: (continued)

Agency Response: Treasury concurs best estimates should be utilized in calculating liabilities in order to comply with GASB 21 and have financial statements presented fairly. The escheats liability has a variety of dependencies and probability factors. Treasury has reviewed this estimate methodology for the last several years and will continue to incorporate the most accurate probability of claims being returned in both the current and long term periods. Treasury is also exploring alternative claims processing systems to the UPS2000 system at this time.

The corrective action plan 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, 2014

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
2014-008 **	14.228	Community Development Block Grants – State’s Program	The Department of Community and Economic Development Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding 13-DCED-01)	MNC	ND	DCED	87	226
2014-009 **	14.228	Community Development Block Grants – State’s Program	Material Noncompliance and Material Weaknesses in Internal Control in Department of Community and Economic Development’s Consolidated Annual Performance and Evaluation Report	MNC	None	DCED	90	227
2014-010 *	10.553 10.555 10.556 10.559 10.558	Child Nutrition Cluster Child and Adult Care Food Program	Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education’s Child Nutrition Program Electronic Application and Reimbursement System (Prior Year Finding 13-PDE-01)	N/A	None	PDE	93	227
2014-011 *	84.010	Title I Grants to Local Educational Agencies	A Significant Deficiency and Noncompliance Exist Over the Pennsylvania Department of Education’s Reporting of the Annual State Per Pupil Expenditure Amount (Prior Year Finding 13-PDE-06)	NC	None	PDE	96	228
2014-012 **	84.010	Title I Grants to Local Educational Agencies	A Material Weakness and Material Noncompliance Exist Over the Pennsylvania Department of Education’s Consolidated State Performance Report, Annual Report Card, and Reporting of the Annual High School Graduation Rate (Prior Year Findings 13-PDE-05 and 13-PDE-06)	MNC	None	PDE	99	229

* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

MNC - Material Noncompliance

NC - Noncompliance

N/A - Not Applicable

CAP - Corrective Action Plan

COMMONWEALTH OF PENNSYLVANIA

Index to Federal Award Findings and Questioned Costs - June 30, 2014

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
2014-013 **	84.377 84.388	School Improvement Grants Cluster (including ARRA)	A Material Weakness and Material Noncompliance Exist in the Pennsylvania Department of Education's Subrecipient Allocation Process, Earmarking Process, and Monitoring of Subrecipients (Prior Year Finding 13-PDE-07)	MNC	\$1,351,008	PDE	105	231
2014-014 *	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Noncompliance and Internal Control Weaknesses Related to Food Instruments and Cash-Value Voucher Redemptions (Prior Year Finding 13-DOH-01)	NC	ND	DOH	110	231
2014-015 **	10.551 93.558	Supplemental Nutrition Assistance Program Temporary Assistance for Needy Families	A Material Weakness and Material Noncompliance Exist at the Department of Human Services Related to Electronic Benefits Transfer Card Security (Prior Year Finding 13-DPW-01)	MNC	ND	DHS	112	232
2014-016 **	93.558	Temporary Assistance for Needy Families	A Material Weakness and Material Noncompliance Exist in Reporting on the Temporary Assistance for Needy Families ACF-199 Data Report (Prior Year Finding 13-DPW-05)	MNC	None	DHS	114	232
2014-017 **	93.558 93.658 93.659	Temporary Assistance for Needy Families Foster Care--Title IV-E Adoption Assistance	Material Weaknesses and Material Noncompliance Exist in Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients by the Department of Human Services' Office of Children, Youth and Families (Prior Year Finding 13-DPW-03)	MNC	ND	DHS	120	233
2014-018 *	93.558	Temporary Assistance for Needy Families	Department of Human Services Did Not Validate Financial Information as Part of its On-Site Monitoring of Temporary Assistance for Needy Families Subrecipients (Prior Year Finding 13-DPW-04)	NC	ND	DHS	123	234

* - Significant Deficiency
 ** - Material Weakness
 ND - The amount of questioned costs cannot be determined

MNC - Material Noncompliance
 NC - Noncompliance
 N/A - Not Applicable
 CAP - Corrective Action Plan

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Index to Federal Award Findings and Questioned Costs - June 30, 2014

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
2014-019 *	93.568	Low-Income Home Energy Assistance	Noncompliance and Controls Not Operating Effectively in the Department of Human Services' Administration of the Low-Income Home Energy Assistance Program	NC	\$1,000	DHS	125	234
2014-020 *	93.575	Child Care and Development Block Grant	Noncompliance and Internal Control Weakness in Department of Human Services' Contracting With Child Care Subgrantees (Prior Year Finding 13-DPW-08)	NC	ND	DHS	128	235
2014-021 *	93.575 93.596	Child Care and Development Fund Cluster	Noncompliance and Internal Control Weakness Over Health and Safety Requirements (Prior Year Finding 13-DPW-07)	NC	ND	DHS	130	236
2014-022 ** - SSBG * - SAPT	93.667 93.959	Social Services Block Grant Block Grants for Prevention and Treatment of Substance Abuse	Noncompliance and Weaknesses Exist in the Department of Human Services' Program Monitoring of the Social Services Block Grant and the Block Grants for Prevention and Treatment of Substance Abuse Subgrantees (Prior Year Finding 13-DPW-09)	MNC - SSBG NC - SAPT	ND	DHS	133	237
2014-023 **	93.778	Medical Assistance Program (including ARRA)	Lack of Eligibility Documentation Results in Noncompliance and Internal Control Weaknesses (Prior Year Finding 13-DPW-10)	NC	\$2,085	DHS	136	238
2014-024 *	17.225	Unemployment Insurance (including ARRA)	Department of Labor and Industry Did Not Comply With UC Program Integrity Requirements	NC	None	L&I	141	239
2014-025 *	17.225 17.258 17.259 17.278	Unemployment Insurance (including ARRA) Workforce Investment Act Cluster	Deficiencies in Information Technology Controls at the Department of Labor and Industry (Prior Year Finding 13-L&I-01)	N/A	None	L&I	144	239

* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

MNC - Material Noncompliance

NC - Noncompliance

N/A - Not Applicable

CAP - Corrective Action Plan

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Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
2014-026 *	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Noncompliance and a Control Deficiency Exist Over the Preparation and Submission of the Annual RSA-2 Report (Prior Year Finding 13-L&I-03)	NC	None	L&I	147	240
2014-027 *	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Noncompliance and a Control Deficiency Exist in the Department of Labor and Industry’s Procedures for Performing Eligibility Determinations (Prior Year Finding 13-L&I-02)	NC	None	L&I	149	241
2014-028 *	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Noncompliance and General Information Technology Control and Internal Control Design Weaknesses Affecting the Payroll Process (Prior Year Finding 13-SW-02)	NC	\$5,847	L&I	151	242
2014-029 *	12.401	National Guard Military Operations and Maintenance Projects	Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement Results in Questioned Costs of \$106,162 (Prior Year Finding 13-DMVA-01)	NC	\$106,162	DMVA	154	243
2014-030 **	64.015	Veterans State Nursing Home Care	Material Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement Results in Questioned Costs of \$11,848	MNC	\$11,848	DMVA	156	243
2014-031 **	97.067	Homeland Security Grant Program	Subgrant Awards Are Not Executed or Obligated Within the 45-Day Requirement (Prior Year Finding 13-PEMA-01)	MNC	None	PEMA	159	244
2014-032 **	97.067	Homeland Security Grant Program	Material Weakness and Material Noncompliance Over Subrecipient Monitoring	MNC	ND	PEMA	161	244
2014-033 **	97.067	Homeland Security Grant Program	Material Weakness and Material Noncompliance Over Equipment and Real Property Management (Prior Year Finding 13-PEMA-03)	MNC	ND	PEMA	163	245

* - Significant Deficiency

** - Material Weakness

ND - The amount of questioned costs cannot be determined

MNC - Material Noncompliance

NC - Noncompliance

N/A - Not Applicable

CAP - Corrective Action Plan

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Index to Federal Award Findings and Questioned Costs - June 30, 2014

Finding No.	CFDA No.	CFDA Name	Finding Title	Compliance Conclusion	Questioned Costs	Impacted State Agency	Finding Page	CAP Page
2014-034 **	66.458	Capitalization Grants for Clean Water State Revolving Funds (including ARRA)	Material Noncompliance Exists and Internal Control Improvements Needed in Subrecipient Loan Monitoring System (Prior Year Finding 13-PENNVEST-04)	MNC	None	PENNVEST	165	245
2014-035 ** - CDBG * - All Others	Various	Various CFDA Numbers – See Finding	State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents and at the Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133 (Prior Year Finding 13-SW-03)	MNC – CDBG NC – All Others	ND	Various	167	246
2014-036 *	Various	Various CFDA Numbers – See Finding	Weaknesses in Cash Management System Cause Noncompliance With the Cash Management Improvement Act of 1990 (CMIA) and at Least \$186,323 Questioned Costs of the CMIA Interest Liability (Prior Year Finding 13-SW-04)	NC	\$186,323	OB/OCO	173	247
2014-037 **	Various	Various CFDA Numbers – See Finding	Material Noncompliance and a Material Weakness Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding 13-SW-01)	MNC	ND	Various	178	247
2014-038 *	66.458 93.658	Capitalization Grants for Clean Water State Revolving Funds (including ARRA) Foster Care – Title IV-E	Internal Control Weakness Over Expenditure Information Reported on the SEFA	N/A	None	OB/OCO	192	255

85

* - Significant Deficiency
 ** - Material Weakness
 ND - The amount of questioned costs cannot be determined

MNC - Material Noncompliance
 NC - Noncompliance
 N/A - Not Applicable
 CAP - Corrective Action Plan

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Matrix of Findings by Federal Agency - June 30, 2014

Finding	USDA	DOD	HUD	DOL	DOT	ARC	DVA	EPA	ED	HHS	SSA	USDHS
Prefix	10	12	14	17	20	23	64	66	84	93	96	97
2014-008			X									
2014-009			X									
2014-010	X											
2014-011									X			
2014-012									X			
2014-013									X			
2014-014	X											
2014-015	X									X		
2014-016										X		
2014-017										X		
2014-018										X		
2014-019										X		
2014-020										X		
2014-021										X		
2014-022										X		
2014-023										X		
2014-024				X								
2014-025				X								
2014-026									X			
2014-027									X			
2014-028									X			
2014-029		X										
2014-030							X					
2014-031												X
2014-032												X
2014-033												X
2014-034								X				
2014-035			X		X	X			X	X		
2014-036	X								X	X	X	
2014-037	X		X	X	X	X		X	X	X		X
2014-038								X		X		

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Department of Community and Economic Development

Finding 2014 – 008:

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

The Department of Community and Economic Development Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (A Similar Condition Was Noted in Prior Year Finding 13-DCED-01)

Federal Grant Numbers and Years: B-07-DC-42-0001 (01/01/2007 – 12/31/2011), B-08-DC-42-0001 (01/01/2008 – 12/31/2012), B-09-DC-42-0001 (01/01/2009 – 12/31/2013), B-10-DC-42-0001 (01/01/2010 – 12/31/2014), B-11-DC-42-0001 (01/01/2011 – 12/31/2015), B-08-DN-42-0001 (03/20/2009 – 03/20/2013), B-11-DN-42-0001 (03/17/2011 – 03/17/2014), B-12-DC-42-0001 (01/01/2012 – 12/31/2016), B-13-DC-42-0001 (01/01/2013 – 12/31/2017)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: During the fiscal year ended June 30, 2014, the Department of Community and Economic Development (DCED) reported subrecipient expenditures for the US Department of Housing and Urban Development’s (HUD) Community Development Block Grants (CDBG) (including the Neighborhood Stabilization Programs (NSP)) Program of \$38,954,575, which represented approximately 96 percent of total CDBG cluster expenditures on the SEFA. There were a total of 200 subrecipients that received 2013 grant allocations from the CDBG Program, and there were no grant allocations for NSP during fiscal year ended June 30, 2014.

Based on our examination of the DCED Monitoring Schedule, there were 82 on-site visits scheduled for calendar year 2013 and 69 on-site visits scheduled for calendar year 2014. Of the scheduled on-site visits, during the audit period, there were on-site monitoring visits made to 23 subrecipients during which 84 contracts were reviewed spanning contract years 2005 – 2011. DCED continues to be significantly behind in monitoring all of its subrecipients in accordance with its Monitoring Schedule.

DCED is required to maintain internal controls that ensure subrecipient grant funds are utilized within the established contract period. The grant managers monitor the subrecipient contracts and the progress of projects through review of expenditure reports, written and verbal communication and site visits. Additionally, since March of 2014, the Financial Management Center of DCED has been performing a review of invoices submitted by CDBG subrecipients prior to the disbursement of federal funds through HUD’s Integrated Disbursement & Information System (IDIS) for compliance with the following:

- Contract amount;
- Budget category;
- Activity period;
- IDIS project number;
- Environmental clearance date; and
- Expenditure being incurred within the first 3 years of the grant.

In addition, on a sample basis, documentation and controls that support the CDBG invoices submitted by the subrecipients are reviewed.

For NSP, as part of during-the-award monitoring, NSP invoices and supporting documentation are reviewed and approved by grant managers prior to payment.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 008: (continued)

An additional process of during-the-award monitoring includes on-site monitoring visits. Annually, DCED generates a calendar year Monitoring Schedule that details each project funded by subrecipient grant contracts and the subrecipient's scheduled on-site monitoring visit. The DCED Monitoring Schedule provides that an on-site monitoring visit is scheduled to be completed once every three years for each open project and that statutory determination be evaluated. The other compliance areas reviewed as part of on-site monitoring (e.g. labor standards, environmental) are not covered under each visit, but on a rotation so that by the end of the contract life, all compliance areas are addressed.

Fiscal Monitoring:

There were a total of 23 fiscal monitoring reviews performed during the audit period through which documentation and controls that support submitted invoices were reviewed. In addition to the one subrecipient that was part of our expenditure sample, we selected three additional subrecipients that were monitored and reviewed the monitoring files and determined that for all four subrecipients, fiscal monitoring procedures were performed through the use of checklists and necessary corrective action was outlined in written correspondence provided to the subrecipient subsequent to monitoring.

Out of a sample of 40 NSP invoices, all invoices had evidence of management review of invoiced costs and supporting documentation prior to reimbursement of the subrecipient.

On-site Monitoring:

From our sample of 40 expenditures, we found there were 10 on-site monitoring visits performed. We tested the on-site monitoring for the subrecipients in our sample and determined that for all subrecipients on-site monitoring procedures were performed through the use of checklists and necessary corrective action was outlined in written correspondence provided to the subrecipient subsequent to the on-site visit.

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.

Cause: DCED indicated that the DCED personnel workload has increased significantly since 2009 as a result of grant awards received under new federal stimulus programs, including ARRA, and activities related to disaster assistance for those affected by Hurricane Irene and Tropical Storm Lee. The additional federal awards greatly expanded the number of subrecipient applications that the DCED personnel needed to review and required additional training of applicants by DCED in order for these applicants to understand the new programs' requirements. In addition, the program has experienced personnel vacancies. As a result, there was little or no time left for DCED personnel to conduct monitoring of the regular program activities.

Effect: DCED did not adequately perform during-the-award monitoring of the CDBG and NSP subrecipients to ensure the subrecipient administers the Federal awards in compliance with laws, regulations, and the provisions of contracts and/or grant agreements.

A material number of subrecipients expended individually less than \$500,000 in total federal awards from the Commonwealth during the fiscal year ended June 30, 2013, and as a result would not have been required to submit an A-133 Single Audit to the Commonwealth during the fiscal year ended June 30, 2014. Therefore, these subrecipients were only subject to fiscal monitoring by the program.

The timely completion of these on-site visits is vital in providing DCED with information necessary to determine whether the program's subrecipients are complying with federal regulations.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 008: (continued)

Recommendation: We recommend that DCED ensure that all on-site visits are completed along with all required documentation, within the scheduled monitoring cycle, to provide reasonable assurance that subrecipients administer the federal awards in compliance with laws, regulations, and the provisions of contracts and/or grant agreements. We also recommend that DCED ensure the results of all monitoring visits are communicated to the subrecipients in a timely manner and that DCED perform follow-up procedures to ensure appropriate corrective action is implemented by the subrecipients.

Agency Response: DCED agrees with this finding.

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

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Department of Community and Economic Development

Finding 2014 – 009:

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

Material Noncompliance and Material Weaknesses in Internal Control in Department of Community and Economic Development’s Consolidated Annual Performance and Evaluation Report

Federal Grant Numbers and Years: B-10-DC-42-0001 (01/01/2010 – 12/31/2014), B-11-DC-42-0001 (01/01/2011 – 12/31/2015), B-11-DN-42-0001 (03/17/2011 – 03/17/2014), B-12-DC-42-0001 (01/01/2012 – 12/31/2016), B-13-DC -42-0001 (01/01/2013 – 12/31/2017)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Reporting

Condition: Annually, and for the calendar year, the Department of Community and Economic Development (DCED) is required to submit a *Consolidated Annual Performance and Evaluation Report (OMB No. 2506-0085)* (CAPER). The report for the period January 1 through December 31, 2013 was tested.

Our audit testwork revealed 52 exceptions from the 375 financial items tested where reported amounts did not agree to the supporting documentation or there was the omission of reportable information. Although there was documented evidence of managerial review and approval of the report, management did not agree the reported amounts to supporting documentation and, therefore, did not identify the exceptions noted as a result of audit procedures.

The auditor is required to test the financial information in the CAPER for the Community Development Block Grants (CDBG). The exceptions noted as a result of testwork are as follows:

Page 50 – 1 financial item:

Assessment of Relationship of CDBG Funds to Goals and Objectives

Total contracted: \$5,111,256

Exception noted: The support provided detailed that the amount should be \$3,805,129, as noted earlier in the paragraph.

Page 50 – 1 financial item:

Assessment of Relationship of CDBG Funds to Goals and Objectives

Total support of eligible CDBG non-housing and housing activities: \$4,432,844

Exception noted: The support provided detailed that the amount should be \$3,418,015.

Page 52 – 1 financial item:

Low/Mod Job Activities – For Economic Development Activities Undertaken Where Jobs Were Made Available but Not Taken by Low- or Moderate-Income Persons

Verbiage states: “There were forty two (42) jobs created in 2013 using CDBG funds.”

Exception noted: The support provided detailed that the statement should read: “There were forty two (42) jobs created or retained in 2013 using CDBG funds.”

Page 55 – 16 financial items:

Table PA-CD1

Exception noted: Acquisition Activity Group was omitted from the report.

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Page 55 – 24 financial items:

Table PA-CD1

Exception noted: Economic Development Activity Group was omitted from the report.

Page 55 – 1 financial item:

Table PA-CD1

Public Facilities & Improvement (General), 131 “Open or Completed Activities” reported.

Exception noted: The support provided details 118 “Open or Completed Activities.”

Page 55 – 4 financial items:

Table PA-CD1

Public Services

Exception noted: Employment Training (05H) was omitted from the report – due to omission, table totals do not agree to support provided.

Page 55 – 4 financial items:

Table PA-CD1

Public Improvements

Exception noted: Youth Centers (03D) was omitted from the report – due to omission, table totals do not agree to support provided.

Criteria: Regarding reporting, HUD regulations 24 CFR Section 91.520 (a) and (c) state:

a) General. Each jurisdiction that has an approved consolidated plan shall annually review and report, in a form prescribed by HUD, on the progress it has made in carrying out its strategic plan and its action plan. The performance report must include a description of the resources made available, the investment of available resources, the geographic distribution and location of investments, the families and persons assisted (including the racial and ethnic status of persons assisted), actions taken to affirmatively further fair housing, and other actions indicated in the strategic plan and the action plan. This performance report shall be submitted to HUD within 90 days after the close of the jurisdiction's program year... and

(c) CDBG. For CDBG recipients, the report shall include a description of the use of CDBG funds during the program year and an assessment by the jurisdiction of the relationship of that use to the priorities and specific objectives identified in the plan, giving special attention to the highest priority activities that were identified. This element of the report must specify the nature of and reasons for any changes in its program objectives and indications of how the jurisdiction would change its programs as a result of its experiences. This element of the report also must include the number of extremely low-income, low-income, and moderate-income persons served by each activity where information on income by family size is required to determine the eligibility of the activity.

Cause: There was a breakdown in the management review internal control as management did not agree reported amounts to supporting documentation which resulted in reporting errors and omissions.

Effect: Reported amounts were in error and some required reportable information was omitted from the report and resulted in noncompliance.

Recommendation: DCED should follow established internal controls for management review, including management agreement of reported amounts to supporting schedules and documentation.

Agency Response: Though DCED is in agreement that there were errors and omissions in the 2013 Consolidated Annual Performance and Evaluation Report (CAPER) that were not caught in the management’s review of the report before submission, DCED is contesting the degree to which these 52 errors identified out of 375 items tested affected the

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report in such a manner to skew the public's perception of the state's performance, thus constituting a finding in the Single Audit. The CAPER is prepared primarily to inform HUD and the public of the results and uses of HUD funds, not primarily as a fiscal report.

- The errors found on page 50 are partial errors. The total provided in narrative at the beginning of the paragraph in question is correct. The subtotal description later in the paragraph was obviously in error given that the subtotal amounts exceeded the total.
- The correction on page 52 is not a fiscal issue. The correction would be to clarify that 42 jobs figure included both created and retained jobs, not just created jobs.
- Appendix D (CDBG Performance and Evaluation Report) of the CAPER captures the detail by grantee for the information that would have been aggregated in the Acquisition line of Table PA-CD1 which, as noted by the auditors, was omitted from page 55.
- The other four errors noted on Page 55 either had no bearing on the totals because there were no expenditures in those activity categories (Public Services Employment Training and Public Services Youth Centers) or the amounts were minimal in the overall expenditure of funding for CDBG. For the omitted Economic Development line in Table PA-CD1, a total of \$85,000 was dispersed; but, like the Acquisition Report, this disbursement was covered in Appendix D. The Public Facilities line in Table PA-CD1 contained a minimal overstatement on the number of activities, 131 rather than 118, but the fiscal amount was correct. Also, the correct number of activities and dollar amounts were contained in Appendix D.

Further, HUD has allowed DCED to update, revise, or correct a CAPER with either a subsequent year's report or publishing a revision of the document and providing additional public notice of the changes/corrections. This step was taken in the 2013 report to reflect an item from the 2012 report (see the notation at the bottom of Table PA-CD1, page 57 and comparable narrative at the top of page 53).

For these reasons, DCED feels that this item should not be a finding in the Single Audit, though DCED agrees to institute improved internal controls for management review to avoid similar issues in future CAPERs.

Auditors' Conclusion: Pursuant to the Compliance Supplement, the auditor is required to test the financial elements of the CDBG section on the CAPER. As DCED is in agreement with the exceptions we identified, the finding remains as issued.

Questioned Costs: None

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

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Department of Education

Finding 2014 – 010:

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

Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education’s Child Nutrition Program Electronic Application and Reimbursement System (A Similar Condition Was Noted in Prior Year Finding 13-PDE-01)

Federal Grant Numbers and Years: 1PA300305 (10/01/2012 – 9/30/2014)

Type of Finding: Significant Deficiency

Compliance Requirement: Other

Condition: The Child Nutrition Program Electronic Application and Reimbursement System (CN-PEARS) is customized software developed as a joint effort by an outside vendor and the Pennsylvania Department of Education (PDE). As part of our audit of the PDE major programs for the fiscal year ended June 30, 2014, we performed certain information technology (IT) general controls review procedures for the CN-PEARS system. In prior audits, we found a lack of segregation of duties between application development and deployment of program changes into production, as well as a lack of a monitoring process to detect unauthorized changes in the production environment to which the vendor has continuous access. Further, management did not conduct a periodic access review of staff with administrator access rights. In addition, two outside vendor employees promoted programs to production using only one shared user ID, and PDE management did not effectively monitor this activity. Finally, we noted that system parameter settings did not comply with the Commonwealth’s standards. We found the following control weaknesses existed during the audit period:

- PDE implemented compensating controls over the vendor’s potential lack of segregation of duties between program development and program deployment to production and over the vendor’s continuous access to PDE’s production servers. PDE instituted a monthly review of server logs and the vendor’s log of program deployments. However, PDE was not comparing the server log and vendor’s log to the SharePoint log of program changes to ensure all deployments to production were approved by PDE. When we reviewed the deployment log for June 2014, we found one of six changes deployed to production by the vendor was not approved by PDE. Therefore, the compensating control was not effectively mitigating the risk associated with the vendor’s continuous access to production, lack of segregation of duties, and the use of a shared user ID.
- Management remediated a prior year weakness after the audit period by requiring two outside vendor employees (a primary and a backup) to utilize unique user IDs when promoting programs to production. They had previously been sharing one user ID.
- PDE management did not conduct a periodic access review of staff with administrator access rights.
- Management remediated a prior year weakness whereby password settings for the CN-PEARS application did not comply with the Commonwealth’s standards. In June 2014, password settings were modified to comply with Information Technology Policy (ITP) – SEC007, *Minimum 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 ensure that federal programs are administered in accordance with management’s intent. Also, Information Technology Policy (ITP) – SEC007 - *Minimum Standards for User IDs and Passwords* specifies detailed requirements for all network systems operating under the governor’s jurisdiction. The policy 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,

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requiring the creation of a new password, 6) may not be changed more than once every fifteen days. Further, ITP – SEC007 specifies users are to be locked out after five consecutive failed log-on attempts and requires 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: Vendor personnel currently develop all program changes and then deploy the changes into PDE’s production environment using their remote access into PDE’s system. The vendor is to obtain PDE approval prior to deployment to production, and this approval is to be documented in a SharePoint collaboration site.

Regarding the lack of segregation of duties over program development and program deployment, PDE and the vendor believe that the controls are at the vendor. However, the vendor is unwilling to provide system-generated listings of program developers and of those individuals who can deploy programs to production. Therefore, PDE has implemented compensating controls over the program change/program deployment processes. The compensating controls involve a comparison of logs of vendor access into PDE servers to the vendor’s manual log of program changes deployed to production. PDE is only comparing the logs of vendor access into PDE servers to the vendor’s manual log of program changes deployed to production (and not to the approvals recorded in the SharePoint collaboration site). Since PDE did not review all three sources that evidence program change approval and deployment, they did not detect the change deployed to production without PDE approval. We also learned from our review of the June 2014 logs, it appears that vendor-initiated changes are not being logged in the SharePoint collaboration site.

Regarding the shared user ID to deploy programs to production, the vendor infrastructure team that deploys code into PDE’s production servers consists of one primary promoter and one backup promoter. During the audit period, the primary and the backup continued to access PDE’s server using the same user ID. Although PDE had indicated in its corrective action plan to the FYE 6/30/13 audit that “The DFN has requested a separate CWOPA account for the second individual ...”, the second user ID was not created until October 2014.

PDE management stated that a review of individuals with administrator access to the CN-PEARS application was implemented in June 2014, and the first report was produced in July 2014. However, PDE management could not provide evidence of the report for the current audit.

When the CN-PEARS application was moved to the .net platform in May/June 2013, PDE management indicated that system parameter settings would comply with ITP – SEC007. However, after the platform change, the system software still lacked the capability to conform to the Commonwealth’s standards regarding password character requirements. Therefore, it was necessary for PDE management to request a program code change from the vendor to comply with ITP – SEC007.

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

Recommendation: We recommend that PDE management:

- Review system-generated and manual logs to ensure all deployment of code to production was appropriate. The review should ensure that all program changes made by the vendor (including vendor-initiated changes) are included on the SharePoint collaboration site to document PDE management’s authorization, testing, and final approval of the change before deployment to the production environment. Evidence of the review should be documented and retained for audit.
- Annually review CN-PEARS users with access to sensitive functions, including system administrators, to verify that access is commensurate with users’ job functions. Evidence of the review should be documented and retained for audit.

Agency Response: PDE is following the process it has outlined in prior year audit responses and will continue with this process, which is the manual deployment log is reconciled against the system generated server log. Logging these items into SharePoint was not part of the process. SharePoint is the means of housing the deployment log, not the source of documentation.

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As stated in the auditor's report, PDE did institute a process to review individuals with administrator rights. Documentation of the review fell outside the period, which is why it was not provided to the auditors.

Auditors' Conclusion: Management's response related to Condition 1 refers to PDE's review of the vendor's manual deployment log as a detective control to identify unauthorized changes to the production environment. PDE's controls over authorizing, testing, and approving program changes are documented in SharePoint. To mitigate the risk associated with the vendor's continuous access to production and potential lack of segregation of duties, PDE's monitoring process should include a comparison of the vendor's manual deployment log to the approvals recorded in SharePoint, as well as a comparison to the system generated server log, to ensure all deployments were approved by PDE.

No further conclusion is necessary regarding Conditions 2, 3 and 4.

Questioned Costs: None

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

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Department of Education

Finding 2014 – 011:

CFDA #84.010 – Title I Grants to Local Educational Agencies

A Significant Deficiency and Noncompliance Exist Over the Pennsylvania Department of Education’s Reporting of the Annual State Per Pupil Expenditure Amount (A Similar Condition Was Noted in Prior Year Finding 13-PDE-06)

Federal Grant Numbers and Years: S010A100038 (7/01/2010 – 12/30/12), S010A110038 (7/01/2011 – 12/30/13), S010A120038 (7/01/2012 – 12/30/14), and S010A130038 (7/01/2013 – 12/30/15)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Reporting

Condition: Under the Title I Grants to Local Educational Agencies (Title I) program which is authorized under the Elementary and Secondary Education Act (ESEA), as amended, and administered by the Pennsylvania Department of Education (PDE), PDE is required to annually submit its average state per pupil expenditure (SPPE) amount to the National Center for Education Statistics. The United States Department of Education (USDE) uses this SPPE data to make allocations under several ESEA programs, including the Title I program. SPPE data, reported by PDE on the National Public Education Finance Survey (NPEFS), comprises PDE’s annual current expenditures for free public education, less certain designated exclusions, divided by the state’s average daily attendance (ADA). ADA generally represents the aggregate number of days of attendance of all students during a school year divided by the number of days that school is in session during the school year and is reported by Local Educational Agencies (LEAs) to PDE via PDE’s Pennsylvania Information Management System (PIMS) which was designed by, and is maintained by, an outside vendor.

During the fiscal year ended June 30, 2014, PDE obtained the ADA data from PIMS and used the data to calculate its SPPE amount. Although the underlying expenditures used in the SPPE calculation appeared to be accurately reported by PDE on the NPEFS, Basic Financial Statement Finding 2014-006, which was reported for the Commonwealth for the fiscal year ended June 30, 2014, disclosed that control deficiencies over segregation of duties, program and data access, and program change methodology existed within PDE’s PIMS from which the ADA data is obtained. PDE implemented a manual compensating control for our audit period which was to require that ADA be reported on the Accuracy Certification Statement (ACS) which is to be submitted to PDE with each LEA’s upload of PIMS child accounting data and certified for accuracy by each LEA’s chief administrator. We selected a sample of 40 LEAs’ ADA data as reported by PDE and the corresponding ACS forms, and we were able to recalculate PDE’s reported ADA. However, for 5 of the 40 LEAs, the ADA reported by PDE did not agree to the ADA reported by the LEAs on the ACS forms as follows:

Item Number	ADA Reported by PDE	ADA Reported by the LEAs on the ACS	Difference Overstatement/ (Understatement)
1	3908.273	3907.073	1.200
2	700.072	707.695	(7.623)
3	1037.070	1061.882	(24.812)
4	1436.014	1437.016	(1.002)
5	2698.979	2708.576	(9.597)

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PDE's manual compensating control to ensure the accuracy of the PIMS' ADA data was not operating effectively, so PDE is placing reliance on a system that is not adequately controlled to report the critical amounts for the ADA and for the SPPE in the NPEFS.

Criteria: The OMB Circular A-133 Compliance Supplement, Department of Education (ED) Cross-Cutting Section, Part L, Reporting, applicable to the Title I program, states:

Each year, an SEA [State Educational Agency] must submit its average State per pupil expenditure (SPPE) data to the National Center for Education Statistics. These SPPE data are used by ED to make allocations under several ESEA programs, including Title I, Part A...

20 USC § 7801 states:

(1) *Average daily attendance*

(A) *In general*

Except as provided otherwise by State law or this paragraph, the term "average daily attendance" means –

- (i) *The aggregate number of days of attendance of all students during a school year; divided by*
- (ii) *The number of days school is in session during that year.*

(2) *The term "average per-pupil expenditure" means, in the case of a State or of the United States –*

(A) *Without regard to the source of funds –*

(i) *The aggregate current expenditures, during the third fiscal year preceding the fiscal year for which the determination is made (or, if satisfactory data for that year are not available, during the most recent preceding fiscal year for which satisfactory data are available) of all local educational agencies in the State or, in the case of the United States, for all States...; plus*

(ii) *Any direct current expenditures by the State for the operations of those agencies; divided by*

(B) *The aggregate number of children in average daily attendance to whom those agencies provided free public education during that preceding year.*

In addition, a well-designed system of internal controls dictates that sound general computer controls be adequately designed and operating effectively to ensure that federal programs are administered in accordance with management's intent.

Cause: The ADA data used in the calculation of the SPPE amount on the NPEFS was prepared by PDE from PIMS which has inadequate information technology general controls as reported in Basic Financial Statement Finding 2014-006. Although PDE implemented a manual compensating control, when the LEAs submitted revised ADA data they did not submit the revised ACS as instructed, and PDE does not have a procedure to enforce the submission of the revised ACS.

Effect: Since the ADA data used in the SPPE was not properly certified as accurate, PDE may have reported an incorrect SPPE amount to the federal government which could result in an inaccurate allocation of federal funds to PDE.

Recommendation: PDE management should take the necessary action to resolve the various general computer control deficiencies cited in Basic Financial Statement Finding 2014-006. PDE should check the accuracy of the LEAs' ADA which did not agree to the ACS and make any necessary corrections. PDE management should ensure that manual compensating controls are adequately designed and operating effectively to ensure that the ADA data used in the calculation of the SPPE amount on the NPEFS is accurate. PDE should implement procedures to require the LEAs to submit the revised ACS with the submission of revised ADA.

Agency Response: PDE disagrees with this finding, specifically with the finding regarding a lack of manual compensating controls.

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The PDE, Bureau of Budget and Fiscal Management (BBFM), is confident that ADA data used in the calculation of the SPPE is accurate, regardless of the assertion that the lack of a signed ACS is equivalent to having inaccurate data.

The manual compensating controls in place are designed appropriately and operate effectively. As stated in our audit response to Prior Year Findings 13-PDE-06 and 12-PDE-06, PDE's manual compensating controls ensure the completeness and accuracy of data submitted into PDE systems and used for program needs or to meet reporting requirements. Information concerning procedures performed on outliers was provided during the audit. Compensating controls include:

- Manuals and How-To Guides, providing directions to assist Local Education Agencies (LEAs) in submitting complete and accurate data, as well as, evaluating the accuracy of and correcting data
- Trainings prior and during each data collection
- Monthly Question and Answer Webinars, where LEAs can address questions and concerns to data and program office staff
- PIMS Application Support Service that provides individual assistance submitting data, evaluating the accuracy of data and correcting data
- Numerous PIMS (Cognos) Reports that allow LEAs to evaluate both individual records and school- and LEA-level aggregate data
- Numerous "State" reports utilized by PDE staff to evaluate data
- Data reviewed by PDE staff to check for completeness, reasonableness, large variances, etc. When discrepancies are suspected, the possible errors are brought to the attention of LEAs for correction, where appropriate
- Specifics on data issues are sent to LEAs with instructions on making corrections as well as contact information if additional assistance is needed
- E-mails and/or phone calls from supervisors to LEAs that do not respond to requests to correct data

The PDE does not have the statutory authority to reject the submission of revised attendance and membership data when a revised ACS is not submitted.

Auditors' Conclusion: As noted above, Basic Financial Statement Finding 2014-006 disclosed information technology control deficiencies over the PIMS system which PDE is using to accumulate and report the ADA. PDE's manual compensating control is not operating effectively to ensure that the ADA is accurately compiled and reported. Therefore, PDE does not have assurance that the reported ADA was accurate. PDE personnel represent that PDE does not have the statutory authority to reject the submission of revised attendance data when a revised ACS is not submitted. PDE personnel also believe that the burden for ensuring the reliability and accuracy of the LEAs' ADA data rests with the LEAs, not PDE. However, PDE is ultimately responsible for compiling and reporting the correct ADA to the National Center for Education Statistics. Therefore, PDE management needs to ensure that manual compensating controls are adequately designed and operating effectively to ensure that the ADA data is correctly compiled and reported.

Questioned Costs: None – no direct effect on program expenditures.

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

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Department of Education

Finding 2014 – 012:

CFDA #84.010 – Title I Grants to Local Educational Agencies

A Material Weakness and Material Noncompliance Exist Over the Pennsylvania Department of Education’s Consolidated State Performance Report, Annual Report Card, and Reporting of the Annual High School Graduation Rate (A Similar Condition Was Noted in Prior Year Findings 13-PDE-05 and 13-PDE-06)

Federal Grant Numbers and Years: S010A100038 (7/01/2010 – 12/30/2012), S010A110038 (7/01/2011 – 12/30/2013), S010A120038 (7/01/2012 – 12/30/2014), and S010A130038 (7/01/2013 – 12/30/2015)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Special Tests and Provisions related to Identifying Schools and LEAs Needing Improvement, Special Tests and Provisions related to the Annual Report Card, High School Graduation Rate

Condition: The Title I Grants to Local Educational Agencies (LEAs) program (Title I) is 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 linked to state-determined performance standards. The U.S. Department of Education (USDE) approved a flexibility waiver for PDE for the current audit period. This waiver permitted PDE to implement an alternate method of assessing Title I LEAs in order to report to USDE and the public which schools PDE has identified as reward, priority, and focus based on the results of assessment examinations administered to students.

PDE must prepare and report information including the classification of individual Title I schools and summaries of the classifications at the state and LEA (school district) levels to USDE on the Consolidated State Performance Report (CSPR) and to the public via the annual State Required Federal Reporting Measures (RFRM), formerly known as the Annual Report Card.

Although PDE has contracted with a vendor to provide pertinent data for the CSPR and the RFRM, federal regulations make PDE responsible for collecting, compiling, and determining the accuracy of information about the number and names of schools classified as reward, priority, and focus and for reporting this information on the CSPR and the RFRM. While the majority of the information comes directly from the vendor, other reporting information comes directly from PDE.

To determine the accuracy of the CSPR and the RFRM, we selected 20 information fields from the CSPR and 20 information fields from the RFRM, out of more than a thousand fields of data reported for the 2012-13 school year during the fiscal year ended June 30, 2014. For each item selected, we requested detailed source documentation from PDE in order to substantiate the number or percentage reported in the data field. Based on the results, we noted reporting errors or lack of source documentation, and PDE did not perform all planned manual review procedures regarding the collection, compilation, and verification of the accuracy of the data reported. Specifically, we noted the following deficiencies:

- For 2 out of 20 fields selected from the CSPR, the data reported by PDE did not agree to supporting documentation as follows:

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Item Number	CSPR Section Number	Data Field Name	Data Reported by PDE	Data per Supporting Documentation	Difference Overstatement/ (Understatement)
1	1.6.3	Number attained proficiency on State annual English Language Proficiency assessment	15,375	15,339	36
		Number tested on State annual English Language Proficiency assessment	48,318	48,251	67
2	1.6.3.2.1	Number tested on State English Language Proficiency assessment	44,632	46,058	(1,426)

- For all 20 fields selected from the RFRM, PDE was unable to provide source documentation. Since PDE indicated review procedures were performed for 2 LEAs reported in the RFRM, as an alternate procedure we requested source documentation for 15 data fields from 15 schools within the 2 LEAs. PDE was unable to provide sufficiently detailed source documentation to support the 15 data fields.
- PDE uses a vendor as part of its data collection, accumulation, and reporting process. PDE implemented, documented, and performed new manual review procedures for the current audit period to ensure the accuracy of the vendor data reported in the CSPR, and also implemented a documented management review and approval process over these procedures. We selected seven individual review procedures performed by PDE that were applicable to the CSPR and those procedures appeared to be performed by PDE. However, PDE did not perform all planned review procedures for the CSPR. One incomplete review procedure, a comparison of PIMS enrollment data to the vendor’s student file, disclosed significant differences in the population of students recorded by PIMS and by the vendor, and PDE indicated these differences were not investigated. PDE management stated these differences were significant but would not quantify the differences for the auditors. PDE also planned new review procedures for the RFRM, but PDE was not able to provide documentation that these review procedures were performed.
- The documentation provided to support the information contained in 19 out of the 20 fields selected from the CSPR was supplied solely from the outside vendor. In addition to the outside vendor data, the CSPR and the RFRM use data from PDE’s PIMS system. Although we were able to recalculate the data reported, except as noted in the table above, Basic Financial Statement Finding 2014-006, which was reported for the Commonwealth for the fiscal year ended June 30, 2014, disclosed that control deficiencies over segregation of duties, program and data access, and program change methodology existed within PDE’s PIMS database system. Based on the lack of evidence of the performance of manual validation controls listed in the bullet above, it does not appear that PDE has sufficiently implemented its manual compensating controls to ensure the accuracy of the outside vendor’s data and the PIMS data. Therefore, errors in the underlying vendor data and the PIMS data could be made and remain undetected when reported in the CSPR and the RFRM.
- Further, the vendor who compiles the student testing data for PDE has not received a Service Organization Controls (SOC) report issued under the American Institute of Certified Public Accountants (AICPA) Statement on Standards for Attestation Engagements No. 16, *Reporting on Controls at a Service Organization*. When the SOC report was requested during the audit, PDE responded that the vendor had been subjected to a different type of information security standards assessment using criteria from the National Institute of Standards and Technology (NIST) Special Publication 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*. While PDE would not provide the entire NIST report to the auditors, they did provide an unsigned summary of the report entitled “NIST SP800-53 Rev 4 Summary Assessment Data Recognition INSIGHT System” dated

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September 1, 2014. This summary includes recommendations for the vendor to define system boundaries, improve controls over temporary and inactive accounts, develop a security assessment plan, document system architecture, finalize controls over system maintenance tools, formalize controls over system maintenance personnel, and review controls over physical access to the facility.

In addition, in order to improve high school accountability, the USDE established a uniform measure of the high school graduation rate that is comparable between states and reported annually. PDE reported the 2011-12 school year graduation rate data for public high schools in Pennsylvania at the school, LEA, and state levels using the 4-year adjusted cohort rate in conjunction with the 2012-13 school year State RFRM which was submitted to the USDE during the fiscal year ended June 30, 2014. This data generally represents the number of students who graduate in 4 years with a regular high school diploma divided by the number of students who form the adjusted cohort for the graduating class. This data is required to be reported in the aggregate and also must be disaggregated by subgroups (for example, gender, ethnic group, etc.) resulting in thousands of fields of data reported at the school level, the LEA level, and the state level.

During the fiscal year ended June 30, 2014, PDE calculated the high school graduation rate data based on the LEAs' student data acquired from PDE's PIMS. We selected a sample of 40 data fields, which included school district level and individual school level high school graduation rate percentages for various subgroups. We were able to recalculate PDE's reported percentages using the PIMS data provided by PDE for 39 of the 40 selected data fields. However, for one of the 40 data fields tested, the number of students who formed the adjusted cohort for the graduating class reported did not trace to the supporting PIMS data, resulting in the graduation rate percentage being understated as 90.91 percent instead of 100 percent.

Our additional analysis of the overall state level high school graduation rate disclosed the inclusion of 4,111 duplicate students out of 148,012 students who formed the adjusted cohort for the graduating class, which resulted in an overstatement of the actual total of 143,901 students. The analysis also disclosed the inclusion of 868 duplicate students out of 123,599 students who graduated in four years with a regular high school diploma, which resulted in an overstatement of the actual total of 122,731 graduates. The auditor excluded the duplicate records and recalculated the overall state level high school graduation rate percentage for the school year 2011-12 state cohort as 85.29 percent, instead of the 83.51 percent reported by PDE, which was an understatement of 1.78 percent.

Criteria: The OMB Circular A-133 Compliance Supplement for the Title I program, Part N, Identifying Schools and LEAs Needing Improvement, states:

States that have received ESEA flexibility. The SEA must identify and report on at least three categories of schools: (1) reward schools; (2) priority schools; and (3) focus schools.

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

(h) *Reports.*

(1) *Annual State Report Card.*

(A) *In General. Not later than the beginning of the 2002-2003 school year, unless the State has received a 1-year extension pursuant to subsection (c)(1), a State that receives assistance under this part shall prepare and disseminate an annual State report card.*

(C) *Required Information. The State shall include in its annual State report card—*

(i) *information, in the aggregate, on student achievement at each proficiency level on the State academic assessments described in subsection (b)(3) (disaggregated by race, ethnicity, gender, disability status, migrant status, English proficiency, and status as economically disadvantaged...*

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- (vii) *the professional qualifications of teachers in the State, the percentage of such teachers teaching with emergency or provisional credentials, . . .*
- (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);*

The OMB Circular A-133 Compliance Supplement for the Title I program, Part N, Annual Report Card, High School Graduation Rate, states:

Beginning with annual report cards providing assessment results for the 2010-2011 school year, a State and its LEAs must report graduation rate data for all public high schools at the school, LEA, and State levels using the 4-year adjusted cohort rate under 34 CFR section 200.19(b)(1)(i)-(iv).

In a State that has received ESEA flexibility that includes a waiver from making AYP determinations, the SEA and its LEAs must continue to calculate and report on the 4-year adjusted cohort graduation rate.

34 CFR Section 200.19 (b) regarding High Schools states:

- (1) *Graduation rate. Consistent with paragraphs (b)(4) and (b)(5) of this section regarding reporting and determining AYP, respectively, each State must calculate a graduation rate, defined as follows, for all public high schools in the State:*
 - (i)(A) *A State must calculate a “four-year adjusted cohort graduation rate,” defined as the number of students who graduate in four years with a regular high school diploma divided by the number of students who form the adjusted cohort for that graduation class.*
- (4) *Reporting.*
 - (i) *In accordance with the deadlines in paragraph (b)(4)(ii) of this section, a State and its LEAs must report under section 1111(h) of the Act (annual report cards) graduation rate at the school, LEA, and State levels in the aggregate and disaggregated by each subgroup described in § 200.13(b)(7)(ii).*

In addition, a well-designed system of internal controls dictates that information technology general controls be adequately designed and operating effectively to ensure that federal programs are administered in accordance with management’s intent.

Cause: PDE personnel responsible for the CSPR data indicated that the errors noted in the table above were due to the submission of revised data subsequent to the preparation of the CSPR. PDE indicated that the original source data was not retained and provided the revised source data instead. PDE depends heavily upon the outside vendor for the determination of the assessment of students and classification of Title I schools as reward, priority, and focus. PDE made an effort to design manual review procedures over the report compilation process and to ensure the accuracy of the reports. However, PDE’s planned review procedures for the CSPR and RFRM were not all performed or adequately documented, and source documentation was not retained for the RFRM data. PDE personnel stated this was due to an insufficient number of PDE staff combined with a short turnaround time between PDE’s receipt of the vendor’s data and the vendor’s completion of the data for publication.

PDE personnel responsible for preparing the high school graduation rate data could not explain the reason for the reporting error in one data field noted above and stated there were changes in staff during this period. PDE personnel stated that the duplicate students were due to problems with the attribution of individual students to more than one school that PDE was unable to resolve at the time of reporting. PDE personnel indicated that procedural changes are planned for future audit periods to improve the accuracy of data reporting.

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Regarding the lack of a SOC report, we have explained to PDE the importance of obtaining a SOC report when utilizing a vendor as a service organization. Although PDE management indicated a SOC report was not available for this vendor during the current audit, they informed us that they were considering including contract language requiring SOC reports in the future.

Effect: There were misstatements within the CSPR and the high school graduation rate, and adequate source documentation was not provided for the RFRM. The CSPR and the RFRM, including the high school graduation rate, are required to provide information on state activities and outcomes of ESEA programs in accordance with NCLB standards. Since PDE did not fully execute its manual compensating controls to ensure the accuracy of the PIMS and the vendor's data, PDE cannot rely on the accuracy of the data, and PDE cannot ensure the accuracy of the CSPR or the RFRM, including the high school graduation rate. Accordingly, the reports may be inappropriately used by USDE or the public to measure the ESEA programs' success in accordance with the NCLB.

Recommendation: PDE management should take the necessary action to resolve the various general computer control deficiencies cited in Basic Financial Statement Finding 2014-006. PDE management should also ensure that manual compensating controls are adequately designed and operating effectively to ensure the proper and accurate reporting of data on the CSPR and the RFRM, including the high school graduation rate. PDE should remediate attribution problems in order to prevent duplicate student counts in the high school graduation rate data. PDE should ensure that reasonable documentation is maintained as evidence that manual procedures to ensure the accuracy of the reports have been completed and should maintain source documentation for data fields reported.

PDE should monitor the student testing vendor's action plans to correct the control weaknesses identified in the vendor's NIST information security controls assessment. PDE should obtain follow-up reports from the vendor to ensure that any corrective actions have been fully implemented.

PDE should consider requesting the student testing vendor to obtain a Service Organization Controls Report performed in accordance with AICPA SSAE No. 16 and AICPA Guide, *Reporting on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality and Privacy* to ensure that the student testing data is secure and processed in accordance with PDE's intent.

Agency Response: The following is PDE's response to the exceptions listed as bullets within the Finding:

- The PDE provided the most accurate data available for the CSPR field as indicated in the audit request. Therefore, PDE provided updated EDFact files 139 and 138 and the supporting data that resulted in these updated EDfact files. In this way, the documentation we provided does support the (updated) data we provided as part of the audit request. However, being informed by the Preliminary Finding, and upon further consideration, PDE now understands the need to provide source data that substantiates the counts appearing in the CSPR. The PDE has produced a data set which will provide supporting documentation of the numbers tested by the auditor. This information will be available within 2-3 working days.
- The PDE disagrees with this finding. Sufficient manpower and time is not available to verify all of the data for all levels of reporting state, LEA, and individual schools; therefore, prior audits have focused upon the state and LEA levels. Additionally, PDE did supply the requested documentation for all fields selected by the auditor and the corresponding data points. We also confirmed the accuracy of all figures in our response to the auditor's request.
- The PDE has already taken the initiative to implement more extensive review procedures and data analysis to mitigate and eliminate errors, insuring greater data integrity. We are in need of further clarification before sufficiently addressing this Finding.
- The PDE disagrees with the Finding as it relates to Finding #2014-006. We are in need of further clarification to sufficiently address this Finding.

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- PDE response on the NIST and SOC reporting is in recommendations section of these findings.

In reference to exception that the adjusted cohort graduation data overstates the size of the cohort by 4,111 duplicate students, we want to clarify that there were 3,523 PAsecureIDs that appeared more than once in the cohort, for a total of 7,634 total shared records. The 4,111 overstatement quoted is the difference between those two figures. The 4,111 duplicate PAsecureIDs are not exact duplicate records but typically vary by location or subgroup data. The PDE is the custodian of LEA data submitted into PIMS. The LEAs are the owner of this data. Resolving the duplicates would require PDE to make a judgment call regarding the LEA data where one location or subgroup loses a record while another retains a record.

Also note, that while 4,111 duplicate PAsecureIDs existed for the SY 11-12 Graduation Rate, this was 2,704 fewer duplicate PAsecureIDs than in SY 10-11 as found by last year's audit, which results in approximately a 39.7 percent decrease in the number of duplicate PAsecureIDs between the two years. While some of this decrease may be due to a decrease in the size of the cohorts between the two School Years, that decrease was only 3.5 percent. The PDE is aware of the duplicate PAsecureIDs and are continuing to create methods that can resolve duplicates where possible. The PDE improvements in processes and procedures have decreased the duplicates issue by more than 1/3 in a single year.

The following is PDE's response to the recommendations section within the finding:

The PDE has begun to address errors related to duplication and/or attribution of student records and an accurate depiction of all data in the CSPR and RFRM and documentation of the process.

The PDE will follow-up with the vendor on an annual basis related to data verification and security that were identified in this report to ensure the implementation of the corrective actions.

The PDE will discuss this recommendation with the vendor in order to determine the impact (i.e., cost, time, allocation of internal and vendor resources, etc.) in comparison to the NIST reporting.

Auditors' Conclusion: As noted above, the majority of the CSPR and the RFRM data are obtained from a vendor or from the PIMS system. Basic Financial Statement Finding 2014-006 disclosed information technology general control deficiencies over the PIMS system, and PDE's manual compensating controls are not operating effectively to ensure that either the vendor data or the PIMS data is accurately compiled and reported. Therefore, PDE should implement manual compensating controls which are sufficient to ensure the accuracy of the CSPR and RFRM data. In addition, PDE should retain detailed source documentation to support the data reported on the CSPR and the RFRM. PDE was unable to provide detailed source documentation for the RFRM data which would enable the auditors to recalculate the sampled RFRM data and ensure the reported amounts agreed to the source data. PDE is responsible for collecting, compiling, and ensuring accurate reporting of the CSPR and RFRM data, regardless of the data's source.

Regarding the high school graduation rate data, it appears that PDE is in agreement that the data included duplicate records. PDE is responsible for reporting accurate data and should work with the LEAs to resolve attribution issues.

We will review any corrective action in the subsequent audit.

Questioned Costs: None – no direct effect on program expenditures.

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

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Department of Education

Finding 2014 – 013:

CFDA #84.377 and 84.388 – School Improvement Grants Cluster (including ARRA)

A Material Weakness and Material Noncompliance Exist in the Pennsylvania Department of Education’s Subrecipient Allocation Process, Earmarking Process, and Monitoring of Subrecipients (A Similar Condition Was Noted in Prior Year Finding 13-PDE-07)

Federal Grant Numbers and Years: S377A090039 (07/01/2009-12/30/2014), S377A100039 (07/01/2010-12/30/2013), S377A110039 (07/01/2011-12/30/2015), S377A120039 (07/01/2012-12/30/2014), and S388A090039 (02/17/2009-12/30/2014)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Activities Allowed or Unallowed, Allowable Costs, Earmarking, Subrecipient Monitoring

Condition: The United States Department of Education (USDE) provides School Improvement Grants (SIG) Cluster funds to the Pennsylvania Department of Education (PDE) under the authority of the Elementary and Secondary Education Act (ESEA), as amended, for the purpose of turning around the academic achievement of students in the lowest-achieving schools through the implementation of four school intervention models (turnaround, restart, school closure, or transformation). PDE subgranted SIG Cluster funds in the amount of \$38,080,974 out of total SIG Cluster expenditures of \$40,978,084 to 34 Local Educational Agencies (LEAs) during the fiscal year ended June 30, 2014.

PDE uses a discretionary process to award SIG allocations to LEAs. This process involves the evaluation and scoring of each LEA’s proposed SIG project by multiple grant readers who document the results of their evaluations on standard rubric forms and also recommend a dollar amount for each LEA’s proposed project. PDE personnel accumulate the grant readers’ scores, calculate an overall score for each LEA, arrange the resulting scores in order from highest to lowest, and allocate SIG funds to LEAs until all SIG funds have been assigned. All 34 LEAs which received and expended SIG funds in the current audit period were awarded funds by this process. Our current year procedures disclosed that there was no documented supervisory review and approval process in place to ensure the accuracy and propriety of PDE’s process for awarding SIG allocations to LEAs. We also noted that for 1 out of the 7 LEAs tested with a total allocation value of \$16,132,510, we were unable to determine the accuracy of the final score used by PDE to allocate the SIG funds to the Cohort 2 LEA in question under federal grant numbers S377A110039 and S377A120039, since the score could not be recalculated or traced to the supporting rubric form because two out of three original scoring rubrics could not be located by PDE management. Therefore, we were unable to determine the propriety and accuracy of the one LEA’s SIG allocation which totaled \$2,837,647. The LEA in question was the Hardy Williams Charter School.

Our current year testing of PDE’s process for ensuring compliance with three SIG earmarking requirements (described in the criteria below) disclosed that although no noncompliance was noted, there was no documented supervisory review and approval process in place. In addition, we noted that PDE’s standard Master Agreement Rider for SIG LEAs did not contain any provisions requiring LEAs’ compliance with earmarking requirements.

PDE performs on-site program monitoring of SIG schools, generally three times per year, and documents the results of the monitoring on standard forms. Our current year testing of on-site monitoring reports for a sample of 6 out of 34 individual schools disclosed that although scheduled monitoring appeared to be performed and the reports appeared to be complete, for 3 out of 6 schools tested there was no documented supervisory review and approval of the monitoring reports.

Criteria: The OMB Circular A-133 Compliance Supplement for the School Improvement Grants Cluster, Part A.2, Activities Allowed, states:

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An LEA must use SIG funds, both ARRA and non-ARRA funds, to implement one of the following four school intervention models – turnaround, restart, school closure, or transformation – in its Tier I and Tier II schools. An LEA also may implement one of the models or another improvement strategy in its Tier III schools (Section II.A of SIG final requirements).

PDE's SIG application which was approved by USDE, Part 1, Section D.5, states the following related to PDE's procedures for the allocation of SIG funding to LEAs:

Each [LEA's] application for SIG funding will be reviewed by a panel of professional individuals with knowledge and experience with school reform. Applications will be read by at least three different reviewers using the SIG Rubric. Upon completion of the reading, each reviewer will provide the individual numeric score of each application, based on the rubric and comments sheets for each application. Based on team funding recommendations and z-scores of applications, each will be ranked accordingly. Those applications with a positive funding recommendation and a positive z-score will be given priority for funding. If, after awarding funds to these highest ranked applications, funding remains, those applications with a positive funding recommendation and a negative z-score will receive a second review by PDE staff. The second review by PDE will be done in rank order, beginning with the highest z-scored application with a positive funding recommendation. Any applicants meeting these requirements will be recommended for approval, in order of z-score, until no funding remains or no fundable applications remain, whichever occurs first.

The OMB Circular A-133 Compliance Supplement for the School Improvement Grants Cluster, Part G.3, Earmarking, states:

- a. An SEA must allocate at least 95 percent of the SIG funds it receives in a given fiscal year directly to eligible LEAs that submit an approvable application to the SEA, consistent with the carryover requirements in Section II.B.9 of the SIG final requirements.*
- b. If an LEA has nine or more Tier I and Tier II schools, the LEA may not implement the transformation model in more than 50 percent of those schools (Section II.A.2(b) of SIG final requirements).*
- c. An SEA must award to an eligible LEA a total grant of no less than \$50,000 and no more than \$2,000,000 per year for each Tier I, Tier II, and Tier III school that the LEA commits to serve (Section 1003(g)(5)(A) of ESEA (20 USC 6303(g)(5)(A)); Section II.B.5 of SIG final requirements).*

The OMB Circular A-133 Compliance Supplement, Part 3, Section 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.

USDE Regulations 34 CFR Part 76 and 34 CFR Part 80 address the State Educational Agency's role in monitoring subrecipients and state in part:

34 CFR Section 76.702 Fiscal control and fund accounting procedures.

A State and a subgrantee shall use fiscal control and fund accounting procedures that ensure proper disbursement of and accounting for Federal funds.

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34 CFR Section 80.20 Standards for financial management systems.

(2) *Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations...*

(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 issued solely for authorized purposes.*

34 CFR Section 80.40 Monitoring and reporting program performance.

(a) *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: Regarding the SIG allocation in question, PDE personnel stated that the LEA never fully submitted its grant application in PDE's eGrants system, so the grant was not reviewed and scored with the rest of the LEA applications. The LEA was subsequently reviewed and scored separately because PDE felt the application was better written than other applications. PDE personnel stated that the LEA's two missing rubrics and scores could not be located.

PDE personnel indicated that the recommended awards to SIG LEAs were routed through PDE management for approval. However, there was no evidence that this approval process included a review of the propriety and clerical accuracy of the grant readers' scores, the accuracy of PDE's accumulation of those scores and calculation of the final scores for each LEA, the proper arrangement of the scores in order from highest to lowest, and the proper allocation of the SIG funds to LEAs until all SIG funds were assigned.

PDE personnel indicated there was a supervisory review and approval process to ensure the accuracy and propriety of the earmarking calculations, but no documentation was provided to support this statement.

PDE began implementation of documented supervisory review and approval procedures over the program monitoring process during the audit period. However, these procedures require the review and approval process to occur after the third year of monitoring for each school. The schools in question were in their second year of monitoring, so they were not yet subject to this process.

Effect: Since PDE's oversight of the allocation process and the earmarking process was not adequate, PDE cannot be assured of the propriety and the accuracy of the allocations, and lack of proper oversight could lead to qualified schools not receiving the appropriate share of the funds or noncompliance with earmarking requirements. Since PDE's review and oversight of the on-site program monitoring was inadequate, PDE does not have assurance that subrecipients were in compliance with federal regulations.

Recommendation: We recommend that PDE personnel increase their oversight over awarding SIG allocations, earmarking requirements, and subrecipient monitoring by documenting a supervisory review and approval process to ensure that all SIG subrecipients are in compliance with federal regulations. Additionally, providing awards to incomplete and untimely applications should not be permitted. Since PDE is required to annually monitor SIG subrecipients, the supervisory review and approval process for monitoring should be annual. The allocation review process should include verification of the accuracy of the documents and calculations which support the allocation process. PDE personnel should ensure sufficient documentation is retained which supports the calculation of the SIG project scores and provides an audit trail between the scores and the related rubrics. Finally, PDE should consider adding provisions requiring subrecipients' compliance with earmarking requirements to the Master Agreement Rider for SIG LEAs.

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Agency Response: The Pennsylvania Department of Education, Division of Federal Programs (DFP) has increased its oversight of awarding SIG allocations, earmarking requirements, and subrecipient monitoring by conducting a monitoring review and approval process at the end of each LEA's SIG grant. This process was put into place after a prior audit finding and has been conducted each year since. The monitoring process is conducted three times per year and the FedMonitor System is updated with dates of the monitoring visits conducted each year. The DFP is putting new rules into place for monitoring beginning with the 2014-2015 SY.

The DFP believes that it does have sufficient oversight of the earmarking requirements of the SIG Grant and disagrees with this portion of the finding. At no time during the previous four (4) years of granting SIG allocations have the earmarking requirements been out of compliance. Applicants are screened each application period for the numbers of eligible schools and the numbers of Transformation model schools. The LEAs have been informed in the past that their applications would not be accepted because they were applying for too many Transformation model schools.

The DFP only awarded grants to LEAs that submitted complete applications and disagrees with this portion of the finding. The application in question was submitted after the close date of the SIG Applications, so it was not included in the initial review. After the initial review and the determination that the majority of the applications were deemed not approvable, DFP staff again reviewed the submitted application. In the future, the DFP will maintain the proper documentation and reason. The former SIG Manager is no longer employed at PDE and therefore DFP is unable to obtain the documentation and reason for this audit year.

The DFP has documentation for the allocation review process that includes calculations to support the allocation process except for the one charter school in question. As stated above, DFP cannot obtain this documentation from the former SIG Manager.

The current SIG Manager has ensured that all documentation is retained that supports the calculation of the SIG project scores and related rubrics for year 2014-2015 and future school years of SIG.

The earmarking requirements are a part of the initial SIG Application to LEAs in the eGrants System and are made clear in that application. If an LEA would not adhere to the earmarking requirements, their application would not be read. The provisions requiring subrecipients' compliance with earmarking requirements was not a part of the Grant Agreement for SIG LEAs since the earmarking requirements must be established before grants can be read and awarded. The Grant Agreements for SIG LEAs only apply to conditionally approved grant applications which are determined after a grant reading.

Questioned Cost Response: The DFP monitors all subrecipients three times a year for the three years of the grant. This process ensures that funds are spent appropriately and in accordance with their approved grant. The project in question was eligible to receive the grant and was a properly written grant according to DFP staff.

Auditors' Conclusion: Regarding the program monitoring of subrecipients, PDE should conduct the supervisory review and approval process annually in conjunction with the performance of the program monitoring so that PDE management can identify any problems and follow up on a timely basis.

Regarding the earmarking requirements, no noncompliance was identified, but the Single Audit process requires management to implement controls over compliance requirements which are adequately designed and operating effectively to ensure management complies with federal regulations. PDE should implement and document a supervisory review and approval process over the three SIG earmarking requirements. PDE management should implement controls at the time of allocation and award for the first earmarking requirement related to PDE allocating 95 percent of SIG funds to eligible LEAs and the third earmarking requirement related to PDE awarding no less than \$50,000 and no more than \$2,000,000 to eligible LEAs per year. PDE should implement controls at the time PDE approves the subgrant agreement for the second earmarking requirement related to the limit on the percentage of Transformation models.

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Regarding the allocation in question, PDE management should follow the same approval process for all potential subgrants and retain the documentation which supports the approval process.

We will review any corrective action in the subsequent audit.

Questioned Costs: The current year expenditures which related to the allocation to the LEA without supporting documentation of its project's rubric and score totaled \$1,351,008.

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

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Department of Health

Finding 2014 – 014:

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

Noncompliance and Internal Control Weaknesses Related to Food Instruments and Cash-Value Voucher Redemptions (A Similar Condition Was Noted in Prior Year Finding 13-DOH-01)

Federal Grant Numbers and Years: 14141PA705W1006 (10/1/2013 – 9/30/2014) and 13131PA705W1006 (10/1/2012 – 9/30/2013)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Special Tests and Provisions related to Food Instruments and Cash-Value Voucher Disposition

Condition: Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) food instrument and cash-value voucher (FI) expenditures totaled \$191.5 million for the fiscal year ended June 30, 2014. As part of our review of FI redemptions, we selected a sample of 25 days of FI payments totaling \$22,370,151 and compared the total dollar amount of FI redemptions per the Commonwealth's SAP accounting system to the total dollar amount of FI redemptions recorded in the Department of Health's (DOH) WIC database system (known as Quick WIC) for that day. The Quick WIC system accounts for all FIs issued and redeemed while payments for the FI redemptions are processed through SAP. In order to reconcile payments in SAP to FI redemptions in the Quick WIC system, typically SAP expenditures would need to be adjusted to account for known errors identified by Quick WIC reports or bank documentation. SAP expenditures collectively exceeded the amount of FIs redeemed in the Quick WIC system for 20 of the 25 days tested by \$62,555. For the remaining 5 days, the amount of FIs redeemed in the Quick WIC system collectively exceeded the SAP expenditures by \$2,136. However, our reconciliations could not be completed, and we were unable to determine how much, if any, of the differences could result in questioned costs.

To ensure proper recording of FI redemptions, DOH reconciles SAP to the Quick WIC system on a daily basis; however, the reconciliations were not retained because their software did not have the capability of archiving the reconciliations on the day they were performed. At the request of the auditors, DOH recreated the reconciliations for the sample of 25 days with a total net difference of \$624. However, we were unable to validate DOH's reconciliations because the changes to the Quick WIC system made in April 2014 could not be retroactively applied to FIs already redeemed.

Additionally, DOH performs an annual reconciliation between SAP and the Quick WIC system. For the fiscal year ended June 30, 2014, DOH reconciled the two systems with a difference of \$398,728. We expect the difference would be due to a combination of timing variations between when the FI redemptions are recorded in the Quick WIC system and the date payment is made in SAP, as well as FI redemptions identified as errors. However, we are unable to validate the reason for the difference or determine how much, if any, of the \$398,728 could result in questioned costs.

Criteria: Regarding Food delivery systems, 7 CFR Section 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.

Further, 7 CFR Section 246.13 states the following pertaining to financial management systems:

(a) Disclosure of expenditures. The State agency shall maintain a financial management system which provides accurate, current and complete disclosure of the financial status of the Program. This shall include an accounting for all . . . Program funds received and expended each fiscal year.

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

(c) Record of expenditures. The State agency shall maintain records which adequately identify the source and use of funds expended for Program activities. These records shall contain, but are not limited to, information pertaining to authorization, receipt of funds, obligations, unobligated balances, assets, liabilities, outlays, and income.

Cause: In regard to the differences we identified between the FI redemptions per SAP and the FI redemptions per DOH's Quick WIC system, DOH management stated that the main cause of the daily discrepancies was different key dates used by the bank and the Quick WIC system. Historically, the bank only included FIs with the same redemption date in their daily processing file, effectively making the FI redemption date in the Quick WIC system and the bank processing date the same. The bank modified their daily processing in September 2011 to include multiple redemption dates. Management stated that the Quick WIC system was modified to include a field for the bank processing date in April 2014. However, the bank processing date could not be retroactively populated for FIs already redeemed, and therefore, we could not validate that the issue with the daily reconciliations is resolved.

In regard to the inaccurate Quick WIC Paid Errors Monthly Reports, DOH management stated the inaccuracies are due to a design flaw in the process that does not prevent the same bank FI paid files and FI rejected files from being downloaded more than once because the files are not uniquely named. If download duplication occurs, the FIs contained in the bank FI paid file will be recorded on the Paid Errors Monthly Report as already redeemed. This is incorrect because the FIs were not redeemed twice. In order to remedy the design flaw, the bank must change the file naming strategy to include a timestamp. After that, the system will be programmed to check for already processed file names that are saved in a newly created database table and only process the files not present. Management stated the updates made to the Quick WIC system in April 2014 resolved this issue. However, since we could not validate DOH's daily reconciliations or complete our reconciliations due to the reasons noted above, we could not validate the issue with the error reports is resolved.

Effect: Without adequate controls related to the Quick WIC system and DOH review of redeemed FIs, DOH is not in compliance with WIC regulations and inappropriate FI redemptions could occur without DOH's knowledge which could lead to unallowable costs being charged to the federal WIC grants.

Recommendation: DOH should ensure that FI redemptions reported on the daily bank statements, which are paid through SAP, are reconciled to the daily FI redemptions on the Quick WIC system and those reconciliations are retained. Any problems should be identified, timely followed up, and properly corrected.

Agency Response: From the information provided in this finding, DOH is unable to confirm the questioned amount, but we are working to determine the exact amount of the questioned costs. However, DOH does agree with the basic premise of the finding. DOH's Bureau of Information Technology is continuing coordinating services with an outside contractor (CAI) to maintain Quick WIC. DOH's Bureau of WIC did purchase SAS licenses and participated in SAS training. Implementation of SAS is scheduled during the first quarter of 2015 and will assist in evaluating current Quick WIC data. DOH will prepare a Corrective Action Plan upon issuance of the final finding.

Questioned Costs: The amount of questioned costs from the \$62,555 in SAP payments exceeding FI redemptions in Quick WIC, the \$2,136 of FI redemptions exceeding SAP payments, and the \$398,728 annual reconciliation difference cannot be determined.

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

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Department of Human Services

Finding 2014 – 015:

CFDA #10.551 – Supplemental Nutrition Assistance Program

CFDA #93.558 – Temporary Assistance for Needy Families

A Material Weakness and Material Noncompliance Exist at the Department of Human Services Related to Electronic Benefits Transfer Card Security (A Similar Condition Was Noted in Prior Year Finding 13-DPW-01)

Federal Grant Numbers and Years: G1302PATANF (10/01/2012-9/30/2013), G1402PATANF (10/01/2013-9/30/2014)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Special Tests and Provisions related to EBT Card Security

Condition: As part of our audit of the Supplemental Nutrition Assistance Program (SNAP), we evaluated the security over Electronic Benefits Transfer (EBT) cards, which includes both the physical security of EBT cards during the issuance process at County Assistance Offices (CAO) as well as the handling of EBT cards returned from the United States Postal Service as undeliverable or those that have been lost or stolen. EBT cards are the method by which SNAP benefit payments are made available to recipients. Also, EBT cards are the primary method by which cash and special allowance benefit payments are made available to Temporary Assistance for Needy Families (TANF) recipients. Total benefit expenditures for SNAP for the year ended June 30, 2014 totaled over \$2.6 billion. Total EBT benefit expenditures for TANF for the year ended June 30, 2014 totaled over \$225.1 million.

Sixteen of the 94 CAO and district locations that issued ten or more EBT cards were selected for site visits in the current audit period, based on their volume of EBT card issuances. During our review of the physical security over EBT cards, we noted exceptions at sixteen of the CAO locations. These exceptions included the following:

- Failure to use and maintain the EBT Shipment Verification Log (1 location; district office);
- Failure to properly complete the EBT Card Reconciliation Log/Tracking Slip (5 locations);
- EBT Issuance Log did not include mailed cards issued from the CAO (1 location);
- Failure to maintain the EBT Card Destruction Log (1 location);
- Failure to maintain the Ribbon Destruction Log (1 location);
- Failure to shred used EBT card printer ribbons in a timely manner (1 location);
- Failure to use/maintain the Exception to Central Issuance Log (3 locations);
- Failure to provide supporting explanation for one of the EBT cards approved on the Exception to Central Issuance Log (1 location);
- CAO list of personnel authorized to create EBT cards or grant PIN numbers differed from DHS's master list (14 locations);
- Failure to provide evidence of DHS approval authorizing more than five employees to create EBT cards (1 location);
- CAO personnel found to have dual authorization/access for both the EBT Card Creation station and the pinning device (2 locations);
- Failure to report or provide evidence of reporting employee termination/change in Xerox EPPIC EBT System responsibilities to the EBT Security Administrator within 24 hours of the termination/change effective date (9 locations); and
- Failure to provide evidence that supports four years of paper or electronic retention of the EBT Issuance Log, EBT Card Destruction Log, Ribbon Destruction Log, and Exception to Centrally Issued EBT Cards Log (3 locations).

We noted no exceptions related to the handling and destruction of returned EBT cards.

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Finding 2014 – 015: (continued)

Criteria: Federal Regulation 7 CFR Section 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, 7 CFR Part 274 also states the following regarding EBT Security:

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

45 CFR Section 92.20 (b)(3) applicable to TANF states:

Internal control. Effective internal 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.

Cause: Established policies and procedures were not followed consistently across CAO locations, which resulted in ineffective internal controls over EBT card security.

Effect: Without adequate security controls over EBT cards, there exists the possibility of misappropriation and/or abuse.

Recommendation: We recommend that DHS monitor CAO EBT card security on a regular basis to improve consistency in execution of documented policies and procedures.

Agency Response: DHS agrees with this finding.

DHS believes that all of the mentioned exceptions have not caused any theft, embezzlement, loss, damage, destruction, or unauthorized transfer or use.

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

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Department of Human Services

Finding 2014 – 016:

CFDA #93.558 – Temporary Assistance for Needy Families

A Material Weakness and Material Noncompliance Exist in Reporting on the Temporary Assistance for Needy Families ACF-199 Data Report (A Similar Condition Was Noted in Prior Year Finding 13-DPW-05)

Federal Grant Number and Year: 1302PATANF (10/01/2012 – 9/30/2013)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Reporting

Condition: Within the Temporary Assistance for Needy Families (TANF) program, the Department of Human Services (DHS) is required to submit the TANF Data Report, or Form ACF-199, on a quarterly basis. The ACF-199 Report provides the U.S. Department of Health and Human Services (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, DHS electronically submits a file to HHS that contains the aforementioned data. This file consisted of three stratified random monthly samples of 250-300 cases (one for each month in the quarter) for submission to HHS. After the end of the Federal Fiscal Year (FFY) on September 30, DHS had until March 31 of the following year to submit a final TANF Data Report with any changes noted during their review of the monthly sample of case data submitted to HHS.

In order to determine whether the data on the file submitted to HHS was complete and accurate, we obtained the final file submitted to HHS to meet the March 31, 2014 cut-off date for the submission of complete and accurate data for the FFY ended September 2013. We selected a sample of 65 out of the 3,166 total cases in the data file, and attempted to trace the key line items to support documentation in the participant's case file. Although we saw evidence of DHS's review of these cases, the files did not always contain the necessary documentation. Based upon review of the TANF Work Verification Plan, our testing disclosed reporting errors and/or documentation discrepancies to support the hours and/or the amount of subsidized child care reported on the ACF-199 for eleven of the 65 cases, or 17 percent, as follows:

- Eight of the 55 cases that contained work activity, or 15 percent, reported unsubsidized weekly employment hours that were not properly calculated as follows:

<u>Case</u>	<u>Month Tested</u>	<u>Hours Reported On ACF-199</u>	<u>Hours Worked Per Documentation</u>	<u>Difference</u>
A - Adult #1	April 2013	47	38	9
B - Adult #2	December 2012	19	10	9
C - Adult #1	June 2013	45	*	*
D - Adult #2	December 2012	51	47	4
E - Adult #2	March 2013	52	30	22
F - Adult #1	September 2013	78	40	38
G - Adult #1	March 2013	12	10	2
H - Adult #1	May 2013	63	40	23

* - The amount of unsubsidized employment hours for the participant could not be determined per review of the case file.

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Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 016: (continued)

- One of the 65 cases reported the wrong hours of vocational education activity as follows:

<u>Case</u>	<u>Month Tested</u>	<u>Hours Reported On ACF-199</u>	<u>Hours of Vocational Education Per Documentation</u>	<u>Difference</u>
I - Adult #1	August 2013	51	64	13

- Two of the 65 cases reported the wrong amount of subsidized child care received as follows:

<u>Case</u>	<u>Month Tested</u>	<u>Amount of Child Care Received</u>	<u>Amount of Child Care Reported</u>	<u>Difference</u>
J	June 2013	\$0	\$1,424	\$1,424
K	September 2013	\$1,180	\$1,239	\$59

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 Section 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, DHS's federally-approved TANF Work Verification Plan states:

I. Countable Work Activities

A. Unsubsidized Employment

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Finding 2014 – 016: (continued)

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.

3. Verification of Actual Hours of Participation

An individual's participation in Unsubsidized Employment can be verified in one of the following ways:

- *A copy of at least one pay stub that was current at the time it was used to project income;*
- *A letter or statement from the employer that enumerates hours;*
- *A copy of an attendance record as verified by the employer;*
- *An Employment Verification Form;*
- *Time sheets as verified by the employer;*
- *A letter stating the details of the work provided as income-in-kind;*
- *Collateral contacts including employee's supervisory or management staff but not a co-worker; or*
- *Independent verification sources including the Commonwealth-contracted verification provider, Inspiritec and The Work Number.*

When the Commonwealth receives verification of employment through any of the ways listed above, the hours of participation are recorded in the data system at initial entry into the activity and prospectively for a six-month period. A copy of at least one pay stub that was current at the time is used to project hours for no more than six months. Hours of participation will be adjusted if the individual reports a change in employment status such as increased or decreased hours, loss of job or new employment. Upon expiration of the six-month period or at the semi-annual review, whichever comes first, the individual must again provide verification that will be used to project the hourly participation for the subsequent six-month period.

H. Vocational Educational Training

2. Countable Hours of Participation

Vocational Educational Training is counted toward participation using documentation of actual hours engaged in or excused from the vocational educational training.

Study Time, when unsupervised, is counted toward participation as one hour for each hour of classroom time. Supervised study time is counted toward participation as monitored and documented by the contracted employment and training vendor or accredited educational institution.

Federal Instructions for the TANF Data Report ACF-199, ADULT WORK PARTICIPATION ACTIVITIES, states in part:

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Finding 2014 – 016: (continued)

Guidance: The State must document all hours of participation in an activity; however, if a State is reporting projected hours of actual employment in accordance with § 261.60(c), it need only document the hours on which it bases the projection.

To calculate the average number of hours per week of participation in a work activity, add the number of hours of participation across all weeks in the month and divide by the number of weeks in the month. Round the result to the nearest whole number.

Federal Instructions for the TANF Data Report ACF-199, Line #17, Amount of Subsidized Child Care, state:

Instruction: Enter the total dollar amount of subsidized child care from all sources (e.g., CCDF, TANF, SSBG, State, Local, etc.) that the TANF family has received for services in the reporting month. If the TANF family did not receive any subsidized child care for services in the reporting month, enter “0”.

Cause: Regarding the current year discrepancies in work and vocational education hours reported, clerical errors were made in the calculations within Cases A, F, G, and I which were not detected by DHS review. For Cases B, D, E, and H, DHS provided additional documentation that disclosed the work hours reported were incorrect. For Case C, DHS only provided a letter from the employer estimating the individual would be working 40 to 50 hours per week. No pay stubs or other documents from the employer showing actual hours worked were provided as required by the federally-approved TANF Work Verification Plan.

In regard to reporting the cost of child care services for Cases J and K, DHS management could not explain why the cost of services was not properly reported for the two cases.

Effect: Based on the error rates and the nature of the errors disclosed, DHS did not comply with its HHS-approved TANF Work Verification Plan. As a result, HHS may not be accurately calculating and evaluating Pennsylvania’s work participation rates within the TANF program. This could result in DHS’s future funding being incorrectly modified.

Recommendation: DHS 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 in accordance with the HHS-approved TANF Work Verification Plan. Also, DHS should review and evaluate its procedures and controls to accumulate, review, and report its TANF information on the ACF-199 Report and make the necessary revisions to ensure that future information reported is complete, accurate, and properly supported by the participants’ case files.

Agency Response: Below are specific comments on the individual deficiencies contained in this finding.

1. Deficiency: Case A was determined to have a nine (9) hour difference in employment hours.

DHS Response: DHS disagrees, in part, with this finding. It is agreed that the number of employment hours were miscalculated based on the case record documentation. However, the discrepancy did not impact the Work Participation Status (WPS) code of the individual, which was accurately reported as WPS code 19 (Required to Participate and Meeting Minimum Participation Requirements), and had no impact on the work participation rate calculation for this case.

2. Deficiency: Case B was determined to have a nine (9) hour difference in employment hours.

DHS Response: DHS agrees with this finding as the number of employment hours were miscalculated based on the case record documentation.

3. Deficiency: For Case C, the amount of unsubsidized employment hours for the participant could not be determined per review of the case file.

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Finding 2014 – 016: (continued)

DHS Response: DHS agrees with this finding, as employment hours were determined with the use of an employer letter estimating employment hours. This case was included in the TANF Sample for the reporting month of June 2013, which was prior to DHS's receipt of the AG findings for SFY ended June 30, 2013, on February 7, 2014, which cited a similar deficiency. DHS has since taken corrective action to prevent similar instances from occurring after receiving clarification from the Administration for Children and Families (ACF) that such statements are not allowable to document employment hours.

4. Deficiency: Case D was determined to have a four (4) hour difference in employment hours.

DHS Response: DHS disagrees, in part, with this finding. It is agreed that the number of employment hours were miscalculated based on the case record documentation. However, the discrepancy did not impact the Work Participation Status (WPS) code of the individual, which was accurately reported as WPS code 19 (Required to Participate and Meeting Minimum Participation Requirements), and had no impact on the work participation rate calculation for this case.

5. Deficiency: Case E was determined to have a 22 hour difference in employment hours.

DHS Response: DHS disagrees, in part, with this finding. DHS disagrees with the number of employment hours worked per documentation as determined by the AG call on preliminary finding: DHS provided documentation of 49 hours thereby, causing a difference of 3 hours.

6. Deficiency: Case F was determined to have a 38 hour difference in employment hours.

DHS Response: DHS disagrees, in part, with this finding. It is agreed that the number of employment hours were miscalculated based on the case record documentation. However, the discrepancy did not impact the Work Participation Status (WPS) code of the individual, which was accurately reported as WPS code 19 (Required to Participate and Meeting Minimum Participation Requirements), and had no impact on the work participation rate.

7. Deficiency: Case G was determined to have a two (2) hour difference in employment hours.

DHS Response: DHS disagrees with this finding in part. It is agreed that the number of employment hours were miscalculated based on the case record documentation. However, the discrepancy did not impact the Work Participation Status (WPS) code of the individual, which was accurately reported as WPS code 18 (Required to Participate but not Meeting Minimum Participation), and had no impact on the work participation rate calculation for this case.

8. Deficiency: Case H was determined to have a 23 hour difference in employment hours.

DHS Response: DHS disagrees, in part, with this finding. It is agreed that the number of employment hours were miscalculated based on the case record documentation. However, the discrepancy did not impact the Work Participation Status (WPS) code of the individual, which was accurately reported as WPS code 19 (Required to Participate and Meeting Minimum Participation Requirements), and had no impact on the work participation rate calculation for this case.

9. Deficiency: Case I was determined to have a 13 hour difference in vocational education activity hours.

DHS Response: DHS disagrees with this finding in part. It is agreed that the number of employment hours were miscalculated based on the case record documentation. However, the discrepancy did not impact the Work Participation Status (WPS) code of the individual, which was accurately reported as WPS code 19 (Required to Participate and Meeting Minimum Participation Requirements), and had no impact on the work participation rate calculation for this case.

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Finding 2014 – 016: (continued)

10. Deficiency: Case J was reported with the wrong amount of subsidized child care received, with a difference of \$1,424.

DHS Response: DHS agrees that an incorrect child care benefit amount was reported for this case. However, the difference in the amount of child care reported had no impact on the work participation rate calculation for this case.

11. Deficiency: Case K was reported with the wrong amount of subsidized child care received, with a difference of \$59.

DHS Response: DHS agrees that an incorrect child care benefit amount was reported for this case. However, the difference in the amount of child care reported had no impact on the work participation rate calculation for this case.

DHS continues to strive to provide outstanding service to an increasing number of clients by providing newer tools to get clients the services they need. Improvements for clients and DHS include instituting Customer Service Centers with Customer Service Representatives, expanding COMPASS (our on-line client self-service system), updates to our Client Information System (CIS) with the addition of programming CIS IV-B introduced into all County Assistance Offices in 2012, and providing simplified notices to clients informing them of the status of their benefits. All these improvements allow greater analysis of trends to better anticipate the needs of the residents of the Commonwealth with economy fluctuations and to provide tools for our staff to make it easier for them to meet these needs and ensure that resources are managed effectively.

Auditors' Conclusion: Regarding Case C for the month of June 2013, DHS had until March 31, 2014 to correct this deficiency related to the FFY 2013 TANF Data Report; however, the error remained uncorrected. Since the Work Participation Status (WPS) code reported for the individual was code 19 (Required to Participate and Meeting Minimum Participation Requirements), the work participation rate calculation would be overstated as a result of this error.

For Case E the DHS documentation was a calculation of hours worked computed from the gross pay based on an hourly rate of \$7.26 and an overtime rate of \$10.89; however, these pay rates were not correct. The pay stub in the case file disclosed the individual was a service technician at an automotive repair shop who was compensated based upon services rendered, a regular rate of \$7.26 per hour, or a regular rate plus a flat rate totaling \$13.26. DHS personnel failed to notice this on the pay stub in the case file. Also, we noted that the two week pay stub included a row captioned: Total Hours Worked 60.75, which calculates to 30 hours a week of employment hours.

With regard to Cases J and K, we agree that the child care payments do not affect the work participation rate calculation; however, the child care payments were not accurately reported.

For all the cases where DHS agrees with our calculation of hours, but indicated Work Participation Status was not impacted, while this may be true, due to the high error rates related to the calculation of hours it cannot be ensured that the work participation rate for FFY 2013 is accurate.

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

Questioned Costs: None

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Department of Human Services

Finding 2014 – 017:

CFDA #93.558 – Temporary Assistance for Needy Families

CFDA #93.658 – Foster Care – Title IV-E

CFDA #93.659 – Adoption Assistance

Material Weaknesses and Material Noncompliance Exist in Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients by the Department of Human Services' Office of Children, Youth and Families (A Similar Condition Was Noted in Prior Year Finding 13-DPW-03)

Federal Grant Numbers and Years: G1302PATANF (10/1/12-9/30/13), G1402PATANF (10/1/13-9/30/14), G1301PA1401 (10/1/12-9/30/13), G1401PA1401 (10/1/13-9/30/14), G1301PA1407 (10/1/12-9/30/13), and G1401PA1407 (10/1/13-9/30/14)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: The Department of Human Services' (DHS) Office of Children, Youth and Families (OCYF) performs two types of during-the-award monitoring of its 67 subrecipient County Children and Youth Agencies (CCYAs). 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 CCYAs to whom DHS 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 an Annual Survey and Evaluation Summary. In addition, a separate group within DHS's 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. To test DHS's licensing/inspections and Quality Assurance Compliance Reviews in the current year, we selected 13 of the 67 CCYAs receiving Foster Care, Adoption Assistance and Temporary Assistance for Needy Families (TANF) funds.

Our current year testing of the on-site licensing inspections disclosed the following exceptions:

- On-site inspections of three of the 13 CCYAs tested were not completed within 12 months of the completion of the prior on-site inspection. These three current year inspections were completed one month late;
- The on-site inspections were not reviewed or approved by the supervisor and Regional Director before the expiration of the prior license for eight of the 13 CCYAs tested. The current year inspections were approved between 7 to 169 days beyond the expiration of the prior license, and one inspection was not approved by the Regional Director. Also, one of the eight inspections was approved by the same person as supervisor and Regional Director.

Also, as part of our testing of monitoring, we noted that DHS did not have adequate procedures in place to determine if CCYAs were monitoring their subrecipients or contractors. Specifically, DHS did not perform procedures to determine if CCYAs were monitoring A-133 audits of its subrecipients and evaluating the follow-up of any findings, or that CCYAs were only paying contractors for allowable services.

Foster Care program payments made by DHS to its 67 CCYA subrecipients during the fiscal year ended June 30, 2014 were \$131.5 million, or 89.9 percent of total Foster Care expenditures of \$146.2 million reported on the June 30, 2014 SEFA. Adoption Assistance program payments made by DHS to its 67 CCYA subrecipients during the fiscal year ended June 30, 2014 were \$66.3 million, or 73.4 percent of total Adoption Assistance expenditures of \$90.3 million reported on the June 30, 2014 SEFA. TANF Child Welfare program payments made by DHS to its 67 CCYA subrecipients during the fiscal year ended June 30, 2014 were \$55.3 million, or 11.7 percent of total TANF expenditures of \$471.9 million reported on the June 30, 2014 SEFA.

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Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 017: (continued)

In addition to the CCYA's noted above, DHS contracted with one non-profit subgrantee to assist certain universities in identifying and selecting students for the Child Welfare Education for Baccalaureates program (CWEB) and collaborate with county child welfare agencies in the selection of candidates for the Child Welfare Education for Leadership (CWEL) program. The non-profit subgrantee pays the undergraduate tuition and internships of the selected CWEB students, and the graduate tuition and graduate trainee salaries of selected CWEL students. DHS then reimburses the non-profit for these costs with Foster Care funding. Our testing of costs paid to the non-profit subgrantee disclosed that DHS procedures to monitor this program are missing some of the elements of subrecipient monitoring since there is not a review of supporting documentation, such as tuition bills or transcripts, and internship or graduate trainee employment records, to ensure the non-profit subgrantee paid costs that are allowable and eligible under Foster Care during the award period.

Foster Care program payments made by DHS to the one non-profit subgrantee during the fiscal year ended June 30, 2014 were \$10.2 million, or 7.0 percent of total Foster Care expenditures of \$146.2 million reported on the June 30, 2014 SEFA.

Criteria: 45 CFR Section 92.40, applicable to TANF, Foster Care and Adoption Assistance, states:

(a) 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.

The OMB Circular A-133 Compliance Supplement Part 3, Section 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.

Monitoring activities normally occur throughout the year and may take various forms, such as:

- *Reporting: Reviewing financial and performance reports submitted by the subrecipient.*
- *Site Visits: Performing site visits at the subrecipient to review financial and programmatic records and observe operations.*
- *Regular Contact: Regular contacts with subrecipients and appropriate inquiries concerning program activities.*

In addition, PA Code Title 55, Chapter 20, Section 20.31 states:

An authorized agent of the Department will conduct an on-site inspection of a facility or agency at least once every 12 months.

Cause: DHS personnel did not explain why three inspections were not performed timely.

DHS personnel could not explain why the on-site inspections were not reviewed and approved by the supervisor or Regional Director prior to the expiration of the prior license, or why one of the inspections was not signed or dated by the Regional Director. DHS personnel indicated that for the on-site inspection in which the same person signed as supervisor and Regional Director was due to the retirement of the prior Regional Director and promotion of the supervisor into that position.

DHS believes that their monitoring procedures currently in place to determine subrecipient eligibility, monitoring of programmatic operations, reviewing subrecipient audits, and reviewing subrecipient agreed upon procedure reports is sufficient to effectively monitor its subrecipients or contractors.

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Finding 2014 – 017: (continued)

With regard to the lack of during-the-award monitoring of the non-profit subgrantee, DHS personnel indicated that they rely on staff at the non-profit to monitor student coursework, internships and employment records to ensure costs that are allowable and eligible under Foster Care.

Effect: CCYAs or the non-profit subgrantee could be operating in noncompliance with federal regulations without timely detection and correction by DHS management.

Recommendation: DHS's OCYF should strengthen its controls to ensure monitoring and inspections of Foster Care, Adoption Assistance and TANF subrecipients are performed and reviewed by management on a timely basis and include procedures to ensure CCYAs are monitoring their subrecipients or contractors. Also, DHS should implement procedures to properly monitor expenditures of the non-profit subgrantee.

Agency Response: DHS disagrees with the exceptions in the preliminary finding regarding the monitoring of subrecipients and contractors. DHS understands the requirement to monitor its subrecipients during the award and has done so through the use of: regularly scheduled on-site licensing inspections, regular contact with our subrecipients, and regular Quality Assurance (QA) reviews and visits. We believe the processes that are in place, as described to the auditors in detail during our meeting on February 12, 2015, generally meet federal expectations as described in the OMB Circular A-133 Compliance Supplement (Part 3 – Compliance Requirements, M – Subrecipient Monitoring) and 45 CFR Section 92.40. Furthermore, we believe we are in compliance with 55 PA Code, Chapter 20, Section 20.31. We acknowledge that our subrecipient monitoring can be enhanced and will consider improvements to strengthen the existing processes moving forward.

Auditors' Conclusion: We do not agree with the DHS response. We believe there to be a material weakness in DHS procedures considering the fact that for eight of 13 CCYAs tested, or 62 percent, the on-site inspections were not reviewed and approved by the supervisor and Regional Director before expiration of the prior license. These current year inspections were approved between 7 to 169 days after expiration of the prior license.

Additionally, as noted in the condition above and discussed with DHS at the meeting on February 12, 2015, DHS's during-the-award monitoring processes should also entail reviewing the CCYA's procedures to ensure the CCYA is effectively monitoring its subrecipients and contractors, including monitoring A-133 audits, evaluating follow-up of any findings, and ensuring CCYA payments to contractors were for allowable services.

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

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

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Department of Human Services

Finding 2014 – 018:

CFDA #93.558 – Temporary Assistance for Needy Families

Department of Human Services Did Not Validate Financial Information as Part of its On-Site Monitoring of Temporary Assistance for Needy Families Subrecipients (A Similar Condition Was Noted in Prior Year Finding 13-DPW-04)

Federal Grant Numbers and Years: G1302PATANF (10/1/12 – 9/30/13), G1402PATANF (10/1/13 – 9/30/14)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: During the fiscal year ended June 30, 2014 the Department of Human Services (DHS) paid \$77.6 million in Temporary Assistance for Needy Families (TANF) funding to subrecipients within the New Directions, Cash Grants and Alternatives to Abortion appropriations (or 16.4 percent) out of total federal TANF expenditures of \$471.9 million reported on the June 30, 2014 SEFA.

Our testing of the DHS during-the-award monitoring of these subrecipients disclosed that DHS made on-site visits in which they selected and reviewed a sample of TANF recipient case files to ensure that the recipients' TANF activities were documented, and that the recipients were participating in required work activities. Also, DHS personnel conducted interviews with subrecipient staff and TANF recipients. However, the DHS on-site monitoring procedures did not include a review of subrecipient financial records, which is an element of on-site monitoring to provide real-time information to evaluate. DHS management stated that they monitor the subrecipients' financial records through pre-payment invoice reviews and validation of employment and training placement reports generated by the Commonwealth Workforce Development System (CWDS) for each subrecipient or other statistical data. However, DHS was not monitoring to ensure that subrecipients were in compliance with applicable federal regulations. For example, DHS did not perform procedures to ensure subrecipient invoices agree to the books and records of the subrecipient and the records are adequate to support the allowability of costs paid by DHS during the award period. In addition, DHS should be evaluating the procedures in place at its subrecipient to effectively track and monitor A-133 audits and the process to follow-up on any findings reported by its subrecipients in these A-133 audits.

Criteria: 45 CFR Section 92.40, applicable to TANF states:

(a) 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.

The OMB Circular A-133 Compliance Supplement Part 3, Section 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.

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Finding 2014 – 018: (continued)

Monitoring activities normally occur throughout the year and may take various forms, such as:

- *Reporting: Reviewing financial and performance reports submitted by the subrecipient.*
- *Site Visits: Performing site visits at the subrecipient to review financial and programmatic records and observe operations.*
- *Regular Contact: Regular contacts with subrecipients and appropriate inquiries concerning program activities.*

Cause: DHS personnel believe that current during-the-award monitoring procedures of subrecipients are adequate and that OMB Circular A-133 audits received for subrecipients include testing of the books and records at the subrecipient level to ensure that they are in compliance with federal regulations. However, reliance on OMB Circular A-133 subrecipient audits is not an adequate substitute for during-the-award monitoring as these audits are only done after-the-fact and on an annual basis.

Effect: TANF subrecipients could be operating in noncompliance with federal regulations without timely detection and correction by DHS management.

Recommendation: DHS should strengthen its controls to ensure during-the-award monitoring of TANF subrecipients includes procedures to ensure that subrecipients are in compliance with applicable federal regulations. Also, DHS should ensure that TANF funds subgranted by DHS subrecipients are properly monitored for compliance with applicable federal regulations, including ensuring that all required OMB Circular A-133 audits were obtained by all DHS subrecipients.

Agency Response: DHS disagrees with this finding. DHS understands the requirement to monitor its subrecipients during the award and has done so. While processes can always be improved and we plan to consider upgrades to our subrecipient monitoring, we believe the processes that are in place as described to the auditors in detail during our meeting on February 12, 2015 generally meet federal expectations as described in the OMB Circular A-133 Compliance Supplement (Part 3 – Compliance Requirements, M – Subrecipient Monitoring) and 45 CFR Section 92.40.

Auditors' Conclusion: We do not agree with the DHS response. In addition to monitoring procedures currently performed by DHS as noted in the condition above and discussed with DHS at the meeting on February 12, 2015, DHS's during-the-award monitoring processes should also include procedures to ensure subrecipient invoices agree to the books and records of the subrecipient and the records are adequate to support the allowability of costs paid by DHS during the award period. In addition, DHS should evaluate the procedures in place at its subrecipient to effectively track and monitor A-133 audits and the process to follow-up on any findings reported by its subrecipients in these A-133 audits.

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

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

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Department of Human Services

Finding 2014 – 019:

CFDA #93.568 – Low-Income Home Energy Assistance

Noncompliance and Controls Not Operating Effectively in the Department of Human Services' Administration of the Low-Income Home Energy Assistance Program

Federal Grant Numbers and Years: G-14B1PALIEA (10/01/13 - 09/30/15), G-1401PALIE4 (10/01/13 - 09/30/15), G-13B1PALIEA (10/1/12 – 9/30/14), G-12B2PALIE2 (10/1/11 – 9/30/13), G-12B1PALIEA (10/1/11 – 9/30/13)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Allowable Costs, Eligibility

Condition: Our audit disclosed deficiencies in the operating effectiveness of the Department of Human Services' (DHS) internal controls of the Low-Income Home Energy Assistance (LIHEAP) program, resulting in noncompliance and questioned costs.

DHS administered LIHEAP cash and crisis payments through its 67 County Assistance Offices (CAOs) and two crisis contractors for the fiscal year ended June 30, 2014. DHS utilized eCIS to process cash and crisis applications and to determine the benefit amounts to be paid. DHS tracked LIHEAP applicant information in eCIS by application numbers and client LIHEAP record numbers. Additionally, eCIS identified and tracked household members claimed by applicants when applying for LIHEAP benefits. Total cash and crisis benefits paid during the fiscal year ended June 30, 2014 were \$173,744,192 out of total LIHEAP expenditures of \$224,220,475 reported on the current year Schedule of Expenditures of Federal Awards (SEFA).

Our sample of 40 LIHEAP cash and crisis benefit transactions disclosed two exceptions resulting in overpayments totaling \$1,000 out of a sample population of \$12,262, or 8 percent of benefit payments sampled. These exceptions included:

- One LIHEAP application was not certified/signed by the applicant as required by DHS policy and was awarded a crisis benefit totaling \$500; and
- One applicant's case file lacked support/proof of a crisis situation. The applicant received a LIHEAP cash benefit that was sufficient for the fuel company to agree to deliver fuel, but the applicant complained the cash grant was not enough and asked for a crisis grant to supplement the cash benefit. The case worker properly denied the crisis request because the crisis criteria were not met. However, CAO management overturned and awarded a crisis benefit totaling \$500 to satisfy the applicant's complaint.

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 DHS's LIHEAP application form.*
- (2) Sign and date the application form.*

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Finding 2014 – 019: (continued)

- (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 date of application is the date the application is received by the LIHEAP administering agency.*
- (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.

Section 601.32 of the LIHEAP State Plan applicable to eligibility for crisis benefits states in part:

Households who qualify for a cash grant and either its main or secondary heating source has been completely shut-off or the household has almost run out of its supply of main heating fuel prior to the opening of the crisis program may be eligible to receive a crisis exception benefit, subject to the minimum and maximum crisis amounts allowed under the current LIHEAP State Plan. The Crisis exception benefit will only be issued if the amount of the household's cash grant is insufficient to restore heat to the residence.

CAOs and crisis contractors must ensure the proper accountability and accuracy of processed LIHEAP applications. eCIS has features to validate applicant information and make eligibility determinations and must be used to reduce the risk of error, fraud, and abuse by individuals applying for LIHEAP benefits. In addition, manual review controls at each CAO and crisis contractor must be in place and operating effectively to ensure the propriety and accuracy of LIHEAP benefits processed and paid.

Cause: There is a high volume of applications which require judgment by program personnel to process and monitor LIHEAP, which increases the risk of errors in the eligibility determination process. DHS management believes that adequate controls are in place to ensure that applicant information and supporting documentation are sufficient to limit the risk that payments will be paid to ineligible participants. However, in these two instances the operating effectiveness of the management review controls failed to prevent or detect these errors.

Effect: Failure to accurately determine eligibility results in LIHEAP cash and crisis benefits being paid inappropriately and in violation of federal regulations and the LIHEAP State Plan.

Recommendation: We recommend that DHS:

- Continue to reinforce policy through annual LIHEAP training and monitoring procedures; and
- Ensure supervisory personnel are properly trained on the regulations to provide oversight at CAOs and crisis contractors during application processing.

Agency Response: Below are specific comments on the individual deficiencies contained in this finding:

Condition 1: One LIHEAP application was not certified/signed by the applicant as required by DHS policy and was awarded a crisis benefit totaling \$500.

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Finding 2014 – 019: (continued)

DHS Response: DHS agrees with this finding. Per DHS policy, all applications are required to be signed by the applicant as a condition of eligibility. Applications that are received without signature must be held pending the return of the certification page signed by the applicant. If the application is not returned after 15 days, the application should be rejected. In this instance, it appears the county did not notice the application was not signed and approved the application in error. DHS will be reinforcing the policy that all LIHEAP applications must be certified/signed by the applicant before benefits can be issued.

Condition 2: One applicant's case file lacked support/proof of a crisis situation. The applicant received a LIHEAP cash benefit that was sufficient for the fuel company to agree to deliver fuel but the applicant complained the cash grant was not enough and asked for a crisis grant to supplement the cash benefit. The case worker properly denied the crisis request because the crisis criteria were not met. However, CAO management overturned and awarded a crisis benefit totaling \$500 to satisfy the applicant's complaint.

DHS Response: DHS agrees with this finding. Per DHS policy, all requests for LIHEAP Crisis must be verified with either a written termination notice, verification the utility service has already been terminated or a statement from the client that their deliverable fuel supply will last less than 15 days. This policy is stressed throughout the LIHEAP training all workers participate in and reinforced through weekly Knowledge Checks throughout the LIHEAP season. Also, if DHS is operating the Crisis Exception program prior to the opening of regular crisis, DHS will reinforce the policy that the crisis exception benefit should not be authorized if the amount of the household's cash grant is sufficient to restore or maintain heat to the residence.

Questioned Costs: \$1,000

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Department of Human Services

Finding 2014 – 020:

CFDA #93.575 – Child Care and Development Block Grant

Noncompliance and Internal Control Weakness in Department of Human Services' Contracting With Child Care Subgrantees (A Similar Condition Was Noted in Prior Year Finding 13-DPW-08)

Federal Grant Numbers and Years: G1201PACCDF (10/1/11 – 9/30/14), G1301PACCDF (10/1/12 – 9/30/15), G1401PACCDF (10/1/13 – 9/30/16)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Cash Management

Condition: The Department of Human Services (DHS) had contracts with six Keys during the audit period to improve and support quality initiatives among child care providers in the Commonwealth. The Keys provide technical assistance, financial resources, including grants and awards and professional development opportunities to early childhood and school age providers. The Keys accounted for approximately \$33 million or 10 percent of the Child Care and Development Fund (CCDF) Cluster expenditures for the fiscal year ended June 30, 2014. A significant portion of the Keys funding is used to provide merit awards and grants to providers of early childhood education under the STARS program. As part of our monitoring procedures, we determined that DHS provides advance funding not to exceed 25 percent of the total agreement amount to the Keys at the beginning of the grant year to facilitate their operations and to ensure cash is available to fund merit awards and grants. The advances, as well as subsequent cash disbursed, consist of both state and federal funds. Rider 1 to the contracts with the Keys includes the following provisions in Section B:

- 1. Upon execution of the Agreement, the Grantee may submit a working capital request which may not exceed 25 percent of the total agreement amount. The amount requested is subject to approval by the Department.*
- 2. The payment from the Department for the months of August through March will represent the actual expenditures for the previous month. This will maintain up to 25 percent of funds on hand to assure that the Grantee has the working capital needed for access, participation and compensation of providers in the Department's quality programs.*
- 3. The payment from the Department for April and May will reconcile cash received to date and the actual expenditures to date, plus the estimate of expenditures for the next month.*

In our testing of two of the six Keys (one Regional Key and the PA Key), we compared federal cash disbursed to federal expenditures reported by the Keys and determined that the Regional Key tested had excess federal cash on hand for two of the eight months tested; while the PA Key had excess federal cash on hand for eight of eight months tested. The amount of excess cash per month held by the Regional Key ranged from approximately \$48,400 to \$197,600; for the PA Key, excess monthly cash ranged from approximately \$576,000 to \$3.3 million. In addition to the working capital advance, excess cash held by the PA Key included the unexpended part of a \$2 million supplemental payment made to the PA Key in October 2013. The \$2 million was expended over the period September 2013 through March 2014.

This deficiency was also cited in our prior audit and as a result, the Office of Child Development and Early Learning reduced the amount of the federal cash advanced to the Regional Keys in fiscal year ended June 30, 2014 to 20 percent of the total cash advanced (down from 56 percent federal advance in the prior year). However, 100 percent of the cash advanced to the PA Key consisted of federal funds; of this amount, approximately 93 percent was charged to CCDF.

Although contracts are reviewed prior to issuance, the review did not detect that the Rider 1 provisions were in violation of federal regulations for the CCDF Cluster.

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Finding 2014 – 020: (continued)

Criteria: According to 45 CFR Section 98.60 (f):

Cash advances shall be limited to the minimum amounts needed and shall be timed to be in accord with the actual, immediate cash requirements of the State Lead Agency, its subgrantee or contractor in carrying out the purpose of the program in accordance with 31 CFR Part 205.

Cause: DHS management indicated that the advances to the Regional Keys are necessary to ensure that the Keys have adequate cash on hand to meet monthly expenditure needs, particularly for provider grants which are to be awarded early in the year.

Effect: The department is advancing federal funds that are not being used for immediate cash needs.

Recommendation: DHS should re-evaluate its procedures for advancing federal funds to the Regional Keys and the PA Key to comply with federal cash management requirements and to ensure that excess federal cash is not held by its subrecipients. One possible alternative would be to advance only the state share of the awards, then use federal monies to reimburse the Keys for actual expenditures. Another option would be to request authorization for such advances from the Administration for Children and Families. In addition, CCDF contracts should be thoroughly reviewed to ensure provisions conform to federal program regulations.

Agency Response: DHS agrees with the facts of the finding. Corrective Action implemented in 2014/15.

Questioned Costs: The amount of questioned costs for interest earned on advanced funds cannot be determined.

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

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Department of Human Services

Finding 2014 – 021:

CFDA #93.575 and 93.596 – Child Care and Development Fund Cluster

Noncompliance and Internal Control Weakness Over Health and Safety Requirements (A Similar Condition Was Noted in Prior Year Finding 13-DPW-07)

Federal Grant Numbers: G1201PACCDF (10/1/11 – 9/30/14), G1301PACCDF (10/1/12 – 9/30/15), G1401PACCDF (10/1/13 – 9/30/16)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Special Tests and Provisions related to Health and Safety Requirements

Condition: The Department of Human Services' (DHS) regulations for operating a child care facility require a legal entity to obtain a valid certificate of compliance in order to operate at a specific location. The certificate of compliance is required to be issued by DHS prior to commencement of operations. For child care centers and group child care homes, a certificate of compliance is issued for a period not to exceed 12 months from the date of issue and an authorized agent of DHS will conduct an on-site inspection of the facility or agency at least once every 12 months. Whereas for a family child care home, a certificate of registration is issued for a period not to exceed 24 months from the date of issue and on-site inspections occur on a random basis.

Our prior audit disclosed significant deficiencies in DHS's internal controls designed to provide timely on-site inspections of child care providers and to issue child care certificates to ensure an entity is maintaining the proper health and safety requirements. DHS has added personnel to the Office of Child Development and Early Learning (OCDEL) to address this issue and has improved the number of child care certificates that are past due from a high of 25 percent in November 2010 to approximately 4.2 percent in July 2014. Although DHS has made significant improvements in this area, including implementation of a process to identify required upcoming inspections and to monitor the scheduling of inspections, we identified exceptions in our current year testing. For 4 of the 65 child care providers tested (60 child care centers and group homes and five family child care homes), the on-site inspection occurred subsequent to the effective date of the issued certificate of compliance. The approximate time period that elapsed from the effective date of the certificate of compliance to the date of inspection was 2 days for two facilities, 6 days for one facility and 21 days for one facility. Additionally, for 7 of the 65 facilities, even though the inspection was within the licensure period, the date of the inspection was more than 12 calendar months after the month of the previous inspection.

Criteria: Lead agencies must verify that child care providers (unless they meet an exception, e.g., family members who are caregivers or individuals who object to immunization on certain grounds) serving children who receive subsidies meet requirements pertaining to prevention and control of infectious diseases, building and physical premises safety, and basic health and safety training for providers. The following are the federal regulations at 45 CFR Section 98.41 which documents these requirements:

(a) Although the Act specifically states it does not require the establishment of any new or additional requirements if existing requirements comply with the requirements of the statute, each Lead Agency shall certify that there are in effect, within the State (or other area served by the Lead Agency), under State, local or tribal law, requirements designed to protect the health and safety of children that are applicable to child care providers of services for which assistance is provided under this part. Such requirements shall include:

- (1) The prevention and control of infectious diseases (including immunizations).*
- (2) Building and physical premises safety; and*
- (3) Minimum health and safety training appropriate to the provider setting.*

(b) Lead Agencies may not set health and safety standards and requirements under paragraph (a) of this section that are inconsistent with the parental choice safeguards in §98.30(f).

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Finding 2014 – 021: (continued)

(c) The requirements in paragraph (a) of this section shall apply to all providers of child care services for which assistance is provided under this part, within the area served by the Lead Agency, except the relatives specified in paragraph (e) of this section.

(d) Each Lead Agency shall certify that procedures are in effect to ensure that child care providers of services for which assistance is provided under this part, within the area served by the Lead Agency, comply with all applicable State, local, or tribal health and safety requirements described in paragraph (a) of this section.

(e) For the purposes of this section, the term “child care providers” does not include grandparents, great grandparents, siblings (if such providers live in a separate residence), aunts, or uncles, pursuant to §98.2.

The Pennsylvania Code (55 Pa. Code, Chapter 3270 for Child Care Centers, Chapter 3280 for Group Child Care Homes, and Chapter 3290 for Family Child Care Homes) provides the following regulations for operating a child care facility:

§ 3270.11 and § 3280.11. Application for and issuance of a certificate of compliance.

(a) A legal entity shall obtain a valid certificate of compliance to operate at a specific location. The certificate of compliance will be issued by the Department to a legal entity prior to commencement of operation at a specified location.

(d) A certificate of compliance is issued in the manner described in Chapter 20, for a period not to exceed 12 months from the date of issue.

(e) A facility will be inspected at least once every 12 months by an agent of the Department.

§ 3290.11. Application for and issuance of a certificate of registration.

(d) Prior to providing child day care at any one time to more than three children unrelated to the operator, the legal entity shall apply for and will be issued a certificate of registration.

(e) A legal entity seeking to operate a facility shall apply to the appropriate regional office on a form approved by the Department. The legal entity shall be required to submit information specified by the registration law and this chapter.

(f) The legal entity applying for a certificate of registration shall certify, in writing, compliance with the registration law and this chapter.

(g) Following review of the application and related documents, the Department will approve or deny the issuance of a certificate of registration.

(h) A certificate of registration will be issued for a period not to exceed 24 months following date of issue.

(i) The facility is subject to inspections as follows:

(1) for purposes of the random sample on an announced or unannounced basis.

Cause: OCDEL had experienced personnel vacancies which made it difficult to conduct timely on-site inspections.

Effect: OCDEL did not perform timely on-site inspections to ensure that child care providers are maintaining health and safety standards. As a result, there is a risk that the state is paying child care providers that have health or safety violations and a risk that health and safety violations could exist at child care providers and not be addressed because inspections are not completed on time.

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Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 021: (continued)

Recommendation: We recommend that OCDEL ensure that all on-site inspections for child care centers and group child care homes are conducted prior to the expiration of a child care provider’s certificate of compliance and that inspections be conducted no more than 12 months after the month of the most recent inspection.

Agency Response: For fiscal year 2013 – 2014, the auditors have cited 7 of 65 sampled facilities for being out of compliance because the annual inspections for these facilities were more than 365 days from the previous annual inspections. The facilities are:

- Antietam Academy
- Lilly Pond at Baker
- A Learning Kingdom LLC
- Ashely Sankey’s Wonder Years
- Mrs. Colleen’s Child Care
- Myrtis’s Pre-School and Creative Learning
- Canadochly Elementary

In citing this finding, the auditors point to 55 Pa Code 3270.11(e) “A facility will be inspected at least once every 12 months by an agent of the Department”.

The Office of Child Development and Early Learning (OCDEL) does not agree with this finding. OCDEL considers the annual renewal inspections for these facilities to be timely, not “past due”, since they occurred during the period of licensure and prior to the expiration dates of their certificates of compliance.

Article X of the Public Welfare Code, specifically § 1009 “Term and content of license” states “All licenses issued by the department under this act shall expire one year next following the day on which issued”. Consequently OCDEL is obligated to issue certificates of compliance that honor a fixed 12-month period; deviations from that fixed period occur when a facility is not in full compliance and is issued a provisional certificate or the facility has an operational need to modify the licensure period. An interpretation of “every twelve months” to mean “every 365 days” would have the effect, over time, of moving the facility’s annual inspection continually forward each year until the inspection date egregiously pre-dates the certificate expiration date. The business practice of conducting annual renewal inspections one to three months in advance of the certificate expiration date allows OCDEL to honor the requirement at § 1009 and still conduct a “timely” inspection.

Auditors’ Conclusion: We concur that the seven facilities inspected were within the licensure period; however, the timing of these inspections was not in compliance with the stated Pennsylvania Code. In addition, the agency did not disagree with the four facilities that were inspected after the expiration of the certificate of compliance. Based on the agency response, our finding and recommendation remain as previously stated.

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

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Department of Human Services

Finding 2014 – 022:

CFDA #93.667 – Social Services Block Grant

CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse

Noncompliance and Weaknesses Exist in the Department of Human Services' Program Monitoring of the Social Services Block Grant and the Block Grants for Prevention and Treatment of Substance Abuse Subgrantees (A Similar Condition Was Noted in Prior Year Finding 13-DPW-09)

Federal Grant Numbers and Years: 1301PASOSR (10/01/2012-9/30/2013), 1401PASOSR (10/01/2013-9/30/2014), TI010044-13 (10/01/2012-9/30/2013), and TI010044-14 (10/01/2013-9/30/2014)

Type of Finding: Material Weakness and Material Noncompliance for SSBG
Significant Deficiency and Noncompliance for SAPT

Compliance Requirement: Cash Management, Subrecipient Monitoring

Condition: For the twenty-second consecutive year, our examination of the Department of Human Services' (DHS) procedures for monitoring Social Services Block Grant (SSBG) subgrantees revealed that, other than Subsidized Child Day Care Program and Intellectual Disabilities subgrantees, DHS did not adequately monitor SSBG subgrantees. The inadequately monitored subgrantees received \$40.1 million (or approximately 43 percent) of total SSBG program expenditures of \$93.5 million on the current Schedule of Expenditures of Federal Awards (SEFA). DHS did not perform adequate during-the-award monitoring and on-site visits by state officials did not occur. In addition, we determined that the same Homeless Services program subgrantees that received SSBG funding and were not adequately monitored by DHS personnel also received \$1,983,000 in Block Grants for Prevention and Treatment of Substance Abuse (SAPT) funding during the fiscal year ended June 30, 2014. Total SAPT expenditures on the current SEFA were \$58.5 million.

Furthermore, for the compliance requirement related to cash management, we noted that DHS advanced funds to SSBG subgrantees in five of nine program areas, representing \$38.4 million (or approximately 41 percent) of SSBG program expenditures, without adequately monitoring the reasonableness of the subgrantee cash balances. In particular, for the Legal Services components of the SSBG program, DHS advanced funds to subgrantees on a monthly basis. For SSBG Mental Health, Intellectual Disabilities, Homeless Services and Child Welfare, DHS advanced funds to subgrantees on a quarterly basis. Our inquiries with applicable DHS program administrators disclosed that DHS did not adequately monitor any of its SSBG subrecipients for cash management compliance either at the time of payment or at any other time during the fiscal year ended June 30, 2014.

While OMB Circular A-133 audits of SSBG and SAPT subrecipients are conducted each year, this auditing activity does not compensate for the lack of during-the-award program monitoring since the timing, focus, and scope of A-133 auditing activities after year end are different than compliance monitoring to be performed by program officials during the year.

Criteria: OMB Circular A-133 Subpart D – Federal Agencies and Pass-Through Entities, Section 400 Responsibilities, states, in part:

(d) *Pass-through entity responsibilities.* A pass-through entity shall perform the following for the Federal awards it makes:

(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.

In addition, the OMB Circular A-133 Compliance Supplement Part 3, Section M, Subrecipient Monitoring, states:

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Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 022: (continued)

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 Section 92.37, Subgrants, states:

- (a) *States. States shall follow state law and procedures when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local and Indian tribal governments. States shall:*
 - (4) *Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies.*

In addition:

In discussions with our office, federal agencies have stated that cash advance balances on hand at subrecipients are reasonable if they approximate the grantee's (state's) payment cycle to the subgrantee. In light of the (state agencies) administrative system of making (daily, weekly or monthly) payments by check to subrecipients, a (daily, weekly or up to one month) cash advance on hand monitored at least quarterly is reasonable.

Cause: DHS management indicated that on-site monitoring was not performed due to staffing issues. However, DHS management stated a new County Human Services Planning and Monitoring Unit was formed that will perform monitoring for all subgrantees, including SSBG and SAPT. DHS management indicated that once monitoring documents are created, on-site monitoring related to SSBG and SAPT subgrantees would be performed.

Consistent with prior year audits, DHS management has again noted that, for the current audit period, there have been no changes to the payment methodology for the Legal Services, Homeless Services, Mental Health, Intellectual Disabilities, 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. DHS 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, we consider DHS’s limited in-house reviews of subgrantee status reports or other documents to be insufficient to detect potential subrecipient noncompliance, including excess cash violations. DHS does not adjust payments to the subgrantees based on in-house reviews.

Effect: By DHS not adequately performing during-the-award monitoring of subgrantees, including the monitoring of subgrantee cash on hand, subgrantees may not be complying with applicable federal regulations, including cash management standards.

Recommendation: DHS should perform risk based during-the-award monitoring procedures for 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 to show the monitoring performed, areas examined, conclusions reached, and that the monitoring was performed in compliance with applicable regulations. Also, we suggest that DHS ensure it coordinates the monitoring of SSBG subgrantees with other program funding received by the same subgrantees when the new monitoring division is established.

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Finding 2014 – 022: (continued)

As recommended in previous Single Audits and supported by U.S. Department of Health and Human Services, DHS 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 DHS with reasonable assurance as to compliance with cash management requirements at the subgrantee level.

Agency Response: The Department of Human Services (DHS) agrees with the audit finding. The DHS expends Social Services Block Grant (SSBG) funds through several program offices, and directly on certain contracts. In order to effectively monitor all funded programs, the DHS has a dedicated monitoring position within the Office of Administration, Bureau of Financial Operations (BFO). This position has the benefit of centralized monitoring and evaluation through both on-site monitoring visits and the review of supporting documentation (desk reviews). The monitoring position was vacant from June 2011 through mid-2013 due to a budgetary hiring freeze. The BFO received approval to fill the position in April 2013; the vacancy was filled from July 29, 2013 through May 9, 2014. The monitoring position was recently filled August 11, 2014. With the implementation of the County Human Services Block Grant on July 1, 2012, a County Human Services Planning and Monitoring Unit within BFO has been created. The Unit will be responsible for SSBG and HSBG monitoring.

It will be the SSBG monitor's responsibility to ensure fiscal and programmatic compliance of subrecipients with established federal and state regulations and policies.

The counties are chosen for monitoring in accordance with a risk assessment based on the SSBG total allocations to each county and the presence of program findings noted in each county's single audit report. Counties with higher allocations and findings are considered to be high risk and therefore will be monitored first.

The SSBG monitor will ensure that costs are assigned and tracked in compliance with federal requirements and that SSBG funding is used only for authorized purposes and in compliance with federal cost principles and the subrecipients' county contracts in the fiscal year being monitored. A comprehensive monitoring tool was developed to monitor such core areas as Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Eligibility, Period of Availability of Funds, Suspension and Debarment, Reporting, Subrecipient Monitoring, Special Tests and Provisions, and Conflicts of Interest. In addition, general areas related to compliance with Federal laws, Eligibility, Personnel, Civil Rights Laws, and the Health Insurance Portability and Accountability Act (HIPAA) will be monitored.

On-site visits are completed with counties and providers receiving SSBG. The information obtained during the visits is documented and a draft version of the monitoring report is issued to the county. Counties are provided ten days to comment and are given the option of scheduling an exit meeting within 40 days of the draft. At the exit conference, the report contents are discussed to the level necessary to ensure clarity and the exchange of positive and productive ideas for the timely implementation of the report recommendations. County program responses, if provided, are incorporated into the preparation of the final report. Any deficiencies are identified in the final report to the county commissioners and the commissioners are required to submit a corrective action plan, if necessary.

Auditors' Conclusion: We acknowledge the steps DHS is taking to improve the monitoring of subrecipients within the SSBG program; however, staff within the monitoring unit created by DHS did not perform any monitoring of SSBG subrecipients during the SFYE June 30, 2014. As a result, we will review and test any monitoring of SSBG subrecipients completed in the subsequent audit.

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

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Department of Human Services

Finding 2014 – 023:

CFDA #93.778 – Medical Assistance Program (including ARRA)

Lack of Eligibility Documentation Results in Noncompliance and Internal Control Weaknesses (A Similar Condition Was Noted in Prior Year Finding 13-DPW-10)

Federal Grant Numbers and Years: 1405PA5028 (10/1/13 – 9/30/14), 1305PA5028 (10/1/12 – 9/30/13)

Type of Finding: Material Weakness, Noncompliance

Compliance Requirement: Activities Allowed or Unallowed, Allowable Costs, Eligibility

Condition: The objective of the Department of Human Services (DHS) Medical Assistance (MA) Program is to provide payments for medical assistance to certain low-income persons. For the fiscal year ended June 30, 2014, of the \$12.7 billion expended, as reported on the Schedule of Expenditures of Federal Awards (SEFA), \$11.9 billion (94 percent) was provided to individuals.

We selected one payment each from 95 individuals collectively totaling \$140,827 in federal share benefit payments and performed procedures to ensure that the individuals were eligible for MA at the time the service(s) were rendered. Of the 95, two case files, or 2.1 percent, totaling \$2,085 in federal share benefit payments contained the following exceptions:

- One case file did not contain the reapplication document for the time period that services were rendered. Therefore, documentation did not exist to substantiate that the individual was eligible for MA at the time these services were rendered. Therefore, questioned costs of \$1,950 resulted from this error.
- One case file contained a recipient who did not meet the non-financial requirements (applying for Social Security), and therefore, was not eligible for MA at the time these services were rendered. DHS closed the case as a result of our audit, but did not initiate any attempt to recoup the MA overpayment. Therefore, questioned costs of \$135 resulted from this error.

Further, for two of 95 case files, or 2.1 percent, we noted the following exceptions:

- One case file contained a recipient who did not meet the non-financial requirements (age), and therefore, was not eligible for the MA category during the time services were rendered. DHS acknowledged this fact, but verified that the recipient would be eligible for another MA category during the time services were rendered. However, the capitation fee paid to the Managed Care Organization (MCO) may have been wrong due to the recipient being classified in the wrong MA category. We could not determine if any questioned costs resulted from this error, but DHS controls are not adequate to ensure that MA recipients are included in the proper MA category and the capitation fees paid to the MCOs are accurate.
- One case file did not contain documentation to verify that the individual was disabled for the time period that services were rendered. As a result of our audit, DHS followed up with the recipient and obtained documentation that determined the recipient to be permanently disabled. Therefore, no questioned costs resulted from this error. However, DHS controls are not adequate to ensure documentation is maintained to support the disability of MA recipients.

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Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 023: (continued)

Also, for one of 95 case files, or 1.1 percent, a recipient that was properly determined eligible to receive Medical Assistance for Workers with a Disability (MAWD) did not pay the correct premium. The MAWD category of assistance requires a premium to be paid based on the recipient's income. However, the Income Eligibility and Verification System (IEVS) information disclosed the recipient understated income for the time period that services were rendered that resulted in the recipient paying a lower than required premium. As a result, the recipient was paying a \$29 per month premium, instead of a \$34 per month premium based on the IEVS income; thus, MA Program expenditures were not reduced by the correct premium amount, and expenditures were overstated for the month by \$5 or a federal share of \$3.

Criteria: 45 CFR 435.913, Case documentation, states in part:

(a) The agency must include in each applicant's case record facts to support the agency's decision on his application.

55 PA Code Section 133.84, MA redetermining eligibility procedures, paragraph (c), states in part:

Eligibility will be redetermined as frequently as warranted by the circumstances of the individual case, but no less frequently than the following:

(1) At least every 12 months for aged, blind and disabled categories. Note, however that income and assets evaluation must be made every 6 months as required by subsection (d) (1).

55 PA Code Section 140.311, MA Healthy Horizons (PH) verification regulations, states in part:

(1) Recipient of Social Security Disability benefits or disability benefits based on SSI disability criteria is considered verification of disability.

(2) If the applicant is not receiving disability benefits, the following shall be submitted:

Medical verification of a disability which meets the SSI disability criteria.

Proof that the person has applied for disability benefits and is awaiting a decision.

DHS's Medical Assistance Eligibility Handbook Section 316.61, Medical Assistance for Workers with Disability (MAWD), states in part:

Guidelines for the CAO to use when determining the monthly premium:

(1) Count the earned and unearned income of the recipient in the month of application, and remove any allowed deductions.

(2) If both spouses are approved for MAWD, determine the monthly premium separately for each spouse, using only the income each receives.

(3) Multiply the net income by .05 and round the result down to the nearest dollar to set the monthly premium.

Set the premium for a six-month period.

DHS's Medical Assistance Eligibility Handbook Section 318.1, Healthy Beginnings (PS), states in part:

(1) A person under the age of 19 years of age, regardless of school attendance, emancipation or marital status.

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Finding 2014 – 023: (continued)

55 PA Code section 178.1, MA determining Non-Money Payment (NMP) – MA (category PC) eligibility, states in part:

(1) A person under the age of 21 years of age, regardless of school attendance, emancipation or marital status.

55 PA Code Section 141.61, disability verification for General Assistance (GA) (category PD) related MA, states in part:

(1) An individual is eligible to receive GA for an indeterminate period due to medical, social, or related circumstances.

(2) A person who has been assessed by a physician or psychologist as having a temporary or permanent disability which precludes him from working in any gainful employment.

(3) Documentation which demonstrates the relationship between disability and the inability to work shall be provided by the client during application and re-determination for recipients.

DHS's Medical Assistance Eligibility Handbook Section 910.21, An Overpayment Exists and the County Assistance Office (CAO) will Complete an Overpayment Referral, states in part:

An overpayment exists and the CAO will complete an overpayment referral when:

The individual obtained MA Program Services, including Long Term Care (LTC), (excluding MA special allowances) for which he was not eligible.

Cause: With regard to the lack of documents, DHS management indicated that the documents could not be found. DHS management did not state why the category related to the age of a recipient was not changed until we disclosed the discrepancy, but did state that since the recipient was eligible for another category there was no overpayment. DHS management also stated that premium amounts for MAWD recipients were not re-visited when actual income was available on IEVS as long as the IEVS income was less than 200% of Federal Poverty Income Guidelines. No overpayments were completed as cases were closed where the recipient was ineligible.

Effect: Failure to ensure reapplications are completed may result in medical assistance being paid for individuals who are no longer eligible. Additionally, failure to obtain and retain documentation to support eligibility determination does not allow an external party to independently ensure that the correct eligibility determination was made. Failure to change medical assistance categories timely can result in incorrect capitation payments to MCOs. Failure to reconcile actual IEVS income to self reported income, which is used to determine premium amounts for MAWD categories, can result in premium amounts being incorrect and not corresponding to actual income earned. Also, failure to recoup overpayments allows individuals to obtain services for which they were not eligible to receive.

Recommendation: We recommend that DHS:

- Ensure that all eligibility documentation is obtained and retained in the individual's case record;
- Ensure that if reapplications are not submitted, the medical assistance benefits are stopped;
- Ensure that if non-financial category requirements are not met, the medical assistance benefits are stopped or the recipient is timely moved to the correct medical assistance category so correct capitation payments are made;
- Ensure that actual IEVS income is reconciled to self reported income to ensure premiums for MAWD recipients are correctly calculated; and
- Ensure that overpayment referrals are completed for all payments made on behalf of individuals that were not eligible to receive MA.

Agency Response: Below are specific comments on the individual deficiencies contained in this finding.

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Finding 2014 – 023: (continued)

1. Deficiency: One case file did not contain the reapplication document for the time period that services were rendered. Therefore, documentation did not exist to substantiate that the individual was eligible for MA at the time these services were rendered.

DHS Response: DHS agrees with this deficiency. In the case in which the annual renewal was due, the CAO narrated that the appropriate documentation was received. However, the documentation was not properly scanned into imaging or retained in the hard copy of the case file maintained by the CAO.

2. Deficiency: One case file did not contain documentation to verify that the individual was disabled for the time period that services were rendered. Therefore, documentation did not exist to substantiate that the individual was eligible for MA at the time these services were rendered.

DHS Response: DHS disagrees with this deficiency. While the CAO did not follow proper procedure when the disabled child became an adult, no improper costs resulted for this error. A Functional Performance document was available in scanning from 7/12/2012 which indicated that the child was not able to maintain appropriate performance progress in a classroom setting. The correct proper documentation was obtained for this case in November 2014.

3. Deficiency: One case file did not meet the required age requirement for the correct category and therefore, was not eligible for the correct MA category at the time these services were rendered.

DHS Response: DHS disagrees with this deficiency. Any child under age 21 receives the same benefit package regardless of category. Therefore, the capitation fee paid to the Managed Care Organization (MCO) is not in error and the audit findings do not have any questionable costs resulting from this finding. DHS counters that controls are adequate to ensure that all recipients receive the proper benefit package.

4. Deficiency: One case file contained a recipient who did not meet the non-financial requirements (applying for Social Security) and therefore was not eligible for MA at the time these services were rendered. DHS closed the case, but did not initiate any attempt to recoup the MA overpayment.

DHS Response: DHS disagrees, in part, with this deficiency. DHS agrees that the individual did not apply for Social Security but that no overpayment should have been filed. Per Supplemental Handbook Section 910.22, “An overpayment will not be established or referred in the following situations: When a Medical Assistance or Buy-In overpayment is not caused by the client’s intentional misrepresentation or fraud, the overpayment is considered administrative error and no restitution is required. Since the client is not required to make restitution no referral should be made to the OIG.” Since the client was not referred to Social Security, he is not at fault for this period and an overpayment is not to be established or referred for any improper benefits.

5. Deficiency: Further, for one of 95 case files, or 1.1 percent, a recipient that was properly eligible to received Medical Assistance for Workers with a Disability (MAWD), the incorrect premium was charged due to understated income.

DHS Response: DHS disagrees, in part, with this deficiency. As stated in the deficiency, the individual was charged an incorrect monthly premium that was verified by IEVS. It appears that there were multiple employers and paystubs were noted for two employers from the paystubs in scanning for June of 2013 but when the case was authorized, only one employer was used to determine a premium. However, the case notes indicate that overtime is included for some weeks but is not a regular occurrence. This would allow for the increase in income and the discrepancy in the calculation of the MAWD premium.

Response: DHS disagrees, in part, with this finding. Due to the volume of records and citizens served, DHS feels the Department strives and maintains excellent customer service but a greater emphasis has been placed on scanning documentation into CIS. This will reduce misplaced and duplicated verification and allow easier access to these items.

All 95 case records tested were reviewed by DHS, the necessary documentation was found in 92 of the 95 cases and all documentation has been scanned into the CIS imaging repository. DHS therefore disagrees with this finding.

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Finding 2014 – 023: (continued)

Auditors' Conclusion: DHS agrees with Deficiency #1. For Deficiency #2 DHS acknowledges that they did not follow proper procedure to ensure eligibility and obtained the proper documentation only after the issue was disclosed by our audit. Regarding Deficiency #3 DHS acknowledges that the recipient was in the incorrect MA category. As we noted in the finding, we were unable to attach a questioned cost to this error; however, MA categories have different capitation payment rates even if the benefits to the recipients are the same between categories. DHS personnel responsible for determining eligibility need to recognize that even though benefit packages within different categories may be the same that does not mean the capitation rate is the same cost. Due to different risk profiles (e.g., age) within categories, DHS and Managed Care Organizations have negotiated different capitation rates for different categories that include the same benefit package. Therefore, DHS may be paying the wrong capitation rate when a recipient is misclassified into the wrong category. Regarding Deficiency #4 that DHS disagrees, in part, regardless of the DHS policy on the establishment of an overpayment to be collected from the recipient, DHS has acknowledged the benefit was improper. Regarding Deficiency #5 DHS acknowledges that the premium may have been incorrect by failing to use all information in the case record. Also, DHS did not investigate the discrepancies in income between the case file, and IEVS information prior to our audit.

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

Questioned Costs: Known questioned costs for the sample items were \$2,085.

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Department of Labor and Industry

Finding 2014 – 024:

CFDA #17.225 – Unemployment Insurance (including ARRA)

Department of Labor and Industry Did Not Comply with UC Program Integrity Requirements

Federal Grant Numbers and Years: UI-25228-14-55-A-42 (Effective 10/1/13), UI-23914-13-55-A-42 (Effective 10/1/12)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Special Tests and Provisions related to UC Program Integrity - Overpayments

Condition: As a result of changes to the Social Security Act and the Federal Unemployment Tax Act (FUTA), effective October 21, 2013, states were (1) required to impose a monetary penalty of not less than 15 percent on claimants whose fraudulent acts resulted in overpayments of unemployment compensation, and (2) prohibited from providing relief from charges to an employer’s UC account when overpayments are the result of the employer’s failure to respond timely or adequately to a request for information.

During the SFYE June 30, 2014, Pennsylvania’s Department of Labor & Industry (L&I) did not implement either requirement by the effective date of October 21, 2013. Regarding the 15 percent penalty, in June 2014 L&I implemented only a “pilot project” at one location, the Harrisburg Overflow Center, to manually identify claimants who have committed fraud and received overpayments in order to establish the 15 percent penalty. Subsequent to the audit period, L&I indicated that statewide procedures were implemented. Regarding the procedures to prohibit from providing relief from charges to an employer’s UC account, L&I indicated that procedures were not initially implemented until December 2014, after our audit period. These initial procedures were limited to one location, the Lancaster UC service center. L&I further stated that they anticipate statewide manual implementation of these procedures in the second calendar quarter of 2015 while procedures to automate this process are ongoing.

Criteria: The USDOL advised all states as to the required procedures for compliance with the above stated law changes through the issuance of Unemployment Insurance Program Letter No. 02-12 (UIPL 02-12) issued December 20, 2011.

Regarding the implementation of the 15 percent penalty, section 4.C. of UIPL 02-12 states in part:

Effective Date: ...a penalty of at least 15 percent must be assessed on any fraudulent overpayment established after October 21, 2013.

Regarding the implementation of the prohibition on noncharging due to employer fault, section 5.I. states in part:

Effective Date: ...if an erroneous payment is made because an employer or its agent was at fault for failing to respond timely or adequately to an agency request, and the state determines that the employer or agent has established a pattern of such failure (or at the first instance if the state elects a stricter standard), the employer will not be entitled to relief from charges that result from the erroneous overpayment if the overpayment is established after October 21, 2013.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control – Integrated Framework, published 1992, Risk Assessment Component states in part:

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Finding 2014 – 024: (continued)

Economic, industry, and regulatory environments change, and entities activities evolve. Internal control effective under one set of conditions will not be effective under another. Fundamental to risk assessment is a process to identify changed conditions and take necessary actions. Thus, every entity needs to have a process, formal or informal, to identify conditions that can significantly affect its ability to achieve its objectives.

Cause: L&I officials stated that L&I had to wait for Pennsylvania’s unemployment compensation law to be amended by the legislature before procedures could be drafted, new forms created, staff training conducted and extensive system programming implemented. The state law was amended on October 23, 2013. Furthermore, with limited information technology resources and a legacy mainframe computer system that is 40+ years old, several recent law changes have put a tremendous strain on L&I’s Office of Information Technology due to all of the laborious programming in the aged system necessary to implement new provisions.

Effect: Failure to timely implement the 15 percent penalty procedures may have resulted in uncollected penalty assessments revenue. Furthermore, failure to timely prohibit providing relief from charges to an employer’s UC account when overpayments are the result of the employer’s failure to respond timely or adequately to a request for information may have resulted in not recovering UC dollars.

Recommendation: We recommend that L&I continue to implement the necessary procedures to be in compliance with the new requirements resulting from the changes to the Social Security Act and the FUTA. Additionally, we recommend that L&I work with the USDOL to determine if L&I should retroactively assess the 15 percent penalty and recover any lost UC dollars between the October 21, 2013 effective date and the date L&I fully implemented these procedures. In addition, the Commonwealth should ensure that a mechanism is in place, to identify changed conditions and take actions necessary relative to the associated risks to ensure objectives continue to be met.

Agency Response: While the Department does not disagree with the Condition, Criteria and Questioned Costs sections of the preliminary finding, the Department clarifies the remaining sections as follows and requests that this response be included in the final report:

Cause

The Department does not find the cause for the delayed implementation of Act 75 15 percent penalty and Employer penalty provisions as stated in the preliminary finding to thoroughly represent the challenges faced by the Department the past several years. The following provides greater explanation of the cause of the delay:

- a) The department’s UC system is a 40+ year old legacy mainframe system. The system is maintained by a limited number of information technology resources. Act 6 of 2011, Act 60 of 2012, Federal Sequestration in 2013 and Act 75 of 2013 have put a tremendous strain on the department’s Office of Information Technology (OIT) due to all of the laborious programming necessary in the aged system necessary to implement all of the new provisions.
- b) The department had to wait for Pennsylvania’s unemployment compensation law to be amended by the legislature before procedures could be written, new forms created, staff training conducted and extensive system programming implemented for each of the law changes.
- c) Since the legislative changes in Act 75 – 15 Percent Penalty, IRORA and Employer Penalty all involve integrity of the UC program, the same unit within the Office of Unemployment Compensation Benefits Policy (OUCBP) was responsible to design the pertinent system programming changes with OIT staff, create new forms, written policies and procedures and train field staff on all three legislative projects while simultaneously working on other routine assignments and daily tasks to maintain efficient operations.

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Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 024: (continued)

- d) The limited OIT resources that maintain the Legacy computer system have continuously been working on programming/coding changes to the system related to Act 6, Act 60, Federal Sequestration and Act 75 since 2012 in addition to their day to day general maintenance of the Legacy mainframe system.
- e) System programming/coding for Act 75 – 15 Percent Penalty, IRORA and Employer Penalty included changes to multiple screens and layers within the legacy mainframe system with each project needing to be completed before the next began due to the layering of coding. Additional coding issues needed to be resolved and extensive testing completed before the system changes could be moved into production for each of the legislative projects.
- f) Extensive system testing was conducted by several OUCBP and Office of UC Service Centers (OUCSC) staff to ensure each of the modifications to the Legacy mainframe system was working correctly and did not create unintended issues within other areas of the mainframe system as is common in such an antiquated system.

Effect

The effect of the delayed implementation of Act 75 is overstated in the preliminary finding. A failure to apply Act 75 to an employer who did not timely or adequately respond to fact-finding requests allows the employer's account to receive credits for the overpaid UC benefits, instead of being charged for the overpaid benefits. While benefit charges and credits affect an employer's UC tax rate, the rate calculation formula is complicated. A dollar of benefit credit does not equate to a dollar less of tax revenue. Moreover, it is important to note that the provisions in Act 75 are not intended to generate revenue. The claimant provision is intended to discourage claimant fraud, and the purpose of the employer provision is to encourage prompt and adequate employer responses during the eligibility determination process.

Recommendation

The Department will explore the ability to identify cases and feasibility of reopening them for purposes of retroactively applying the penalties.

Auditors' Conclusion: L&I is in agreement with this finding. The information contained in the agency response provides additional clarification to what is summarized in the finding. Based on the agency response, the finding and recommendation remain as previously stated.

Questioned Costs: None.

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Department of Labor and Industry

Finding 2014 – 025:

CFDA #17.225 – Unemployment Insurance (including ARRA)

CFDA #17.258, 17.259, and 17.278 – Workforce Investment Act Cluster

Deficiencies in Information Technology Controls at the Department of Labor and Industry (A Similar Condition Was Noted in Prior Year Finding 13-L&I-01)

Federal Grant Numbers and Years: UI-25228-14-55-A-42 (Effective 10/1/2013), UI-23914-13-55-A-42 (Effective 10/1/2012), UI21122-11-55-A-42 (Effective 10/1/2010), UI-22334-12-55-A-42 (Effective 10/1/11), AA-20216-10-55 (7/1/2010-6/30/2013), AA-21418-11-55 (7/1/2011-6/30/2014), AA-22958-12-55 (7/1/2012-6/30/2015), and AA-24115-13-55 (7/1/2013-6/30/2016)

Type of Finding: Significant Deficiency

Compliance Requirement: Other

Condition: As part of our audit of the Department of Labor and Industry (L&I) federal programs listed above for the fiscal year ended June 30, 2014, we performed certain procedures to review information technology (IT) general controls for the significant applications identified for these programs, and noted the following deficiencies that need to be addressed by Commonwealth management:

Commonwealth Workforce Development System (CWDS) – The Bureau of Workforce Development Partnership (BWDP) uses CWDS to manage the Workforce Investment Act (WIA) program. In the prior audit, we noted for the one haphazardly selected separated non-Commonwealth user that the user’s system access was not disabled until ten months after separation. During the current audit, we noted that BWDP management implemented additional policies designed to ensure removal of separated non-Commonwealth users from CWDS within two weeks of separation. However, the policies were not operating as designed. We tested this control by haphazardly selecting one non-Commonwealth user removed from the system during the audit period and found that the user’s system access was not disabled until approximately three and a half years after separation.

Unemployment Compensation (UC) – In the prior audit, L&I’s Center for Workforce Information and Analysis (CWIA) prepared the ETA-581 – Contribution Operation Report, using data from the Unemployment Compensation Modernization System (UCMS) and estimates based on amounts reported in prior years. The CWIA had received USDOL approval to use estimates to prepare the ETA-581 report because data output from UCMS were incomplete and unreliable. The CWIA continued this practice for the first two quarters of the audit period. Beginning in January 2014, the CWIA began to successfully use manual extraction procedures (queries) to capture actual data from UCMS to submit to USDOL. Further, the CWIA submitted revised ETA-581 reports for all prior reports that had been submitted using estimated data.

The CWIA continues to use data from the UC legacy mainframe system to prepare the ETA-227 – Overpayment Detection/Recovery Report.

The CWIA also continues to use end-user computing applications to prepare the ETA-581 and the ETA-227 reports; however in January 2014, management implemented policies to address IT controls related to access, change control, development and backup of end-user computing programs and supporting data in compliance with Management Directive 205.43, Quality Assurance for Business Productivity Tools. Therefore, the prior year weaknesses are remediated as of January 2014.

In the audit of the Commonwealth’s Basic Financial Statement (BFS) for the fiscal year ended June 30, 2014, certain general computer control weaknesses were reported that significantly impact the federal programs listed above:

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Finding 2014 – 025: (continued)

- In BFS Finding 2014-006, general controls weaknesses were reported citing L&I for the lack of formal documented system development life cycle policies. The finding also reported a lack of adequate logical access controls and a lack of segregation of duties over the UC mainframe. In UCMS, the finding reported a lack of testing documentation and controls over data migration; a lack of segregation of duties between developers and those who can promote changes into production, including contractors with that ability; and an excessive number of users with privileged access into the UCMS client/server environment.
- In BFS Finding 2014-002, general controls weaknesses were reported citing the Treasury Department for control weaknesses in their vendor-provided UC electronic disbursement system related to change control procedures, systems access, and password settings not complying with Treasury password policies
- In BFS Finding 2014-004, general controls weaknesses were reported regarding a lack of segregation of duties in the overall SAP computer environment. The SAP environment is the primary source of reporting program revenues and expenditures for the major programs listed above.

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.

Further, OMB Circular A-133, Subpart C, Section 300 Auditee responsibilities, requires that grantees:

(b) 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.

Finally, USDOL Regulations 29 CFR 97.32(d)(3) states:

A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

Cause: (CWDS) – Concerning the control weakness over removing separated non-Commonwealth users, BWDP's policies and procedures are dependent on the local WIA offices following the established protocols. However, the local WIA offices do not always comply with the policy. After the current audit period, BWDP implemented additional policies that require a quarterly review by BWDP of non-Commonwealth users. Further, BWDP requested the local WIA offices to perform a semi-annual review of its users.

Effect: (CWDS) – The lack of controls to timely disable non-Commonwealth users from CWDS after termination could result in unauthorized access to CWDS and inappropriate use of CWDS data by terminated users.

Recommendation: (CWDS) – We recommend BWDP management reinforce to the local WIA offices the importance of following the established policy for notifying system administrators when non-Commonwealth users are terminated and no longer require access to CWDS. System access to CWDS should be disabled within two weeks of users' separation from employment. Furthermore, management should follow its newly developed procedures to monitor the local WIA offices' compliance for disabling separated non-Commonwealth users in a timely manner.

Finally, we recommend that management address the control deficiencies noted in BFS Findings 2014-006, 2014-002 and 2014-004.

Agency Response: Below is L&I's response to the two pieces of this finding:

CWDS – The Bureau of Workforce Partnership and Operations (BWPO) agrees with the finding and will continue to follow its newly developed procedures to monitor the local WIA offices' compliance for disabling separated non-Commonwealth users in a timely manner. In addition, we will include our Assistant Regional Directors as part of the quarterly (and any regular) distribution. That will give us a local presence on the issue.

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Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 025: (continued)

UC – CWIA agrees with the findings pertaining to their preparation of the ETA 581 and ETA 227 reports.

Questioned Costs: None

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Department of Labor and Industry

Finding 2014 – 026:

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

Noncompliance and a Control Deficiency Exist Over the Preparation and Submission of the Annual RSA-2 Report (A Similar Condition Was Noted in Prior Year Finding 13-L&I-03)

Federal Grant Number and Year: H126A130056 (10/01/2012 - 9/30/2013)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Reporting

Condition: The Pennsylvania Department of Labor and Industry's (L&I) Office of Vocational Rehabilitation (OVR) is required to submit the *Annual Vocational Rehabilitation Program Cost Report (RSA-2)* on an annual basis to the United States Department of Education (USDE). The RSA-2 Report includes data related to the Rehabilitation Services – Vocational Rehabilitation Grants to States (RS-VR) Program expenditures, unobligated balance, and the number of clients served on a federal fiscal year basis. During our fiscal year ended June 30, 2014 audit of the RSA-2 Report submitted for grant H126A130056 for the reporting period ended September 30, 2013, we noted that there were misstatements in the amounts reported for the following line items:

RSA-2 Report Line Item	Amount Reported By OVR	Amount Calculated By Auditor	Overstatement/ (Understatement)
Schedule I. Total Expenditures			
2. Services to Individuals with Disabilities			
B. Services Purchased by State VR Agency From:			
2. Private Community Rehabilitation Programs	\$15,573,681	\$12,282,721	\$3,290,960
3. Other Public Vendors	\$20,922,114	\$37,804,919	(\$4,908,872)
4. Other Private Vendors	\$11,973,933		
Schedule II, Line 10, Total Expenditures	\$48,469,728	\$50,087,640	(\$1,617,912)

The sum of Schedule I, Line 2B, Sub-lines 2 through 4, should equal the total of Schedule II, Line 10. Schedule I, Line 2B, Sub-Lines 2 through 4 were understated in total by \$1,617,912, which caused Schedule II, Line 10, to be understated by \$1,617,912.

Although the RSA-2 Report was signed and was subjected to a documented supervisory review and approval, the existence of the reporting errors indicates that the preparation and the supervisory review and approval processes were not adequate, and a control deficiency exists over the preparation and submission of the RSA-2 report.

Criteria: USDE Regulation 34 CFR 361.4(a)(5) indicates that the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments contained in 34 CFR Part 80 are applicable to the RS-VR program.

34 CFR Section 80.20, Standards for Financial Management systems, states:

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 026: (continued)

34 CFR Section 361.40, Reports, states:

(a) *The State plan must assure that the designated State agency will submit reports ...*

(b) *The designated State agency must comply with any requirements necessary to ensure the accuracy and verification of those reports.*

Further, adequate internal controls over report preparation would include detailed written report preparation procedures, a segregation of duties between the preparation and the review and approval of the report, and an adequate review and approval process which would detect errors in the report preparation and ensure that such errors are corrected.

Cause: OVR management stated that the error for Schedule I, Line 2B, Sub-line 2, was caused by an OVR employee erroneously using the incorrect federal fiscal year's expenditures from the Commonwealth Workforce Development System (CWDS) query report, which was not detected during the review process. In addition, OVR management stated that the errors for Schedule I, Line 2B, Sub-line 3 and Sub-line 4, regarding the inaccurate classification of expenditures for other public and private vendors (service providers), were the result of inconsistent coding of "public vendor" or "private vendor" by the individual OVR counselors when they requested the vendors' services for OVR clients in CWDS. Since individual vendors were not coded consistently in CWDS, private vendors' expenditures were improperly included in the CWDS report for public vendors, and public vendors' expenditures were improperly included in the CWDS report for private vendors. OVR personnel could not explain the remaining understatement in Schedule I, Line 2B. OVR was unable to provide the proper reporting of the public and private vendors' expenditures as of the time of our audit testing.

Effect: Since the preparation and the supervisory review and approval processes were not adequate, the RSA-2 Report was misstated for the federal fiscal year 2013. OVR is not in compliance with federal regulations and a control deficiency exists.

Recommendation: OVR should improve the written procedures for the preparation, review, approval, and submission of the annual RSA-2 Report and ensure the procedures are implemented. These procedures should be sufficiently detailed to ensure that the RSA-2 Report is prepared accurately in accordance with federal regulations. Finally, OVR should make the proper corrections to the RSA-2 Report for the federal fiscal year 2013, including the proper coding of public and private vendors' expenditures in CWDS, and submit the revised report to USDE.

Agency Response: OVR admits to making the error and agrees that its written procedures need to be reworked. On January 28, 2015, a meeting will be held with OVR program staff and OVR OIT staff that are jointly responsible for collection and validation of the RSA-2 Report data. We will be going through the existing instructions and updating guidance, determining who will be directly responsible for specific portions, and determining if additional changes need to be made to the CWDS system to account for data elements required by the RSA-2. Based on the outcome of this meeting, OVR will determine if additional meetings are necessary to resolve existing issues and then create updated guidance on the submission of the RSA-2.

OVR is in the process of reviewing the prior RSA-2 submission to determine if it is possible to make adjustments to the prior year 2013 RSA-2. Due to changes at the Federal level to the RSA-2 report requirements for the 2014 submission, system changes were made in CWDS to meet the new RSA-2 requirements, and we are not yet sure if we will be able to recreate the old data in a reasonable amount of time.

Questioned Costs: None

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Department of Labor and Industry

Finding 2014 – 027:

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

Noncompliance and a Control Deficiency Exist in the Department of Labor and Industry’s Procedures for Performing Eligibility Determinations (A Similar Condition Was Noted in Prior Year Finding 13-L&I-02)

Federal Grant Numbers and Years: H126A130056 (10/01/2012 - 9/30/2013) and H126A140056 (10/01/2013 - 9/30/2014)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Eligibility

Condition: As part of the Rehabilitation Services - Vocational Rehabilitation Grants to States (RS-VR) program, the Office of Vocational Rehabilitation (OVR), Pennsylvania Department of Labor and Industry, purchases vocational rehabilitation services from vendors to be provided to OVR clients. We randomly selected a sample of 53 payments to vendors and the Commonwealth’s Hiram G. Andrews Center for the benefit of OVR clients totaling \$84,629 (federal portion only) of the \$60,349,520 charged to the RS-VR program for client services under federal grant numbers H126A130056 and H126A140056 during the fiscal year ended June 30, 2014. Our review of the 53 OVR client case files disclosed that for three clients for whom RS-VR program payments were made, OVR personnel did not make the eligibility determinations within 60 days after the RS-VR program application date or by the agreed upon extension date as required by federal regulations.

The eligibility determination for the first client in question was completed 22 days after the 60 day eligibility determination period expired, which was in violation of federal regulations. The eligibility determination for the second client in question was incomplete and exceeded the 60 day eligibility determination period by 338 days as of the date of our testing in violation of federal regulations. OVR personnel were unaware that this eligibility determination was incomplete until notified by the auditors. The eligibility determination for the third client in question was incomplete and exceeded the approved extension period by 625 days as of the date of our testing in violation of federal regulations. OVR personnel were unaware that this eligibility determination was incomplete until notified by the auditors. Our testing disclosed that despite the incomplete eligibility determinations for the last two clients, the costs incurred were allowable since they related to diagnostic services ordered as part of the eligibility determination process. Our testing did not disclose any costs being incurred for ineligible clients.

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 027: (continued)

(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 indicated tracking procedures were implemented in the audit period, but the client applications for the cases in question occurred prior to the implementation of the new procedures. OVR personnel could not explain why the first eligibility determination was not performed timely, because there was no explanatory documentation in the case file, and the responsible OVR counselor was no longer employed by OVR. OVR personnel indicated that the eligibility determination process had been started but was incomplete for the second client in question due to the client case being left unattended after the separation of the OVR counselor to whom the case was assigned. As a result of the auditor's inquiry, OVR personnel attempted unsuccessfully to contact the client and subsequently closed the case. OVR personnel indicated that the eligibility process had been started but was incomplete for the third client in question but could not explain why the process was incomplete due to no explanatory documentation in the case file. As a result of the auditor's inquiry, OVR personnel subsequently closed the case. OVR did not have adequate procedures in place to timely identify and follow up on incomplete eligibility determinations within federal time requirements.

Effect: Since OVR personnel did not have adequate procedures in place to ensure that client eligibility determinations were completed within 60 days of the application date or within the specific time period extension agreed upon by the client, OVR was not in compliance with federal regulations, and a control deficiency exists. Also, OVR clients may not receive necessary RS-VR program services timely. Our testing identified only allowable diagnostic costs incurred on behalf of OVR clients for whom the eligibility determinations were incomplete, and our sample contained no ineligible OVR clients for whom case service costs were incurred, so no costs are questioned.

Recommendation: We recommend that OVR personnel ensure that procedures are in place to timely identify and follow up on incomplete eligibility determinations and to ensure that all client eligibility determinations are completed 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: OVR is implementing our revised case review process beginning in January 2015. All Level 1, Level 2 and Level 3 case reviews will now utilize the revised process. The new process now explicitly examines each case that is randomly pulled for review for compliance in determining eligibility within 60 days of the application date and the development of the Individualized Plan for Employment within 90 days of the eligibility determination date, or within appropriate time extensions. We believe that these new case review criteria will emphasize the importance of timely eligibility determinations and plan developments to our field-level staff. Case review scores at Level 1 are factored into Counselor's Employee Performance Review (EPR), scores at Level 2 are factored into Supervisor's EPRs and scores at Level 3 are factored into District Administrator's EPRs. We have also revised our case review manual, which gives in depth descriptions on the criteria expected to be met for each case review item, as well as references to federal regulations and internal standards. All OVR offices that receive a cumulative score of 70 percent or less during the Spring or Fall Level 3 review periods in the "Timeliness" category are required to administer a training to all of their staff members on the topic of completing eligibility decisions within 60 days and plan developments within 90 days or within an appropriate time extension. Offices that receive a cumulative score of 80 percent or less are strongly encouraged to conduct trainings with all of their staff members.

OVR has also updated our Back to Basics training series to further emphasize the importance of timely eligibility determinations and plan developments. Every OVR staff member is required to complete the Back to Basics training series. Every district administrator is provided with a "Days Over Status" report, which lists the cases that are above the 60-day benchmark for eligibility determinations and 90-day benchmark for plan developments without a time extension. Counselors have the ability to produce a case list in CWDS that shows all of their cases which are in Status 02 (awaiting eligibility determination) over 45 days and cases are in status 10 (awaiting plan development) over 90 days.

Questioned Costs: None

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Department of Labor and Industry

Finding 2014 – 028:

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

Noncompliance and General Information Technology Control and Internal Control Design Weaknesses Affecting the Payroll Process (A Similar Condition Was Noted in Prior Year Finding 13-SW-02)

Federal Grant Numbers and Years: H126A130056 (10/01/2012 - 9/30/2013) and H126A140056 (10/01/2013 - 9/30/2014)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Allowable Costs (Effort Reporting)

Condition: The Rehabilitation Services – Vocational Rehabilitation Grants to States (RS-VR) program at the Department of Labor and Industry (L&I) processes payroll transactions through an automated workflow in SAP in which the internal controls are embedded in the automated system, such as the automated approval of employee hours worked. As noted in the Basic Financial Statement (BFS) Findings 2014-004 and 2014-006, deficiencies in the information technology general controls (ITGC) of the SAP environment were identified. As a result, the operating effectiveness of the automated controls in the SAP payroll system could not be relied upon to support employee effort reporting for the RS-VR program. Additionally, there were no manual controls identified outside of the automated system to support the effort reporting of the RS-VR program. Payroll transactions represented approximately 30 percent of the RS-VR program expenditures.

We noted that there are two types of employees that charge time to the RS-VR program, employees which work exclusively for L&I's Office of Vocational Rehabilitation (OVR) and charge 100 percent of their time to the RS-VR program, and employees which work for other bureaus within L&I's Central Services Offices and allocate only a portion of their time to these programs. Both types of employees utilize the Employee Self Service (ESS) method to enter time information into the Cross Application Time Sheet (CATS), which ultimately transfers time to SAP. OVR employees that charge 100 percent of their time to the RS-VR program enter only exceptions to their scheduled hours into CATS via ESS. Those exceptions must be reviewed and approved electronically. It should be noted that the payroll costs which are charged 100 percent by RS-VR employees are properly covered by semi-annual certifications and are excluded from this finding. L&I employees that charge a portion of their time to the RS-VR program enter all hours into CATS via ESS. Timesheets (effort reporting) for L&I employees are reviewed and approved electronically by the employees' supervisors or by Human Resources (HR) personnel (Time Advisors), who are not aware of the respective employees' daily activities, in instances where supervisors have not approved the hours reported within 96 hours.

As part of our audit, we tested 40 payroll transactions for compliance with federal allowability requirements. It should be noted that 28 of the 40 sampled employees were OVR employees who were charged 100 percent to the RS-VR program and were covered by semi-annual certifications. However, the remaining 12 out of 40 sampled employees were required to enter all their hours via timesheets. We noted the following specific conditions during the performance of our audit procedures which indicate there are weaknesses in the design of controls related to supervisory approvals:

- For 2 of the 12 timesheets tested, the employees' timesheet records were approved by HR Time Advisors rather than the employees' supervisors. One of the two employees worked in L&I's Bureau of Financial Management and the other employee worked in the Bureau of Blind and Visual Services (BBVS) in the Wilkes-Barre Office, and both timesheets were approved by HR personnel in Harrisburg who had no knowledge about the employees' daily activities.

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Finding 2014 – 028: (continued)

- For an additional 2 out of 12 timesheets tested, the timesheets were automatically populated with the default payroll coding in ESS which was charged to the RS-VR program, and there was no supervisory review and approval of the timesheets. One of the two employees whose time was charged to the default payroll coding under the RS-VR program was an L&I Office of Information Technology employee, and the second employee was a BBVS employee who worked on multiple state and federal programs. Neither of the two employees worked solely on RS-VR activities, so their default payroll coding should not have been charged to the RS-VR program.

We determined that personnel expenditures in the amount of \$6,744,564 out of the total \$124,942,950 RS-VR expenditures charged during the fiscal year ended June 30, 2014 related to L&I employees that allocated only a portion of their time to the RS-VR program.

Criteria: OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment B.8.h., states:

(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.*

(4) *Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5)... Such documentary support will be required where employees work on:*

- More than one Federal award,*
- A federal award and a non Federal award.*

(5) *Personnel activity reports or equivalent documentation must meet the following standards:*

- They must reflect an after the fact distribution of the actual activity of each employee,*
- They must account for the total activity for which each employee is compensated,*
- They must be prepared at least monthly and must coincide with one or more pay periods, and*
- They must be signed by the employee.*

AICPA Professional Standards in AUC Section 315 state in part:

.A98: From the auditor's perspective, controls over IT systems are effective when they maintain the integrity of information and the security of the data such systems process and when they include effective general IT controls and application controls.

.A99: General IT controls are policies and procedures that relate to many applications and support the effective functioning of application controls. They apply to mainframe, miniframe, and end-user environments. General IT controls that maintain the integrity of information and security of data commonly include controls over the following: Data center and network operations; System software acquisition, change, and maintenance; Program change; Access security; and, Application system acquisition, development, and maintenance.

.A100: Although ineffective general IT controls do not by themselves cause misstatements, they may permit application controls to operate improperly and allow misstatements to occur and not be detected. For example, if deficiencies in the general IT controls over access security exist and applications are relying on these general controls to prevent unauthorized transactions from being processed, such general IT control deficiencies may have a more severe effect on the effective design and operation of the application control

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Finding 2014 – 028: (continued)

AICPA Professional Standards in AUC Section 315.A68 state:

Evaluating the design of a control involves considering whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements. Implementation of a control means that the control exists and that the entity is using it. Assessing the implementation of a control that is not effectively designed is of little use, and so the design of a control is considered first. An improperly designed control may represent a significant deficiency or material weakness in the entity's internal control.

Cause: ITGC deficiencies in the SAP environment reduce the operational effectiveness of automated internal controls in the SAP payroll workflow. Sufficient manual controls were not present to compensate for the ITGC deficiencies.

In addition, the design of the CATS/ESS policies and procedures state that employee timesheets are to be approved by a first or second level supervisor within the SAP workflow, and if these workflow items reach a Human Resources Time Advisor's workflow box, the items will be "automatically" approved. As such, the "approval control" is not appropriately designed to meet the federal effort reporting compliance requirements set forth in OMB Circular A-87.

L&I HR personnel stated that beginning May 21, 2014, HR staff are no longer approving timesheets that route to HR and instead are notifying every supervisor individually that CATS are pending in their ESS workflow. L&I HR personnel also stated that beginning in June 2014, HR has been using a reporting tool developed by the Office of the Budget to identify employees who have not completed their bi-weekly CATS, and HR notifies the employees in question to enter their CATS timely.

The reason that individual employees' default payroll coding was assigned to the RS-VR program when the employees' duties were not solely related to the RS-VR program was not determined.

Effect: Lack of effective ITGC could result in inappropriate payroll costs being charged to the RS-VR program. For example, if information technology access controls and/or segregation of duties controls (i.e. general computer controls) are weak and exploited, this could result in appropriate supervisory approval controls (i.e. application controls) over the payroll process to also be compromised. Additionally, when timesheets for employees which allocate time between departments are not reviewed and approved, controls are not operating effectively to detect errors and costs may not be appropriately allocated to federal programs.

Recommendation: The Commonwealth of Pennsylvania (Commonwealth) through its Office of Information Technology should continue its efforts to remediate the ITGC weaknesses, and Commonwealth agencies should review and adopt user protocols to comply with ITGC policies and procedures. If deemed cost beneficial by management, Commonwealth agencies could develop manual compensating controls (for example, a quarterly or more frequent manual certification from the supervisors confirming their electronic approvals for the period) to ensure payroll is properly processed and approved until the deficiencies identified in the SAP general controls environment have been remediated. Additionally, we recommend that Commonwealth management review the propriety of the default payroll coding assigned to individual employees and continue to enhance the existing procedures over the review and approval of timesheets for employees that allocate their time between departments to ensure that future personnel expenditures are accurately charged to the applicable programs.

Agency Response: L&I agrees with the finding.

Questioned Costs: Known questioned costs of \$5,847 (which represents the federal personnel expenditures of \$3,943 for the four employees' timesheets which not properly approved and related benefits of \$1,904).

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Department of Military and Veterans Affairs

Finding 2014 – 029:

CFDA #12.401 – National Guard Military Operations and Maintenance Projects

Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement Results in Questioned Costs of \$106,162 (A Similar Condition Was Noted in Prior Year Finding 13-DMVA-01)

Federal Grant Numbers and Years: DAHA36-05-2-5001 (10/1/12 – 9/30/13), W912KC-10-2-1001 (10/1/12 – 9/30/13), and W912KC-10-2-1002 (10/1/12 – 9/30/13)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Allowable Costs, Period of Availability of Federal Funds

Condition: The Department of Military and Veterans Affairs (DMVA) has a Master Cooperative Agreement (MCA) with the National Guard Bureau (NGB) to provide support to the Army and Air National Guard in minor construction, maintenance, repair or operation of facilities. Individual appendices to the MCA contain terms and conditions applicable to a particular functional area, such as policy, administrative procedures, scope of work, authorized and unauthorized activities/charges, budget information, and funding limitations. The DMVA had 16 appendices for which costs were incurred during the period under audit. Each appendix (grant) under the MCA covers a one year period (10/1/XX through 9/30/XX). For monthly services, the month of service determines which grant should be charged. For 5 of the 80 items, which totaled \$3,907 out of a total of \$791,976 tested, we noted the incorrect grant year was charged and the costs were outside the period of availability.

Within 90 days after the end of the federal fiscal year, the DMVA must provide to the United States Property and Fiscal Office (USPFO) a MCA closing figures report for each appendix. This report should include all un-disbursed obligations under the MCA at December 31. For 4 of the 80 items sampled, which totaled \$102,255 out of a total of \$791,976 tested, we noted the costs were un-liquidated by the State Treasury within 90 days after the federal fiscal year, and were not included on the listing provided to the USPFO as required to be reimbursable costs.

Criteria: 2 CFR section 215.28, *Period of Availability of Funds*, states:

- a. *Where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.*

NGR 5-1, Chapter 11-10, *Final Accounting and Settlement*, states:

1. *If un-liquidated claims and un-disbursed obligations arising from the grantee's performance of the agreement appendix will remain 90 days or more after the close of the fiscal year, the grantee shall provide to the USPFO (NLT 31 Dec) a written request to keep the agreement appendix funding open. The request will include a consolidated, detailed listing of all un-cleared obligations and a projected timetable (date) for their liquidation and disbursement. The USPFO shall then set an appropriate new timetable for the grantee to submit final accounting and settlement. Subsequent requests will be submitted by the grantee every 90 days or so thereafter as long as there are un-liquidated claims or un-disbursed obligations. The USPFO, with proper justification, can choose to not extend the timetable and require that the remaining agreement appendix funding be de-obligated.*

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Finding 2014 – 029: (continued)

Cause: Invoices for monthly expenditures are set up in SAP to be charged against a particular grant year. The change in federal fiscal years requires the coding in SAP to be changed so the expenditure is charged against the current grant year. In the case of the 5 items described above, the coding was incorrectly entered in SAP, and therefore the expenditure was charged to a previous year's grant. DMVA does have controls in place regarding the review of period of availability to ensure the correct grant is charged based on the dates of service; however, the review control was not being adequately performed.

DMVA prepares the detailed listing of un-disbursed obligations using an "Open Commitments by Document Number" report from SAP. Based on this report as soon as an invoice receipt is entered into SAP, the expenditure shows as being liquidated in SAP and does not appear on the report regardless of whether or not the State Treasury paid the vendor. This caused 4 of the 80 items tested to be omitted from the listing.

Effect: Questioned costs of \$106,162 related to amounts charged outside the period of availability and omission of items on the detailed listing of uncleared obligations that could result in these expenditures not being eligible for reimbursement from the federal government.

Recommendation: We recommend when preparing the listing of un-cleared obligations at December 31, a separate procedure be put in place to ensure all items are included if cash payments have not been made to the vendor by the State Treasury. Also DMVA management should reinforce its existing review controls in place with its staff to ensure that the correct period of availability is being charged based on the service dates.

Agency Response: The five items, totaling \$3,907, that were found to have been charged to the incorrect grant year were in fact charged to the incorrect grant year and were outside the period of availability. While we do have controls in place to address period of availability issues, the controls did not catch these five items. Since learning of these five items, all of them have been adjusted and now reflect the correct period of availability. We will reinforce our existing controls with staff to ensure the period of availability is correct. We are in agreement with this part of the finding.

The four items, totaling \$102,255, that were referenced in regard to allowable costs were included because those four items were not part of the open commitment documents provided to the USPFO as part of the yearly closeout. As in prior years, this continues to be an area of disagreement between the auditors and our agency. The four items were not listed on the open commitment report because at the time the report was prepared, an invoice had been received and the four items were no longer earmarked as an open commitment. The four items were, in fact, listed as part of the expenses provided to the USPFO as our accounting system works on an accrual basis and the commitment became an expense at the time the invoice was received. In an effort to address this part of the finding and previous year findings, we did include with the FFY 14 closeout information separate report to address this issue. This report includes all items which have an invoice entered for processing and no longer appear as an open commitment on the report and are pending payment by the State Treasury. The combination of the open commitment report and this new report should identify all items unliquidated by the State Treasury within 90 days after the federal fiscal year ends and should satisfy this part of the finding. So while we are not in agreement with this part of the finding, we do feel we have found a mechanism to address the audit concern.

Questioned Costs: \$106,162

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Department of Military and Veterans Affairs

Finding 2014 – 030:

CFDA #64.015 – Veterans State Nursing Home Care

Material Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement Results in Questioned Costs of \$11,848

Federal Grant Numbers and Years: D70314 (07/01/2013-06/30/2014), D75114 (07/01/2013-06/30/2014), D75214 (07/01/2013-06/30/2014), D75514 (07/01/2013-06/30/2014), D75814 (07/01/2013-06/30/2014), and D77814 (07/01/2013-06/30/2014)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Eligibility

Condition: The Department of Military and Veterans Affairs (DMVA) operates six veterans' nursing homes in Pennsylvania. DMVA receives federal financial assistance for providing nursing home care to eligible veterans residing in these homes. The amount of funding received depends on the type of care provided to eligible veterans for each day of residency at the home. Each nursing home determines applicant eligibility for admission to the home by having a physician identify the level of care needed and certify eligibility. Additionally, DMVA requires applicants to certify that they have not been convicted of a felony within the previous five years. To ensure compliance, prior to January 2014, DMVA would occasionally conduct background checks on applicants, and effective January 2014, DMVA began conducting criminal background checks for every applicant. Veterans State Nursing Home Care expenditures reported on the current year Schedule of Expenditures of Federal Awards (SEFA) were \$39,347,270.

We examined 40 nursing home residents' files and found that DMVA could not provide the eligibility determination for two residents. Additionally, prior to January 2014, two other residents failed to certify on the application that they had not been convicted of a felony within the previous five years. DMVA did not perform a criminal background check for these two residents. These four audit exceptions resulted in questioned costs totaling \$11,848, of the total \$193,660 tested.

Criteria: According to 38 CFR 51.210(s), *Compliance with Federal, State, and local laws and professional standards*, "The facility management must operate and provide services in compliance with all applicable Federal, State, and local laws, regulations, and codes with accepted professional standards and principles that apply to professional services in such a facility." Furthermore, according to 43 Pa. Code § 7.3, *Qualifications for admission*, an applicant must meet certain requirements for admission, such as being an eligible veteran and a bona fide resident of the Commonwealth. Additionally, this section defines criteria that make an applicant ineligible for admission. This includes, but is not limited to, an applicant who was convicted of a felony, unless they have demonstrated good character and behavior and has no convictions for crimes or offenses for at least five years.

Cause: The majority of the application process is conducted at each State Veterans Home. DMVA management stated that no written policies and procedures exist for nursing home employees to process applications, which includes the determination of eligibility and supervisory oversight.

Effect: Incomplete applications and documentation could result in incorrect eligibility determinations, which could result in expenditures being charged to the program that are not eligible for reimbursement from the federal government.

Recommendation: We recommend that DMVA ensure application documents are complete and properly reviewed for every veteran applying for admission to a State Veterans Home to ensure compliance with federal and state regulations. We also recommend that written policies and procedures be developed and implemented that will ensure the consistent handling of application documents at each of the six homes. DMVA management should also develop and implement comprehensive monitoring and oversight procedures to ensure the homes comply with the written policies and procedures.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 030: (continued)

Agency Response: In response to this Office of the Auditor General finding related to the operation of the PA State Veterans Homes, the Department of Military and Veterans Affairs (DMVA) is in general agreement with the auditors' findings that:

1. The State Veterans Homes' admission process is not documented allowing for variation in the way each home processes applications and determines level of care for applicants.
2. For several admissions, Veterans Administration (VA) forms 10-10SH and 10-10EZ were not properly completed resulting in a potential loss of revenue.
3. Eligibility checks related to felony convictions were not completed on several applicants in relation to DMVA regulations and policies.
4. Comprehensive monitoring and oversight procedures are needed to ensure that application and admission documentation and processes are in compliance with DMVA and VA policies and regulations.

Finding 1 – Although the policies for admission are documented in DMVA regulations and in the DMVA accounting manual, the process and procedures for ensuring proper vetting of applications and determination of eligibility are not formally documented allowing for variation in the process in each home. DMVA will develop a procedure manual that will standardize the process across the Bureau ensuring that all six homes are following the same process. The procedure manual will specify what actions are to be taken and assign responsibility in the headquarters and in the homes for each step in the process. This standardized process will be documented not later than 15 April 2015 and will be provided to the commandant of each home at the bureau's semi-annual leadership conference 20-23 April 2015. The manual will be presented to the admissions coordinators at each home and reviewed at the admissions coordinator meeting tentatively scheduled for the week of 4 May 2015. The bureau admissions coordinator will regularly monitor the process in each home and correct non-compliance.

Finding 2 – Incomplete 10-10SH and 10-10EZ forms can result in the VA declining reimbursement for 15 days resulting in a loss of revenue. The bureau will implement a review process to ensure that all forms are completed properly. Forms will be uploaded to our MatrixCare information system and will be audited by our headquarters admissions coordinator weekly. Additionally, the headquarters admission coordinator and revenue officer will provide training to staff in the homes to ensure that forms are properly completed. Finally, the bureau will institute a standardized level of care determination process to reduce the likelihood that the VA will dispute the level of care determination on the 10-10SH form. This will be accomplished not later than 15 April 2015.

Finding 3 – Prior to 1 January 2014, only applicants who indicated a previous criminal history received a criminal history background check. Starting in January 2014, all applicants' criminal history is checked by headquarters staff prior to the application being forwarded to the homes' admissions staff. No application is forwarded to the home until the criminal history background check is completed and the headquarters staff determines that all application documents are complete.

Finding 4 - Beginning in June 2014, the bureau implemented a new information management system called MatrixCare. We are still in the process of fully implementing the system. Upon completion of system implementation, the bureau and the leadership in the homes will have real-time visibility of all clinical and administrative processes. This will allow for comprehensive monitoring of all core processes. Full implementation of the system is dependent upon the vendor completing customization work, but is projected to be completed by 1 June 2015.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 030: (continued)

The DMVA appreciates the work of the auditors in helping us identify areas of operational improvement. The findings and our corrective actions will allow us to improve our processes, eliminate errors, and increase revenues.

Questioned Costs: \$11,848

The corrective action plan 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, 2014

Pennsylvania Emergency Management Agency

Finding 2014 – 031:

CFDA #97.067 – Homeland Security Grant Program

Subgrant Awards Are Not Executed or Obligated Within the 45-Day Requirement (A Similar Condition Was Noted in Prior Year Finding 13-PEMA-01)

Federal Grant Numbers and Years: 2010-SS-T0-0037 (08/01/2010 – 07/31/2013), EMW-2011-SS-00092-S01 (09/01/2011 – 08/31/2014), EMW-2012-SS-00038 (09/01/2012 – 08/31/2014), EMW-2013-SS-00095 (09/01/13 – 08/31/2015)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Special Tests and Provisions related to Subgrant Awards

Condition: The Pennsylvania Emergency Management Agency (PEMA) is the State Administrative Agency (SAA) for the Homeland Security Grant Program (HSGP) in Pennsylvania. As such, PEMA makes an application to the Federal Emergency Management Agency (FEMA) for homeland security grant funding on behalf of all HSGPs within the Commonwealth of Pennsylvania (Commonwealth). FEMA issues one award package to PEMA; however, funding is allocated separately for each program under the HSGP umbrella, which includes the State Homeland Security Grant Program (SHSP), Urban Areas Security Initiatives (UASI), Operation Stonegarden (OPSG), Citizens Corp Program (CCP), and Metropolitan Medical Response System (MMRS).

Once the award package is received from FEMA, PEMA makes subawards to nine regional task forces, which are instrumentalities of government formed by mutual aid agreements of counties that carry out homeland security initiatives. PEMA issues a separate subgrant agreement for each program under the HSGP umbrella for which the task force is receiving grant funds. These agreements are required to be executed within 45 days of issuance of the grant agreement.

During the year ended June 30, 2014, there were 12 subgrants fully executed, subject to the 45-day requirement, which related to 2013 HSGP funding. From the population of 12 executed subgrants, we selected a sample of four subgrants for testing. For all the subgrants in our sample, it took between 86 to 159 days beyond the allotted 45 days to execute the agreements and provide obligation authority to the subgrantees.

Criteria: 6 USC Section 605 (c)(1) states:

Not later than 45 days after receiving grant funds, any State receiving a grant under this section shall make available to local and tribal governments, consistent with the applicable State homeland security plan -

(A) not less than 80 percent of the grant funds;

(B) with the consent of local and tribal governments, items, services, or activities having a value of not less than 80 percent of the amount of the grant; or

(C) with the consent of local and tribal governments, grant funds combined with other items, services, or activities having a total value of not less than 80 percent of the amount of the grant.

Part 4 of the OMB Compliance Supplement for CFDA #97.067 Section N, Special Tests and Provisions – Subgrant Awards states:

States must obligate funds for subgrants within 45 days after the date of the grant award (6 USC 605(c)(1)). “Obligate” has the same meaning as in Federal appropriations law, i.e., there must be an action by the State to establish a firm commitment; the commitment must be unconditional on the part of the State; there must be documentary evidence of the commitment, and the award terms must be communicated to the subgrantee and, if applicable, accepted by the grantee.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 031: (continued)

Cause: Within the Commonwealth, the approval process for subgrant agreements requires several levels of approval. Once the SAA determines the allocations and provides grant agreements to the subgrantees, they must be approved by the subgrantee (regional task forces) and returned to the SAA to undergo the Commonwealth’s administrative approval process for executing grant agreements. This process requires the returned agreement to be reviewed and signed by five Commonwealth agency officials: the State Administrative Agency’s Director and Chief Counsel, the Commonwealth’s Offices of the Comptroller, General Counsel, and the Attorney General. Commonwealth law also permits each of the Offices of the General Counsel and Attorney General up to 30 days to review and sign these grant agreements, which is in addition to the time allowed to the other agencies for their review and approval.

Effect: As a result of the established approval timelines within the Commonwealth, PEMA’s ability to execute subgrants within the required 45-day timeframe is restricted. In turn, this compromises the subgrantees’ ability to effectively plan and expend funds to accomplish the goals of the program and expend funds within the period of performance of the grant.

Recommendation: We recommend that the Commonwealth reevaluate its current review and approval process for awarding subgrants to enable PEMA to obligate the funds within 45 days after the date of the grant award.

Agency Response: In response to finding 2014 – 031, we have identified ambiguous terminology had been used in award notifications to subgrantees. As in the past, PEMA will make federal funds available to the subgrantees through an award letter with establishment of a Funds Commitment. PEMA will continue to apply the award letter in the same manner that FEMA implements award notification to PEMA. In order to be clear in our intent, we will add to the subgrantee award letter the performance period and the Commonwealth’s Funds Commitment number.

Questioned Costs: None

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Pennsylvania Emergency Management Agency

Finding 2014 – 032:

CFDA #97.067 – Homeland Security Grant Program

Material Weakness and Material Noncompliance Over Subrecipient Monitoring

Federal Grant Numbers and Years: 2010-SS-T0-0037 (08/01/2010 – 07/31/2013) EMW-2011-SS-00092-S01 (09/01/2011 – 08/31/2014), EMW-2012-SS-00038 (09/01/2012 – 08/31/2014), EMW-2013-SS-00095 (09/01/13 – 08/31/2015)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: During the fiscal year ended June 30, 2014, the Pennsylvania Emergency Management Agency (PEMA) reported subrecipient expenditures for the Homeland Security Grant Program (HSGP) of \$44,454,243, which represented approximately 83 percent of total HSGP expenditures on the Schedule of Expenditures of Federal Awards (SEFA). Under the HSGP, PEMA, the State Administrative Agency (SAA) for the grant program, has nine regional task forces that are subrecipients. These task forces are comprised of local governments that are responsible for carrying out program initiatives. PEMA has established internal policies regarding during-the-award monitoring as documented in its Federal Grant Programs Administrative Manual (Manual). The Manual states that PEMA is to perform desk or on-site monitoring for each subrecipient each year.

According to PEMA's Manual, "Subgrantee monitoring is carried out through two means: office-based (desk) monitoring and on-site monitoring. The SAA monitoring team will conduct an office-based (desk) monitoring or on-site monitoring session reviews for each subgrantee every state fiscal year. Monitoring assists the SAA in identifying areas of need for subgrantee support and provides feedback on ways to improve its services. Both forms of monitoring require written documentation. The SAA conducts subgrantee fiscal, compliance and programmatic monitoring based upon federal financial and programmatic guidance, OMB Circulars, and the CFRs." In addition, PEMA provides guidance to all subrecipients on an on-going basis related to consultations on allowable costs with respect to program expenditures.

During the fiscal year ended June 30, 2014, PEMA conducted site visits for eight of the nine regional task forces. Formal monitoring in accordance with the established Manual policy did not occur for the Southeastern Pennsylvania Regional Task Force (SEPARTF) as there was not a formal desk or on-site review performed. PEMA was in contact with the subrecipient through phone conversations and on-site meetings during the audit period, primarily in regard to their change in fiduciaries (effective in June 2014).

SEPARTF received 51 percent of allocated 2013 grant funds. The last monitoring visit for SEPARTF was on-site and occurred in January 2013, resulting in five findings requiring corrective action. In response to SEPARTF's corrective action plan, PEMA issued a letter in July 2013 detailing that two of the five findings were considered resolved, however, three remain outstanding. The next monitoring visit for SEPARTF is scheduled to occur in March 2015.

Criteria: 44 CFR Section 13.40, *Monitoring by grantees*, requires grantees to monitor subgrantees to ensure compliance with Federal regulations. 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 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.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 032: (continued)

Cause: Due to reorganization of the SEPARTF and vacant positions within the Compliance Division at PEMA, PEMA was unable to obtain access to SEPARTF personnel and records in order to perform formal subrecipient monitoring as established by PEMA policy and stipulated in Federal guidelines.

Effect: The lack of desk or on-site monitoring procedures does not allow PEMA to assess subrecipient compliance with federal requirements.

Recommendation: We recommend that PEMA perform desk or on-site monitoring of its subrecipients as stipulated in federal guidelines and the Manual.

Agency Response: The Pennsylvania Emergency Management Agency (PEMA) staff met with the Southeastern Pennsylvania Regional Task Force (SEPARTF) personnel on January 15, 2015. PEMA and the SEPARTF have agreed to move forward with a corrective action plan that will include a scheduled Site Monitoring visit the week of March 16, 2015. This visit will monitor current activity and will include Homeland Security Grant Program (HSGP) awards from the single audit period ending on June 30, 2014.

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

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Pennsylvania Emergency Management Agency

Finding 2014 – 033:

CFDA #97.067 – Homeland Security Grant Program

Material Weakness and Material Noncompliance Over Equipment and Real Property Management (A Similar Condition Was Noted in Prior Year Finding 13-PEMA-03)

Federal Grant Numbers and Years: 2010-SS-T0-0037 (08/01/2010 – 07/31/2013) EMW-2011-SS-00092-S01 (09/01/2011 – 08/31/2014), EMW-2012-SS-00038 (09/01/2012 – 08/31/2014), EMW-2013-SS-00095 (09/01/13 – 08/31/2015)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Equipment and Real Property Management

Condition: The Pennsylvania Emergency Management Agency (PEMA) is the State Administrative Agency (SAA) for the Homeland Security Grant Program (HSGP) in Pennsylvania. As such, in addition to maintaining its own fixed asset records, PEMA is responsible for oversight with respect to the management of equipment purchased by other Commonwealth of Pennsylvania (Commonwealth) agencies for the HSGP. PEMA has established internal policies regarding equipment management as documented in its Federal Grant Programs Administrative Manual (Manual).

The Manual requires that accurate property and equipment records be maintained. These property and equipment records shall include:

- (a) Description of the property (including make and model);
- (b) Manufacturer’s serial number or other identification number;
- (c) Vendor (source of property);
- (d) Acquisition date;
- (e) Cost of the property;
- (f) Percentage of Federal participation in the cost of the property;
- (g) Location of the equipment;
- (h) Condition of the equipment as of the date the information is reported; and
- (i) Date of disposal and sales price.

Upon receipt of purchased equipment, the Manual requires agencies to submit an Equipment Control Form (DGM-08) detailing the applicable information noted above to PEMA.

Our sample consisted of 31 equipment purchases representing three Commonwealth agencies, including PEMA. From the Commonwealth agencies, one out of three agencies in the sample, PEMA, did not maintain accurate asset records that include all required elements as detailed in the Manual. Out of 31 equipment purchases sampled, 28 purchases did not have a designated “Federal Cost” element on their respective DGM-08. These exceptions related to one agency, PEMA.

The Manual also requires that Commonwealth agencies complete a physical equipment inventory and submit a report of that inventory each year that reconciles to the equipment purchased. PEMA started a physical inventory in February 2014, however, it was not completed within the audit period. This exception represents one out of three agencies sampled.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 033: (continued)

Criteria: 44 CFR Section 13.32 states the following in regard to Equipment:

(d) Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds the title, the acquisition date and cost of the property, percentage of Federal participation in the cost of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

Cause: Inadequate staffing has prevented PEMA from ensuring receipt and reviewing the property records submitted by other Commonwealth agencies to ensure that they reconcile to total purchases and contain all of the required information and from ensuring annual inventories are completed. Although PEMA has complemented their personnel with contracted staff, given the magnitude of the effort required to update property records with all required elements, performing a complete inventory and ensuring reconciliation of records with other Commonwealth agencies, completion of this effort did not occur within the audit period.

Effect: Equipment property records were not accounted for and inventoried in accordance with federal requirements.

Recommendation: We recommend that PEMA review and update the equipment property records to include all of the required information. Additionally, for all agencies, we recommend that PEMA's recorded purchases be reconciled with Commonwealth agencies and annual inventories be completed for all agencies.

Agency Response: PEMA personnel will ensure that property and equipment records contain all required elements going forward. We are currently in the process of conducting a physical inventory of equipment purchased with HSGP funds, which will assist in identifying missing information required under the Manual and applicable federal regulations, and we will correct omissions noted during that review. PEMA personnel have logged a significant portion of HSGP-funded equipment and will be able to import that data into our new Intellitrack equipment inventory tracking system in the near future. We have requested and obtained equipment inventory lists for agencies which have purchased equipment with HSGP funds. These agency lists will be reconciled to our records to ensure completeness and accuracy, and we will request on an annual basis equipment inventories from all agencies that are receiving or have received HSGP funds.

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

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Pennsylvania Infrastructure Investment Authority

Finding 2014 – 034:

CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds (including ARRA)

Material Noncompliance Exists and Internal Control Improvements Needed in Subrecipient Loan Monitoring System (A Similar Condition Was Noted in Prior Year Finding 13-PENNVEST-04)

Federal Grant Numbers and Years: CS-420001-13 (7/1/13 – 9/30/15) and 2W-420002-09 (10/1/08 – 12/31/13) (ARRA)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: Pennsylvania Infrastructure Investment Authority (PENNVEST) requires Clean Water State Revolving Funds (CWSRF) loan recipients to submit annual financial statements, which are then used to evaluate each recipient's fiscal position and its ability to repay its loan. Once received, PENNVEST forwards the loan recipients' financial statements to an independent accounting firm that reviews the statements in detail to determine if there are any adverse fiscal conditions indicating potential problems with any recipient's ability to repay the loan. After evaluating the financial statements, the independent accounting firm provides a report to PENNVEST which identifies any adverse conditions in the entity's fiscal position. PENNVEST uses this information to determine if follow up with that loan recipient is needed.

PENNVEST compiles a listing of all loans in repayment status to track the financial statements to be submitted by the loan recipients and to track the progress of the independent accounting firm's reviews. The listing includes the date the financial statements are sent to the accounting firm, the date the accounting firm submits its report, and any identified adverse conditions. We found that as of June 30, 2014, 572 CWSRF loans were in repayment or interest only status and included on PENNVEST's tracking list. Of the loan recipients' financial statements that were received by PENNVEST and forwarded to the independent accounting firm for evaluation, 10 borrowers, representing 16 loans with outstanding principal balances totaling \$23.5 million as of June 30, 2014 were identified to have adverse fiscal conditions. Our testing of 3 out of the 10 borrowers disclosed that PENNVEST did not have documentation to support that PENNVEST had contacted the loan recipient regarding the identified adverse fiscal condition and that the loan recipient had taken corrective action to address the adverse fiscal condition.

Criteria: According to OMB Circular A-133, pass through entities must perform program monitoring of subrecipient activity. OMB Circular A-133 Subpart D Section .400 states in regard to pass-through entity responsibilities:

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(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.

In addition, adequate internal controls should include procedures to ensure corrective action is taken if adverse conditions are noted by the independent accounting firm.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 034: (continued)

Cause: According to PENNVEST management, the adverse fiscal conditions were addressed through letters mailed to each respective loan recipient requiring corrective action. However, PENNVEST cannot locate documentation to support that PENNVEST had contacted the loan recipient regarding the identified adverse fiscal condition and that the loan recipient had taken corrective action to address the adverse fiscal condition. PENNVEST believes these files have been misfiled and will be impossible to locate.

Effect: Failure to adequately monitor identified adverse fiscal conditions may jeopardize the timely and complete repayment of PENNVEST loans. It should be noted that none of the 16 loans identified above to have adverse fiscal conditions, were found to be delinquent as of June 30, 2014.

Recommendation: We recommend that PENNVEST perform follow-up and maintain documentation to support adequate follow up for loan recipients that have identified adverse conditions.

Agency Response: We are in agreement with the information for the Condition, Cause, and Effect.

Questioned Costs: None

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

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 035:

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

CFDA #20.205, 20.219, and 23.003 – Highway Planning and Construction Cluster (including ARRA)

CFDA #84.377 and 84.388 – School Improvement Grants Cluster (including ARRA)

CFDA #93.558 – Temporary Assistance for Needy Families

CFDA #93.563 – Child Support Enforcement

CFDA #93.658 – Foster Care – Title IV-E

CFDA #93.659 – Adoption Assistance

CFDA #93.667 – Social Services Block Grant

CFDA #93.775, 93.777, and 93.778 – Medicaid Cluster (including ARRA)

CFDA #93.917 – HIV Care Formula Grants

CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse

State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents and at the Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133 (A Similar Condition Was Noted in Prior Year Finding 13-SW-03)

Federal Grant Numbers and Years: B-09-DC-42-0001 (1/01/2009-12/31/2013), B-10-DC-42-0001 (1/01/2010-12/31/2014), B-11-DC-42-0001 (1/01/2011-12/31/2015), B-11-DN-42-0001 (3/17/2011-3/17/2014), B-12-DC-42-0001 (1/01/2012-12/31/2016), B-13-DC-42-0001 (1/01/2013-12/31/2017), N78000 (7/01/2013-6/30/2014), N78ARR (7/01/2013-6/30/2014), S377A090039 (7/01/2009-12/30/2014), S377A100039 (7/01/2010-12/30/2013), S377A110039 (7/01/2011-12/30/2015), S377A120039 (7/01/2012-12/30/2014), S388A090039 (2/17/2009-12/30/2014), G1302PATANF (10/01/2012-9/30/2013), G1402PATANF (10/01/2013-9/30/2014), 1304PA4005 (10/1/2012-9/30/2013), 1404PA4005 (10/01/2013-9/30/2014), G1301PA1401 (10/01/2012-9/30/2013), G1401PA1401 (10/01/2013-9/30/2014), G1301PA1407 (10/1/2012-9/30/2013), G1401PA1407 (10/01/2013-9/30/2014), 1301PASOSR (10/01/2012-9/30/2013), 1401PASOSR (10/01/2013-9/30/2014), 1305PA5028 (10/01/2012-9/30/2013), 1405PA5028 (10/01/2013-9/30/2014), X07HA00021-23 (4/01/2013-3/31/2014), X07HA00021-24 (4/01/2014-3/31/2015), TI010044-13 (10/01/2012-9/30/2013), and TI010044-14 (10/01/2013-9/30/2014)

Type of Finding: Material Weakness, Material Noncompliance for CDBG

Significant Deficiency, Noncompliance for All Other Programs/Clusters

Compliance Requirement: Subrecipient Monitoring, Special Tests and Provisions related to Awards with ARRA Funding

Condition: For the major federal programs listed above, the state agencies did not identify federally-required information in subrecipient award documents. Additionally, federally-required information was not identified to subrecipients at the time of disbursement of ARRA funds. This failure represents an internal control weakness which causes subrecipients to be improperly informed of federal award information and, while no instances were noted in our testing, it could cause the omission or improper identification of program expenditures on subrecipients’ Single Audit Schedules of Expenditures of Federal Awards (SEFAs). The following chart shows which federally-required award information was missing from subrecipient award documents at the time of award.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 035: (continued)

Program	Amount Passed to Subrecipients (in thousands)	CFDA Title	CFDA Number	Award Name	Federal Grant Number	Federal Awarding Agency
CDBG	\$38,955	-	-	-	No	-
HPC Cluster	\$213,333	No*	No*	-	-	-
School Improvement	\$17,658	No**	No**	-	No***	-
School Improvement - ARRA	\$20,423	No**	No**	-	No***	-
TANF – New Directions	\$55,300	-	-	No	No	No
TANF - Child Welfare	\$55,579	-	-	No	No	No
CSE	\$111,592	-	-	No	No	No
Foster Care - Counties	\$131,530	-	No	No	No	No
Foster Care – Non-Profit Contract	\$10,250	-	-	No	No	No
Adoption Assistance – Counties	\$65,554	-	No	No	No	No
Adoption Assistance – SWAN Contract	\$20,705	-	No	No	No	No
SSBG – Child Welfare	\$12,021	No	-	No	No	No
SSBG – Mental Health	\$10,366	-	-	No	No	No
SSBG – Intellectual Disabilities	\$7,447	-	-	No	No	No
SSBG – Homeless Services	\$4,183	-	-	No	No	No
SSBG – Domestic Violence	\$5,705	-	No	No	No	No
SSBG – Family Planning	\$1,736	-	-	No	No	No
SSBG – Rape Crisis	\$1,721	-	No	No	No	No
SSBG – Legal Services	\$4,373	No	No	No	No	No
MA	\$1,340,708	No	No	No	No	No
HIV Care Formula Grants – Consortia	\$8,462	-	-	No	No	-
HIV Care Formula Grants – ADAP	\$23,461	No	No	No	No	No
SAPT - DHS	\$1,983	-	-	No	No	No

* - For the HPC Cluster we noted a lack of CFDA Name and/or Number on the Reimbursement Agreement Signature page for 28 of 65 expenditures tested. These results were expected because PennDOT’s corrective action was implemented subsequent to the audit period. In December 2014 PennDOT implemented an electronic reimbursement agreement format to standardize the agreement language and process. The implemented corrective action will be reviewed in the subsequent audit period.

** - The incorrect CFDA title and number were included in the subrecipients’ award documents for two of six expenditures tested.

*** - For the School Improvement Grants Cluster (SIG), we found that the Pennsylvania Department of Education (PDE) did not provide subrecipients with the correct federal grant number at the time of award for six of six expenditures tested.

In addition, PDE did not provide the required ARRA award information to its subrecipients at the time of disbursement, as shown (i.e., No) on the following chart.

Program	Federal Grant Number	CFDA Number	Amount of ARRA Funds
School Improvement Grants - ARRA	No	-	-

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 035: (continued)

Criteria: The 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 (i.e., CFDA title and number, award name and number; if the award is research and development, and name of Federal agency) and applicable compliance requirements.

Subrecipient Audits – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient’s fiscal year for fiscal years ending after December 31, 2003... 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 OMB Circular A-133 Compliance Supplement, Part 3, Section N, related to Special Tests and Provisions, states:

As provided in 2 CFR Section 176.210, Federal Agencies must require recipients to...separately identify to each subrecipient, and document at time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA Funds; and provide identification of ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC) and require their subrecipients to provide similar identification in their SEFA and SF-SAC.

The 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: In general, state agencies believed that federal award information historically provided on award documents was sufficient; however, all required information as noted above was not being provided to the subrecipients at the time of the award. Likewise, for the SIG ARRA grant the required information as noted above was not being provided to the subrecipients at the time of disbursements. Respective state agencies which included the incorrect or missing CFDA titles and numbers or federal grant numbers on the subrecipient award documents stated this was an oversight, or an explanation was not provided.

Effect: Failing to include the federal grant award information at the time of award and at the time of disbursement may cause subrecipients and their auditors to be uninformed about specific program and other regulations that apply to the funds they receive. There is also potential for subrecipients to have incomplete SEFAs in their OMB Circular A-133 Single Audit reports submitted to the Commonwealth, and federal funds may not be properly audited at the subrecipient level in accordance with the Single Audit Act and OMB Circular A-133.

Recommendation: The Commonwealth Office of the Budget should develop a statewide policy and reporting mechanism to ensure all required federal award information is disseminated to all subrecipients at the time of award and for ARRA programs at the time of disbursement to ensure subrecipient compliance with applicable federal regulations and OMB Circular A-133. In addition, state agencies should correspond with applicable subrecipients to ensure that they are aware of the correct CFDA numbers. State agencies should also review applicable award documents prior to issuance to ensure federal information, including CFDA numbers and federal grant numbers, is correct.

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Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 035: (continued)

Office of the Budget, Bureau of Accounting & Financial Management (BAFM) Response:

The Office of the Budget, BAFM disagrees that subrecipients are not provided information related to the award identification. The auditor's testing concluded that there were no noted instances of omissions or improper identification of program expenditures by subrecipients on their Single Audit SEFAs. No instances of omissions or improper identification of program expenditures have been reported by the auditor's annually dating back to the auditors first reporting this issue as a statewide finding for the fiscal year ended June 30, 2011. Therefore, subrecipients are being properly informed of the applicable federal award information related to their subawards.

The Commonwealth complies with the requirements of OMB Circular A-133 Compliance Supplement that states 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 by identifying the related grant agreement/contract for each disbursement on the respective remittance advice. Initially a subgrant agreement that is entered into between the state agency and the subrecipient identifies the relevant information such as the source of funding. As disbursements are made to the subrecipient a remittance advice that identifies the disbursement and references the subgrant agreement is mailed to the subrecipient. Remittance advices are sent for both checks and ACH transactions. A subrecipient is able to distinguish which subaward is ARRA related versus regular subawards through review of their remittance advices. In addition, most grants operate on a reimbursement basis. Subrecipients are required to submit a request for reimbursements to receive a disbursement of program funds. The fact that subrecipients are requesting such disbursements, demonstrates that they are aware of the award from which the funding is being disbursed.

Department of Transportation (PennDOT) Response:

PennDOT agrees with the finding.

Department of Human Services (DHS) Response:

DHS disagrees that subrecipients are not provided information related to the award identification.

The Cause section of the finding states: "...Respective state agencies which included the incorrect or missing CFDA titles and numbers or federal grant numbers on the subrecipient award documents stated this was an oversight, or an explanation was not provided." DHS requested detailed information related to this preliminary finding from the auditors (e.g. the DHS Program Office(s) involved, the subrecipients involved, the names of the people that stated that it was an oversight/did not provide an explanation, etc.). The auditors stated in response that "The issues noted in Finding 2014 - 035 were discussed during the prior year finding (13-SW-03) follow-up at all of the entrance conferences for the respective programs, and no changes were noted by anybody in attendance. As a result, during our current year testing, we looked at the program invoices and contracts and verified that there were no changes and noted the missing federal award information." Accordingly, DHS was not provided with any detailed information.

It should also be noted that the auditors stated that no instances of subrecipients' omission or improper identification of program expenditures on subrecipients' Single Audit Schedules of Expenditures of Federal Awards (SEFAs) were noted during their testing. Initially a subgrant agreement is entered into between DHS and the subrecipient identifying all of the relevant information such as the source of funding. As disbursements are made to the subrecipient, a remittance advice is provided to the subrecipient that identifies the disbursement and references the subgrant agreement. In addition, most grants operate on a reimbursement basis. Subrecipients are required to request reimbursements and submit a request for disbursement. The fact that subrecipients are requesting disbursements also demonstrates that they are aware of the award from which the funding is being disbursed.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 035: (continued)

Department of Health (DOH) Response:

DOH disagrees with this finding. DOH complies with the requirements of Management Directive 305.21, Payments to Local Governments and other Subrecipients, wherein we must identify the amounts of Federal and state funding we provide to Grantees. This identification includes the breakdown of Federal and state dollars provided and the related Federal and state financial assistance program name and number. DOH will continue to comply with the requirements of the most current version of Management Directive 305.21.

Department of Education (PDE) Response:

The PDE, Division of Federal Programs had begun implementing corrective action for the 2013-2014 year.

Department of Community and Economic Development (DCED) Response:

DCED is in agreement with the finding. However, the Department would like to acknowledge that since this Audit Finding was identified, DCED put in place corrective actions to place the Federal Award Numbers on all grant award letters for all programs. There have been no instances of non-compliance identified with any federal program awards made after the initial audit finding.

Auditors' Conclusion: PennDOT, PDE, and DCED agree with the condition of this finding related to the programs they administer. Any corrective action will be evaluated in our subsequent audit.

BAFM, DHS, and DOH disagree with the condition of this finding for the programs they administer. BAFM and DHS believe that since we did not find any instances in our testwork in which subrecipients are improperly omitting or identifying program expenditures on their SEFAs that the subrecipients are being properly notified of the required federal award information. We disagree. Our review of the agencies' subrecipient award and disbursement documentation found that subrecipients are not being properly notified of the federal award information in compliance with federal regulations. This raises the risk that subrecipients may be uninformed about specific program regulations that apply to the funds they receive and that subrecipients could have incomplete SEFAs or that funds may not be properly audited.

Additionally, the Commonwealth believes that its procedures in regard to disbursements of ARRA funds are adequate for compliance with OMB Circular A-133 due to the fact that a remittance advice containing a state contract number is sent to the subrecipient at the time of disbursement. Commonwealth management stated that the subrecipient can then refer to the federal award information included in the subgrant agreement. We disagree. The first table in the condition of the finding details a list of 11 major federal programs in which the Commonwealth is not providing all of the required federal award information at the time of award, or subgrant agreement. Therefore, the contracts included on the remittance advices may likely not include the required federal award information. Additionally, these remittance advices are not maintained and cannot be provided for any of our sample items in any of our major federal programs audited for SFYE June 30, 2014. Therefore, no audit trail exists to test this process.

Furthermore, DHS suggests in its response that the auditors did not provide DHS with detailed information to respond to this finding. It should be noted that the conditions in this finding related to programs administered by DHS, which include TANF, CSE, Foster Care, Adoption Assistance, SSBG, MA, and SAPT, have been repeated in findings for the last eight years. For each program the respective federal award information is missing in all subrecipient award documentation tested. This condition has been discussed with the respective program personnel at the audit entrance conferences for the last several years, yet we have found little to no change in the federal award information included within these subrecipient award documents. We recommend that DHS review its subrecipient award documentation for each of its programs listed in the Condition of this finding and ensure that all federally required award information gets included.

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Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 035: (continued)

Finally, DOH states that it disagrees with this finding because it complies with the requirements of Commonwealth Management Directive 305.21. However, this management directive does not require subrecipient award documentation to include all of the federal award information specified by the OMB Circular A-133, including the federal award name, number, and awarding agency. Therefore, to ensure compliance with federal regulations, DOH should ensure it complies with OMB Circular A-133 and identify all required federal award information to its subrecipients in award documentation.

Based on the Commonwealth's response, our finding and recommendation remain as stated.

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

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 036:

- CFDA #10.555 – National School Lunch Program
- CFDA #10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children
- CFDA #10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
- 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 – Improving Teacher Quality State Grants
- CFDA #93.558 – Temporary Assistance for Needy Families
- CFDA #93.563 – Child Support Enforcement
- CFDA #93.568 – Low-Income Home Energy Assistance
- CFDA #93.575 and 93.596 – Child Care and Development Fund Cluster
- CFDA #93.658 – Foster Care – Title IV-E
- CFDA #93.659 – Adoption Assistance
- CFDA #93.667 – Social Services Block Grant
- CFDA #93.767 – Children’s Health Insurance Program
- CFDA #93.778 – Medical Assistance Program (including ARRA)
- CFDA #96.001 – Social Security – Disability Insurance

Weaknesses in Cash Management System Cause Noncompliance With the Cash Management Improvement Act of 1990 (CMIA) and at Least \$186,323 Questioned Costs of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding 13-SW-04)

Federal Grant Numbers and Years: 1PA300305 (10/1/13 - 9/30/14), 1PA300305 (10/1/12 - 9/30/13), 14141PA705W (10/1/13 - 9/30/14), 13131PA705W (10/1/12 - 9/30/13), 12121PA705W (10/1/11 - 9/30/14), 11111PA705W (10/1/10 - 9/30/13), 11111PA405S (10/1/10 - 9/30/11), 13131PA405S (7/1/13 - 9/30/13), 14141PA405S (10/1/13 - 9/30/14), 12121PA405S (10/1/11 - 9/30/12), 13131PA435S (10/1/12 - 9/30/14), 13131PA455E (10/1/12 - 9/30/13), 14141PA454Q (10/1/13 - 9/30/15), 14131PA405Q (10/1/13 - 9/30/14), S010A100038 (7/1/10 - 12/30/12), S010A110038 (7/1/11 - 12/30/13), S010A120038 (7/1/12 - 12/30/14), S010A (7/1/13 - 12/30/15), H027A110093 (7/1/11 - 9/30/13), H027A120093 (7/1/12 - 9/30/13), H027A130162 (7/1/13 - 9/30/14), H126A130056 (10/1/12 - 9/30/13), H126A140056 (10/1/13 - 9/30/14), S367B110033 (7/1/11 - 12/30/13), S367A110051 (7/1/11 - 12/30/13), S367B120033 (7/1/12 - 12/30/14), S367A120051 (7/1/12 - 12/30/14), S367B130033 (7/1/13 - 12/30/15), S367A130051 (7/1/13 - 12/30/15), G1302PATANF (10/1/12 - 9/30/13), G140PATANF (10/1/13 - 9/30/14), G1302PATANF (10/1/12 - 9/30/13), G1402PATANF (10/1/13 - 9/30/14), 1304PA4005 (10/1/12 - 9/30/13), 1404PA4005 (10/1/13 - 9/30/14), G-14B1PALIEA (10/1/13 - 9/30/15), G-140PALIE4 (10/1/13 - 9/30/15), G-13B1PALIEA (10/1/12 - 9/30/14), G-12B2PALIE2 (10/1/11 - 9/30/13), G-12B1PALIEA (10/1/11 - 9/30/13), G1201PACCDF (10/1/11 - 9/30/14), G1301PACCDF (10/1/12 - 9/30/15), G1401PACCDF (10/1/13 - 9/30/16), G1301PA1401 (10/1/12 - 9/30/13), G1401PA1401 (10/1/13 - 9/30/14), G1301PA1407 (10/1/12 - 9/30/13), G1401PA1407 (10/1/13 - 9/30/14), 1301PASOSR (10/1/12 - 9/30/13), 1401PASOSR (10/1/13 - 9/30/14), 05-1405PA5021 (10/1/13 - 9/30/15), 05-1305PA5021 (10/1/12 - 9/30/14), 1305PA5028 (10/1/12 - 9/30/13), 1405PA5028 (10/1/13 - 9/30/14), 04-1104PAD100 (10/1/10 - 9/30/13), 04-1204PAD100 (10/1/11 - 9/30/14), 04-1304PAD100 (10/1/12 - 9/30/15), 04-1404PAD100 (10/1/13 - 9/30/16)

Type of Finding: Significant Deficiency, Noncompliance

Compliance Requirement: Cash Management

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 036: (continued)

Condition: The Commonwealth of Pennsylvania (Commonwealth) 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 (TSA), the Commonwealth has developed policies and procedures contained in the Comptroller Operations' Directive #540.1 and has developed the CMIA Grant Drawdown System (GDS) which calculates and provides recommended drawdown amounts for most federal programs using the Average Daily Clearance (ADC) method.

As in prior years, we noted various weaknesses in our statewide testing of the check clearance patterns and in our overall testing of major program drawdowns based on these clearance patterns, as follows:

- The Office of the Budget's Bureau of Accounting and Financial Management (BAFM) conducted a new check clearance study to be incorporated into the SFYE June 30, 2013 TSA. However, in order to establish the delay of draw, the date the invoice was sent to Pennsylvania Treasury for payment that BAFM used in the study is a SAP-generated date. Due to the weakness in IT General Controls (ITGC) noted in the SAP system as reported in findings in our current-year audit of the Commonwealth's Basic Financial Statements, there is a possibility that system generated dates could be modified and not detected, and therefore, we cannot place any reliance on dates posted on SAP.
- Section 6.2.4 of the TSA contains a paragraph specific to CFDA #10.557 Benefit Payments (only) which states that these benefit payments are to be received in accordance with the Modified Zero Balance Account (ZBA) – Next Day Payment method. However, in Exhibit II of the TSA, the Payments to Local Agencies category of expenditures are lumped together with these Benefit Payments for the related federal revenues to be received by this same method. In our current year audit of the CFDA #10.557 program, we noted that Payments to Local Agencies are a separate and different type of payment and should not be subject to the Modified ZBA – Next Day Payment method. The Commonwealth's new calculation of ADC patterns implemented in the TSA for the SFYE June 30, 2013 indicated that the ADC for CFDA #10.557 was nine days. Considering the fact that this calculation of nine days lumped Benefit Payments, Payments to Local Agencies, and Direct Payroll together, this indicates that the Payments to Local Agencies have a longer ADC than the Modified ZBA – Next Day Payment method and should in fact be accounted for, and the related drawdowns, be requested separately from the Benefit Payments.
- In our prior year audit we identified one transaction which was not in compliance with Section 6.1.3 of the TSA. The noncompliance occurred due to the fact that the transaction posting date plus the draw delay per the TSA equaled a projected receipt date on the Monday after Thanksgiving. However, the funds were requested by the state and receipted on Friday, the day after Thanksgiving. Since the day after Thanksgiving is a state holiday but not a federal holiday, the language in section 6.1.3 of the TSA requires that the state should have requested the funds for deposit the day following, not prior to, the scheduled day. As such, the funds should have been requested by the state on the Monday after Thanksgiving for receipt on Tuesday and were therefore receipted four days early. Commonwealth officials represented that the logic used in GDS is standard and consistently applied. As a result, all federal programs with drawdown scheduled receipt dates on the Sunday (since the same GDS logic is applied) and Monday after Thanksgiving would have been drawn down four days early. This error in the GDS logic occurred again for the current audit period and similar to the prior year, the state's interest liability for the current audit period was understated by an indeterminate amount.

Also, the state's interest liability on the CMIA Annual Report for the fiscal year ended June 30, 2013 and June 30, 2014 was understated by a minimum of \$120,452 and \$65,871, respectively, as follows:

- Within the Medical Assistance program, Department of Human Services (DHS) PROMISE system processed \$78.9 million in school-based medical claims for the fiscal year ended June 30, 2014. Since the Pennsylvania Department of Education (PDE) administers the school-based medical program, DHS pays PDE for claims processed and PDE subsequently reimburses the school districts (\$68.1 million during the fiscal year ended June 30, 2014) for services provided. Based on our review of the federal restricted receipts account used by PDE to reimburse the school districts, there is a carry-forward balance from the prior fiscal year of \$128 million and a balance of \$135 million as

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Finding 2014 – 036: (continued)

of June 30, 2014, which means PDE is not reimbursing the school districts prior to OCO's drawdown of federal funds. We also reviewed the GM Interest Report which disclosed that the Commonwealth did not pay any interest on the balance of federal funds maintained within this account. As a result, the state's interest liability was understated by an estimated \$120,452 for the Medical Assistance Program, CFDA #93.778 for SFYE June 30, 2013 and an estimated \$65,871 for SFYE June 30, 2014.

Criteria: 31 CFR Section 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.*

31 CFR Section 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.*

The Commonwealth's TSA with the U.S. Treasury Department in effect until June 30, 2014, Section 6.0 related to Funding Techniques states:

6.1.3 In instances where the receipt of funds is scheduled for a Saturday, the State shall request funds for deposit on Friday. In instances where the receipt of funds is scheduled for a Sunday, the State shall request funds for deposit on Monday. In instances where the receipt of Federal funds is scheduled for deposit on a day when the State is not open for business, the State shall request funds for deposit the day following the scheduled day; in instances where the receipt of Federal funds is scheduled for deposit on a day when the Federal Government is not open for business, the State shall request funds for deposit the day prior to the scheduled day.

Also, the Commonwealth's TSA with the U.S. Treasury Department Section 8.6 related to State Interest Liabilities states:

8.6.1 The State shall be liable for interest on Federal funds from the date Federal funds are credited to a State account until the date those funds are paid out for program purposes.

8.6.2 The State shall use the following method to calculate State interest liabilities on Federal funds:

8.6.2.1 Measuring Time Funds Are Held

To determine the total time Federal funds are held, the State shall measure the time between the date Federal funds are received and credited to a State's account and the date those funds are debited from the State's account.

Cause: The OCO believes that since the dates used to determine the day invoices are sent to Treasury for payment are system generated it provides assurance that dates cannot be modified. However, due to deficiencies in the ITGC noted in the SAP system we cannot place any reliance on these dates posted on SAP.

COMMONWEALTH OF PENNSYLVANIA

Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 036: (continued)

The OCO believes that Section 6.3.2 of the TSA which states that the CFDA #10.557 Supplemental Nutrition Program for Women , Infants and Children benefit payment/payments to local agencies components will be funded using the technique identified as and described under Modified ZBA – Next Day Payment (CFDA #10.557 Benefits Payment) overrides the issue we state in our Condition. However, it should be noted that section 6.2.4 of the TSA states that the terms in section 6.2.4 shall be implemented in section 6.3.2. In the TSA, there is a discrepancy between section 6.2.4 and section 6.3.2 for CFDA #10.557. Also, section 6.3.2, entitled Benefit Payments, includes a sentence stating “The remaining draws shall be based upon the actual clearance activity of the WIC bank account”. We believe this statement applies to payments to local agencies.

OCO officials stated that the procedures surrounding the request for drawdowns around the Thanksgiving holiday weekend will be revised so that funds with projected request dates of Sunday or Monday after Thanksgiving will be requested on the Monday after the holiday. However, this change could not be implemented in time for the SFYE June 30, 2014 so we will test the implementation of these procedures in the subsequent audit period.

In regard to the condition that the Commonwealth owes interest on money currently held by PDE for the Medical Assistance Program, the OCO believes that a previous Centers for Medicare and Medicaid Services (CMS) review conducted in 2002 gives approval of this process and no interest is owed. However, this CMS review addressed the expenditures claimed but not whether the payment process complied with CMIA regulations.

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 Part 205.

The state interest liability amount reported on the CMIA Annual Report for the fiscal years ended June 30, 2013 and 2014 are not accurate. Our testing disclosed a minimum estimate of \$120,452 in understatement in the state interest liability to the federal government for SFYE June 30, 2013 and an \$65,871 plus indeterminate amount for SFYE June 30, 2014.

Recommendation: We recommend that OCO:

- Calculate current and prior year additional 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 appropriate settlement with the U.S. Treasury which would include obtaining written documentation that all issues in the condition are in compliance with cash management regulations, and do not require corrective action.
- Follow through with its plan to change the GDS logic for drawdown of federal funds to appropriately follow section 6.1.3 related to instances when the Federal Government is open for business but the State is not open for business. Also, the state should accumulate all affected drawdowns and account for the understatement in the state’s interest liability to the Federal Government.
- Change the GDS drawdown of federal funds related to the Payments to Local Agencies under CFDA #10.557 to be drawn down in accordance with the calculated ADC pattern of nine days.

Agency Response: The Office of Comptroller Operations (OCO) disagrees with the condition that computer control weaknesses prevented the auditor from relying on the dates posted in SAP. The dates used to determine the day invoices are sent to Treasury for payment are system generated and cannot be edited by users. These facts provide assurance to the auditors that dates cannot be modified.

The OCO disagrees with the auditor’s condition indicating that the payments to local agencies should in fact be accounted for, and the related drawdowns, be requested separately for CFDA #10.557. Section 6.3.2 of the TSA specifically states that the CFDA #10.557 Supplemental Nutrition Program for Women, Infants and Children benefit payment/payments to local agencies components will be funded using the technique identified as and described under

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Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 036: (continued)

Modified ZBA – Next Day Payment (CFDA #10.557 Benefits Payment). As part of the TSA, FNS has approved this funding technique for the benefit payment/payments to local agencies components of the Supplemental Nutrition Program for Women, Infants and Children, CFDA #10.557.

The OCO disagrees with the auditor’s conclusion citing noncompliance with Section 6.1.3 of the TSA. As indicated by the auditors, the identified transaction had a scheduled receipt date of the Monday after Thanksgiving, a Commonwealth workday. Since this date is not Saturday, Sunday or a day in which the State or Federal Government was not open for business as outlined by the criteria under Section 6.1.3, our request for funds on Wednesday, the prior workday, is not in violation of any terms contained within TSA.

The OCO disagrees with the auditor’s condition that the Commonwealth owes interest on money currently held by the Pennsylvania Department of Education (PDE) for the Medical Assistance Program. This program was established as a result of the Medicare Catastrophic Act (PL 100-360). This law stated that federal Medicaid funds must be available to reimburse for the cost of health related services found in a child’s individualized service plan (IEP), or individualized family service plan (IFSP). As a result of this law, state education agencies are eligible for federal reimbursement for the health related services provided to children who are eligible for Medicaid. The PDE developed the School Based ACCESS program (SBAP) as a method to identify and collect eligible claims related to services provided to Medical Assistance eligible students. Due to the complexity of the program, the PDE has contracted with a service provider to enroll and train LEAs and to periodically collect and submit the claims to the Department of Human Services. Through this process Local Education Agencies are provided training which explains the entire process. During that time the LEAs enroll as providers with the DHS and direct claim payments to the PDE. As eligible claims are reimbursed the PDE deposits these monies into a restricted account. The law provides that the PDE is able to retain the federal reimbursement. However, rather than retain the federal reimbursements, PDE has decided to make the funds available to the LEAs to fund program activities. Each LEA has a separately identified account balance, which correlates to the amount of claims originally submitted and the LEAs request funds as they deem necessary. The auditor’s assertion that a large carry-forward balance exists and that the PDE is not reimbursing school districts is inaccurate. The auditors have been provided a copy of the MOUs that describe the process, copies of provider agreements completed by the schools that specifically direct payment to PDE, approval by CMS of a review that was performed of the process (including the MOU that describes the process), and offered additional information such as training materials that are provided to the LEAs and forms used to request money when the schools want the funds disbursed. It was also communicated to the auditors that the program is voluntary for the LEAs. Given the process described and all of the information provided we disagree that the states interest liability was understated by a minimum of \$120,452. Additionally OCO believes the auditor’s statement that “PDE is not reimbursing the school districts prior to OCO’s drawdown of federal funds” is misleading. The auditor’s statement incorrectly implies that the federal fund drawdowns are tied to the PDE payments to the school districts. The drawdown of federal funds occurs after DHS receives and processes the eligible health related service claim for services provided to medical assistance eligible students.

Auditors’ Conclusion: With regard to management’s disagreement with the same identified weaknesses from prior years relating to the condition that computer control weaknesses prevented the auditors from relying on the dates posted in SAP and the condition that the Commonwealth owes interest on money currently held by PDE for the Medical Assistance Program, we contacted the CMIA program representative from the U.S. Department of the Treasury during the SFYE June 30, 2011 audit and discussed whether or not to retain the identified weaknesses. The CMIA program representative requested that we forward the draft findings and agency response for review, which we did. Consequently, the CMIA program representative noted that he had no basis to recommend that we remove the conditions from our finding. As for these conditions and for the remaining conditions in the finding, management provided no additional information or documentation from federal officials to support the removal of any of the conditions from the finding. Therefore, our finding and recommendations remain as previously stated.

Questioned Costs: \$186,323

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 037:

- CFDA #10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children**
- CFDA #10.558 – Child and Adult Care Food Program**
- CFDA #14.228 – Community Development Block Grants – State’s Program**
- CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds (including ARRA)**
- CFDA #84.010 – Title I Grants to Local Educational Agencies**
- CFDA #84.048 – Career and Technical Education – Basic Grants to States**
- CFDA #84.287 – Twenty-First Century Community Learning Centers**
- CFDA #84.367 – Improving Teacher Quality State Grants**
- CFDA #93.558 – Temporary Assistance for Needy Families**
- CFDA #93.563 – Child Support Enforcement**
- CFDA #93.568 – Low-Income Home Energy Assistance**
- CFDA #93.658 – Foster Care – Title IV-E**
- CFDA #93.659 – Adoption Assistance**
- CFDA #93.667 – Social Services Block Grant**
- CFDA #93.767 – Children’s Health Insurance Program**
- CFDA #93.917 – HIV Care Formula Grants**
- CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse**
- CFDA #97.036 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)**
- CFDA #97.067 – Homeland Security Grant Program**
- CFDA #10.553, 10.555, 10.556, and 10.559 – Child Nutrition Cluster**
- CFDA #17.258, 17.259, and 17.278 – Workforce Investment Act (WIA) Cluster**
- CFDA #20.205, 20.219, and 23.003 – Highway Planning and Construction Cluster (including ARRA)**
- CFDA #84.027 and 84.173 – Special Education Cluster (IDEA)**
- CFDA #84.377 and 84.388 – School Improvement Grants Cluster (including ARRA)**
- CFDA #93.044, 93.045, and 93.053 – Aging Cluster**
- CFDA #93.575 and 93.596 – Child Care and Development Fund (CCDF) Cluster**
- CFDA #93.775, 93.777, and 93.778 – Medicaid Cluster (including ARRA)**

Material Noncompliance and a Material Weakness Exist in the Commonwealth’s Subrecipient Audit Resolution Process (A Similar Condition Was Noted in Prior Year Finding 13-SW-01)

Federal Grant Numbers and Years: 14141PA705W (10/01/2013-09/30/2014), 13131PA705W (10/01/2012-09/30/2013), 12121PA705W (10/01/2011-09/30/2014), 11111PA705W (10/01/2010-09/30/2013), 1PA300305 (10/01/2013-09/30/2014), 1PA300305 (10/01/2012-09/30/2013), B-10-DC-42-0001 (01/01/2010-12/31/2014), B-11-DC-42-0001 (01/01/2011-12/31/2015), B-11-DN-42-0001 (03/17/2011-03/17/2014), B-12-DC-42-0001 (01/01/2012-12/31/2016), B-13-DC-42-0001 (01/01/2013-12/31/2017), CS-420001-13 (07/01/2013-09/30/2015), 2W-420002-09 (10/01/2008-12/31/2013), S010A10038 (07/01/2010-12/30/2012), S010A110038 (07/01/2011-12/30/2013), S010A120038 (07/01/2012-12/30/2014), S010A130038 (07/01/2013-12/30/2015), V048120038 (07/01/2012-09/30/2013), V048130038 (07/01/2013-09/30/2014), S287C110038 (07/01/2011-09/30/2013), S287C120038 (07/01/2012-09/30/2014), S287C130038 (07/01/2013-09/30/2015), S367B110033 (07/01/2011-12/30/2013), S367A110051 (07/01/2011-12/30/2013), S367B120033 (07/01/2012-12/30/2014), S367A120051 (07/01/2012-12/30/2014), S367B130033 (07/01/2013-12/30/2015), S367A130051 (07/01/2013-12/30/2015),

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G1302PATANF (10/01/2012-09/30/2013), G1402PATANF (10/01/2013-09/30/2014), 1304PA4005 (10/01/2012-09/30/2013), 1404PA4005 (10/01/2013-09/30/2014), G-12B1PALIEA (10/01/2011-09/30/2013), G-12B2PALIE2 (10/01/2011-09/30/2013), G-13B1PALIEA (10/01/2012-09/30/2014), G-14B1PALIEA (10/01/2013-09/30/2015), G-1401PALIE4 (10/01/2013-09/30/2015), G1301PA1401 (10/01/2012-09/30/2013), G1401PA1401 (10/01/2013-09/30/2014), G1301PA1407 (10/01/2012-09/30/2013), G1401PA1407 (10/01/2013-09/30/2014), 1301PASOSR (10/01/2012-09/30/2013), 1401PASOSR (10/01/2013-09/30/2014), 05-1405PA5021 (10/01/2013-09/30/2015), 05-1305PA5021 (10/01/2012-09/30/2014), X07HA00021-23 (04/01/2013-03/31/2014), X07HA00021-24 (04/01/2014-03/31/2015), TI010044-12 (10/01/2011-09/30/2013), TI010044-13 (10/01/2012-09/30/2014), TI010044-14 (10/01/2013-09/30/2015), 1649DRPAP00000001 (06/27/2006-08/15/2013), 1684DRPAP00000001 (11/16/2006-06/30/2014), 1898DRPAP00000001 (04/16/2010-06/30/2014), 4003DRPAP00000001 (08/24/2011-06/30/2014), 3340EMP00000001 (09/08/2011-09/08/2013), 4025DRPAP00000001 (11/25/2011-06/30/2014), 4030DRPAP00000001 (11/03/2011-06/30/2014), 4099DRPAP00000001 (10/01/2012-06/30/2014), 4149DRPAP00000001 (07/01/2013-06/30/2014), 2010-SS-T0-0037 (08/01/2010-07/31/2013), EMW-2011-SS-00092-S01 (09/01/2011-08/31/2014), EMW-2012-SS-00038 (09/01/2012-08/31/2014), EMW-2013-SS-00095 (09/01/2013-08/31/2015), AA-20216-10-55 (07/01/2010-06/30/2013), AA21418-11-55 (07/01/2011-06/30/2014), AA-22958-12-55 (07/01/2012-06/30/2015), AA-24115-13-55 (07/01/2013-06/30/2016), N78000 (07/01/2013-06/30/2014), N78ARR (07/01/2013-06/30/2014), H027A110093 (07/01/2011-09/30/2013), H027A120093 (07/01/2012-09/30/2013), H027A130162 (07/01/2013-09/30/2014), H173A120090 (07/01/2012-09/30/2013), H173A130090 (07/01/2013-09/30/2014), S377A090039 (07/01/2009-12/30/2014), S377A100039 (07/01/2010-12/30/2013), S377A110039 (07/01/2011-12/30/2015), S377A120039 (07/01/2012-12/30/2014), S388A090039 (02/17/2009-12/30/2014), 13AAPAT3SP (10/01/2012-09/30/2013), 14AAPAT3SS (10/01/2013-09/30/2014), 14AAPAT3CM (10/01/2013-09/30/2014), 14AAPAT3HD (10/01/2013-09/30/2014), 13AAPANSIP (10/01/2012-09/30/2013), 14AAPANSIP (10/01/2013-09/30/2014), G1201PACCDF (10/01/2011-09/30/2014), G1301PACCDF (10/01/2012-09/30/2015), G1401PACCDF (10/01/2013-09/30/2016), 1305PA5028 (10/01/2012-09/30/2013), 1405PA5028 (10/01/2013-09/30/2014)

Type of Finding: Material Weakness, Material Noncompliance

Compliance Requirement: Subrecipient Monitoring

Condition: Under the Commonwealth of Pennsylvania's (Commonwealth) implementation of the Single Audit Act, review and resolution of OMB Circular A-133 (A-133) subrecipient audit reports is split into two stages. The Commonwealth receives all A-133 subrecipient audit reports through Office of the Budget's Bureau of Audits (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 responsible for reviewing financial information in each audit report to determine whether the audit included all pass-through funding provided by the agency in order to ensure pass-through funds were audited. Most Commonwealth agencies meet this requirement by performing Schedule of Expenditures of Federal Awards (SEFA) reconciliations. The agency is also required to adjust Commonwealth records, if necessary. Our testing of this two-stage process disclosed that although management decisions were made and the underlying records were adjusted when addressing related findings, we found the following audit exceptions regarding untimely reviews of audit reports:

- OB-BOA and Agencies: The overall time period for processing subrecipient audit reports with findings, from the date OB-BOA received the report until the various funding agencies made management decisions on audit findings and ensured subrecipients took corrective action, was in excess of the six month time frame required by OMB Circular A-133. Based on detailed testing of 40 subrecipient audit reports with findings at a sample of four different funding agencies: Department of Aging (PDA), Department of Community and Economic

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Development (DCED), Pennsylvania Emergency Management Agency (PEMA), and Department of Human Services (DHS), we noted that 15 out of 40 audit reports with findings at PDE, DCED, and DHS were untimely processed and resolved between approximately 6.4 months to 22 months after originally received by OB-BOA.

The following exceptions relate to agency processing time only:

- PDE: The time period for making a management decision on findings was approximately 6.1 months to over 14 months for 30 out of 109 subrecipient audit reports with findings, including 24 out of the 30 audit reports where no action had been taken.
- DHS: The time period for making management decisions on findings ranged from approximately 6.1 months to over 13 months for 20 out of the 91 subrecipient audit reports with findings on DHS's audit report tracking list, including 11 out of the 20 subrecipient audit reports where no action had been taken. It should be noted that DHS combines all federal and state funding together when awarding subgrants to counties and not-for-profit entities. In lieu of a traditional SEFA reconciliation, DHS places reliance on a specially designed Agreed Upon Procedures report, which accompanies the subrecipient Single Audits, to reconcile to adjustments determined from the cost settlement process.
- PDA: The time period for making management decisions on findings ranged from approximately 6.1 months to over eight months for four out of nine subrecipient audit reports with findings.
- Department of Drug and Alcohol Programs (DDAP): The time period for making a management decision on one subrecipient audit report with findings was approximately 6.7 months. There were also delays in the completion of SEFA reconciliations.
- Department of Health (DOH): The time period for making a management decision on findings was approximately nine to 10 months for two out of nine subrecipient audit reports with findings.
- Department of Labor and Industry (L&I): The time period for making a management decision on findings was approximately 6.5 months to nine months for three out of seven subrecipient audit reports with findings.
- Pennsylvania Infrastructure Investment Authority (PENNVEST): The time period for making a management decision on findings was approximately 11.5 months for one out of 15 subrecipient audit reports with findings.
- DCED: The time period for making a management decision on findings was over 11 months for one out of 26 subrecipient audit reports with findings.
- Pennsylvania Insurance Department: The time period for making a management decision on findings was approximately 7.8 months for one out of two subrecipient audit reports with findings.
- PEMA: There were delays of 6.1 to 14 months in the completion of SEFA reconciliations for 21 out of 173 audit reports.

As part of our audit of OB-BOA's statewide A-133 subrecipient audit monitoring system, we evaluated the significance of unaudited subrecipient expenditures for each of the 27 major programs or clusters with material subgranted funds recorded on OB-BOA's subrecipient universe in the prior fiscal year (the fiscal year ended June 30, 2013) for which audits were required to be submitted in the current year (the fiscal year ended June 30, 2014). Our testwork disclosed that for 10 out of the 27 major programs/clusters, unaudited expenditures were not considered material to the program/cluster and represented immaterial noncompliance with OMB Circular A-133,

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and 7 out of 27 major programs/clusters did not have unaudited expenditures as of our test date. However, for 10 out of 27 major programs/clusters, fiscal year ended June 30, 2013 unaudited expenditures were considered material to the program/cluster and the related audits should have been submitted, as follows:

CFDA #	Program Name	Total Subgranted Funds Per OB-BOA Universe	Total Subgranted to Entities Without Audits*	Number of Unaudited Subrecipients
66.458	Capitalization Grants for Clean Water State Revolving Funds (including ARRA)	\$75,438,930	\$3,506,840	2
93.558	Temporary Assistance for Needy Families	\$154,266,410	\$25,670,920	2
93.563	Child Support Enforcement	\$113,310,121	\$23,014,556	1
93.658	Foster Care – Title IV-E	\$184,343,139	\$56,122,395	1
93.659	Adoption Assistance	\$83,324,494	\$19,999,771	1
93.667	Social Services Block Grant	\$78,991,187	\$14,619,502	1
93.917	HIV Care Formula Grants	\$10,175,839	\$4,038,440	1
93.959	Block Grants for Prevention and Treatment of Substance Abuse	\$45,700,404	\$10,420,178	3
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	\$66,679,905	\$3,421,972	8
97.067	Homeland Security Grant Program	\$51,016,519	\$5,412,815	4

* 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.

Some of the unaudited expenditures noted in the table above were due to the lack of subrecipient Single Audit reports, including some county Single Audits and the City of Philadelphia Single Audit for the fiscal year ended June 30, 2013, which was over 10 months late as of our February 2015 test date. Some other unaudited expenditures under the Block Grants for Prevention and Treatment of Substance Abuse, CFDA #93.959, Disaster Grants – Public Assistance, CFDA #97.036, and Homeland Security Grant Program, CFDA #97.067, were due to these federal programs' expenditures being completely excluded from the fiscal year ended December 31, 2012 audit report SEFAs for Armstrong County, Bucks County, Bradford County, or McKean County. Our testwork also disclosed that the Armstrong County, Bucks County, Bradford County, and McKean County audits were due to the Federal Audit Clearinghouse (FAC) on September 30, 2013, but were submitted 5 to 15 months late to the FAC. In addition, unaudited expenditures for Temporary Assistance for Needy Families, CFDA #93.558, and three other major programs with immaterial unaudited expenditures were partly attributed to the understatement of the Philadelphia School District audit report SEFA for the fiscal year ended June 30, 2013, which was submitted 8 months late to the FAC. We believe that the subrecipients in noncompliance for more than 6 months should have been sanctioned in accordance with Commonwealth Management Directive 325.8.

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Finding 2014 – 037: (continued)

Since the fiscal year ended June 30, 2013 City of Philadelphia audit report was not received, and DHS is the lead agency for this subrecipient, we inquired about the status of DHS's review and management decisions on findings related to the fiscal year ended June 30, 2012 City of Philadelphia audit report which was due March 31, 2013 and transmitted to the Commonwealth in February 2014. DHS personnel stated that OB-BOA just transmitted this audit report to DHS on January 22, 2015, so DHS had not yet completed its review or made management decisions on findings.

Regarding the Medicaid Cluster CFDA #93.778, the subrecipient audit universe excluded subgranted expenditures related to the DHS - Office of Developmental Programs' (ODP) providers in the amount of \$813,863,514, of which \$799,309,896 represented entities receiving \$500,000 or more which were required to submit audits in our current audit period. Since the ODP payments were excluded from the subrecipient audit universe, OB-BOA implemented procedures to separately identify and follow up on fiscal year ended June 30, 2013 ODP providers which required Single Audits by analyzing a separate DHS ODP payment report in combination with SAP payment information from the Commonwealth's general ledger.

However, our audit disclosed instances within the Medicaid Cluster where OMB Circular A-133 subrecipient Single Audit reports submitted to the Commonwealth included Medicaid Cluster SEFA expenditures that were significantly higher than the amount of federal financial assistance that DHS paid to the subrecipients per the DHS ODP payment report. Some examples of these differences are displayed in the tables below. The differences shown in the tables below indicate that the DHS ODP payment report may be significantly understated and differences should be investigated by DHS, since OB-BOA is relying on this ODP report to identify subrecipients which require audits. Based on the comparison below, these differences are very significant each year and do not appear to be related to timing differences between when DHS made the payments and the date the expenditures were incurred by the subrecipient.

Subrecipient Name	Fiscal Year Ended June 30, 2013 Expenditures		Difference
	Medicaid Cluster SEFA Expenditures per the Data Collection Form	Medicaid Cluster ODP Provider Federal Pass-through Payments per DHS Report	
Community Resources for Independence	\$9,639,335	\$0	\$9,639,335
Liberty Resources	\$19,440,217	\$0	\$19,440,217
ARC of Chester County	\$3,102,182	\$123,122	\$2,979,060

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Finding 2014 – 037: (continued)

Subrecipient Name	Fiscal Year Ended June 30, 2012 Expenditures		Difference
	Medicaid Cluster SEFA Expenditures per the Data Collection Form	Medicaid Cluster ODP Provider Federal Pass-through Payments per DHS Report	
Community Resources for Independence	\$28,081,019	\$350,731	\$27,730,288
Liberty Resources	\$37,038,201	\$0	\$37,038,201
ARC of Chester County	\$2,426,848	\$635,400	\$1,791,448

Finally, the Medical Assistance Transportation Program, CFDA #93.778, expenditures reported for Perry County on its fiscal year ended December 31, 2012 Single Audit SEFA were \$365,625. Our audit disclosed federal funds of approximately \$3.5 million which DHS paid to the Perry County Transportation Authority for Medical Assistance transportation services during the fiscal year ended December 31, 2012 that were not included in the Perry County Single Audit, and no separate Single Audit of the Perry County Transportation Authority was submitted to the Federal Audit Clearinghouse. The DHS Single Audit Supplement indicates that all Medical Assistance Transportation Program funding is considered federal financial assistance at both the county and provider level and should be included in the audit process. DHS did not investigate the difference between amounts paid and SEFA expenditures in order to notify Perry County that these expenditures should be audited.

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.*

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In order to carry out these responsibilities properly, good internal control dictates that state pass-through agencies ensure A-133 subrecipient SEFAs are representative of state payment records each year, and that the related federal programs have been properly subject to Single Audit procedures.

OMB Circular A-133, Section 320, Report Submission, states the following:

(a) *General. The audit shall be completed and ... submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.*

To ensure Commonwealth enforcement of OMB Circular A-133 for subrecipient noncompliance with audit requirements, Commonwealth Management Directive 325.8, Remedies for Recipient Noncompliance with Audit Requirements, Section 5 related to policy states, in part:

(a) *Agencies must develop and implement a progressive series of remedial actions to be taken against recipients who fail to comply with performance, reporting, and resolution requirements for audits of Commonwealth-funded programs.*

(c) *Where recipients receive Commonwealth financial assistance from multiple state agencies, the agency providing the largest amount of such assistance (as reported in the SEFA) shall be the lead agency, responsible for coordinating the imposition of remedial actions, in accordance with the provisions of this directive.*

(d) *The progressive series of remedial actions should be tailored to the unique aspects of each program... Such actions should be implemented in a timely and judicious manner to ensure that those recipients who fail to comply with the requirements of OMB Circular A-133 and/or Commonwealth policy, rules, and regulations related to audit performance, reporting, and resolution, are promptly brought into compliance or are properly sanctioned.*

Overall time frames for the implementation of the series of remedial actions should not exceed six months from the date the first remedial action is initiated. At the end of the six-month time period, either the appropriate corrective action should be taken by the recipient or the final stage of progressive remedial action should be imposed on the recipient.

Cause: The common reason provided by Commonwealth management for untimely audit resolution in the various agencies and the late submission of subrecipient audit reports was either a change in staff or a lack of staff to follow up on and process A-133 subrecipient audit reports more timely. Additionally, the Commonwealth agencies do not appear to be taking any additional actions other than sending dunning letters to the delinquent subrecipients, which has not provided enough of a penalty to elicit compliance with the federal rules.

Regarding the unaudited subrecipients, a significant portion of the material unaudited expenditures related to subgrants to the City of Philadelphia which received federal funds totaling \$250,223,166 from the Commonwealth during the fiscal year ended June 30, 2013. OB-BOA personnel stated that they believed they fulfilled their responsibilities regarding the City of Philadelphia by sending a dunning letter to the unaudited subrecipient in May 2014 and by transmitting the unaudited subrecipient's information to the respective lead agency personnel, DHS, for follow up in June 2014. The City of Philadelphia audit report was not obtained by the Commonwealth and was over 10 months overdue as of our February 2015 test date.

The majority of other material unaudited expenditures related to county Single Audits. OB-BOA personnel also dunned the county Single Audits and transmitted the information to the lead agency, DHS, for follow up. As a result of this action, the lead agency personnel at DHS would be responsible for implementing remedial action procedures. DHS stated that they have remedial action procedures available, including the withholding of state funds, and had pursued the submission of the late audit reports via telephone and e-mail inquiries to the subrecipient by the DHS Secretary's office.

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Finding 2014 – 037: (continued)

OB-BOA personnel dunned the School District of Philadelphia audit report and transmitted the information to PDE personnel for remedial action. PDE personnel stated that they followed their remedial action plan to obtain the School District of Philadelphia audit report.

The exclusion of federal programs on county Single Audit reports' SEFAs would likely be detected during agency SEFA reconciliations or alternate procedures, but DHS, PEMA, and DDAP were performing SEFA reconciliations late, so these unaudited federal programs were not identified and followed up by the Commonwealth.

Regarding unaudited subrecipients under CFDA #66.458, PENNVEST personnel indicated they should have requested a subrecipient audit but could not find any documentation showing that they made this request.

Regarding the understatement of the subrecipient universe related to the Medicaid Cluster and use of the DHS ODP provider payment report, DHS personnel stated that they are working with ODP, PDE, and Comptroller Operations to correct issues in the subrecipient universe which concern payments to counties, local collaborative arrangements, and local educational agencies.

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. Further, noncompliance may recur in future periods if control deficiencies are not corrected on a timely basis, and there is an increased risk of unallowable charges being made to federal programs if corrective action and recovery of questioned costs is not timely. With respect to the SEFA reviews or alternate procedures which are not being performed timely and late Single Audit report submissions, there is an increased risk that subrecipients could be misspending and/or inappropriately tracking and reporting federal funds over multiple year periods, and these discrepancies may not be properly monitored, detected, and corrected by agency personnel on a timely basis as required.

Since the Commonwealth did not obtain and review the required Single Audit reports, and federal funds were excluded from various subrecipients' Single Audit reports, material federal funds in the major programs and clusters listed above were not audited timely, resulting in noncompliance with OMB Circular A-133. In addition, a weakness exists since DHS and PENNVEST did not fully implement their respective remedial action plans. Material dollars may be unaudited in the future without effective remedial action from DHS and PENNVEST to enforce compliance.

Recommendation: We recommend that the above weaknesses that cause untimely OMB Circular A-133 audit resolution, including untimely review of the SEFA or alternate procedures, late audit report submissions, improper exclusion of federal programs from SEFAs, and untimely finding resolutions, be corrected to ensure compliance with federal audit resolution requirements and to better ensure more timely subrecipient compliance with program requirements. Additionally, the Commonwealth should consider amending the Commonwealth Management Directive to establish specific criteria for sanctions or other procedures to ensure subrecipient compliance with federal regulations.

We also recommend that DHS and PENNVEST as lead agencies continue their efforts to obtain A-133 audits from the unaudited entities and ensure audit coverage of the unaudited federal funds. DHS and PENNVEST should adhere to the steps and timeframes in their respective remedial action plans and consider withholding funding on a timely basis from subrecipients which do not comply with audit submission requirements. DHS should investigate the differences in Medicaid Cluster expenditures and notify subrecipients of expenditures which require audits. DHS should continue working on the implementation of procedures to ensure that the Medicaid Cluster subrecipient universe is complete and ODP provider payments are accurately reported in order to ensure the required subrecipient audits are conducted and submitted to the Commonwealth for review on a timely basis.

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Finding 2014 – 037: (continued)

OB-BOA Response:

BOA disagrees with certain portions of the finding, as it relates to unaudited subrecipient expenditures. The AG states that the fiscal year ended June 30, 2012 City of Philadelphia audit report was transmitted to the Commonwealth in February 2014, but that OB-BOA did not transmit it to DHS until January 22, 2015. However, the AG omits the fact that OB-BOA rejected this report on April 24, 2014 because it did not include \$19,830,429 in Drinking Water State Revolving Funds (CFDA #66.468). In trying to resolve this failed submission, OB-BOA took the lead role with the City. OB-BOA also took the lead role in attempting to resolve subsequent problems involving the City, this report, and various required submissions to the Federal Audit Clearinghouse (FAC).

Concerning portions of the finding related to the Medicaid Cluster, the assertion that the subrecipient universe excluded certain ODP expenditures, and the Medical Assistance Transportation Program, we refer the auditors to DHS' portion of the response to this finding.

OB-BOA believes it is properly obtaining the required single audit reports of the ODP providers based on the information we are provided. If a subrecipient expended and reported on the SEFA more than it received in federal awards based on the information OB-BOA is provided, OB-BOA transmits the audit report with no notification in the transmittal letter. If a subrecipient expended and reported on the SEFA less than it received in federal awards based on the information OB-BOA is provided, OB-BOA transmits the audit report with a notification in the transmittal letter.

PDE Response:

The PDE, Bureau of Budget and Fiscal Management, Audit Section has implemented corrective action to resolve this finding. The Audit Section will continue to address these issues in accordance with OMB A-133 and Management Directive 325.8.

DHS Response:

The following is provided in response to Single Audit Finding #Statewide-3 as presented to DHS. The finding indicates there is a material weakness, material noncompliance.

The finding consists of four components:

- 1) The timeliness of finding resolution
- 2) Unaudited expenditures
- 3) The requirement to review/reconcile the SEFA
- 4) Enforcement of the subrecipients' submission deadlines

The timeliness of finding resolution

The DHS concurs with the auditors that resolution of some subrecipient single audit reports and the related required management decisions have not been timely. We are continuing to work to rectify this issue, and plan to have this corrected before June 30, 2015.

Unaudited expenditures

The DHS strongly disagrees with this part of the finding.

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Finding 2014 – 037: (continued)

In General

DHS strongly disagrees with the auditor’s characterization that late submissions of subrecipients’ single audit reports represent “unaudited” expenditures. The term “unaudited” implies that information was never subjected to audit procedures. The funding provided to these entities is audited; however, the reports listed in the condition of the finding were not issued timely.

For the Medicaid Cluster:

The condition cited in this part of the finding states:

“However, our audit disclosed instances within the Medicaid Cluster where OMB Circular A-133 subrecipient Single Audit reports submitted to the Commonwealth included Medicaid Cluster SEFA expenditures that were significantly higher than the amount of federal financial assistance that DHS paid to the subrecipients per the DHS ODP payment report. Some examples of these differences are displayed in the tables below. The differences shown in the tables below indicate that the DHS ODP payment report may be significantly understated and differences should be investigated by DHS, since OB-BOA is relying on this ODP report to identify subrecipients which require audits. Based on the comparison below, these differences are very significant each year and do not appear to be related to timing differences between when DHS made the payments and the date the expenditures were incurred by the subrecipient.

Finally, the Medical Assistance Transportation Program, CFDA #93.778, expenditures reported for Perry County on its fiscal year ended December 31, 2012 Single Audit SEFA were \$365,625. Our audit disclosed federal funds of approximately \$3.5 million which DHS paid to the Perry County Transportation Authority for Medical Assistance transportation services during the fiscal year ended December 31, 2012 that were not included in the Perry County Single Audit, and no separate Single Audit of the Perry County Transportation Authority was submitted to the Federal Audit Clearinghouse. The DHS Single Audit Supplement indicates that all Medical Assistance Transportation Program funding is considered federal financial assistance at both the county and provider level and should be included in the audit process. DHS did not investigate the difference between amounts paid and SEFA expenditures in order to notify Perry County that these expenditures should be audited.”

DHS strongly disagrees with this part of the finding.

For the subrecipients listed in the table above, it appears that all the auditors did was look in the Federal Audit Clearinghouse for data collection forms that included MA funding that did not agree with our records, as evidenced by the column heading “*Medicaid Cluster SEFA Expenditures per the Data Collection Form*”. Although the condition cited above states: “...our audit disclosed instances within the Medicaid Cluster where OMB Circular A-133 subrecipient Single Audit reports submitted to the Commonwealth...”, this is clearly untrue, as explained below.

For Community Resources for Independence and Liberty Resources – these are both DHS – Office of Long Term Living (OLTL) providers who are paid on Department-established rates. As such, they do not meet the criteria of OMB Circular A-133, Section 205(i), which states: “*Medicaid. - Medicaid payments to a subrecipient for providing patient care services to Medicaid eligible individuals are not considered Federal awards expended under this part unless a State requires the funds to be treated as Federal awards expended because reimbursement is on a cost-reimbursement basis.*” Therefore, these amounts are not considered Federal awards, and accordingly are appropriately excluded from the DHS ODP payment report. Because these amounts are not considered Federal awards, we do not expect to receive, nor have we received Single Audit reports for either of these entities; therefore, we do not have any information about where else they are receiving MA funding that they are including in their data collection form (e.g. passed-through from Counties, passed-through from other states, or direct awards). DHS is not aware of any requirement for us to perform an exhaustive search. Since we have not received Single Audit reports

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Finding 2014 – 037: (continued)

from these entities, clearly the auditors could not have compared Medicaid Cluster ODP Provider Federal Pass-through Payments per DHS Report to OMB Circular A-133 subrecipient Single Audit reports submitted to the Commonwealth. Additionally, the first mention of Liberty Resources by the auditors was in this preliminary finding. We are unsure why the auditors did not discuss this with us during their fieldwork.

For ARC of Chester County, we are confident that the amounts included in the Medicaid Cluster ODP Provider Federal Pass-through Payments per DHS Report are correct. We are unsure why there appears to be “problem” with the entity’s SEFA. This also was first mentioned to us in the preliminary finding. This entity may be including non-Federal awards on the SEFA, or perhaps they are not identifying all pass-through entities correctly, or something similar. With the auditors first “asking” us about this in a preliminary finding, we do not have time to fully research this in time to provide our response. We will investigate this further.

For the Medical Assistance Transportation Program (MATP), as we previously advised the auditors, MATP funding is paid through SAP (the Commonwealth’s accounting system) and not the Commonwealth’s MMIS system, known as PROMISE. SAP amounts are automatically captured in the subrecipient audit universe (described by the auditors in the Condition section of this finding). We have confirmed the amounts paid through SAP and confirmed the total allocation for MATP to Perry County with the appropriate DHS Program Office; and as we previously advised the auditors, while the amounts don’t match the SEFA exactly (and nor would we expect them to), they are in the “ballpark”. The amount of expenditures per the SEFA was \$365,625; the amount we funded Perry County, per SAP was \$272,361. We believe the amount reported on the SEFA is representative of state payment records for this example. We are still unsure where the auditors are obtaining the information for the Perry County Transportation Authority, although the auditors advised the information was obtained from PROMISE. As such, this is more than likely fee-for-service vendor-type services (however, clearly not MATP).

The table above, which is included in the Condition section of this finding, implies that DHS has subrecipients with unaudited expenditures. If the auditors would have done the necessary work, they would have known that this is clearly not the case.

The requirement to review/reconcile the SEFA

The DHS disagrees with this part of the finding.

The condition cited in this part of the finding states the following:

“The agency is also responsible for reviewing financial information in each audit report to determine whether the audit included all pass-through funding provided by the agency in order to ensure pass-through funds were audited. Most Commonwealth agencies meet this requirement by performing Schedule of Expenditures of Federal Awards (SEFA) reconciliations. The agency is also required to adjust Commonwealth records, if necessary.”

“It should be noted that DHS combines all federal and state funding together when awarding subgrants to counties and not-for-profit entities. In lieu of a traditional SEFA reconciliation, DHS places reliance on a specially designed Agreed Upon Procedures report, which accompanies the subrecipient Single Audits, to reconcile to adjustments determined from the cost settlement process.”

Our understanding is that OB-BOA, as part of its centralized desk review process, verifies that all Catalog of Federal Domestic Assistance (CFDA) numbers for which the Commonwealth provided funding are listed on the subrecipients’ SEFA. Therefore, the agency is not responsible for reviewing financial information in each audit report to determine whether the audit included all pass-through funding provided by the agency in order to ensure pass-through funds were audited.

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Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 037: (continued)

Although not reflected in this finding, during a meeting between DHS and the auditors to discuss the prior year's finding, 12-OB-04, after it was issued, the auditors briefly mentioned the following concern: "DHS may not identify a program that was not tested but should have been tested as a major program, which may occur if funding was misclassified on the SEFA." This was also discussed again during another meeting between DHS and the auditors to discuss the prior year's finding 13-SW-01. Although that concern has never been mentioned in the criteria of the finding and DHS believes the chance of an auditor making a mistake of that magnitude is extremely unlikely, we will continue to develop some high-level, risk-based procedures to address that concern.

Enforcement of the subrecipients' submission deadlines

The DHS disagrees with the auditors' characterization that a weakness exists since DHS was not following their remedial action plans, or the plans were inadequate. As stated during discussions with the auditors in relation to the prior year's finding, 12-OB-04, DHS does have procedures in place, which can include the withholding of a percentage of State funds until the subrecipient submits its single audit. This procedure was instituted during the fiscal year ended June 30, 2012. During the fiscal year ended June 30, 2012, DHS issued dunning letters to nine subrecipients, in which the subrecipients were advised that DHS would withhold 5 percent of their State funding until such time as they submitted their single audits, unless their audits were submitted by the date provided in that letter. Eight (8) of the nine subrecipients submitted their delinquent single audits prior to that date and one subrecipient did not. DHS withheld 5 percent of the State funding from that subrecipient in the next quarterly advancement. As a result of this, that subrecipient submitted their delinquent single audit report shortly thereafter, and DHS provided the State funding previously withheld in the next quarter. DHS continues its efforts to obtain the required single audits from subrecipients, which includes continuing to consider withholding a percentage of State funding.

As the auditors stated in this finding, "DHS stated that they have remedial action procedures available, including the withholding of state funds, and had pursued the submission of the late audit reports via telephone and email inquiries to the subrecipient by the DHS Secretary's office." We continued to monitor the status of these audit reports. DHS did in fact follow its remedial action plans, which is to consider withholding a percentage of State funding. There were numerous discussions within DHS regarding this consideration, but ultimately the decision was made to not withhold, as any withholding could adversely impact the provision of required human services.

PDA Response:

PDA agrees with this finding. It has been corrected by filling a vacant position responsible for audit reviews. All reviews were current as of June 30, 2014.

DDAP Response:

The Department of Drug and Alcohol Programs recognizes the concerns indicated by the Auditor General regarding timely completion of reconciliations to submitted Schedules of Expenditures of Federal Awards (SEFAs). As indicated in the prior year, the Department became operational on July 1, 2012 and assumed the responsibilities of an executive agency at that time, including the agency-level management of sub-recipient audits. Although the backlog of unresolved SEFA reviews has been reduced, the recently filled position has been vacated by the selected employee. DDAP is addressing options to fill this position with a qualified candidate, which has been somewhat challenging. The Department continues to address more timely review of submitted SEFA and other audit related materials and anticipates being on a more timely schedule by the end of the fiscal year. In the future, it will be the practice of this agency to demonstrate a priority review for such audits that contain findings.

DOH Response:

DOH agrees with the DOH-specific condition cited in this finding. The findings in the two reports cited in this finding's condition were forwarded in a timely manner to the appropriate DOH program offices for resolution of their findings. The DOH program offices completed their review and resolution of the findings in the two reports within the time frames given to them by DOH's Audit Resolution Section (ARS). Lack of staff in DOH's ARS prevented the timely finalization of the review of these reports.

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Finding 2014 – 037: (continued)

This finding's condition also includes a table showing \$4,038,440 of HIV Care Formula Grants monies, CFDA number 93.917, being subgranted to one unaudited subrecipient. All of these monies relate to the City of Philadelphia's single audit for the year ended June 30, 2013, which has not yet been received by OB-BOA.

L&I Response:

L&I agrees with the finding with conditions. L&I can provide communication it had with each of these auditees within the six month period attempting to ascertain and/or collect additional information that was necessary in order to issue a management decision. More specific information can be provided upon request.

PENNVEST Response:

PENNVEST is in concurrence with this finding. The lack of timely response was due to a staff member working to reconcile the SEFA numbers, having a problem, and it was missed when she went on medical leave. They have subsequently been reconciled and the borrower was contacted.

DCED Response:

The Single Audit in question was received by DCED from BOA on August 19, 2013. We rejected the audit for lack of a corrective action plan on September 27, 2013. The agency in question responded with another unacceptable response on October 17, 2013 and we reached out to the grantee that same day to provide technical assistance to the grantee. We received an acceptable corrective action plan, accepted that plan and closed the Single Audit on December 24, 2013.

PA Insurance Department (PID) Response:

PID agrees with the finding.

PEMA Response:

A shortage in the number of staff members at PEMA assigned to process single audit reviews attributed to the delays in the investigation, conduct of follow-ups, contact with the subrecipients and data entry of the documentation of management decisions.

Effective February 2015, PEMA has begun to transition the responsibility of single audit review and management decision process to PEMA's Compliance Division. The Compliance Division is staffed with auditors and certified public accountants. PEMA believes that the aforementioned actions will deliver desired results for the effective management, processing, and completion of sub-recipient Single Audits.

Auditors' Conclusion: The agency responses from PDE, PDA, DDAP, DOH, L&I, PENNVEST, DCED, PID, and PEMA indicate agreement with the finding.

OB-BOA: We commend OB-BOA for identifying the missing CFDA #66.468 SEFA expenditures in the Philadelphia City Single Audit and for pursuing a revised audit report. However, in a situation like this where only one Commonwealth agency's pass-through funding is missing from the audit report, OB-BOA should consider forwarding the audit report to the other Commonwealth agencies for processing in the meantime, since the other agencies' funding did not appear to be adversely affected. This would enable the other Commonwealth agencies to review the audit report and make management decisions on findings, instead of delaying the audit resolution process for unaffected agencies, since this particular subrecipient receives such a significant amount of federal funding passed through the Commonwealth.

DHS: DHS agreed that management decisions on findings are not timely.

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Finding 2014 – 037: (continued)

Regarding our concerns with the Medicaid Cluster CFDA #93.778 recipients, we disagree with DHS and believe that we brought this information to DHS management's attention previously.

Regarding DHS's response for subrecipients' SEFAs, DHS is relying on OB-BOA's review of the SEFA during the centralized desk review process. OB-BOA's procedures consist of a cursory comparison of the CFDA numbers which appear on the Commonwealth's general ledger (SAP) under subrecipient general ledger accounts numbers for a particular subrecipient to the CFDA numbers reported on the subrecipient's SEFA. OB-BOA delegates the responsibility for comparing the SAP expenditures to the subrecipient's SEFA for reasonableness and further investigation to the Commonwealth pass-through agencies. In addition, Commonwealth payments to subrecipients from systems other than SAP, such as PROMISE, are not part of OB-BOA's procedures.

Regarding DHS's response for the enforcement of subrecipients' submission deadlines, DHS should improve the timeliness of its follow up on subrecipient audit reports in order to improve the timeliness of the implementation of appropriate corrective action by subrecipients for federal award findings and misspent federal funds.

In accordance with OMB Circular A-133, the auditor has the responsibility to report noncompliance with federal regulations. As a result of DHS taking an unconventional method to obtain assurance that the information reported in subrecipients' SEFAs is accurate and the resulting Single Audit is complete, we have reported a finding. DHS management believes that its methods are adequate to meet the requirements of the federal regulations and has disagreed with the finding. In accordance with Section 400 of OMB Circular A-133, the federal awarding agency is required to issue a management decision on the finding. The finding will remain until there is clarity provided on the acceptability of the DHS approach by the federal awarding agency.

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

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

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Federal Award Findings and Questioned Costs - June 30, 2014

Finding 2014 – 038

CFDA #66.458 – Capitalization Grants for Clean Water State Revolving Funds (including ARRA)

CFDA #93.658 – Foster Care – Title IV-E

Internal Control Weakness Over Expenditure Information Reported on the SEFA

Federal Grant Numbers and Years: CS-420001-13 (7/1/13-9/30/15), G1301PA1401 (10/1/12-9/30/13), G1401PA1401 (10/1/13-9/30/14)

Type of Finding: Significant Deficiency

Compliance Requirement: Reporting

Condition: Our review of the SEFA and accompanying footnotes for the Foster Care Program (CFDA #93.658) disclosed that the Office of the Budget (OB), Office of Comptroller Operations (OCO) did not adjust or footnote the SEFA for negative expenditure adjustments resulting from an audit settlement with Health and Human Services (HHS) for disallowances for the period from October 1, 1997 to September 30, 2002. Since, none of the adjustment was applicable to our current audit period, current year SEFA expenditures for Foster Care were understated by \$37,440,092, and an auditor-proposed adjustment was necessary. Also, no footnote disclosure was made to the SEFA to fully disclose the disallowance settlement with HHS until after auditor inquiry regarding the \$37,440,092 in negative expenditure adjustments included in the SEFA.

Also, our review of expenditures posted within the Capitalization Grants for Clean Water State Revolving Fund (CFDA #66.458) disclosed that expenditures recorded on the passed through to subrecipients column on the SEFA were understated by \$26,535,059, and an auditor-proposed adjustment was necessary.

The above errors were not corrected until after an auditor-proposed adjustment.

Criteria: 45 CFR 92.20 provides the following standards for financial management:

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

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

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

(b) The auditee shall also prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements. At a minimum the schedule shall:

(3) Provide total federal awards expended for each individual federal program.

(5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.

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Finding 2014 – 038: (continued)

Further, OMB Circular A-133, Section 205 basis for determining Federal awards expended paragraph (a) states in part:

(a) Determining Federal awards expended. The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients;

In addition, an adequate internal control system should ensure that federal awards expended are properly reported on the SEFA, with adequate and reasonable disclosure in the SEFA footnotes.

Cause: Personnel within OB initially believed they correctly reported Foster Care expenditures on the SEFA because the HHS audit settlement required the Commonwealth to report the decreasing adjustments on the current year Title IV – E–Foster Care Quarterly Financial Reports.

Regarding the understatement of the passed through to subrecipients column on the SEFA, non-designated subrecipient loans and principal forgiveness entities not requiring a Single Audit, were not recorded on the SEFA as passed through to subrecipients. Only general ledger account numbers used to record designated subrecipient loans and principal forgiveness entities requiring a Single Audit were recorded on the SEFA as passed through to subrecipients.

Effect: Due to the \$37.440 million understatement of expenditures on the SEFA for Foster Care disallowances, the SEFA did not accurately report current year expenditures incurred during SFYE June 30, 2014 and an auditor-proposed adjustment was made as a result.

Due to the \$26.535 million understatement of expenditures recorded on the passed through to subrecipients column on the SEFA for Capitalization Grants for Clean Water State Revolving Fund, the SEFA did not accurately report current-year expenditures passed through to subrecipients during SFYE June 30, 2014 and an auditor-proposed adjustment was made as a result.

Recommendation: We recommend that OB strengthen supervisory review procedures for reporting federal awarding agency deferrals and disallowances on the SEFA to ensure proper reporting of expenditures.

Further, we recommend that OB strengthen supervisory review of transactions posted to general ledger account numbers so that expenditures are accurately posted to the passed through to subrecipients column on the SEFA.

Agency Response: BAFM agrees with this finding.

Questioned Costs: None

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

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Summary Schedule of Prior Audit Findings



Commonwealth of Pennsylvania

COMMONWEALTH OF PENNSYLVANIA

Summary Schedule of Prior Audit Findings - June 30, 2014

Finding	State Agency/Finding	Comments
<u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2013:</u>		
STATEWIDE (SW)		
13-SW-01	Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Finding 12-OB-04)	<p>DDAP has realigned functions within the Division of Budget and Grants Management in order to dedicate sufficient staffing to address review and resolution of Schedule of Expenditures of Federal Awards accompanying submitted subrecipient audits. The Department is in the process of filling a remaining vacancy in the section responsible for this task.</p> <p>DHS, BFO, Division of Audit and Review, has a contract in place for auditor staff augmentation; some staff from that contract are currently devoted to the single audit review backlog. The streamlined process along with additional resources should be sufficient to reduce and then eliminate the backlog. DHS is working to develop a risk based approach to eliminate the small "gap" in SEFA reconciliation coverage that exists due to the major program determination being based on the SEFA amounts and not on Commonwealth payment records (BOA checks whether the correct major programs were tested based on the amounts shown on the SEFA). It is anticipated that the remaining backlog will be eliminated by September 30, 2014.</p> <p>Aging filled the vacant position responsible for reviewing subrecipient single audit reports.</p> <p>DOH now maintains a separate tracking report for audits with findings.</p> <p>PDE assigned a position to be responsible for review of subrecipient single audit reports.</p> <p>PENNVEST has added staff to assist with audit tracking.</p> <p>L&I has refocused efforts to get final resolutions to audits within six months.</p> <p>BOA has taken corrective action.</p> <p>PennDOT disagreed with the finding.</p>
13-SW-02	General Information Technology Control and Internal Control Design Weaknesses Affecting the Payroll Process (Prior Year Finding 12-OB-03)	<p>L&I HR staff are no longer approving timesheets.</p> <p>OCO disagrees with this finding and has determined that corrective action is not necessary.</p>

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Finding	State Agency/Finding	Comments
STATEWIDE (SW) (Continued)		
13-SW-03	State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents and at the Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133 (Prior Year Finding 12-OB-01)	<p>PennDOT has a project in progress to switch over to a digital system that will allow consistency with using the most recent agreement version and ensuring that all federally required information is present. The completion of this project is slated for November 20, 2014.</p> <p>PDE's new eGrants System was updated with appropriate CFDA numbers.</p> <p>L&I has taken corrective action.</p> <p>DOH states they are in compliance with the current management directive.</p> <p>DHS, DCED and OCO disagreed with this finding.</p>
13-SW-04	Weaknesses in Cash Management System Cause Noncompliance With the Cash Management Improvement Act of 1990 (Prior Year Finding 12-OB-02)	<p>Supervisor sign off on the check clearance study, to signify their review, has been added to the check clearance study procedures. Additionally, OCO is planning to implement measures within the current draw process to mitigate the risk of requesting funds early when the Federal Government is open for business and when the State Government is not.</p> <p>No corrective action plan is determined to be required by OCO for any of the remaining conditions. OCO does not agree with the weaknesses stated by the auditor.</p>
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)		
13-DCED-01	The Department of Community and Economic Development Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding 12-DCED-01)	<p>DCED has implemented an invoice review process that does not permit the CDBG grantee from drawing its funds until the department has reviewed the invoice and given them approval. In addition, we are reviewing supporting documentation for a sample of invoices quarterly. We continue to address the backlog of monitoring for CDBG.</p>
DEPARTMENT OF EDUCATION (PDE)		
13-PDE-01	Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (Prior Year Finding 12-PDE-01)	<p>Password settings were modified to comply with Information Technology Policy (ITP) – SEC007, "Minimum Standards for User IDs and Passwords".</p>

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DEPARTMENT OF EDUCATION (PDE) (Continued)		
13-PDE-02	Noncompliance and Internal Control Weaknesses Related to Reimbursement for Lunches Served by School Food Authorities	Corrective action was taken.
13-PDE-03	For-Profit Subrecipients Are Not Being Audited in a Timely Manner (Prior Year Finding 12-PDE-02)	Corrective action was taken.
13-PDE-04	A Material Weakness Exists Over the Pennsylvania Department of Education's During-the-Award Monitoring of Title I Grants to Local Educational Agencies and Improving Teacher Quality State Grants Subrecipients (Prior Year Finding 12-PDE-05)	Corrective action was taken.
13-PDE-05	A Material Weakness Exists Over the Pennsylvania Department of Education's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding 12-PDE-04)	PDE has implemented corrective action beginning with the 2013-2014 data collection by developing forms which will include supervisory signature. Also the number of matches and non-matches will be reported relating to external data, graduation, attendance, and highly qualified teachers for the 2013-2014 RFRM. An enrollment run for the comparison of the 2013-2014 data will be completed by November 30, 2014.
13-PDE-06	A Significant Deficiency Exists Over the Pennsylvania Department of Education's Reporting of the Annual State Per Pupil Expenditure Amount and the Annual High School Graduation Rate Data (Prior Year Finding 12-PDE-06)	PDE has implemented development and deployment controls. The anticipation CAP completion date is August 15, 2014.
13-PDE-07	A Material Weakness Exists in the Pennsylvania Department of Education's Subrecipient Allocation Process, Earmarking Process, and Monitoring of Subrecipients (Prior Year Finding 12 PDE-07)	PDE instituted a supervisory review process regarding the awarding of SIG allocations, earmarking requirements and subrecipient monitoring.

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DEPARTMENT OF HEALTH (DOH)		
13-DOH-01	Noncompliance and Internal Control Weaknesses Related to Food Instruments and Cash-Value Voucher Redemptions (Prior Year Finding 12-DOH-01)	DOH has implemented a working interim solution that is currently being used by WIC accounting staff for daily reconciliation. On April 29, 2014, DOH implemented a non-retroactive change that adds a "processing date" as well as other improvements to identified issues with the current process. Once SAS is fully implemented, currently slated for October 2014, WIC accounting staff will be able to leverage SAS for daily reconciliation with Fulton and the Commonwealth's SAP system.
13-DOH-02	Weaknesses in Internal Controls Over Subrecipient and Contractor Monitoring (Prior Year Finding 12-DOH-02)	Corrective action was taken.
DEPARTMENT OF LABOR AND INDUSTRY (L&I)		
13-L&I-01	Deficiencies in Information Technology Controls at the Department of Labor and Industry (Prior Year Finding 12-L&I-02)	L&I put systems in place to maintain records to meet Management Directive 205.43.
13-L&I-02	A Control Deficiency Exists in the Department of Labor and Industry's Procedures for Performing Eligibility Determinations (Prior Year Finding 12-L&I-05)	A new process is being introduced that could tie issues with a case review to a supervisor's EPR.
13-L&I-03	A Control Deficiency Exists Over the Preparation and Submission of the Annual RSA-2 Report	OVR will be following new requirements when submitting the new RSA2. OVR was developing instructions for the new process for 2014.
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)		
13-DMVA-01	Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement (Prior Year Finding 12-DMVA-01)	DMVA disagrees with this finding and is seeking federal resolution.

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Finding	State Agency/Finding	Comments
PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)		
13-PEMA-01	Subgrant Awards Are Not Executed or Obligated Within the 45-Day Requirement (Prior Year Finding 12-PEMA-03)	The US Department of Homeland Security (USDHS) has not changed their requirement of obligating Homeland Security Grant Program (HSGP) funds within 45 days. Based on the requirements of the Commonwealth's Management Directive 305.20, it is difficult for PEMA to meet the 45 day requirement. However, PEMA will continue to work towards obligating HSGP subgrant awards within 45 days and will work with the subgrantees on signing and returning the grant agreements in an expeditious manner. At a recent meeting of the National Emergency Management Agency, this topic was discussed at great length, and we are hopeful that USDHS will change the requirement with the 2014 award that is forthcoming.
13-PEMA-02	Internal Control Weakness Over Expenditure Reporting on the Schedule of Expenditures of Federal Awards	Corrective action was taken.
13-PEMA-03	Material Weakness and Material Noncompliance Over Equipment and Real Property Management (Prior Year Finding 12-PEMA-01)	PEMA has a team of limited term and full time employees who are working together to create a full listing of inventory purchased with HSGP funds. They have been using existing equipment spreadsheets and databases for existing equipment information (serial numbers, PEMA sticker numbers, model, etc.) and verifying this data, along with location, by physically examining the equipment. They will soon be done with the inventory at PEMA Headquarters and will be moving on to vehicles, trailers and trucks. PEMA is also looking into equipment tracking software to use instead of Excel spreadsheets and databases.
PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY (PENNVEST)		
13-PENNVEST-01	Internal Control Weaknesses in Subrecipient Monitoring of Davis-Bacon Requirements	Corrective action was taken.
13-PENNVEST-02	Internal Control Weakness and Noncompliance With Loan Amortization Requirements	Corrective action was taken.
13-PENNVEST-03	Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (Prior Year Finding 12-PENNVEST-03)	Corrective action was taken.

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Finding	State Agency/Finding	Comments
PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY (PENNVEST) (Continued)		
13-PENNVEST-04	Internal Control Improvements Needed in Subrecipient Loan Monitoring System (Prior Year Finding 12-PENNVEST-02)	A new process to collect the transmittal of financial statements is being developed. A new system for tracking adverse conditions and all related documentation is being developed.
DEPARTMENT OF HUMAN SERVICES (DHS) (formally Department of Public Welfare (DPW))		
13-DPW-01	Internal Control Deficiencies and Noncompliance at the Department of Human Services Related to Electronic Benefits Transfer Card Security	DHS created a master list of personnel authorized to create EBT cards or grant pin numbers that is accessible by all EBT Coordinator/Alternate/Staff.
13-DPW-02	Internal Control Deficiency and Compliance Finding at the Department of Human Services Related to Electronic Benefits Transfer Daily Reconciliation	Corrective action was taken.
13-DPW-03	Weaknesses in Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients by the Department of Public Welfare Office of Children, Youth and Families	According to the Office of General Counsel interpretation obtained, on-site inspections are to be conducted before the close of the calendar month in which the previous annual inspection was done. OCYF will ensure these are reviewed or approved by the supervisor or Regional Director. Although procedures to monitor county subrecipients and contractors are not performed at the time of inspections, procedures are in place. The DHS Office of Administration and Counties are responsible for ensuring that subrecipients and subcontractors are appropriately audited in accordance with GAS, applicable program requirements/contract provisions, and when applicable, the Single Audit Act Amendments of 1996, OMB Circular A-133, and the DHS Single Audit Supplement.
13-DPW-04	Department of Human Services Did Not Perform Adequate During-The-Award Monitoring of TANF Subrecipients	On site monitoring was completed on June 30, 2014 and ongoing reviews of EARN centers will continue throughout the tenure of the program.
13-DPW-05	Weakness in Reporting on the Temporary Assistance for Needy Families ACF-199 Data Report (Prior Year Finding 12-DPW-03)	DHS disagrees with this finding.

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Summary Schedule of Prior Audit Findings - June 30, 2014

Finding	State Agency/Finding	Comments
DEPARTMENT OF HUMAN SERVICES (DHS) (formally Department of Public Welfare (DPW)) (Continued)		
13-DPW-06	U.S. Department of Health and Human Services (HHS)-Required Automatic Data Processing (ADP) Risk Analysis and System Security Review Was Not Performed for Various Pennsylvania Department of Human Services and Insurance Department Systems (Prior Year Finding 12-DPW-04)	Corrective action was taken.
13-DPW-07	Noncompliance and Internal Control Weakness Over Health and Safety Requirements (Prior Year Finding 12-DPW-06)	OCDEL has changed business practices regarding annual renewal inspections. The changes de-link receipt of a renewal application from the scheduling of annual inspections and afford staff more flexibility in grouping inspections by geographic areas. For fiscal year 2013-2014, there have been sustained improvements in the timeliness of on-site child care facility inspections due to these changes and despite challenges to maintaining a full staff complement. OCDEL has been able to maintain a less-than 1% rate of overdue annual inspections during fiscal year 2013 – 2014.
13-DPW-08	Noncompliance and Internal Control Weakness in DPW's Contracting With Child Care Subgrantees	During the fiscal year 2013-2014, working capital consisted of approximately 80% State and 20% Federal funds. For 2014-2015 and future fiscal years, the 25% working capital payments to the Keys will consist of 100% State funds. The 25% advance of the Keys total allocation is still necessary due to reimbursement for general operating expenses incurred, as well as supporting the program expectation that provider grants will be awarded expeditiously within the first three quarters of the fiscal year. The advance also alleviates the need for Keys to borrow against a line of credit, resulting in interest expense.
13-DPW-09	Weaknesses in the Department of Human Services Program Monitoring of Social Services Block Grant and the Block Grants for Prevention and Treatment of Substance Abuse Subgrantees (Prior Year Finding 12-DPW-07)	Effective May 27, 2014, a Human Services Program Specialist Supervisor, has been hired for the County Human Services Planning and Monitoring Unit within the Office of Administration, BFO. The BFO is in the process of hiring a Human Services Program Specialist that will be assigned to the Monitoring Unit. A risk based approach will be used to conduct monitoring between September and December 2014.

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Finding	State Agency/Finding	Comments
DEPARTMENT OF HUMAN SERVICES (DHS) (formally Department of Public Welfare (DPW)) (Continued)		
13-DPW-10	Lack of Eligibility Documentation Results in Material Noncompliance and Internal Control Weaknesses (Prior Year Finding 12-DPW-08)	During the past year, policy has been updated regarding MA overpayments to place a greater emphasis on pursuing recoupment of MA overpayments in a timely fashion.
DEPARTMENT OF TRANSPORTATION (PennDOT)		
13-PennDOT-01	Internal Control Weaknesses Related to Monitoring of Locally-Sponsored Subrecipient Projects (Prior Year Finding 12-PennDOT-01)	Corrective action was taken.
13-PennDOT-02	Deficiencies in Information Technology Controls in the Engineering and Construction Management System (Prior Year Finding 12-PennDOT-03)	Corrective action was taken.
<u>FINDINGS FOR THE YEAR ENDED JUNE 30, 2012:</u>		
OFFICE OF THE BUDGET (OB)		
12-OB-01	State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents and At The Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133 (Prior Year Finding 11-OB-02)	Refer to finding 13-SW-03 for the status of this issue.
12-OB-02	Weaknesses in Cash Management System Cause Noncompliance With the Cash Management Improvement Act of 1990 and at Least a \$198,529 Known Understatement of the Cash Management Improvement Act of 1990 Interest Liability (Prior Year Finding 11-OB-03)	Refer to finding 13-SW-04 for the status of this issue.
12-OB-03	General Information Technology Control Weaknesses Affecting the Payroll Process	Refer to finding 13-SW-02 for the status of this issue.

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Finding	State Agency/Finding	Comments
OFFICE OF THE BUDGET (OB) (Continued)		
12-OB-04	Noncompliance and Control Deficiencies Exist in the Commonwealth's Subrecipient Audit Resolution Process (Prior Year Findings 11-OB-04 and 11-DPW-16)	Refer to finding 13-SW-01 for the status of this issue.
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)		
12-DCED-01	The Department of Community and Economic Development Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (Prior Year Finding 11-DCED-01)	Refer to finding 13-DCED-01 for the status of this issue.
DEPARTMENT OF EDUCATION (PDE)		
12-PDE-01	Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (Prior Year Finding 11-PDE-02)	Refer to finding 13-PDE-01 for the status of this issue.
12-PDE-02	For-Profit Subrecipients Are Not Being Audited in a Timely Manner (Prior Year Finding 11-PDE-03)	Refer to finding 13-PDE-03 for the status of this issue.
12-PDE-04	A Material Weakness Exists Over the Pennsylvania Department of Education's Consolidated State Performance Report and the Annual State Report Card (Prior Year Finding 11-PDE-06)	Refer to finding 13-PDE-05 for the status of this issue.
12-PDE-05	A Material Weakness Exists Over the Pennsylvania Department of Education's During-the-Award Monitoring of Title I, Part A Cluster and Improving Teacher Quality State Grants Subrecipients (Prior Year Finding 11-PDE-07)	Refer to finding 13-PDE-04 for the status of this issue.

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Summary Schedule of Prior Audit Findings - June 30, 2014

Finding	State Agency/Finding	Comments
DEPARTMENT OF EDUCATION (PDE) (Continued)		
12-PDE-06	A Significant Deficiency Exists Over the Pennsylvania Department of Education's Reporting of the Annual State Per Pupil Expenditure Amount and the Annual High School Graduation Rate Data	Refer to finding 13-PDE-06 for the status of this issue.
12-PDE-07	A Material Weakness Exists in the Pennsylvania Department of Education's Subrecipient Allocation Process, Compliance With Earmarking Requirements, and Monitoring of Subrecipients	Refer to finding 13-PDE-07 for the status of this issue.
DEPARTMENT OF HEALTH (DOH)		
12-DOH-01	Noncompliance and Internal Control Weaknesses Related to Food Instruments and Cash-Value Voucher Redemptions and Vendor Overcharges	Refer to finding 13-DOH-01 for the status of this issue.
12-DOH-02	Weaknesses in Internal Controls Over Eligibility Determinations and Administration of Third-Party Subrecipient Contractor Results in an Undetermined Amount of Questioned Costs (Prior Year Finding 11-DPW-15)	Refer to finding 13-DOH-02 for the status of this issue.
DEPARTMENT OF LABOR AND INDUSTRY (L&I)		
12-L&I-02	Deficiencies in Information Technology Controls at the Department of Labor and Industry (Prior Year Finding 11-L&I-01)	Refer to finding 13-L&I-01 for the status of this issue.
12-L&I-05	A Control Deficiency Exists in the Department of Labor and Industry's Procedures for Performing Eligibility Determinations	Refer to finding 13-L&I-02 for the status of this issue.

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Finding	State Agency/Finding	Comments
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA)		
12-DMVA-01	Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement Results in Questioned Costs of \$35,422 (Prior Year Finding 11-DMVA-01)	Refer to finding 13-DMVA-01 for the status of this issue.
PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY (PEMA)		
12-PEMA-01	Material Weakness and Material Noncompliance Over Equipment and Real Property Management	Refer to finding 13-PEMA-03 for the status of this issue.
12-PEMA-03	Subgrant Awards Are Not Executed or Obligated Within the 45-Day Requirement	Refer to finding 13-PEMA-01 for the status of this issue.
PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY (PENNVEST)		
12-PENNVEST-02	Internal Control Improvements Needed in Subrecipient Loan Monitoring System (Prior Year Finding 11-PENNVEST-03)	Refer to finding 13-PENNVEST-04 for the status of this issue.
12-PENNVEST-03	Significant Deficiencies in Information Technology Controls at Pennsylvania Infrastructure Investment Authority (Prior Year Finding 11-PENNVEST-02)	Refer to finding 13-PENNVEST-03 for the status of this issue.
DEPARTMENT OF HUMAN SERVICES (DHS) (formally Department of Public Welfare (DPW))		
12-DPW-03	Weakness in Reporting on the Temporary Assistance for Needy Families ACF-199 Data Report (Prior Year Finding 11-DPW-07)	Refer to finding 13-DPW-05 for the status of this issue.
12-DPW-04	U.S. Department of Health and Human Services Required Automatic Data Processing Risk Analysis and System Security Review Was Not Performed for Various Pennsylvania Department of Human Services and Insurance Department Systems (Prior Year Finding 11-DPW-08)	Refer to finding 13-DPW-06 for the status of this issue.

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Finding	State Agency/Finding	Comments
DEPARTMENT OF HUMAN SERVICES (DHS) (formally Department of Public Welfare (DPW)) (Continued)		
12-DPW-06	Noncompliance and Internal Control Weakness Over Health and Safety Requirements (Prior Year Finding 11-DPW-11)	Refer to finding 13-DPW-07 for the status of this issue.
12-DPW-07	Weaknesses in the Department of Human Services Program Monitoring of Social Services Block Grant and the Block Grants for Prevention and Treatment of Substance Abuse Subgrantees (Prior Year Finding 11-DPW-12)	Refer to finding 13-DPW-09 for the status of this issue.
12-DPW-08	Lack of Eligibility Documentation Results in Material Noncompliance and Internal Control Weaknesses (Prior Year Finding 11-DPW-14)	Refer to finding 13-DPW-10 for the status of this issue.
DEPARTMENT OF TRANSPORTATION (PennDOT)		
12-PennDOT-01	Internal Control Weaknesses Related to Monitoring of Locally-Sponsored Subrecipient Projects (Prior Year Finding 11-PennDOT-03)	Refer to finding 13-PennDOT-01 for the status of this issue.
12-PennDOT-03	Deficiencies in Information Technology Controls in the Engineering and Construction Management System (Prior Year Finding 11-PennDOT-02)	Refer to finding 13-PennDOT-02 for the status of this issue.

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Corrective Action Plans



Commonwealth of Pennsylvania

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Corrective Action Plans - June 30, 2014

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-001	OB-BAFM	Tiffany Ebersole, Administrative Officer 4	<p>A Material Weakness Exists Over Financial Reporting in the Unemployment Compensation Fund</p> <p>As a result of staff turnover, the Unemployment Compensation (UC) Fund GAAP template was prepared by new staff members who were less familiar with the supporting UC revenue and demand revenue bond schedules that were compiled by their predecessors. An oversight in the analysis and interpretation of the data contained within the supporting revenue and demand revenue bond schedules caused the reported amounts to be inaccurate.</p> <p>Although the BAFM review procedures are adequate, the correcting entries were identified and posted by BAFM subsequent to the initial submission of the UC GAAP template.</p> <p>To help ensure that future amounts are reported accurately, BAFM staff have updated the supporting documentation to include additional cross references on the revenue and demand revenue bond schedules that are used to complete the entries.</p> <p>Within these schedules we have re-annotated the wording used for the amounts that relate to the bond entries in question to help eliminate any misinterpretations when the applicable entries are prepared and reviewed.</p>	Completed
2014-002	Treasury	Ed Palmer, Comptroller (for all CAP items)	<p>General Computer Controls in the Pennsylvania Department of Treasury Need Improvement (A Similar Condition Was Noted in Prior Year Finding 13-02)</p> <ol style="list-style-type: none"> 1. The previous versions of OnBase had security issues which unfortunately necessitated the current configuration. BUCD anticipates a newer version of OnBase that should allow the modification of the user rights to a stricter, more appropriate security setting. 2. It is the policy of the Department of Labor and Industry to provide police and fire personnel access to all areas of the building. The access to the data center currently includes 136 officials (124 capitol and state police, 12 DGS fire and safety personnel) as required by Labor and Industry. These individuals have been established as a separate access group. Since December 2010, BUCD conducts regular reviews of authorized users with Department of General Services. 3. Treasury BUCD is not a client of the Treasury Department network, but is a client of the Department of Labor and Industry (L&I) network. All password requirements of the L&I network apply to users of 	<p>06/30/2015</p> <p>Ongoing</p> <p>06/30/2015</p>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-002 (cont'd)			<p>BUCD. On or about August 15, 2012 L&I OIT issued a Security Awareness Program (Program) bulletin that updated its Information Technology Acceptable Use Policy. BUCD will adapt aspects of the Program bringing BUCD into substantial alignment with Treasury's strong password policy, as well as utilizing newly available encryption for transmission of sensitive data.</p> <p>OnBase passwords are required after network login and consist of 6 alphanumeric characters. These expire every 30 days. The newest version of OnBase enables strong password policies, which are being evaluated by Treasury's CIO for implications at an enterprise level.</p> <p>4. BUCD has no control over this functionality, but acknowledges that this is a limitation of the software. In lieu of system generated logs, BUCD maintains change logs to document system changes and updates.</p> <p>5. Treasury agrees that some data is kept on spreadsheets. These spreadsheets are in secured folders on Treasury servers. The security is set such that only those needing access to the information have access to the folder. Typically, only bureau members have access to folders located within the bureau folder, however, specific individuals can have additional file security. Access to these folders requires network logon to which strong passwords are applied and which are required to change every 60 days.</p> <p>6. Although Treasury had an executed contract with J.P. Morgan and L&I, Treasury had no access to the Unix system referred to in this finding. Treasury does not have super user authority and does not manage users or traffic on this system.</p>	<p>Ongoing</p> <p>Ongoing</p> <p>N/A</p>
2014-003	OB-BAFM DOR	Brain Seno, OB-BAFM, Assistant Director	<p>Material Weaknesses Over Financial Reporting of Corporation Tax Receivables and Tax Refunds Payable</p> <p>OCO agrees that improvements are needed to the methodology and procedures utilized to evaluate, validate and review ITS data to ensure receivable and payables are recorded appropriately as of fiscal year end. OCO is prepared to take the following action necessary to meet the reporting requirement for receivables and payables:</p> <ul style="list-style-type: none"> • OCO will employ additional ACL comparative strategies to mitigate the risk of gross-up. • OCO will collaborate with DOR to develop stronger analyses of receivables and payables data 	06/30/2015

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-003 (cont'd)		Melanie Rhine, DOR, Budget Office Director	<p>reflected in ITS.</p> <ul style="list-style-type: none"> • OCO will collaborate with DOR to develop a stronger understanding and approach to 1) converted payments, 2) carry-forward credits and 3) estimations. • OCO will collaborate with DOR to enhance attention to open-item management and clearing of aged open items. • OCO will collaborate with DOR to develop an adequate understanding of GAAP revenue recognition concepts. • OCO will request early extraction of interim data files for evaluation, testing and strategic planning prior to 6/30/15 in order to develop an enhanced knowledge of ITS data and related departmental tax philosophies and historical behaviors. Also, moving forward, it is planned that only a single data file reflecting all open transactions reconcilable to the accounts receivable GL balance will be requested, as, in accord with the system's current design, all activity (receivable and payable) is posted to this single GL account. OCO will be responsible for appropriately categorizing receivable and payable transactions and, in collaboration with DOR, will perform the critical analyses and account for all considerations necessary to fairly calculate the receivable and payable values as of fiscal year end. • OCO will collaborate with internal audit staff to develop a reasonable approach to stratification and population determinations and defining sample sizes where statistically valid sampling may not be feasible as a result of exorbitant sample sizes. <p>In addition to the corrective actions outlined by OCO, the Department of Revenue is prepared to:</p> <ul style="list-style-type: none"> • Consider options to reduce tax return processing backlogs and, in conjunction with OCO staff, ensure that ITS taxpayer-level transactions are appropriately characterized for GAAP reporting. • Collaborate with OCO to further develop procedures for evaluating, validating, and reviewing the ITS data and accounting estimates to ensure receivables and payables are valid and the amounts reported in the GAAP Template are accurate, as of fiscal year end. • Evaluate contracting for tax and revenue, SAP-knowledgeable GAAP accounting resources to augment internal resources in strengthening revenue accounting policies and procedures in the ITS environment. 	06/30/2015

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-003 (cont'd)			<ul style="list-style-type: none"> • Evaluate procuring ACL to allow for the extraction of tables from SAP and manipulation of that data to provide enhanced visibility of tax returns that are in the “created” status and permit analysis of data over time to aid in the formulation of accounting estimates. • Collaborate with OCO and contracted resources to review and confirm mapping of all taxpayer-level transactions to general ledger entries. • Evaluate and improve testing procedures in conjunction with OCO. 	
2014-004	OB-BQA	Joshua Naylor, Assistant Director	<p>Statewide Weaknesses Within the SAP Accounting System Related to Potential Segregation of Duties Conflicts and Inappropriate User Roles (A Similar Condition Was Noted in Prior Year Finding 13-04)</p> <p>1. The Bureau of Quality Assurance continues to implement the Governance, Risk and Compliance (GRC) module of SAP. GRC will be utilized to identify user level segregation of duty risks. The GRC team has remediated SoD risks in 21 agencies as of 12/31/2014. The project team’s goal is to identify and communicate all remaining SoD risks to agency staff for remediation by June 30, 2015.</p>	06/30/2015
	OB-BPS	Bret Challenger, Director	<p>2a. SAP access has been removed.</p> <p>2b. Although SAP functionality allows an invoice to be entered by Comptroller’s Office, our internal procedures require the invoice to be approved by the agency for those invoices. BPS staff are contacting each Agency that submits paper invoices to have them entered through workflow in the future.</p> <p>2c. Remediation is acknowledged. Inappropriate roles were removed by BQA during the GRC project to review all SAP roles.</p> <p>2d. Remediation is acknowledged. Although there is not a system-enforced segregation of duties, BPS is prevented from printing the checks since this function was physically moved to the Office of Administrative Services and we no longer have the check printer or check stock available for our use.</p>	Completed
				12/31/2015
				Completed
				Completed

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-005	OB-BPS	Bret Challenger, Director	<p>Internal Control Weaknesses Related to One-Time Vendor Payments Posted Into the SAP System and Inappropriate Role Assignments (A Similar Condition Was Noted in Prior Year Finding 13-03)</p> <p>2. Current SAP functionality does not exist to perform this check electronically. For manually entered vendor payments, Bureau of Payable Services internal audit procedures have been updated to verify tax ID numbers against SAP vendor master. If SAP vendor exists, invoice is rejected to be reprocessed with SAP number. Audit procedures will be incorporated into new policy.</p> <p>4. Current SAP functionality does not exist to perform this check electronically. For manually entered vendor payments, Bureau of Payable Services internal audit procedures have been updated to verify tax ID numbers against SAP vendor master. If SAP vendor exists, invoice is rejected to be reprocessed with SAP number. Audit procedures will be incorporated into new policy.</p> <p>5. Although we recognize supervisors have the ability to enter a one-time vendor invoice, our internal procedure is to only allow this with the approval of the Assistant Director or Director of Payable Services.</p>	12/31/2015
	OB-BAFM	Andy Cameron, Assistant Director	1. BAFM disagrees with this finding item.	N/A
		Brain Seno, Assistant Director	3. BAFM disagrees with this finding item.	N/A
2014-006	OA OB-BPM	Jen Smith, OB-BPM Director	<p>General Computer Controls in Various Commonwealth Agencies Need Improvement (A Similar Condition Was Noted in Prior Year Finding 13-05)</p> <p>1. OB-BOA and IES began the process of validating that the interface listing was complete and accurate during SFYE 6/30/14.</p> <p>In January 2015, BOA, BAFM, and IES met to discuss BOA’s validation up to this point, procedures for updating the listing, and ownership of the listing. The result included:</p>	03/31/2015

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-006 (cont'd)		John Clark, OA, Director, Consolidated Agencies IT Services	<ul style="list-style-type: none"> - IES updating their IERP process to include application name as a required field upon agency initiation of a new interface to SAP - IES informing BOA of termination of an obsolete interface - IES providing BOA with monthly files so that BOA can efficiently validate the interface listing <p>The interface listing will reside with OB-BOA.</p> <p>2. Approach is to provide a webinar to Agency CIOs / IT Directors, and Records Coordinators. The webinar will cover how to apply MD 205.43 at the agency / office level.</p> <p>Content for the webinar is complete. We are currently developing the delivery schedule. OA will host the webinar by 06/30/15.</p>	06/30/2015
		Lanny Black, OA, Commonwealth Chief Technology Officer	<p>3. Currently reviewing SOC 1 report results and developing mitigation plan to address identified exceptions.</p>	04/30/2015
	DOR- Lottery	Douglas Miller, IT Manager	<p>1. No corrective action necessary. For the ICS, we did provide an org chart for Spectra employees that clearly indicated who the developers were and who could promote changes. While logged into the ICS servers, we did demonstrate that none of Spectra's developers had accounts on the ICS servers. A screenshot listing all users was provided. We also provided a screenshot showing the groups that all users on the servers are members of, and that the promoters only have access to the ICS application directory.</p> <p>In response to the Backoffice administrator account, although the account was included in the developer group, the specified user does not have access to the application source code and modifications to the application was not possible.</p>	N/A
	Douglas Miller, IT Manager	<p>2. No corrective action necessary. The ICS servers are Linux-based systems and have been configured to CWOPA password standards with the exception of the lockout after failed login attempts. The servers</p>	N/A	

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-006 (cont'd)		Douglas Miller, IT Manager	<p>are configured to lock user accounts for one hour after three (current CWOPA standard is five) failed login attempts. This is due to administrator availability during the evening drawings. Locked vendor accounts must be unlocked within a reasonable timeframe to maintain application support required to meet drawing requirements. All access and all changes are monitored and logged. Event notifications are sent to multiple email addresses as they occur.</p> <p>Given that these servers are not on the CWOPA domain, and are only accessible to a very a tightly controlled internal network, we feel the current configurations are sufficient to maintain a high level of security.</p> <p>3. For the ICS servers, the account referenced in the finding, was not active, but disabled. The employee did not have access to any Commonwealth networks and therefore could not access the ICS servers. The account was not deleted in order to verify if any of the contents in the user's home directory needed to be retained. There was no security threat resulting from this account. The account and its home directory contents have since been deleted from the servers.</p> <p>In response to the Backoffice administrator account, the system account password expiration and system connectivity controls implemented by the Department of Revenue restricted access to the Backoffice server prevented access by this user account.</p>	Completed
	L&I		Michael Sage, Security Division Chief (for all CAP items)	
<p>2. Management will research feasible compensating controls to limit/eliminate contractor's ability to promote code into the production environment. The goal will be to complete this research by June 30, 2015. If a solution is found to limit/eliminate contractors' ability to promote into the production environment, it will be L&I's goal to implement the solution by December 31, 2015.</p>	12/31/2015			
<p>3. Due to current staffing levels the documented access has been determined to be necessary. Because these access levels have been determined to be necessary, no corrective actions will be taken.</p>	N/A			
<p>4. Due to the current nature of the UCMS application this level of access has been determined to be</p>	N/A			

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
<p>2014-006 (cont'd)</p>			<p>necessary. Because this level of access has been determined to be necessary, no corrective actions will be taken.</p> <p>5. Due to current staffing levels resources do not currently exist to conduct the access reviews on a regular basis. The Security Division will research and evaluate if an access review can be conducted. If feasible, a review will be completed by December 31, 2015.</p> <p>6. Remediation is acknowledged.</p> <p>7. While there currently isn't an alert system in place for this door, the door has had additional security added. The door now requires badge access to enter or exit. Research will be conducted to identify whether an alert system can be implemented. Research will be completed by June 30, 2015. If a solution is identified, the goal will be to implement the solution by December 31, 2015, assuming funding is available.</p>	<p>12/31/2015</p> <p>N/A</p> <p>12/31/2015</p>
	<p>L&I- SWIF</p>	<p>Michael Sage, Security Division Chief (for all CAP items)</p>	<p>1. A standard SDLC is currently being developed for use by all L&I system development projects. However, this enterprise SDLC has not yet been finalized. L&I will continue to develop, finalize, and publish a standardize SDLC. The goal is to complete this work by December 31, 2015.</p> <p>2. It is expected that a procedure will be developed as part of any future data migration efforts. Another data migration effort isn't expected until the current SWIF system is migrated as part of the PA Compute Service (PACS) project, or until the SWIF system is replaced as part of a pending RFP. SWIF is currently scheduled to migrate as part of PACS project in April of 2016. There isn't currently an estimated date for the SWIF system replacement as part of the pending RFP. For these reasons, no corrective actions will be taken.</p> <p>3. L&I is currently investigating a possible upgrade of the OnBase application. Following the investigation of an OnBase upgrade, research will be conducted to determine if a shared account is required by the OnBase product. If it's determined that a shared password is not required, staff will log onto the server with their unique username and password instead of a shared account. It is our goal to complete this effort by December 31, 2015.</p> <p>4. The password requirements used are based on the functionality/limitations for these products. A RFP is being drafted to modernize the SWIF systems. The RFP will include specific requirements to ensure</p>	<p>12/31/2015</p> <p>N/A</p> <p>12/31/2015</p> <p>N/A</p>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-006 (cont'd)			<p>the replacement systems meet all L&I, OA, and industry best practices around user and password management. Until the SWIF systems are modernized, the Department can only use the functionality available through the products used/listed. For these reasons, no corrective actions will be taken.</p> <p>5. While the PowerComp system uses the userID as its password, the user must first log onto the workstation with their CWOPA ID and password. The system requires the userID entered to match the ID that was used to log onto the workstation. The Department feels this is a mitigation factor until the PowerComp application is replaced as part of a pending RFP. For these reasons no corrective actions will be taken currently.</p>	December 2017
	PennDOT	<p>Deb Reihart, Systems Management Chief</p> <p>Greg Baranec, Network Administrator</p>	<p>1. After the auditors' initial review, it was found that individuals were circumventing the procedures that were in place at that time. New procedures were then implemented on November 13, 2014 with safeguards to ensure that only the proper people were granted admin access via the ECMS Help Desk. No additional corrective actions are planned for this issue.</p> <p>2. To immediately address the concerns identified by the auditors, the Client Server Security team of PennDOT changed the local admin password on the dotGrants server and created a unique user ID and password for every network engineer who supports dotGrants on January 16, 2015. In order to perform any maintenance on the application the network engineer will need to utilize the specific user ID and password created for them. A permanent solution is scheduled to occur during the upcoming dotGrants server migration on March 27, 2015. The current dotGrants server will be shut down and the application will be migrated to the new Windows 2008 server residing in the domain, Client Server will then be able to manage access to the servers thru Active Directory (AD), eliminating the need for the local unique user accounts.</p>	Completed 03/31/2015
	DHS	<p>John Miknich, Chief Info. Security Officer</p> <p>John Miknich, Chief Info. Security Officer</p>	<p>1. DHS has implemented Sailpoint which is an automated process for User Access Recertification. It has been rolled out in development with a phased approach planned for all production users of eCIS and COMPASS systems. Completion should be 1st quarter of 2015.</p> <p>2. DHS uses CyberArk solution to centrally manage privileged accounts and has implemented a privileged user management (PUM) process that is followed by employees and contractors who require administrative access to the department's production servers. The process and the tool provide the user with an interface to securely login to production servers, without knowing or being exposed to the password. At the same time, CyberArk provides the following, additional benefits:</p>	03/31/2015 Completed

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2014-006 (cont'd)		Brian Stewart, Bureau of Info. Systems	<ul style="list-style-type: none"> - granular role-based access that limits the scope of each end user's access to the bare minimum required by their job duties - governance around access to production systems that allows management to be notified in real time when production server is being used, as well as receive weekly activity reports - accountability by mapping each user's individual id and logon to the privileged account that is being used at any given time - advanced monitoring by offering session recording that allow to capture video of user's activity on the most critical target systems - isolation from external threats by leveraging an intermediary proxy server to access the target system - ability to change passwords automatically and on demand without exposing them to the end user <p>Usage of service accounts with individual accountability: The process implemented by DHS leverages a number of service accounts that are made available exclusively to several DHS teams (server team, database team, security team etc.). Those accounts have elevated privileges on specific target systems, as required by job duties of each individual team. Although members of each team may end up using accounts from the same pool, they will never know the password of any of the accounts and only a single user can use any given account at a time. CyberArk keeps track of who used which account and when, and therefore provides individual accountability for every action taken by the privileged account.</p> <p>Usage of Remote Desktop Session without prompting for credentials: In order to enable privileged user access to the designated target systems but without exposing the password to the end user, CyberArk launches Remote Desktop Sessions and injects the privileged credentials on behalf of the user. This requires the target system to allow remote login without prompting for credentials, however it gives an added layer of security, because it's CyberArk, not to end users that saves the password, and does so in a secure vault.</p>	Completed
		Pamela Skelton, IT Generalist 2	4. DHS will harden all policies and procedures to ensure all processes are being followed.	June 2015
		Marie Stokes,	5. Change to bring the EPPIC password configuration policy setting in alignment with Xerox password	Completed

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2014-006 (cont'd)		EBT Project Officer	configuration policy setting standard requirements was completed on February 10th 2014.	
		Gayle Fajardo, Lane, HP Account Executive	6. A newly employed Securitas Security staff incorrectly granted full access to the auditor badge instead of granting the partial access requested on the Automated Physical Access request System (APARS). The Securitas Security staff was reminded to follow the established procedures at all times. We believe this to be an isolated human error that was corrected immediately and did not jeopardize the security at the HP ES Camp Hill facility.	Completed
		Denise Luce, OMAP/BDCM, Chief, Planning and Contract Management Section	7. Unisys management recognizes that a formal process did not exist to monitor production code libraries for unauthorized changes. Though the risk is small, Unisys recognizes that the potential existed that unauthorized changes to production code could be made. Unisys management has discussed this issue with Unisys and Molina technical resources as well as Account Security Officer for HP ES. As a result, Unisys management has identified a solution that was implemented in September 2014.	Completed
		Terry Findling, Unisys Program Manager		
		Gayle Fajardo, Lane, HP Account Executive		
		Denise Luce, OMAP/BDCM, Chief, Planning and Contract Management Section		
	DOH		1. Remediation is acknowledged.	N/A
		Paul	2. Regarding Generic UserID's having access to WIC Database Administration, generic Database	03/31/2015

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2014-006 (cont'd)		<p>Przewoznik, Information Security Officer</p> <p>George Nace, Database Admin Mgr.</p> <p>Patricia Hopple, LAN Team Manager</p> <p>Paul Przewoznik, Information Security Officer</p> <p>Gregory Johnson, WIC Applications Manager</p>	<p>Administrator accounts have been removed from the Database Administrator Group within Active Directory and from the Global Address List. Named Accounts/Unique Accounts for production database access are now in place for individuals requiring system access that exclusively identifies the individual to whom it is assigned. Also, BIT Applications Division staff members do not have Named Accounts or Shared Accounts for production WIC database access.</p> <p>Regarding Generic UserID's having access to Server Administration and Domain Administration, the DHProdAdmin account (previously shared) has been deactivated.</p> <p>Applicable managers are directed/reminded periodically to utilize named accounts, not to share accounts and to monitor accounts to verify compliance.</p> <p>The OA/OIT Enterprise Technology Security Council (ETSC) and OA/OIT Identity and Access Management Sub-Committee (IAM) are in the process of updating COPA policy OA/OIT ITP-SEC007 (COPA ID/Password Management Policy). The DOH Information Security Officer (ISO) is participating on both committees and requirements needed to address GAAP audit findings have been proposed for policy inclusion. This effort is taking longer than originally expected per incorporating a variety of CJIS, HIPAA and NIST standards, per volume of drafts circulated and per subsequent feedback received from various COPA agencies. The anticipated completion date for policy effort is 3-31-15.</p> <p>Recommendations attained in conjunction with a 3rd party security assessment completed at DOH 6-30-14 are also being applied to current policy documentation efforts.</p> <p>3. WIC system changes and amended policy/procedures were implemented to address this finding. Updates were approved by the USDA. However, per the 2014 GAAP audit, additional improvements are necessary to ensure that documentation exists for all access requests, access levels and changes to existing users' access. As a result, the process and policy presented to the GAAP auditor on 5-23-14 was retired.</p> <p>Subsequently, all WIC system access is being managed by the Bureau of WIC via the Service Now system. New process and policies were implemented on 12-23-14.</p>	Completed
	PDE	Data Quality	1. The PDE is working with the vendor on a plan to ensure that all program promotions into production	03/31/2015

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2014-006 (cont'd)		Manager, Division of Data Quality	will be performed by a non-developer staff member.	
		IT Manager, Div. of IT Support	2. The PDE is updating procedures for server log review, anomaly detection, and follow-up. The PDE will determine feasibility of capturing log data that identify individual actions after server login, within capabilities of OA-provided server log review tools.	03/31/2015
		Data Quality Manager, Division of Data Quality	3. This finding addresses the same server logging issue as number two above, and will be addressed through that finding.	03/31/2015
		IT Manager, Div. of IT Support	<p>4. The PDE disagrees with this Finding.</p> <p>As was explained to the audit team, all servers everywhere have a machine-level administrator account. They must have this to allow an administrator to log on to the machine to repair and recover it, in the event the server has crashed, or otherwise has become disconnected from a domain server such as CWOPA.</p> <p>The PDE's current policy, a copy of which was provided the audit team, directs system administrators (SAs) to always login to a server using their CWOPA credentials. If for some reason a machine login is needed, they are to e-mail the LAN Team Manager and IT Support Division Manager, documenting the occurrence and the reason for the machine login.</p> <p>Regarding the two cases cited in the Finding, it was explained to the audit team that one of these cases involved a known crashed server, and the situation was discussed by the SA and the LAN Team Manager prior to the SA being dispatched to restart the server and restore it. The LAN Team Manager already was aware of this because he dispatched the SA, and knew because the server was crashed that the machine login would be done. In this instance, the SA understandably did not feel a follow-up email was required, since his specific instructions were to restore the server.</p>	N/A

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2014-006 (cont'd)		Data Quality Manager, Division of Data Quality	<p>The other case was one where the SA determined independently that a machine login was needed, but overlooked sending the documenting e-mail. This situation was formally discussed with the SA by the IT Support Division Chief and the LAN Team Manager, and the official policy was reviewed with the SA at that time.</p> <p>It should be noted that aside from these two cases, during the audit period there were likely several hundred SA logins done to the in-scope system servers in the manner prescribed by our policy, using their CWOPA credentials. The two cases cited, therefore, represent less than 1% error rate, and conversely, an effective control rate in excess of 99%. It is therefore PDE's position that the current policy will be maintained, and no specific corrective action is necessary.</p> <p>The PDE will continue to formally review this and any similar CDQIT security policies on a quarterly basis with members of the IT Support Division staff at regular staff meetings.</p>	N/A
	DOR	Michael Dailey, IT Manager 2	<p>5. The PDE disagrees with this finding.</p> <p>The application source code is maintained solely by the vendor. Only executable files are resident on PDE servers for testing and promotion to production. Therefore, the PDE developer in question cannot make changes to the application. Additionally, her roles as an Application Administrator and the Cognos Reporting Lead require her to be able to grant roles and create accounts for application users.</p> <p>6. The PDE was informed by our vendor about the need for these users to be added to the system and what level of access was required in order to perform their duties. The PDE was not made aware of the transition of one of these vendors to another role. Going forward, PDE will work with our vendor to provide us with timely notification of changes to vendor staff duties and justification of requested access for new or existing vendor staff.</p> <p>1. There is no migration team that exists to perform the functions described in the finding. A lack of resources requires us to allow developers to change operation schedules since they are the only ones with an understanding of these processes. No one on the user side has the expertise or knowledge to perform these functions.</p> <p>The promotion of Firmware changes is more complex than simply copying program files to production.</p>	
				July 2015

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2014-006 (cont'd)		Bernard Stakem, Director, BIDM	<p>Promotion requires detailed technical knowledge of the code, because a series of code or configuration changes have to be made at different parts of the environment.</p> <p>DOR previously implemented a compensating control utilizing our System Implementation Document (SID). For each change implemented in production, we will require the programmer to receive management approval prior to moving the change into production. The approval is documented on the internal DOR system approval document (SID) which is stored with the project request information in the Bureau of Information System file share.</p> <p>2. TMS is third party software and we have no control over how they implement their password rules. We have asked them for an enhancement to their software to allow some flexibility in setting password rules.</p>	July 2015
		Michael Dailey, IT Manager 2	<p>E-Tides is used by over 500,000 taxpayers and having them change their passwords to conform to the ITP is not feasible. Most of these taxpayers are quarterly and semi-annual filers and changing their passwords would occur several times between their required filings. E-Tides is like other popular web sites in the commercial sphere in that it does not require taxpayers to constantly change their passwords since the main users of the application are the public.</p>	
		Christopher Dressler, IT Manager 1	<p>DOR is in the process of requesting waivers to ITP-SEC007. A waiver request was submitted January 22, 2015, and is currently in process with the Office of Administration for E-TIDES passwords. A similar waiver request is being created and will be provided to OA to review for the TMS system as well.</p>	July 2015
		Bernard Stakem,	<p>DOR will continue to expand the periodic access review procedure to the remaining in-scope systems.</p>	09/30/2015
<p>4. As mentioned in the finding, the current layout of the data center has an emergency exit in the room where the imaging equipment and servers are located. DOR has made employee safety our top priority</p>				

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2014-006 (cont'd)		Director, BIDM Michael Dailey, IT Manager 2	by providing access to all employees in event of an emergency. Additionally, DOR does not own the building, so changes will need to be done in accordance with agreement(s) with the building owner. The department is currently evaluating options to restrict access to certain parts of the building to only those employees with a business need to access that area, while ensuring employee safety will not be impacted.	July 2015
		Bernard Stakem, Director, BIDM	5. There is no migration team that exists to perform the functions described in the finding. A lack of resources requires us to allow developers to change operation schedules since they are the only ones with an understanding of these processes. No one on the user side has the expertise or knowledge to perform these functions.	
		Michael Dailey, IT Manager 2	DOR previously implemented a compensating control utilizing our System Implementation Document (SID). For each change implemented in production, we will require the programmer to receive management approval prior to moving the change into production. The approval is documented on the internal DOR system approval document (SID) which is stored with the project request information in the Bureau of Information System file share.	
		Michael Dailey, IT Manager 2	6. There is no migration team that exists to perform the functions described in the finding. A lack of resources requires us to allow developers to change operation schedules since they are the only ones with an understanding of these processes. No one on the user side has the expertise or knowledge to perform these functions.	July 2015
		Bernard Stakem, Director, BIDM	7. Remediation acknowledged. Corrective action was implemented in July 2014.	Completed
		Michael Dailey, IT Manager 2		

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2014-006 (cont'd)		Christopher P. Dressler, IT Manager 1	8. The Revenue Security and Audit Review Office has reviewed and reduced the mainframe operations (privileged) attribute from 60+ to 27. DOR will continue to review and reduce operations attributes where feasible without disrupting department operations.	July 2015
		Michael Dailey, IT Manager 2	9. DOR will work with the service provider to correct the issues listed.	July 2015
		Michael Dailey, IT Manager 2	10. DOR will work with the service provider to correct the issues listed.	July 2015
	PLCB	Dee Mayer, Asst. CIO; Dan Trafton, OITS Security Chief	1. An entire privileged account review was conducted on July 1st, 2014 by PLCB IT security and will be repeated periodically as a matter of policy. Latest review was done January 9, 2015. ACI RCS account (payment switch) review is being conducted monthly by security.	Completed
		Dee Mayer, Asst. CIO	2. Policy was completed and fully implemented in August, 2014.	Completed
		Dee Mayer, Asst. CIO	3. Robocom remediated the program in October, 2014. Cycle count reports are working properly.	Completed
2014-007	Treasury	Ed Palmer, Comptroller	Ineffective Methodology in Estimating Escheat Liability (A Similar Condition Was Noted in Prior Year Finding 13-01) Further evaluation of old year property returns will be conducted to develop an alternative methodology for the long term portion of the escheat liability.	06/30/2015
2014-008	DCED	Ed Geiger, Director, Center of Community	The Department of Community and Economic Development Did Not Perform Adequate During-the-Award Monitoring of Subrecipients (A Similar Condition Was Noted in Prior Year Finding 13-DCED-01) We have been working closely with technical advisors from HUD to address our lack of sub-recipient monitoring. We have submitted a corrective action plan to HUD in response to their monitoring that took place in June of 2014. DCED will hire consultants to perform program monitoring. Once the	07/01/2016

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2014-008 (cont'd)		Finance Connie Huber, Director, Financial Mgmt Center	consultant has been trained, the plan will be to perform 180 monitoring visits by September 30, 2015. DCED anticipates resolving this finding by July 1, 2016.	
2014-009	DCED	Ed Geiger, Director for the Center of Community Finance MJ Smith, Chief, Technical Support and Program Development Division	Material Noncompliance and Material Weaknesses in Internal Control in DCED's Consolidated Annual Performance and Evaluation Report DCED's corrective action to improve internal controls when management is reviewing the Consolidated Annual Performance and Evaluation Report (CAPER) will consist of the Economic Development Consultant - Fiscal, who gathers the documentation for the CAPER, establishing an index of tables and charts that are in the CAPER and identifying the corresponding support documentation that was used to fill the charts. This index, along with the supporting documentation, will be maintained on the R drive of the Center's computer system under the Single Audit Reviews for the appropriate program year and may be referenced by the supervisor and director as they are completing their review of the CAPER before submission. Please note, that with the start of the 2014 program year, the Commonwealth's CAPER is being completed under the E-Con Planning Suite format as required by HUD. This format allows for the pre-population of the required tables and charts using data entered in the Consolidated Plan portion of the suite and/or IDIS. Having this established template automatically completed via the E-Con Planning suite will assure that the specific information is included in the report and fewer occasions of required items being missed or not entered.	Completed
2014-010	PDE	State Director, Child Nutrition Programs, Division of	Deficiencies in Information Technology Controls Over the Pennsylvania Department of Education's Child Nutrition Program Electronic Application and Reimbursement System (A Similar Condition Was Noted in Prior Year Finding 13-PDE-01) The PDE, Division of Food and Nutrition disagrees with this portion of the Finding and will continue to follow the process it has outlined in prior year audit responses pertaining to the deployment log. This has been an issue over the last several years and PDE developed a process to reconcile vendor reported activity to server activity. This process is very effective. The manual deployment log (housed in	N/A

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2014-010 (cont'd)		Food and Nutrition	<p>SharePoint) is reconciled against the system generated server log. Logging these items into SharePoint was not part of the process. SharePoint is the means of housing the deployment log, not the source of documentation.</p> <p>As stated in the auditor's report, PDE did institute a process to review individuals with administrator rights. Documentation of the review will be available for the 2014-2015 audit year.</p>	Completed
2014-011	PDE	Chief, Division of Subsidy Data & Admin., Bureau of Budget & Fiscal Management	<p>A Significant Deficiency and Noncompliance Exist Over the Pennsylvania Department of Education's Reporting of the Annual State Per Pupil Expenditure Amount (A Similar Condition Was Noted in Prior Year Finding 13-PDE-06)</p> <p>The PDE, Division of Subsidy Data and Administration (DSDA) is in disagreement with the portion of the finding that relates to manual compensating controls. See Agency Response in the body of the finding for details regarding the disagreement.</p> <p>The DSDA is in disagreement with this finding as it relates to ADA used to report the State Per Pupil Expenditure. As explained during the audit, LEAs are the owners of their data and are responsible for its accuracy. The DSDA provides training and validation reports to 1) assist LEAs in the understanding of the data being submitted and 2) perform their own analysis to ensure accuracy of the data. In addition, DSDA reviews submitted data and when data appear to fall outside of normal ranges, contacts LEAs to notify them of potential errors.</p> <p>As additional assurance that LEAs understand the importance of ADA data, in June 2013 DSDA added ADA data to the Accuracy Certification Statement (ACS) submitted by each individual LEA following its submission of end-of-year attendance and membership data to DSDA. However, PDE cannot either force an LEA to provide an ACS to accompany its uploaded data or reject an LEA's uploaded data based on the failure to receive an ACS. Based on DSDA's procedures to review submitted data, lack of an ACS does not indicate erroneous data exist. The DSDA's manual compensating controls are adequately designed and effectively operated to ensure that the LEA's data has been accurately provided to PDE.</p>	<p>N/A</p> <p>N/A</p>

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2014-012	PDE	<p>Div. Chief & Educational Research Associate, Division of Performance Analysis and Reporting</p> <p>Bilingual Education Advisor, Div. of Instr. Quality</p> <p>Chief, Division of Performance Analysis and Reporting</p> <p>Div. Chief & Educational Research Associate, Division of Performance Analysis and Reporting</p> <p>Educational</p>	<p>A Material Weakness and Material Noncompliance Exist Over the Pennsylvania Department of Education’s Consolidated State Performance Report, Annual Report Card, and Reporting of the Annual High School Graduation Rate (A Similar Condition Was Noted in Prior Year Findings 13-PDE-05 and 13-PDE-06)</p> <p>Condition #1: The PDE, Division of Performance Analysis and Reporting (DPAR) requested that the English Language Learners Program (ELL) and all other data sources provide a ‘snap shot’ at the time of reporting in order to ensure that the auditor will be able to verify the data reported against the source documentation. The snap shot would be reflective of the reporting and would be sent to PDE on or prior to the next submission of annual data from ELL and all other data sources.</p> <p>Condition #2: The DPAR disagrees with this Condition. See Agency Response in the body of the finding for details regarding the disagreement.</p> <p>Condition #3: The DPAR disagrees with this Condition. See Agency Response in the body of the finding for details regarding the disagreement.</p> <p>Condition #4: The DPAR disagrees with the portion of this condition related to Financial Finding 14-06 as the Division Data Quality (DDQ) has addressed this finding and implemented a CAP.</p> <p>The DPAR disagrees with the portion of this condition as it is related to the areas noted in Condition #3.</p> <p>The PDE, Division of Data Quality (DDQ) has implemented several steps to reduce the number of duplicate records and these steps have been responsible for improving the data integrity. For SY 2013-2014, PDE created a data quality engine (DQE), which is an upfront edit checking program, to control the data entered by PIMS to minimize the number of data errors.</p>	<p>Completed</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>Completed</p>

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2014-012 (cont'd)		<p>Statistics Director, Division of Data Quality</p> <p>Statistical Analyst, Division of Data Quality</p> <p>Chief, Division of Performance Analysis and Reporting</p>	<p>For SY 2013-2014, an enhancement of the computer program was performed to identify and reconcile duplicate student records.</p> <p>For SY 2014-2015, PDE added rules to the DQE to prevent LEAs from (1) providing no data in key data fields, which are required to identify a student's cohort, and 2) reporting a student without clearly identifying the time of the student's enrollment. The impact of these rules on the accuracy of the graduation rate will not be realized until the production of the SY 2014-2015 graduation rates.</p> <p>The DDQ will work with key stakeholders throughout the 2015 calendar year, in the process with meetings or other methods of collaborative communication; to develop a set of decision making criteria that would determine the way in which to resolve any duplicate student records that have multiple listings of LEAs or multiple categories of demographic variables. The impact of these decision making heuristics will not be evident until the production of the SY 2015-2016 graduation rates.</p> <p>For SY 2014-15, DDQ will be refining tools and developing new ones for the LEAs that will help minimize data errors prior to collection closure. Training for the use of the tools will be incorporated into the normal training schedule. These improved reports will assist LEAs to identify duplicates earlier in the data collection process. The impact of these reports will not be realized until the production of the SY 2014-2015 graduation rates.</p> <p>For SY 2015-2016, DDQ will explore the addition of more rules to the DQE to improve the accuracy of the graduation rate calculations. The impact of any newly identified DQE rules will not be realized until the production of the SY 2015-2016 graduation rates.</p> <p>Condition #5: The DPAR has requested progress reports from Data Recognition Corporation (DRC) on the 2014 NIST audit's recommendations on a quarterly basis and has also requested a SOC Report for 2015 to ensure that the student testing data is secure and processed in accordance with PDE's intent.</p> <p>The DPAR has incorporated a SOC Report in its scope of services required in the Request for Proposal (RFP) for the new vendor contract beginning in January 2016.</p>	<p>Completed</p> <p>June 2015</p> <p>December 2015</p> <p>December 2015</p> <p>June 2016</p> <p>December 2015</p> <p>January 2016</p>

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2014-013	PDE	SIG Program Manager Chief, Div. of Fed. Programs, Bureau of Curriculum, Assessment and Instruction	<p>A Material Weakness and Material Noncompliance Exist in the Pennsylvania Department of Education’s Subrecipient Allocation Process, Earmarking Process, and Monitoring of Subrecipients (A Similar Condition Was Noted in Prior Year Finding 13-PDE-07)</p> <p>The PDE, Division of Federal Programs (DFP) has implemented the corrective action necessary to provide additional oversight to the monitoring of SIG grantees. The Division Chief signs all SIG monitoring reports at the end of each monitoring year.</p> <p>The DFP continues to disagree with the “earmarking” portion of this finding. The USDE is in support of the procedures that were carried out by DFP relative to “earmarking.” As a result, corrective action is not necessary for this portion of the finding.</p>	Complete N/A
2014-014	DOH	Michelle Davies, Accountant 3, Bureau of WIC	<p>Noncompliance and Internal Control Weaknesses Related to Food Instruments and Cash-Value Voucher Redemptions (A Similar Condition Was Noted in Prior Year Finding 13-DOH-01)</p> <p>PA DOH’s analysis and subsequent determinations are based on data and supporting documentation available for review. An alternative data retrieval mechanism leveraging .NET has been utilized for this alternate analysis, which focuses on identifying and including only those FIs contained in the sample Fulton paid files. This enables a much more accurate data sample for reconciliation, an ongoing issue since September 2011 when Fulton altered their internal processing to include multiple FI redeemed dates in daily paid files.</p> <p>In our analysis using the 25 sample days and FIs processed on those days, PA DOH calculated a total discrepancy of \$623.97 in lower SAP payments versus FI redemptions reflected in WIC records. The days sampled show a total of \$1,670.56 in daily SAP payments exceeding FI redemptions and \$2,294.53 in daily SAP payments lower than FI redemptions. PA DOH believes this analysis to be more accurate because it only includes the Fulton paid files that were processed on the sample days, excluding FIs with matching redemption dates and nonmatching processing dates.</p> <p>DOH BIT has implemented a working interim solution that is currently being used by WIC accounting staff for daily reconciliation. On April 29, 2014, DOH BIT implemented a non-retroactive change that adds a “processing date” as well as other improvements to identified issues with the current process. On</p>	09/30/2015

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2014-014 (cont'd)			<p>October 14, 2014, DOH BIT implemented a non-retroactive change to include “no master record” paid errors that had not been included in the April 29, 2014 implementation.</p> <p>Although WIC is now capturing all data required for reconciliation, no standard reports have been created due to the forthcoming SAS project that will ultimately replace current WIC reporting. Upon project completion, the WIC accounting staff will be able to leverage SAS for daily reconciliation with Fulton and the Commonwealth’s SAP system.</p>	
2014-015	DHS	Tamera Hughes, Human Services Program Specialist Supervisor	<p>A Material Weakness and Material Noncompliance Exist at the Department of Human Services Related to Electronic Benefits Transfer Card Security (A Similar Condition Was Noted in Prior Year Finding 13-DPW-01)</p> <p>DHS will require EBT Coordinators and their designee to complete the EBT Security Procedure eLearning module to reinforce the proper use, retention or destruction of EBT logs and ribbons.</p> <p>Periodic statewide reconciliations will be completed to verify, add, or remove the names of EBT card pinner/maker.</p>	3/31/2015
2014-016	DHS	Joel O’Donnell, Director, Bureau of Program Evaluation, Office of Income Maintenance	<p>A Material Weakness and Material Noncompliance Exist in Reporting on the Temporary Assistance for Needy Families ACF-199 Data Report (A Similar Condition Was Noted in Prior Year Finding 13-DPW-05)</p> <p>As noted in the response to the AG, DHS, in part, disagreed with this finding. DHS contends that in many of the cases identified by the AG as having reporting error and/or documentation discrepancies, the Work Participation Status of the case would have remained unchanged. However, DHS will be more diligent in hours calculations in the future. DHS believes that it is verifying and calculating work participation activities by its HHS approved TANF Work Verification Plan and disagrees that the hours submitted are not properly documented.</p> <p>DHS has strengthened its existing procedures over the last several years to help ensure all reported work activities are properly documented, supported and classified, in such ways as re-reviewing cases that did not meet the federal work participation requirements. In April 2012, DHS started re-reviewing ten percent of all cases with work activities of employment and educational calculations, as well as child</p>	N/A

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2014-016 (cont'd)			<p>care payments to ensure reporting accuracy and consistency and plan to continue with this review. DHS will continue with the ten percent reviews of cases, as well as the review of child care payments.</p> <p>Headquarters staff will continue to hold calls with supervisory units to ensure there is consistency in calculation, evaluation and reporting of cases. Additionally, DHS holds monthly Employment & Training calls with CAO staff at which concerns related to the calculation of hours will be addressed as necessary.</p>	
2014-017	DHS	Stephanie Weigle, Administrative Officer 4	<p>Material Weaknesses and Material Noncompliance Exist in Monitoring of Foster Care, Adoption Assistance and Temporary Assistance for Needy Families Subrecipients by the Department of Human Services' Office of Children, Youth and Families (A Similar Condition Was Noted in Prior Year Finding 13-DPW-03)</p> <p>Response to #1, #2 and #4– DHS maintains that we are in compliance with the codes and regulations regarding our during the award monitoring; however, in an effort to strengthen our on-site licensing inspection process, we will be restructuring the timing of the on-site inspection as well as the activities following the on-site to assure timely completion and approval of the on-site findings prior to the expiration of the prior year’s license. There will be transition overlap for the process as this change will be implemented July 1, 2015 (FY 2015-16); similar issues may be present in the next audit as inspections are already scheduled for the first half of calendar year 2015 (January – June).</p> <p>Response to #3 – Effective immediately, DHS will ensure that two separate individuals review and sign the county inspection reports.</p> <p>Response #5 – While we feel that we are already in compliance with the monitoring of our subrecipients, we intend to review the existing processes to enhance and/or strengthen those processes. As part of our Needs-Based Planning and Budget process, we will be asking each county to provide information regarding their processes for completing during the award monitoring of their subrecipients and contractors. This information will be available for the next audit.</p> <p>Response #6 – OCYF has relied on staff at the Child Welfare Education and Research Program at the University of Pittsburgh to meet with the universities on a regular basis to review documents regarding students records (transcripts, GPAs, etc.) to ensure eligibility for the CWEL/CWEB program. A conference call with staff from OCYF and University of Pittsburgh is scheduled in March 2015 to</p>	06/30/2015

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2014-017 (cont'd)			discuss the current monitoring processes in place. Following that call, OCYF will develop and implement a process to perform during the award monitoring which includes reviewing the monitoring process completed by the University of Pittsburgh, as well as random sampling of documentation, such as tuition bills, transcripts, and internship or graduate trainee employment records, to ensure the non-profit subgrantee paid costs that are allowable and eligible under Foster Care. Implementation of the monitoring process will occur in FY 2015-16.	
2014-018	DHS	Joel O'Donnell, Director	<p>Department of Human Services Did Not Validate Financial Information as Part of its On-Site Monitoring of Temporary Assistance for Needy Families Subrecipients (A Similar Condition Was Noted in Prior Year Finding 13-DPW-04)</p> <p>DHS disagrees with this finding however; DHS will consider improvements to strengthen the existing subrecipient monitoring processes moving forward.</p>	N/A
2014-019	DHS	Adam Riggs, Acting Division Director, Division of Federal Programs	<p>Noncompliance and Controls Not Operating Effectively in the Department of Human Services' Administration of the Low-Income Home Energy Assistance Program</p> <p>DHS will continue to reinforce policy through annual LIHEAP training and monitoring procedures and ensure that supervisory personnel are properly trained.</p> <p>LIHEAP is being administered accurately and efficiently with all supporting documents that are necessary to determine eligibility to be in compliance with state and federal regulations. Workers and supervisors have access to the LIHEAP Policy Handbook and the LIHEAP User Manual that instructs them on the proper policy and procedures for income verification. In addition, DHS conducts thorough training of staff and supervisors. Before the start of the LIHEAP season, staff and supervisors receive two separate trainings, one on LIHEAP policy and the other on processing cases correctly in eCIS. These trainings are available for review throughout the season for supervisors to train new employees. In addition, throughout the season, staff and supervisors participate in weekly LIHEAP Knowledge Reinforcement Sessions (LKRS) to reinforce LIHEAP Policy. Finally, LIHEAP staff participates in bi-weekly LIHEAP calls where policy and system issues are reinforced to CAO management and supervisors. This training helps to ensure that:</p> <ul style="list-style-type: none"> • LIHEAP policy is applied correctly on all applications • Verification provided by all applicants is interpreted and input into eCIS accurately 	Ongoing

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2014-019 (cont'd)			<ul style="list-style-type: none"> Information known to CIS and available through data exchanges is reviewed and used properly <p>A key component in the LIHEAP Monitoring review process is the completion of weekly CAO supervisory reviews of LIHEAP applications. CAO supervisors use a review tool designed to guide the reviewer and accumulate meaningful statewide results. CAO Supervisors and Managers as well as staff in the Bureau of Program Evaluation (BPE) monitor the results of the supervisor reviews to identify trends and implement corrective action activities.</p> <p>In addition, on an annual basis the BPE monitoring team reviews a statistically significant sample of applications that are randomly selected through data mining techniques and random samples. The team monitors CAO and Crisis Contractor administration of LIHEAP activities including eligibility, benefit determination and corrective action through LIHEAP application reviews and on-site visits.</p> <p>Accordingly, DHS will continue with the annual training and weekly monitoring already in place for both staff and supervisory personnel.</p>	
2014-020	DHS	<p>Adrienne Smyth, Human Services Program Representative 2</p> <p>Maria J Hegedus, Budget Analyst 4, Finance Section</p>	<p>Noncompliance and Internal Control Weakness in Department of Human Services' Contracting With Child Care Subgrantees (A Similar Condition Was Noted in Prior Year Finding 13-DPW-08)</p> <p>Having received notification of the Noncompliance and Internal Control Weakness in DHS's Contracting and Monitoring of Child Care Subgrantees for the 12-13 FY well into the 13-14 FY, a corrective action plan was unable to be implemented early in the 13-14 FY. Thus, the continuation of the deficiency into the 13-14 FY. As indicated below in the 12-13 FY response, a corrective action was immediately implemented for the 14-15 FY and future fiscal years by using 100% State funds to advance working capital to the Keys.</p> <p>12-13 FY Audit Finding and Corrective Action Taken for 14-15 FY: The Keys are provided 25% of their total fiscal year allocation 30-45 days after passage of the budget as working capital. The working capital funds are utilized to disburse funds for provider grants, as well as reimburse the Keys for general operating expenses, e.g. personnel and benefit costs, supplies, sub-contracts, conferences and meetings, occupancy, etc. during the time period while waiting on payment since the organization must continually operate on a 12 month cycle.</p> <p>During the 13-14 FY, the working capital consisted of approximately 80% State and 20% Federal funds</p>	Completed

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2014-020 (cont'd)			<p>(down from 56% Federal in this 12-13 FY audit period). The funds are comingled in the same payment to the Keys, therefore it could be perceived that the 20% Federal portion is disbursed by the Keys before the State portion, as could be the case for subsequent payments. Therefore, there is no lengthy delay between receipt and disbursement of Federal funds and the Keys cash on hand is solely a State portion.</p> <p>Moving forward to 14-15 and future fiscal years, following the auditor recommendation as a mechanism to avoid possible excess Federal cash on hand, the 25% working capital payment to the Keys will consist of 100% State funds. The 25% advance of the Keys total allocation is still necessary due to reimbursement for general operating expenses incurred, as well as supporting the program expectation that provider grants will be awarded expeditiously within the first three quarters of the fiscal year. The advance also alleviates the Keys need to borrow against a line of credit and incur interest expenses.</p>	
2014-021	DHS	Tanya Vasquez, Bureau Director	<p>Noncompliance and Internal Control Weakness Over Health and Safety Requirements (A Similar Condition Was Noted in Prior Year Finding 13-DPW-07)</p> <p>OCDEL's current business practice will continue for the scheduling and conducting of annual inspections as follows:</p> <ul style="list-style-type: none"> • Schedule an annual inspection to occur during the one year period and prior to certificate expiration date. • Do not require receipt of a renewal application to schedule and conduct the annual inspection (completion of a renewal application is required before issuing the renewal certificate of compliance) <p>Facility reports will be utilized to identify expiring certificates in advance and plan accordingly. These reports are available monthly and provide information on the expiration date of each facility to allow for timely inspections prior to the expiration of the license.</p> <p>Seven of the 65 sampled facilities were cited for being out of compliance because the annual inspections for these facilities were more than 365 days from the previous inspections. In citing this finding, the auditors point to 55 Pa Code, 3270.11(e), "A facility will be inspected every 12 months by an agent of the Department." OCDEL does not agree with this finding. OCDEL considers the annual inspections for these facilities to be timely, not "past due", since they occurred during the period of licensure and prior to the expiration dates of their certificate of compliance.</p>	N/A

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2014-021 (cont'd)			<p>OCDEL will work with the appropriate departmental offices to change the regulatory language at 3270.11 and 3280.11 regarding timeframes for annual inspections to better support and align with the operational realities of enforcing health and safety requirements of childcare facilities.</p> <p>OCDEL will strive to maintain a full staff complement to enable inspections to be conducted in a timely fashion.</p> <p>Furthermore, reauthorization of the Child Care Development Fund (CCDF) will require that Family Child Care Homes become licensed and be pre-inspected as well as inspected on an annual unannounced basis. OCDEL seeks to further increase its staff complement to meet the required additional inspections that will need to be conducted at these facilities.</p>	07/01/2016 06/30/2015
2014-022	DHS	Kelly Leighty, Director, Division of Financial Policy and Operations	<p>Noncompliance and Weaknesses Exist in the Department of Human Services' Program Monitoring of Social Services Block Grant and the Block Grants for Prevention and Treatment of Substance Abuse Subgrantees (A Similar Condition Was Noted in Prior Year Finding 13-DPW-09)</p> <p>In order to effectively monitor all funded programs, the DHS has a dedicated monitoring position within the Office of Administration, Bureau of Financial Operations (BFO), Division of Financial Policy and Operations. This position has the benefit of centralized monitoring and evaluation through both on-site monitoring visits and the review of supporting documentation (desk reviews). The monitoring position was previously staffed from November 20, 2010 through June 16, 2011 and July 29, 2013 through May 9, 2014. The vacant position was filled on August 11, 2014.</p> <p>With the implementation of the Human Services Block Grant in July 2012, a County Human Services Planning and Monitoring Unit was created within BFO. The Unit is responsible for SSBG and HSBG monitoring.</p> <p>It is the Monitor's responsibility to ensure fiscal and programmatic compliance of subrecipients with established federal and state regulations and policies.</p> <p>A monitoring program has been developed. A risk based approach will be used to conduct monitoring beginning March 2015.</p> <p>The counties are chosen for monitoring in accordance with a risk assessment based on the SSBG</p>	06/30/2015

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2014-022 (cont'd)			<p>allocations to each county and the presence of program findings noted in each county’s single audit report. Counties with higher allocations and findings are considered to be high risk and therefore, they are being monitored first.</p> <p>The Monitor will ensure that costs are assigned and tracked in compliance with federal requirements and that SSBG funding is used only for authorized purposes and in compliance with federal cost principles and the subrecipients’ county contracts in the fiscal year being monitored. A monitoring tool was developed to monitor such core areas as Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Eligibility, Period of Availability of Funds, Suspension and Debarment, Reporting, Subrecipient Monitoring, Special Tests and Provisions, and Conflicts of Interest. In addition, the tool is used to monitor general areas related to compliance with Federal laws, Civil Rights Laws, and the Health Insurance Portability and Accountability Act (HIPAA).</p>	
2014-023	DHS	Joel O’Donnell, Director, Bureau of Program Evaluation, Office of Income Maintenance	<p>Lack of Eligibility Documentation Results in Noncompliance and Internal Control Weaknesses (A Similar Condition Was Noted in Prior Year Finding 13-DPW-10)</p> <p>While DHS agrees with certain elements in this finding, DHS disagrees that there are “Noncompliance and Internal Control Weaknesses”.</p> <p>DHS/OIM continues to emphasize scanning and imaging when reapplications and verifications are received at all County Assistance Offices (CAOs). If documentation is not received, benefits will be discontinued.</p> <p>DHS continues to emphasize the timeliness of reapplications, in an attempt to monitor the Medical Assistance (MA) benefits through the use of Disability Advocate Program (DAP) workers.</p> <p>DHS designed a tip sheet to ensure individuals are assigned the correct category, which was sent to CAOs, documenting the importance of tax relationships and “care and control” in the system to trigger the correct category. CAOs continue conducting targeted supervisory reviews on cases to ensure accuracy of categories selected; refresher training will be held at CAOs as needed. If non-financial category requirements are not met, benefits will be stopped or recipients will be moved to the correct category.</p> <p>DHS/BPE continues to encourage CAOs to use all avenues of verification when determining income to</p>	Ongoing

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2014-023 (cont'd)			<p>be used in eligibility determination including Eligibility and Verification System (IVES) and the Work Number.</p> <p>DHS/BPE will continue the process of error review committee meetings with the CAOs to discuss any errors or overpayment referrals and develop corrective action plans when required.</p>	
2014-024	L&I	Susann B. Morrison, Director, Office of Unemployment Compensation Benefits Policy	<p>Department of Labor & Industry Did Not Comply with UC Program Integrity Requirements</p> <p>L&I will continue to implement the necessary procedures to be in compliance with the new requirements resulting from the changes to the Social Security Act and the FUTA.</p> <ul style="list-style-type: none"> -15% fraud overpayment penalty provision pilot implemented June 2014 -15% fraud overpayment penalty provision fully implemented Sept 2014 -Employer penalty provision pilot implemented December 2014 -Employer penalty provision full implementation by April 30, 2015 <p>L&I will explore the ability to identify cases and feasibility of reopening them for purposes of retroactively applying the penalties.</p>	04/30/2015
2014-025	L&I	Michael K. Fuller, Division Chief, Quality Assurance	<p>Deficiencies in Information Technology Controls at the Department of Labor and Industry (A Similar Condition Was Noted in Prior Year Finding 13-L&I-01)</p> <p>CWDS:</p> <ul style="list-style-type: none"> • BWDP recently renamed, Bureau of Workforce Partnership and Operations (BWPO), will continue to follow newly developed procedures to monitor local workforce investment areas' offices for disabling separated, non-commonwealth users in a timely manner. • The newly developed procedures include ongoing local quarterly reviews and audits of CWDS staff access and the timely disabling of departed staff. • In addition, all BWPO Assistant Regional Directors (ARDs) will be involved in the quarterly reviews and audits. The ARDs will have direct knowledge of the offices not meeting the policy (2 weeks to disable a staff uses) and can be able to reach out locally. • Ongoing technical support will be provided by the bureau's Central Office System Administrators to 	Completed

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2014-025 (cont'd)		Kirk Basehore, Manager of UI Research & Reports, CWIA	<p>ensure that the disabling policy is being followed and that effective communication addressing local concerns continues.</p> <ul style="list-style-type: none"> • Reviews and audits will continue to be conducted throughout the year. The most recent review and audit was conducted in February 2015. The next review and audit is scheduled for May 2015. <p>UC: In the prior audit, L&I's Center for Workforce Information and Analysis (CWIA) prepared the ETA-581 – Contribution Operation Report, using data from the Unemployment Compensation Modernization System (UCMS) and estimates based on amounts reported in prior years. The CWIA had received USDOL approval to use estimates to prepare the ETA-581 report because data output from UCMS were incomplete and unreliable. The CWIA continued this practice for the first two quarters of the audit period. Beginning in January 2014, the CWIA began to successfully use manual extraction procedures (queries) to capture actual data from UCMS to submit to USDOL. Further, the CWIA submitted revised ETA-581 reports for all prior reports that had been submitted using estimated data.</p> <p>The CWIA continues to use data from the UC legacy mainframe system to prepare the ETA-227 – Overpayment Detection/Recovery Report.</p> <p>The CWIA also continues to use end-user computing applications to prepare the ETA-581 and the ETA-227 reports; however in January 2014, management implemented policies to address IT controls related to access, change control, development and backup of end-user computing programs and supporting data in compliance with Management Directive 205.43. Therefore, the prior year weaknesses are remediated as of January 2014.</p>	Completed
2014-026	L&I	Ryan Hyde, Director, Bureau of Central Operations, Office of	<p>Noncompliance and a Control Deficiency Exist Over the Preparation and Submission of the Annual RSA-2 Report (A Similar Condition Was Noted in Prior Year Finding 13-L&I-03)</p> <p>On January 28th 2015, OVR program and OVR OIT staff met to review the new RSA2 instructions and process. We have begun to develop new instructions for the submission of the report that includes additional changes needed for tracking things with the CWDS system. These changes will occur over several releases in the 2015 FFY. Instructions will be updated accordingly as the new features are implemented. We will not update the instructions for the RSA2 2013, as that report was replaced for 2014.</p>	April 2015

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2014-026 (cont'd)		Vocational Rehabilitation	OVR reviewed the submission of the 13 year report and worked with OIT to create the data needed to properly re-file the RSA2. It was submitted into the RSA MIS website as of COB 2/25/15.	Completed
2014-027	L&I	Ryan Hyde, Director, Bureau of Central Operations, Office of Vocational Rehabilitation	<p>Noncompliance and a Control Deficiency Exist in the Department of Labor and Industry’s Procedures for Performing Eligibility Determinations (A Similar Condition Was Noted in Prior Year Finding 13-L&I-02)</p> <p>OVR implemented our revised case review process in January 2015. All Level 1, Level 2 and Level 3 case reviews will now utilize the revised process. The new process now explicitly examines each case that is randomly pulled for review for compliance in determining eligibility within 60 days of the application date and the development of the Individualized Plan for Employment within 90 days of the eligibility determination date, or within appropriate time extensions. We believe that these new case review criteria will emphasize the importance of timely eligibility determinations and plan developments to our field-level staff. Case review scores at Level 1 are factored into Counselor’s Employee Performance Review (EPR), scores at Level 2 are factored into Supervisor’s EPRs and scores at Level 3 are factored into District Administrator’s EPRs. We have also revised our case review manual, which gives in depth descriptions on the criteria expected to be met for each case review item, as well as references to federal regulations and internal standards. All OVR offices that receive a cumulative score of 70 percent or less during the Spring or Fall Level 3 review periods in the “Timeliness” category are required to administer training to all of their staff members on the topic of completing eligibility decisions within 60 days and plan developments within 90 days or within an appropriate time extension. Offices that receive a cumulative score of 80 percent or less are strongly encouraged to conduct trainings with all of their staff members.</p> <p>OVR has also updated our Back to Basics training series to further emphasize the importance of timely eligibility determinations and plan developments. Every OVR staff member is required to complete the Back to Basics training series. Every district administrator is provided with a “Days Over Status” report, which lists the cases that are above the 60-day benchmark for eligibility determinations and 90-day benchmark for plan developments without a time extension. Counselors have the ability to produce a case list in CWDS that shows all of their cases which are in Status 02 (awaiting eligibility determination) over 45 days and cases are in status 10 (awaiting plan development) over 90 days.</p> <p>OVR management staff met on February 18th, 2015 to further discuss this issue and the repeated audit finding. Based on that discussion to add more emphasis to this issue, language regarding Days Over</p>	<p>Completed</p> <p>06/30/2015</p>

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2014-027 (cont'd)			<p>Status will be added to the Work Results factor, in Standard #3 for the Performance Standards of VR Counselors.</p> <p>Current language says: Demonstrates effective caseload management to deliver timely services to customers.</p> <p>Additional language will say: This includes meeting federal requirements for determining an individual's eligibility within 60 days of the application date and completing the individualized plan for employment within 90 days of the eligibility determination date or within appropriate time extension.</p> <p>OVR management staff will have to meet and discuss with our labor union regarding this change to the performance standard. Once that meeting occurs we will implement the change effective 10/1/2015 to coincide with the next review/performance cycle.</p>	10/01/2015
2014-028	L&I	<p>Amanda Reigel, HR Analyst</p> <p>Ryan Hyde, Director, Central Operations</p>	<p>Noncompliance and General Information Technology Control and Internal Control Design Weaknesses Affecting the Payroll Process (A Similar Condition Was Noted in Prior Year Finding 13-SW-02)</p> <p>Prior to this audit finding, HR Time Admin staff were approving timesheets that routed to their workflow for processing (a minimum of 96 hours after the employee has entered their timesheet). Effective 5/21/14, HR staff are no longer approving timesheets that route to their office. HR now notifies every supervisor individually that CATS are pending in their workflow. The change that took place on 5/21/14 should rectify any future issues that are similar in nature to the BBVS employee in this finding. Please note the issue with the BBVS employee took place prior to 5/21/14.</p> <p>There are instances where one HR time advisor (Amanda Reigel) has approving authority for executive staff. Mrs. Reigel was given an aide role in SAP to approve timesheets on their behalf. Since Mrs. Reigel was given this role, the issue noted for the BFM employee should be addressed, as that employee reported directly to the executive staff.</p> <p>In June of 2014, HR began using a reporting tool developed by the Office of the Budget to determine which employees have not completed their bi-weekly timesheet. These reports are run bi-weekly for each pay group. If the report indicates CATS have not been completed, the employee is notified to enter</p>	Completed

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2014-028 (cont'd)			their CATS timely to avoid retroactive payroll postings. In the finding, two employees were noted as not submitting time sheets. The process that took effect in June 2014 should prevent this from happening in the future.	
2014-029	DMVA	Greg Spittle, Budget Analyst	<p>Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement Results in Questioned Costs of \$106,162 (A Similar Condition Was Noted in Prior Year Finding 13-DMVA-01)</p> <p>Regarding the five items tied to the first part of this finding, we currently have a process in place where staff review posted transactions to ensure the correct coding is used and that the correct federal fiscal year is charged. We will reinforce the importance of this review with our staff to ensure the correct federal fiscal year is being charged and to avoid future period of availability issues.</p> <p>Regarding the four items tied to the allowable cost portion of the finding, we are not in agreement with the finding as indicated in our “agency response” to the finding. In an effort to comply with the audit recommendation, however, we have begun running a separate report to capture those items with invoices against them that have not yet been paid by Treasury. This report combined with the open commitment report that we have been providing should satisfy the audit finding. This report was first used with this past federal fiscal year closeout and will be part of next year’s Single Audit.</p>	<p>Completed</p> <p>N/A</p>
2014-030	DMVA	Edward Beck, Chief Operations Officer	<p>Material Noncompliance and Internal Control Deficiencies Over Costs Requested for Reimbursement Results in Questioned Costs of \$11,848</p> <p>Although the policies for admission are documented in DMVA regulations and in the DMVA accounting manual, the process and procedures for ensuring proper vetting of applications and determination of eligibility are not formally documented allowing for variation in the process in each home. DMVA will develop a procedure manual that will standardize the process across the Bureau ensuring that all six homes are following the same process. The procedure manual will specify what actions are to be taken and assign responsibility in the headquarters and in the homes for each step in the process. This standardized process will be documented not later than April 15, 2015 and will be provided to the commandant of each home at the bureau’s semi-annual leadership conference in April 2015. The manual will be presented to the admissions coordinators at each home and reviewed at the admissions coordinator meeting tentatively scheduled for the week of May 4, 2015. The standardized process will be fully implemented across the headquarters and all six homes not later than June 1, 2015. The bureau</p>	06/01/2015

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2014-030 (cont'd)			admissions coordinator will regularly monitor the process in each home and correct non-compliance.	
2014-031	PEMA	<p>Charles D. Shellenberger, Director, Bureau of Financial Mgmt</p> <p>Sharon Topper, AO 3, Grants Mgmt Division</p> <p>Emina Kunovac, AO 3, Grants Mgmt Division</p>	<p>Subgrant Awards Are Not Executed or Obligated Within the 45-Day Requirement (A Similar Condition Was Noted in Prior Year Finding 13-PEMA-01)</p> <p>In response to this finding, PEMA has identified ambiguous terminology used in award notifications to subgrantees. As in the past, PEMA will make federal funds available to the subgrantees through an award letter, supported by the establishment of a Commonwealth Funds Commitment. This will confirm the funds are obligated to the subgrantee. PEMA will continue to apply the award letter in the same manner that FEMA implements award notification to PEMA. In order to be clear in our intent, we will add the performance period and the Commonwealth's Funds Commitment number to the subgrantee award letter.</p>	Completed
2014-032	PEMA	<p>Charles D. Shellenberger, Director, Bureau of Financial Mgmt</p> <p>Sharon Topper, AO 3, Grants Mgmt Division</p> <p>Emina</p>	<p>Material Weakness and Material Noncompliance Over Subrecipient Monitoring</p> <p>In response to this finding, PEMA staff is prepared for the site monitoring visit of the Southeastern Pennsylvania Regional Task Force the week of March 16, 2015. We anticipate issuing the monitoring report from that review by May 18, 2015. Going forward, we will ensure that all Homeland Security Grant Program subgrantees will receive either a desk or site monitoring review each state fiscal year.</p>	05/18/2015

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2014-032 (cont'd)		Kunovac, AO 3, Grants Mgmt Division		
2014-033	PEMA	Charles D. Shellenberger, Director, Bureau of Financial Mgmt Sharon Topper, AO 3, Grants Mgmt Division Emina Kunovac, AO 3, Grants Mgmt Division	Material Weakness and Material Noncompliance Over Equipment and Real Property Management (A Similar Condition Was Noted in Prior Year Finding 13-PEMA-03) In response to this finding, PEMA has forwarded a listing of our equipment inventory to our inventory management system vendor, Intellitrack, for an upload to the system. We expect the upload to be completed by March 13, 2015. PEMA will then conduct training on the equipment inventory software for appropriate Agency administrators by April 30, 2015. After the software training is completed, each Bureau and Office within PEMA will perform a physical inventory of equipment and input any missing equipment into Intellitrack by July 30, 2015, at which point the inventory system will be considered fully operational.	07/30/2015
2014-034	PENNVEST	Beverly L. Reinhold, Dep. Ex. Dir. for Fin. Mgmt	Material Noncompliance Exists and Internal Control Improvements Needed in Subrecipient Loan Monitoring System (A Similar Condition Was Noted in Prior Year Finding 13-PENNVEST-04) The backlog of filing is up-to-date and one person is now responsible for accurately filing documentation and addressing compliance with follow up on the subrecipient CAPs.	Completed

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-035	OB-BAFM	Danny Novak, Assistant Director	State Agencies Did Not Specify Required Federal Award Information in Subrecipient Award Documents and at the Time of Disbursement, Resulting in Noncompliance With OMB Circular A-133 (A Similar Condition Was Noted in Prior Year Finding 13-SW-03) Corrective action is not necessary. Refer to the agency response within the audit finding to view details regarding our disagreement.	N/A
	PennDOT	Kelly Barber, Civil Engineering Consultant Gary Kleist, Section Chief Heather Carman, Project Manager	PennDOT completed implementation of Release 1 of the Reimbursement Agreement System which went live on 12/15/14. The release digitalized the reimbursement agreements and ensures consistency with the use of the most current forms including all required federal information. No further actions are planned for this finding. The auditors acknowledged the corrective actions that were completed and will be reviewing during the next audit.	Completed
	DHS	David R. Bryan, Mgr., Audit Res Section	See DHS Response contained in the finding for a detailed explanation of the reasons why DHS does not agree with the auditors.	N/A
	PDE	Chief, Division of Federal Programs	The Pennsylvania Department of Education, Division of Federal Programs has corrected the omitted or incorrect CFDA number data in the new eGrant System. This data is accurate for the 2014-2015 year.	Completed
	DOH	Terri A. Matio, Director, Bureau of Administrative and Financial Services	Please see DOH's disagreement contained in the response to the finding. The reporting requirements for pass-through entities described in §200.331 of the Uniform Guidance of 2 CFR 200 will necessitate that the Commonwealth either implement a revised Management Directive 305.21, <i>Payments to Local Governments and Other Subrecipients</i> , or the development of an entirely new "statewide policy and reporting mechanism to ensure all required federal award information is disseminated to all subrecipients at the time of award...." DOH will then ensure that all grants and contracts completed after the	N/A

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-035 (cont'd)			Commonwealth's implementation of any new policy comply with the reporting requirements of the new policy.	
	DCED	Ed Geiger, Director for the Center of Community Finance Connie Huber, Director of the Financial Mgmt Center	DCED now places the Federal Award Numbers on all grant award letters for all programs.	Completed
2014-036	OB-BAFM	Danny Novak, Assistant Director	Weaknesses in Cash Management System Cause Noncompliance With the Cash Management Improvement Act of 1990 (CMIA) and at Least \$186,323 Questioned Costs of the CMIA Interest Liability (A Similar Condition Was Noted in Prior Year Finding 13-SW-04) Corrective action is not necessary. Refer to the agency response within the audit finding to view details regarding our disagreement.	N/A
2014-037	OB-BOA	Denise Lovejoy, Section Chief, Desk Review Unit	Material Noncompliance and a Material Weakness Exist in the Commonwealth's Subrecipient Audit Resolution Process (A Similar Condition Was Noted in Prior Year Finding 13-SW-01) For subsequent single audit reports of Philadelphia City, the Bureau of Audit will notify and transmit to the affected Commonwealth agencies within a reasonable timeframe of two months or less regardless of the acceptance or rejection of the single audit report. This proactive approach will ensure that the single audit report is reviewed, and the Commonwealth agencies can make management decisions on the findings and perform any reconciliatory procedures pertaining to the Schedule of Expenditures of Federal Awards. This will also ensure that the audit resolution process is not delayed pertaining to the significant amount of federal funding.	03/31/2015

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-037 (cont'd)			<p>It should be noted that the Philadelphia City report for the year ended 6/30/2013 was received by the Bureau of Audits on 2/27/2015. It will be reviewed and processed by 3/26/2015. This will enable the Commonwealth agencies to perform the audit resolution process more timely and address any findings (if applicable) in the single audit report. To date, the single audit report of Philadelphia City for the year ended 6/30/2014 is still pending submission, which is due by 3/31/2015.</p> <p>The subrecipient dunning process for 6/30/2014 will be performed by 3/31/2015 to notify those delinquent subrecipients including Philadelphia City. At the same time, the listing of those delinquent subrecipients will be forwarded to all affected Commonwealth agencies that provided the federal funding.</p> <p>For subsequent dunning processes, a more proactive approach will be taken to notify affected Commonwealth agencies to ensure timely implementation of Management Directive 325.8, Remedies for Recipient Noncompliance with Audit Requirements. Management Directive 325.8 was amended on 12/17/2014. The Commonwealth agencies must continue to exercise the progressive series of remedial actions to ensure timely subrecipients of single audit reports.</p> <p>This CAP will be ensuring compliance with federal audit resolution requirements and to better ensure more timely subrecipient compliance with program requirements.</p> <p>The Bureau of Audits is the established repository for single audit reports. Bureau of Audits will make every concerted effort to ensure that desk reviews are performed timely by implementing the following procedures:</p> <ol style="list-style-type: none"> 1. Bureau of Audits will continue to process single audit reports with findings within two months of the allocated six months timeframe of the audit resolution process. The exception to the rule will be if the subrecipient's single audit report did not contain the essential elements and a rejection letter was issued. If the particular single audit report contains findings, Bureau of Audits will notify the affecting agencies about the report being rejected and it contains findings. This will give the affected agencies the opportunity to start the audit resolution process. 2. A more streamlined desk review process will be implemented by incorporating the verification process on the Desk Review Checklist/Guide. This verification process will alleviate the time expended in actually saving the documentation in the subrecipient's electronic file. 	01/01/2016

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-037 (cont'd)			<p>Another streamlined approach is to identify those higher risk single audit reports versus the lower risk single audit reports by various factors such as: 1) Federal funds received and expended; 2) Findings disclosed in the single audit report; 3) Historical information on deficiencies with previous single audit reports; and 4) Other information to determine the level of risk.</p> <p>The level of risk will determine whether a full desk review will be performed or a cursory review will be performed. The new methodology is a Risk-Based Approach for reviewing single audit reports. The Risk-Based Approach will be developed and implemented by phases and by designated entity type.</p> <p>The implementation of the aforementioned CAP will ensure compliance with federal audit resolution requirements and to better ensure more timely subrecipient compliance with program requirements.</p>	
	PDE	Audit Coordinator, Bureau of Budget & Fiscal Administration	The PDE, Audit Section has reassigned the position that is responsible for the review of the Subrecipient Single Audit Reports with Findings along with providing management decisions within the six month timeframe. These responsibilities will also include the implementation of the Remedial Action Process for Subrecipients that have not submitted their Single Audit Reports in accordance with OMB Circular A-133.	Completed
	DHS	David Bryan, Manager, Audit Resolution Section Alexander Matolyak, Director, Division of Audit and Review	<p>Regarding the timeliness of finding resolution, the DHS has hired some contracted staff to reduce and eventually eliminate the backlog of single audit reviews. The backlog has been significantly reduced during the year ended June 30, 2014, and we expect the backlog to be eliminated by June 30, 2015.</p> <p>Regarding the areas where we disagree:</p> <p>Unaudited expenditures: See DHS Response contained in the finding for a detailed explanation of the reasons why DHS does not agree with the auditors' finding.</p> <p>The requirement to review/reconcile the SEFA: See DHS Response contained in the finding for a detailed explanation of the reasons why DHS does not agree with the auditors' finding. In addition, DHS had a meeting with the auditors and federal officials on November 25, 2014, and all parties have agreed to a subsequent meeting to further discuss these items with the hopes that we can come to a solution that is acceptable to DHS, the auditors, and federal officials. Finally, the Auditors' Conclusion includes statements with which we disagree:</p> <ul style="list-style-type: none"> The auditors state that DHS is relying on OB-BOA's review of the SEFA during the centralized desk 	<p>06/30/2015</p> <p>N/A</p>

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-037 (cont'd)			<p>review process. This is not exactly correct. As stated in the condition, DHS places reliance on a specially designed Agreed-Upon Procedures report to reconcile to adjustments from the cost settlement process.</p> <ul style="list-style-type: none"> The auditors state that OB-BOA's procedures consist of a cursory comparison of the CFDA numbers which appear on the Commonwealth's general ledger (SAP) under subrecipient general ledger account numbers for a particular subrecipient to the CFDA numbers reported on the subrecipient's SEFA. DHS believes this is more than a "cursory review", as evidenced within this finding (in both OB-BOA's response and the related Auditors' Conclusion) in regards to the Philadelphia City Single Audit report. The auditors state that Commonwealth payments to subrecipients from systems other than SAP, such as PROMISE, are not part of OB-BOA's procedures. DHS believes payments to subrecipients from PROMISE are part of these procedures, as evidenced within this finding (in both the condition and in OB-BOA's response). <p>Enforcement of the subrecipients' submission deadlines - see DHS Response contained in the finding for a detailed explanation of the reasons why DHS does not agree with the auditors.</p> <p>The auditors also added an over-all conclusion paragraph in the Auditor's Conclusion section, which we will also address.</p> <ul style="list-style-type: none"> The auditors state that "As a result of DHS taking an unconventional method to obtain assurance that the information reported in subrecipients' SEFAs is accurate and the resulting Single Audit is complete, we have reported a finding." DHS questions the use of the word "unconventional", as a reconciliation of the SEFA is not specifically required in OMB Circular A-133. However, as stated above, DHS will continue to further discuss these items with the hopes that we can come to a solution that is acceptable to DHS, the auditors, and federal officials. 	
	Aging	Rob Heinlen, Contracting Division Chief	The position responsible for subrecipient audit resolution was vacant for an extended period but has been filled and the backlog of open reviews has been eliminated. Processing times are now current within the established parameters.	Completed
	DDAP	Stephanie R. Guy, Budget Analyst 3 (Primary)	As indicated in response to a similar audit finding issued for the prior fiscal period, the Department of Drug and Alcohol Programs (DDAP) became a separate cabinet-level department within the Commonwealth, effective July 1, 2012. Prior to that time, the Bureau of Drug and Alcohol Programs (BDAP), as recipient of funds under the Substance Abuse Prevention and Treatment Block Grant, existed as part of the Department of Health (DOH). Within DOH, the Bureau of Administrative and	09/30/2015

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-037 (cont'd)		Kimberly A. Coleman, Director, Division of Budget & Grants Mgmt	<p>Financial Services (BAFS) served as the Single Audit Coordinator for all DOH subrecipient audits. Since BDAP's role under the auspices of DOH was considerably less involved than it is currently as DDAP, DDAP began transitioning all aspects of the subrecipient audit review process from BAFS staff, beginning in March of 2012, in order to assume the role as Single Audit Coordinator for the newly formed agency.</p> <p>Following the above referenced transition, it was necessary for DDAP to address a large number of subrecipient audit reports that had not yet been reviewed by DOH through the period ended June 30, 2012, as well as the subrecipient audit reports being received directly from the Office of the Budget, Bureau of Audits (BOA). While the backlog of SEFA reconciliations has been significantly reduced, the ability to process subrecipient audits with limited staff and without institutional knowledge and established protocols has resulted in the untimely completion of SEFA reconciliations and a slight delay in resolving a finding with one fund recipient during the audit period.</p> <p>Currently, DDAP's Division of Budget and Grants Management has two staff members trained on subrecipient audit report review procedures, with one member conducting SEFA reconciliations and addressing audit findings issued to vendors, and the other position serving in a supervisory and review role. DDAP has revised Division job descriptions to accommodate a greater capacity to address the audit functions of the agency, but still maintains two vacancies within the Division. The ability to fill these positions, along with the revision of job duties will assist in alleviating the untimely processing of subrecipient audit reports. In addition, DDAP had adopted DOH's tracking system in order to more effectively track the receipt of subrecipient audit reports from BOA and subsequent processing by DDAP. Division staff will continue to attend all future Commonwealth and other agency trainings relative to the audit process, as applicable. The Division continues to formalize policies and procedures for activities conducted by the Division, including procedures for the processing of subrecipient audits.</p>	
	DOH	David D. DePeau, Chief, Audit Resolution Section	<p>As noted in DOH's response to the finding, lack of staff in DOH's Audit Resolution Section (ARS) prevented the timely finalization of the review of the two reports cited in the finding.</p> <p>To minimize the time period for making a management decision on subrecipient audit reports with findings, DOH's ARS has taken the following actions:</p> <ol style="list-style-type: none"> 1. DOH's ARS maintains a separate subrecipient single audit tracking report for subrecipient single audit reports with findings to ensure that all identified subrecipient single audit reports with findings are 	Completed

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Corrective Action Plans - June 30, 2014

Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-037 (cont'd)			<p>reviewed and resolved as soon as possible after their receipt by DOH.</p> <p>2. DOH's ARS forwards subrecipient single audit reports with findings to the appropriate DOH program offices for resolution of findings as soon as possible after receipt of the reports from OB-BOA. Doing so allows the resolution of findings to occur concurrent with the SEFA review and reconciliation process being performed by the ARS. This process minimizes the time needed to reach a management decision on the reports.</p> <p>3. In addition to the above, DOH's ARS continues to utilize an annuitant to perform the work of the unfilled subrecipient audit review position that is assigned to do this work.</p>	
	L&I	David Bohanick, Grants & Fiscal Operations Chief	<p>Under the Commonwealth of Pennsylvania's implementation of the Single Audit Act, under OMB Circular A-133, review and resolution of a subrecipient Single Audit Report (SAR) is split into two stages. The Commonwealth receives the SAR through Office of the Budget's Bureau of Audits (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 (6) months of receipt 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.</p> <p>In order to carry-out these responsibilities and maintain compliance with the six (6) month deadline after receipt of the SAR, BWDA will implement the following guidelines:</p> <ul style="list-style-type: none"> • BWDA periodically receives uploaded SARs from BOA generated from the BOA Collaborative Site, indicating whether the subrecipient's reports have findings. This generated list is printed out and the L&I subrecipients that have findings are highlighted for tracking purposes. • BWDA receives SARs from L&I's audit liaison, the Financial Management Office (L&I – FMO), in order to review, verify the accuracy of the financial information and reconcile for final determination. FMO submits an electronic memo to BWDA that is generated from the BOA Collaborative Site for electronic review. <ul style="list-style-type: none"> - BWDA prints out a copy of the SAR package. - These SARs are compared to the BOA generated list to match and compare the findings. - SARs that have findings are reviewed and processed first. 	Completed

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-037 (cont'd)			<p>- Per the Commonwealth Audit Manager of the BOA, BOA has two (2) months to review and accept. The timeframe of the 2 months is based on calendar days, not business days. BOA has no specific timeframe on SARs without findings; however they try to have these reports reviewed no later than nine (9) months.</p> <ul style="list-style-type: none"> • BWDA enters the SAR information into an audit log spreadsheet for retention and tracking purposes. <ul style="list-style-type: none"> - The log sheet notates the audited agency, findings, audit year ended, the date the audit report was sent to BWDA, SEFA issues, if Initial Determination is in order, if the audit report was received late from BOA or FMO, the date of the Final Determination letter, and a column for the due date of resolution (referring to when the 6 months' timeframe is due from the transmittal receipt). - OMB Circular A-133, Section 400, (e) 5 reads, "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." - During the process of review and audit resolution, SEFA issues need to be reconciled, corrective action plans must be reviewed for sufficiency. BWDA may issue an Initial Determination contingent upon reconciliation of the SEFA and/or corrective action to be taken. Failure to reconcile the SEFA and/or address required action will result in BWDA beginning remedial action against the subrecipient. - Both Initial and Final Determination letters must be approved by the BWDA Grants and Fiscal Operations Chief. Depending on the complexity of the corrective action plan, BWDA Director may also be required to approve an Initial and Final Determination letter. BWDA Grants and Fiscal Operations Chief and BWDA Director agree to review and either approve or deny the Initial and Final Determination letter within two (2) weeks of being presented with such. • BWDA enters the SAR information into another log spreadsheet for retention and tracking purposes. <ul style="list-style-type: none"> - The log sheet is titled "Audit Plan Approvals for PY" and notates the documentation that correlates with the approved audit plans and the single audit submission dates due to BOA. • Once the SAR has been reconciled and accepted by BWDA, a Final Determination for that Grantee's SAR is sent to FMO for signature. FMO finalizes by sending the Grantee the Final Determination letter from their office. <p>The BWDA would also like to note (see OMB Uniform Guidance and Part 2900) that DOL extended the pass-thru entities time in which a management decision must be issued after acceptance of the audit report by the Federal Audit Clearinghouse(FAC) from 6 months to 12 months</p> <p>Specifically, 2 CFR section 200.521(d) states..."pass-through entity responsible for issuing a management decision must do so within six months of acceptance of the audit report by the FAC",</p>	

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-037 (cont'd)	PENNVEST	Beverly L. Reinhold, Dep. Ex. Dir. for Fin. Mgmt	<p>however, at 2 CFR section 2900.21 states... "The pass-through entity responsible for issuing a management decision must do so within twelve months of acceptance of the audit report by the FAC.</p> <p>- A more thorough review of outstanding items will be done when a staff member goes out on medical leave. Borrowers have been contacted for follow up on the outstanding findings and CAPs.</p> <p>- Complete implementation of tracking system.</p> <p>- Continue efforts to obtain A-133 audits from unaudited entities. Where disbursements are still occurring appropriate action to withhold funds will continue.</p>	<p>04/01/2015</p> <p>06/30/2015</p> <p>06/30/2015</p>
	DCED	<p>Brad Shover, Director of Compliance Monitoring</p> <p>Connie Huber, Director of the Financial Mgmt Center</p>	<p>DCED will continue to do its best to resolve its findings with its subrecipients within the required six month window. We will track those subrecipients more closely and have more frequent communications with the subrecipient to help facilitate a timely close.</p>	07/01/2015
	PID	<p>Jennifer Karper, Chief, Budget & Fiscal Mgmt</p> <p>Mary Beth Matlock, CHIP Program Analyst</p> <p>Tracy Gray, AO4, QA Div.</p> <p>Mark Lersch,</p>	<p>CHIP staff will prepare the follow up and closeout responses and secure Mark Lersch's signature. The close out letters will be mailed within the six month time frame to settle a finding. A delay was caused by having trouble getting the reports from the BOA collaborative site where they are uploaded. Now that we are more familiar with the process, we do not anticipate future delays in follow up and closeout of audit findings as required by OMB circular A-133.</p>	Completed

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Finding	Agency	Contact Person & Title	Finding Title/Corrective Action	Anticipated Completion Date
2014-037 (cont'd)	PEMA	Director, Admin Services		
		Charles D. Shellenberger, Director, Bureau of Financial Management Nicole Manyko, Auditor Supervisor, BAFM Sharon Topper, AO3, Grants Mgmt Division	Staff within PEMA’s Compliance Review Division will implement controls to ensure that subrecipient single audits are reviewed and management decisions issued in a timely manner. Such controls include using a combination of our single audit database currently in use and a tracking spreadsheet to document each step in PEMA’s single audit review process, including dates and deadlines of follow-up letters. The status of open single audit reviews will be assessed weekly to ensure that PEMA’s requests for information from subrecipients are followed through and that appropriate actions are taken on subrecipients that do not reply to our requests, in order to elicit compliance with federal rules and regulations.	05/01/2015
2014-038	OB-BAFM	Danny Novak, Assistant Director Dan Troxell, Assistant Director	Internal Control Weakness Over Expenditure Information Reported on the SEFA We believe that our supervisory review procedures for SEFA reporting are adequate. The HHS audit settlement for the Title IV-E Foster Care disallowance requires the Commonwealth to report decreasing adjustments on the current year Title IV-E Foster Care Quarterly Financial Reports. Unlike a disallowance which is applied to prior grant year expenditures, these settlement transactions were applied as reduction to current grant year expenditures. Since the disallowance was applied as a reduction to current year expenditure, the reduction to the SEFA expenditures for the disallowance appeared appropriate at the time it was reviewed. Communication regarding the new general ledger account numbers (GLs) created for the Clean Water program was disseminated to applicable OB personnel. The information reinforced what GLs should be included as “passed through to subrecipients” on the Commonwealth’s SEFA.	N/A Completed

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Appendix



Commonwealth of Pennsylvania

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APPENDIX - Legend of Abbreviations - June 30, 2014

The following legend presents descriptions of abbreviations that appear throughout the report:

<u>ABBREVIATION</u>	<u>DESCRIPTION</u>
ACF	Administration for Children and Families
ACH	Automated Clearing House
AG	Department of the Auditor General
AGRI	Department of Agriculture
ARC	Appalachian Regional Commission
ARRA	American Recovery and Reinvestment Act
BAFM	Bureau of Accounting and Financial Management
BCPO	Bureau of Commonwealth Payroll Operations
BFS	Basic Financial Statements
BOA	Bureau of Audits
BPS	Bureau of Payable Services
BQA	Bureau of Quality Assurance
CACFP	Child and Adult Care Food Program
CAFR	Comprehensive Annual Financial Report
CAO	County Assistance Office
CAP	Corrective Action Plan
CCDBG	Child Care and Development Block Grant
CCDF	Child Care and Development Fund
CDBG	Community Development Block Grants
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CHIP	Children's Health Insurance Program
CIS	Client Information System
CMIA	Cash Management Improvement Act of 1990
CNC	Child Nutrition Cluster
CN-PEARS	Child Nutrition Program Electronic Application and Reimbursement System
CSE	Child Support Enforcement
CWDS	Commonwealth Workforce Development System
CWSRF	Capitalization Grants for Clean Water State Revolving Funds
DCED	Department of Community and Economic Development
DDAP	Department of Drug and Alcohol Programs
DEP	Department of Environmental Protection
DGS	Department of General Services
DHS	Department of Human Services (Formerly Department of Public Welfare (DPW))
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
DOR	Department of Revenue
DOT	United States Department of Transportation
DVA	Department of Veterans Affairs
EBT	Electronic Benefits Transfer
eCIS	Electronic Client Information System
ED	United States Department of Education
EPA	United States Environmental Protection Agency
ESEA	Elementary and Secondary Education Act
FC	Foster Care – Title IV-E
FEMA	Federal Emergency Management Agency
FFY	Federal Fiscal Year
FHWA	Federal Highway Administration

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Legend of Abbreviations (Continued) - June 30, 2014

<u>ABBREVIATION</u>	<u>DESCRIPTION</u>
FNS	Food and Nutrition Service
FYE	Fiscal Year Ended
GAAP	Generally Accepted Accounting Principles
HHS	United States Department of Health and Human Services
HIV	Human Immunodeficiency Virus
HPC	Highway Planning and Construction
HSGP	Homeland Security Grant Program
HUD	United States Department of Housing and Urban Development
ICS	Integrated Central System
IDEA	Individuals With Disabilities Education Act
IES	Integrated Enterprise System
IT	Information Technology
L&I	Department of Labor and Industry
LEA	Local Educational Agency
LIHEAP	Low-Income Home Energy Assistance Program
LCB	Liquor Control Board
MA	Medical Assistance Program
MD	Management Directive
MLF	Motor License Fund
MOU	Memorandum of Understanding
NCLB	No Child Left Behind
NGMO	National Guard Military Operations and Maintenance Projects
NSLP	National School Lunch Program
OA	Office of Administration
OB	Office of the Budget
OCO	Office of Comptroller Operations
OCYF	Office of Children, Youth and Families
OIG	Office of Inspector General
OIM	Office of Income Maintenance
OMB	Office of Management and Budget
OVR	Office of Vocational Rehabilitation
PennDOT	Pennsylvania Department of Transportation
PAG	Public Assistance Grants
PDA	Pennsylvania Department of Aging
PDE	Pennsylvania Department of Education
PEMA	Pennsylvania Emergency Management Agency
PENNVEST	Pennsylvania Infrastructure Investment Authority
PID	Pennsylvania Insurance Department
PLCB	Pennsylvania Liquor Control Board
QA	Quality Assurance
RS-VR	Rehabilitation Services - Vocational Rehabilitation Grants to States
SAPT	Block Grants for Prevention and Treatment of Substance Abuse
SAS	Statement on Auditing Standards
SEFA	Schedule of Expenditures of Federal Awards
SFYE	State Fiscal Year Ended
SIG	School Improvement Grants
SNAP	Supplemental Nutrition Assistance Program
SSA	United States Social Security Administration
SSBG	Social Services Block Grant
STARS	Standards Training/Professional Development Assistance, Resources and Support
SW	Statewide Finding
SWIF	State Workers' Insurance Fund
TANF	Temporary Assistance for Needy Families
UC	Unemployment Compensation

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Legend of Abbreviations (Continued) - June 30, 2014

ABBREVIATION

DESCRIPTION

UI	Unemployment Insurance
USDA	United States Department of Agriculture
USDE	United States Department of Education
USDHS	United States Department of Homeland Security
USDOL	United States Department of Labor
WIA	Workforce Investment Act
WIC	Women, Infants, and Children